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

FORM 10-K

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

For the fiscal year ended December 31, 2020

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	**54-1719854**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1680 Capital One Drive,	
McLean, Virginia	**22102**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of Each Class	**Trading Symbol(s)**	**Name of Each Exchange on Which Registered**
Common Stock (par value $.01 per share)	COF	New York Stock Exchange
Depositary 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
Depositary 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
Depositary 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
Depositary 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
Depositary 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
0.800% Senior Notes Due 2024	COF24	New York Stock Exchange
1.650% Senior Notes Due 2029	COF29	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on June 30, 2020 was approximately $28.3 billion. As of January 31, 2021, there were 459,236,740 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the annual meeting of stockholders to be held on May 6, 2021, are incorporated by reference into Part III.

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PART I

Item 1. Business

OVERVIEW

General

Capital One Financial Corporation, a Delaware corporation established in 1994 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company" or "Capital One") 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 December 31, 2020, our principal subsidiaries included:

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

The Company is hereafter collectively referred to as "we," "us" or "our." COBNA and CONA are collectively referred to as the "Banks." References to "this Report" or our "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. All references to 2020, 2019, 2018, 2017 and 2016, refer to our fiscal years ended, or the dates, as the context requires, December 31, 2020, December 31, 2019, December 31, 2018, December 31, 2017 and December 31, 2016, respectively. Certain business terms used in this document are defined in the "MD&A—Glossary and Acronyms" and should be read in conjunction with the Consolidated Financial Statements included in this Report.

As one of the nation's largest banks based on deposits as of December 31, 2020, we service banking customer accounts through digital channels, as well as through branch locations, call centers, ATMs and Cafés. We also operate as one of the largest online direct banks in the United States of America ("U.S.") by deposits. In addition to bank lending, treasury management and depository services, we offer credit and debit card products, auto loans and other consumer lending products in markets across the U.S. We were the third largest issuer of Visa® ("Visa") and MasterCard® ("MasterCard") credit cards in the U.S. based on the outstanding balance of credit card loans as of December 31, 2020.

We also offer products outside of the 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. Both COEP and our Canadian branch of COBNA have the authority to provide credit card loans.

Business Developments

We regularly explore and evaluate opportunities to acquire financial products and services 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 of our assets, branches, partnership agreements or lines of business.

In the fourth quarter of 2020, we entered into an agreement to sell a partnership credit card loan portfolio of approximately $2.1 billion, which had been transferred to held for sale as of September 30, 2020, resulting in an allowance release of $327 million.

On September 24, 2019, we launched a new credit card issuance program with Walmart Inc. ("Walmart") and are now the exclusive issuer of Walmart's cobrand and private label credit card program in the U.S.. On October 11, 2019, we completed the acquisition of the existing portfolio of Walmart's cobrand and private label credit card receivables, which added approximately $8.1 billion to our domestic credit card loans held for investment portfolio as of the acquisition date.

Coronavirus Disease 2019 (COVID-19) Pandemic

The COVID-19 pandemic has resulted in a global public-health crisis, disrupting economies and introducing significant volatility into financial markets and uncertainty as to when economic and operating conditions will return to normalcy. This crisis continues to impact individuals, households and businesses in a multitude of ways. Companies in the U.S. and abroad have experienced unprecedented disruptions to normal business operations, including customer-facing interactions, supply chains, office closures, changes in demand for products and services, and others. Financial institutions, including us, have been deemed an essential service and exempted from the myriad of shutdowns across the country. We transformed how we work in order to protect the well-being of our associates and our customers, serve our customers, support our communities, and position ourselves to navigate the challenges ahead.

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 will continue to work remotely through at least the summer of 2021, as we continue to prioritize their safety while planning our return to the office. We have been able to continue serving customers by successfully managing critical functions and keeping our lines of business operating. We implemented additional paid benefits and flexible attendance policies that are intended to enable our associates to care for their families and loved ones, including increased pay for branch and Café associates working in open locations, associates that perform essential and time-sensitive banking activities that cannot be performed remotely, and other U.S.-based associates in roles instrumental to maintaining essential customer support. We continue to monitor and revise our safety precautions and policies at banking locations as government authorities continue to implement and modify measures to contain the further spread of COVID-19. In our Retail Banking business, nearly all of our Cafés and branches across our network are open with increased safety precautions. We will continue to monitor local conditions to ensure the safety of our associates and customers while providing critical banking services.

We have offered a range of policies and programs to accommodate customer hardship across our lines of business. In our Credit Card and Auto businesses, our customers, who were in need and made a request, received forbearance primarily in the form of short-term payment deferrals or extensions and fee waivers. In our Retail Banking business, we waived select fees for impacted customers and offered short-term payment deferrals for our small business banking customers. We have also been working with our Commercial Banking customers on a more customized basis. In addition, we have participated in the Paycheck Protection Program (“PPP”), established by the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) enacted in March 2020 and implemented by the Small Business Administration. See “MD&A—Credit Risk Profile” for more information about our customer assistance programs, including enrollment volumes and outstandings, customer performance and current program offerings.

We reported net income of $2.7 billion ($5.18 per diluted common share) for 2020, which reflects $5.0 billion in allowance builds in the first and second quarters of 2020 due to expectations of economic worsening as a result of the COVID-19 pandemic. These allowance builds, in combination with the adoption impact of the Current Expected Credit Loss (“CECL”) standard, significantly increased our allowance coverage ratio to 6.19% as of December 31, 2020 from 2.71% as of December 31, 2019. For more information, see “MD&A—Executive Summary and Business Outlook” and “MD&A—Credit Risk Profile.” We have continued to evaluate the potential impact on our goodwill impairment analysis and have incorporated recent market events and trends into our valuations of instruments measured at fair value. See more details in “MD&A—Critical Accounting Policies and Estimates,” “MD&A—Market Risk Profile” and “Note 9—Derivative Instruments and Hedging Activities.” See “MD&A—Liquidity Risk Profile” for information relating to our liquidity reserves as of December 31, 2020.

The COVID-19 pandemic impacted the demand for our products and services throughout 2020. In our Domestic Card business, loan balances, and revenue are down year-over-year, while purchase volume was relatively flat due to higher first and fourth quarter activity substantially offsetting year-over-year volume declines in the second and third quarters. In our Auto business, we saw an increase in origination volumes and loan growth driven by our relationship strategy and digital capabilities that we have developed. In our Retail Banking business, we have seen strong deposit growth throughout the year from increased consumer savings aided by the impact of government stimulus. In our Commercial Banking business, loan balances were relatively flat year-over year, while deposit balances were up significantly, reflecting the impact of the economic environment and government stimulus on our customers.

We are actively monitoring and responding to developments across the myriad of landscapes affected by the COVID-19 pandemic, including social, financial, legal, regulatory and governmental. As guidance is issued by governments and our regulators, we continue to assess the impacts on us. As government authorities continue to implement, modify and reinstate social distancing and reopening plans and other measures to contain the further spread of COVID-19, including the administration of vaccines, we will continue to adjust our business operations, policies and practices, keeping the best interests of our associates, customers and business partners at the forefront.

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"). We retained a leading independent cybersecurity firm that confirmed we correctly identified and fixed the specific configuration vulnerability exploited in the Cybersecurity Incident. We continue to invest significantly in cybersecurity and related risk management activities and expect to make additional investments as we continue to assess our cybersecurity program.

During the year ended December 31, 2020, we incurred $66 million of incremental expenses related to the remediation of and response to the Cybersecurity Incident, offset by $39 million of insurance recoveries. To date, we have incurred $138 million of incremental expenses, offset by $73 million of insurance recoveries pursuant to the cyber risk insurance coverage we carry. These expenses mainly consist of customer notifications, credit monitoring, technology costs, and professional and legal support. We expect any further expenses, net of insurance, to be immaterial in future periods. We carry insurance to cover certain costs associated with a cyber risk event. This insurance has a total coverage limit of $400 million and is subject to a $10 million deductible, which was met in the third quarter of 2019, as well as standard exclusions. The expenses discussed in this paragraph do not include any amounts related to the matters described in "Note 18—Commitments, Contingencies, Guarantees and Others."

Although the ultimate magnitude and timing of expenses or other impacts to our business or reputation related to the Cybersecurity Incident are uncertain, they may be significant, and some of the costs may not be covered by insurance. However, we do not believe that this incident will materially impact our strategy or our long-term financial health. For more information, see "Note 18—Commitments, Contingencies, Guarantees and Others."

Additional Information

Our common stock trades on the New York Stock Exchange ("NYSE") under the symbol "COF" and is included in the Standard & Poor's ("S&P") 100 Index. We maintain a website at www.capitalone.com. Documents available under Corporate Governance in the Investor Relations section of our website include:

- our Code of Conduct;
- our Corporate Governance Guidelines; and
- charters for the Audit, Compensation, Governance and Nominating, and Risk Committees of the Board of Directors.

These documents also are available in print to any stockholder who requests a copy. We intend to disclose future amendments to certain provisions of our Code of Conduct, and waivers of our Code of Conduct granted to executive officers and directors, on the website within four business days following the date of the amendment or waiver.

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

OPERATIONS AND BUSINESS SEGMENTS

Our consolidated total net revenues are derived primarily from lending to consumer and commercial customers net of funding costs associated with our 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 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.

- *Credit Card:* Consists of our domestic consumer and small business card lending, and international card businesses in Canada and the United Kingdom.
- *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 customers typically include companies with annual revenues between $20 million and $2 billion.

Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect our profitability. In our Credit Card business, we experience fluctuations in purchase volume and the level of outstanding loan receivables due to seasonal variances in consumer spending and payment patterns which, for example, have historically been the highest around the winter holiday season. Net charge-off rates for our credit card loan portfolio also have historically exhibited seasonal patterns as well and generally tend to be the highest in the first quarter of the year.

For additional information on our business segments, including the financial performance of each business, see “Part II—Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)—Executive Summary and Business Outlook,” “MD&A—Business Segment Financial Performance” and “Note 17—Business Segments and Revenue from Contracts with Customers” of this Report.

COMPETITION

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

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

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

We also consider new and emerging companies in the digital and mobile payments space and other financial technology providers among our competitors. We compete with many forms of payment mechanisms, systems and products, offered by both bank and non-bank providers.

Our businesses generally compete on the basis of the quality and range of their products and services, transaction execution, innovation and price. Competition varies based on the types of clients, customers, industries and geographies served. Our ability to compete depends, in part, on our ability to attract and retain our associates and on our reputation as well as our ability to keep pace with innovation, in particular in the development of new technology platforms. There can be no assurance, however, that our ability to market products and services successfully or to obtain adequate returns on our products and services will not be impacted by the nature of the competition that now exists or may later develop, or by the broader economic environment. For a discussion of the risks related to our competitive environment, see "Part I—Item 1A. Risk Factors."

SUPERVISION AND REGULATION

The regulatory framework applicable to banking organizations is intended primarily for the protection of depositors and the stability of the U.S. financial system, rather than for the protection of shareholders and creditors.

As a banking organization, we are subject to extensive regulation and supervision. In addition to banking laws and regulations, we are subject to various other laws and regulations, all of which directly or indirectly affect our operations and management and our ability to make distributions to shareholders. We and our subsidiaries are also subject to supervision and examination by multiple regulators. In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance applicable to us and our subsidiaries. Any change in the statutes, regulations or regulatory policies applicable to us, including changes in their interpretation or implementation, could have a material effect on our business or organization.

Both the scope of the laws and regulations and the intensity of the supervision to which we are subject have increased in recent years, initially in response to the financial crisis, and more recently in light of other factors such as technological, political and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector.

The descriptions below summarize certain significant state and federal laws to which we are subject. The descriptions are qualified in their entirety by reference to the particular statutory or regulatory provisions summarized. They do not summarize all possible or proposed changes in current laws or regulations and are not intended to be a substitute for the related statues or regulatory provisions.

Banking Regulation

Capital One Financial Corporation is a bank holding company ("BHC") and a financial holding company ("FHC") under the Bank Holding Company Act of 1956, as amended ("BHC Act"), and is subject to the requirements of the BHC Act, including approval requirements for investments in or acquisitions of banking organizations, capital adequacy standards and limitations on non-banking activities. As a BHC and FHC, we are subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve"). Permissible activities for a BHC include those activities that are so closely related to banking as to be a proper incident thereto. In addition, an FHC is permitted to engage in activities considered to be financial in nature (including, for example, securities underwriting and dealing and merchant banking activities), incidental to financial activities or, if the Federal Reserve determines that they pose no risk to the safety or soundness of depository institutions or the financial system in general, activities complementary to financial activities.

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

The Banks are national associations chartered under the National Bank Act, and the deposits of which are insured by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. The Banks are subject to comprehensive regulation and periodic examination by the Office of the Comptroller of the Currency ("OCC"), the FDIC and the Consumer Financial Protection Bureau ("CFPB").

We are also registered as a financial institution holding company under the laws of the Commonwealth of Virginia and, as such, we are subject to periodic examination by the Virginia Bureau of Financial Institutions. We also face regulation in the international jurisdictions in which we conduct business. See "Regulation of Businesses by Authorities Outside the United States" below for additional details.

Regulation of Business Activities

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

Regulations of Consumer Lending Activities

The activities of the Banks as consumer lenders are subject to regulation under various federal laws, including, for example, the Truth in Lending Act ("TILA"), the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the CRA, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), the Servicemembers Civil Relief Act and the Military Lending Act, as well as under various state laws. TILA, as amended, imposes a number of restrictions on credit card practices impacting rates and fees, requires that a consumer's ability to pay be taken into account before issuing credit or increasing credit limits, and imposes revised disclosures required for open-end credit.

Depending on the underlying issue and applicable law, regulators may be authorized to impose penalties for violations of these statutes and, in certain cases, to order banks to compensate customers. Borrowers may also have a private right of action for certain violations. Federal bankruptcy and state debtor relief and collection laws may also affect the ability of a bank, including the Banks, to collect outstanding balances owed by borrowers.

Debit Interchange Fees

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Rules adopted by the Federal Reserve to implement these requirements limit interchange fees per debit card transaction to $0.21 plus five basis points of the transaction amount and provide for an additional $0.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements.

Privacy, Data Protection and Cybersecurity

We are subject to multiple federal and state laws concerning privacy, data protection and cybersecurity, such as the Gramm-Leach Bliley Act ("GLBA"). This area has seen an increase in legislative and regulatory activity over the past several years. For example, in 2018, the State of California passed the California Consumer Privacy Act ("CCPA"), which became effective on January 1, 2020. The CCPA and its implementing regulations, as recently amended by the California Privacy Rights Act, create obligations on covered companies to, among other things, share certain information they have collected about individuals who are California residents with those individuals, subject to some exceptions.

In addition, in December 2020, the Federal Reserve, OCC and FDIC (collectively, the "Federal Banking Agencies") issued a notice of proposed rulemaking that, among other things, would require a banking organization to notify its primary federal regulators within 36 hours after identifying a "computer-security incident" that the banking organization believes in good faith could materially disrupt, degrade or impair its business or operations in a manner that would, among other things, jeopardize the viability of its operations, result in customers being unable to access their deposit and other accounts, result in a material loss of revenue, profit or franchise value, or pose a threat to the financial stability of the United States.

We continue to monitor data privacy and cybersecurity legal developments in the jurisdictions in which we do business. For further discussion of privacy, data protection and cybersecurity, and related risks for our business, see "Part I—Item 1A. Risk Factors" under the headings "We face risks related to our operational, technological and organizational infrastructure," "Theft, loss or misuse of information as a result of a cyber-attack may result in increased costs, reductions in revenue, reputational damage and business disruptions," and "Potential data protection and privacy incidents, and our required compliance with laws and regulations related to these areas, may increase our costs, result in legal liability, reduce our revenue and limit our ability to pursue business opportunities."

Anti-Money Laundering and Anti-Terrorism

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

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

The Anti-Money Laundering Act of 2020 ("AML Act"), enacted on January 1, 2021 as part of the National Defense Authorization Act, does not directly impose new requirements on banks, but requires the U.S. Treasury Department to issue National Anti-Money Laundering and Countering the Financing of Terrorism Priorities, and conduct studies and issue regulations that may, over the next few years, significantly alter some of the due diligence, recordkeeping and reporting requirements that the Bank Secrecy Act and Patriot Act impose on banks. The AML Act also contains provisions that promote increased information-sharing and use of technology, and increases penalties for violations of the Bank Secrecy Act and includes whistleblower incentives, both of which could increase the prospect of regulatory enforcement.

Funding

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), as discussed in "MD&A—Liquidity Risk Profile," only well capitalized and adequately capitalized institutions may accept brokered deposits. Adequately capitalized institutions, however, must obtain a waiver from the FDIC before accepting brokered deposits, and such institutions may not pay rates that significantly exceed the rates paid on deposits of similar maturity obtained from the institution's normal market area or, for deposits obtained from outside the institution's normal market area, the national rate on deposits of comparable maturity. In December 2020, the FDIC finalized amendments to the brokered deposit regulation that, among other things, generally clarify and narrow the scope of the "deposit broker" definition. The amendments become effective April 1, 2021.

The FDIC is authorized to terminate a bank's deposit insurance upon a finding by the FDIC that the bank's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the bank's regulatory agency.

Broker-Dealer and Investment Advisory Activities

Certain of our non-bank subsidiaries are subject to regulation and supervision by various federal and state authorities. United Income, Inc. is an investment adviser registered with the SEC and primarily regulated under the Investment Advisers Act of 1940. Capital One Securities, Inc. and KippsDeSanto & Company are registered broker-dealers regulated by the SEC and the Financial Industry Regulatory Authority. These broker-dealer subsidiaries are subject, among other things, to net capital rules designed to measure the general financial condition and liquidity of a broker-dealer. Under these rules, broker-dealers are required to maintain the minimum net capital deemed necessary to meet their continuing commitments to customers and others, and to keep a substantial portion of their assets in relatively liquid form. These rules also limit the ability of a broker-dealer to transfer capital to its parent companies and other affiliates. Broker-dealers are also subject to regulations covering their business operations, including sales and trading practices, public offerings, publication of research reports, use and safekeeping of client funds and securities, capital structure, record-keeping and the conduct of directors, officers and employees.

Derivatives Activities

Title VII of the Dodd-Frank Act establishes a regulatory framework for the governance of the over-the-counter ("OTC") derivatives market, including swaps and security-based swaps and the registration of certain market participants as a swap dealer. CONA provisionally registered with the Commodity Futures Trading Commission (the "CFTC") as a swap dealer in the third quarter of 2020. Registration as a swap dealer subjects CONA to additional regulatory requirements with respect to its swaps and other derivatives activities. As a result of CONA's swap dealer registration, it is subject to the rules of the OCC concerning capital and margin requirements for swap dealers, including the mandatory exchange of variation margin and initial margin with certain counterparties. Additionally, as a provisionally registered swap dealer, CONA is subject to requirements under the CFTC's regulatory regime, including rules regarding business conduct standards, recordkeeping obligations, regulatory reporting and procedures relating to swaps trading. CONA's swaps and other derivatives activities do not require it to register with the SEC as a security-based swap dealer.

Transactions with Affiliates

There are various legal restrictions on the extent to which we and our non-bank subsidiaries may borrow or otherwise engage in certain types of transactions with the Banks. Under the Federal Reserve Act and Federal Reserve regulations, the Banks and their subsidiaries are subject to quantitative and qualitative limits on extensions of credit, purchases of assets, and certain other transactions involving its non-bank affiliates. In addition, transactions between the Banks and their non-bank affiliates are required to be on arm's length terms and must be consistent with standards of safety and soundness.

Volcker Rule

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

Capital and Liquidity Regulation

The Company and the Banks are subject to capital adequacy guidelines adopted by the Federal Reserve and OCC respectively. For a further discussion of the capital adequacy guidelines, see "MD&A—Capital Management," "MD&A—Liquidity Risk Profile" and "Note 11—Regulatory and Capital Adequacy."

Basel III and United States Capital Rules

The Company and the Banks are subject to the regulatory capital requirements established by the Federal Reserve and the OCC respectively (the "Basel III Capital Rules"). The Basel III Capital Rules implement certain capital and liquidity requirements published by the Basel Committee on Banking Supervision ("Basel Committee"), along with certain Dodd-Frank Act and other capital provisions. 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% and a minimum supplementary leverage ratio of 3%. We are also subject to the capital conservation buffer and countercyclical capital buffer requirements, as described below.

In July 2019, the Federal Banking Agencies finalized certain changes to the Basel III Capital Rules for institutions not subject to the Basel III Advanced Approaches ("Capital Simplification Rule"). These changes, effective January 1, 2020, generally raised the threshold above which a covered institution such as the Company must deduct certain assets from its CET1 capital, including certain deferred tax assets, mortgage servicing assets, and investments in unconsolidated financial institutions.

In October 2019, the Federal Banking Agencies amended the Basel III Capital Rules to provide for tailored application of certain capital requirements across different categories of banking institutions ("Tailoring Rules"). These categories are determined primarily by an institution's asset size, with adjustments to a more stringent category possible if the institution exceeds certain risk-based thresholds. As a BHC 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. Therefore, effective January 1, 2020, we were no longer subject to the Basel III “Advanced Approaches” framework and certain associated capital requirements, such as the requirement to include certain elements of accumulated other comprehensive income (“AOCI”) in our regulatory capital. We remain subject to the countercyclical capital buffer requirement (which is currently set at 0%) and supplementary leverage ratio requirement, which were previously required only for Basel III Advanced Approaches institutions. Effective as of the first quarter of 2020, we excluded certain elements of AOCI from our regulatory capital as permitted by the Tailoring Rules. The Tailoring Rules and Capital Simplification Rule have, taken together, decreased our capital requirements.

Global systemically important banks (“G-SIBs”) that are based in the U.S. are subject to an additional CET1 capital requirement (“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 also 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 (“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 will use 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 will equal, 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 new “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 Banking Agencies set an earlier effective date.

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%.

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.

Under the Basel III Capital Rules, if a banking institution’s capital ratios fall within its buffer requirements, the maximum amount of capital distributions and discretionary bonus payments it can make is a function of its eligible retained income. In March 2020, the Federal Banking Agencies revised the definition of “eligible retained income” in their respective capital rules. Under the revised definition of “eligible retained income,” any such automatic limitations on capital distributions would apply in a less severe and more gradual manner than would otherwise have occurred under the previous definition of that term. This change was made in response to the COVID-19 pandemic to support banking organizations that choose to use their capital and liquidity buffers to lend and undertake other actions that support economic activity in a safe and sound manner.

CECL Transition Rule

As part of the response to the COVID-19 pandemic, the Federal Banking Agencies adopted a final rule (“2020 CECL Transition Rule”) that provides banking institutions an optional five-year transition period to phase in the impact of the 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.

<table>
<tr><th></th><th colspan="2">Capital Impact Delayed</th><th colspan="4">Phase In Period</th></tr>
<tr><th></th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th><th>2025</th></tr>
<tr><td>“Day 1” CECL adoption impact</td><td colspan="2">Capital impact delayed to 2022</td><td rowspan="2">25% Phased In</td><td rowspan="2">50% Phased In</td><td rowspan="2">75% Phased In</td><td rowspan="2">Fully Phased In</td></tr>
<tr><td>Cumulative “day 2” ongoing impact</td><td colspan="2">25% scaling factor as an approximation of the increase in allowance under CECL</td></tr>
</table>

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.

Temporary Exclusions for Supplementary Leverage Ratio

In addition, in April 2020, as part of the response to the COVID-19 pandemic, the Federal Reserve issued an interim final rule that temporarily excludes U.S. Treasury securities and deposits at Federal Reserve Banks from the calculation of the supplementary leverage ratio for BHCs. These exclusions became effective on April 1, 2020, and will remain in effect through March 31, 2021.

Subsequently, in May 2020, the Federal Banking Agencies issued an interim final rule that provides an option for depository institutions to make similar exclusions to the calculation of the supplementary leverage ratio. If a depository institution elects to make such exclusions, it must request prior approval from its primary federal banking regulator before making capital distributions, such as paying dividends to its parent company, for as long as the exclusions are in effect. Neither CONA nor COBNA elected to make such exclusions.

Market Risk Rule

The “Market Risk Rule” supplements the Basel III Capital Rules by requiring institutions subject to the Market Risk Rule to adjust their risk-based capital ratios to reflect the market risk in their trading portfolios. The Market Risk Rule generally applies to institutions with aggregate trading assets and liabilities equal to the lesser of 10% or more of total assets or $1 billion or more. The Company and CONA are subject to the Market Risk Rule. See “MD&A—Market Risk Profile” below for additional information.

FDICIA and Prompt Corrective Action

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

The Basel III Capital Rules updated the PCA framework to reflect new, higher regulatory capital minimums. For an insured depository institution to be well capitalized, it must maintain a total risk-based capital ratio of 10% or more; a Tier 1 capital ratio of 8% or more; a CET1 capital ratio of 6.5% or more; and a leverage ratio of 5% or more. An adequately capitalized depository institution must maintain a total risk-based capital ratio of 8% or more; a Tier 1 capital ratio of 6% or more; a CET1 capital ratio of 4.5% or more; a leverage ratio of 4% or more; and, for Category III and certain other institutions under the Tailoring Rules, a supplementary leverage ratio of 3% or more. The PCA provisions also authorize the Federal Banking Agencies to reclassify a bank’s capital category or take other action against banks that are determined to be in an unsafe or unsound condition or to have engaged in unsafe or unsound banking practices.

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

Basel III and United States Liquidity Rules

The Basel Committee has published a liquidity framework that includes two standards for liquidity risk supervision. One standard, the liquidity coverage ratio ("LCR"), seeks to promote short-term resilience by requiring organizations to hold sufficient high-quality liquid assets ("HQLAs") to survive a stress scenario lasting for 30 days. The other standard, the net stable funding ratio ("NSFR"), seeks to promote longer-term resilience by requiring sufficient stable funding over a one-year period based on the liquidity characteristics of the organization's assets and activities.

The Company and the Banks are subject to the LCR standard as implemented by the Federal Reserve and OCC (the "LCR Rule"). The LCR Rule requires the Company and each of the Banks to hold an amount of eligible HQLA that equals or exceeds 100% of its respective projected adjusted net cash outflows over a 30-day period, each as calculated in accordance with the LCR Rule. The LCR Rule requires us to calculate our LCR daily. In addition, the Company is required to make quarterly public disclosures of its LCR and certain related quantitative liquidity metrics, along with a qualitative discussion of its LCR.

Under the Tailoring Rules, as a Category III institution with less than $75 billion in weighted average short-term wholesale funding, the Company's and the Banks' total net cash outflows are multiplied by an outflow adjustment percentage of 85%. Although the Banks may hold more HQLA than they need to meet their LCR requirements, the LCR Rule restricts the amount of such excess HQLA held at the Banks (referred to as "Trapped Liquidity") that can be included in the Company's HQLA amount. Because we typically manage the Banks' LCRs to levels well above 100%, the amount of Trapped Liquidity will also increase as the Banks' total net cash outflows are reduced by the outflow adjustment percentage of 85%.

In October 2020, the Federal Banking Agencies finalized a rule to implement the NSFR 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 subject to an NSFR requirement equal to 85% of the full NSFR requirement. The NSFR Rule will become effective as of July 1, 2021 and will apply 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.

Enhanced Prudential Standards and Other Related Requirements

We are subject to certain enhanced prudential standards under the Dodd-Frank Act, as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA") and implemented by various regulations issued by the Federal Banking Agencies. The Financial Stability Oversight Council ("FSOC") may also issue recommendations to the Federal Reserve or other primary financial regulatory agencies to apply new or enhanced standards to certain financial activities or practices.

As part of the enhanced prudential standards, the Company is required to implement resolution planning for orderly resolution in the event it faces material financial distress or failure. The FDIC issued similar rules regarding resolution planning applicable to the Banks. In addition, the OCC has issued rules requiring banks with assets of $250 billion or more to develop recovery plans detailing the actions they would take to remain a going concern when they experience considerable financial or operational stress, but have not deteriorated to the point that resolution is imminent.

The enhanced prudential standards also include supervisory and company-run stress testing requirements (also known as the "DFAST stress testing requirements"). In particular, the Federal Reserve is required to conduct annual stress tests on certain covered companies, including us, to ensure that the covered companies have sufficient capital to absorb losses and continue operations during adverse economic conditions. Under the stress capital buffer framework, the result of our supervisory stress test will be used to determine our stress capital buffer requirement. As a covered company that is a Category III institution under the Tailoring Rules, we are also required to conduct our own stress tests and publish the results of such tests on our website or other public forum. The Company must disclose the results of its company-run stress test on a biennial basis. The

OCC has adopted a similar stress test rule requiring banks with at least $250 billion in assets, including CONA, to conduct their own company-run stress tests. Under that OCC rule, CONA must also disclose the results of its stress test on a biennial basis.

In addition, the Company is required to meet liquidity risk management standards, conduct internal liquidity stress tests, and maintain a 30-day buffer of highly liquid assets, in each case, consistent with the requirements of the enhanced prudential standards. These requirements are in addition to the LCR and NSFR Rules, discussed above in “Basel III and United States Liquidity Rules.” The enhanced prudential standards also require that the Company comply with, and hold capital commensurate with, the requirements of, any regulations adopted by the Federal Reserve relating to capital planning and stress tests. Stress testing and capital planning regulations are discussed further below under “Dividends, Stock Repurchases and Transfers of Funds.” Finally, the Company is also required to establish and maintain an enterprise-wide risk management framework that includes a risk committee and a chief risk officer.

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

Dividends, Stock Repurchases and Transfers of Funds

Under the Federal Reserve’s capital planning rules (commonly referred to as Comprehensive Capital Analysis and Review or “CCAR” requirements), a “covered BHC,” such as the Company, must submit a capital plan to the Federal Reserve on an annual basis that contains a description of all planned capital actions, including dividends or stock repurchases, over a nine-quarter planning horizon beginning with the first quarter of the calendar year the capital plan is submitted (“CCAR cycle”).

The DFAST stress testing requirements, described above in “Enhanced Prudential Standards and Other Related Requirements,” is a complementary exercise to CCAR. It is a forward-looking exercise conducted by the Federal Reserve and each covered company to help assess whether a company has sufficient capital to absorb losses and continue operations during adverse economic conditions.

Pursuant to the CCAR requirements, the Company must file its capital plan and stress testing results with the Federal Reserve by April 5 of each year (unless the Federal Reserve designates a later date), using data as of the end of the prior calendar year. The Federal Reserve will conduct its supervisory stress test in the second quarter and determine the Company’s stress capital buffer by June 30 of that year. The Company will have two business days from receipt of its stress capital buffer to make any necessary adjustments to its planned capital distributions. The Federal Reserve will then finalize the stress capital buffer requirement for the Company based on its adjusted planned capital distributions and confirm the Company’s planned capital distributions by August 31 of that year. The Company’s final stress capital buffer requirement will be effective from the fourth quarter of the year the capital plan is submitted through the third quarter of the following year. The Company may make the planned capital distributions confirmed by the Federal Reserve. In addition, under the Stress Capital Buffer Rule, the Company is no longer required to seek prior approval of the Federal Reserve to make capital distributions in excess of those included in its capital plan so long as the Company is otherwise in compliance with the capital rule’s automatic limitations on capital distributions.

In December 2018, the Federal Reserve announced that it would maintain its pre-CECL framework for calculating allowances on loans in the supervisory stress test for the 2020 and 2021 cycles until the impact of CECL is better known and understood. The Federal Reserve stated further that, although BHCs required to perform company-run stress tests will be required to incorporate CECL into those stress tests starting in the 2020 cycle, it will not issue supervisory findings on those BHCs’ allowance estimations in the CCAR exercise through 2021.

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

In June 2020, in light of the COVID-19 pandemic, the Federal Reserve required all CCAR participating BHCs, including us, to update and resubmit their capital plans in the fourth quarter of 2020. In addition, the Federal Reserve required all participating BHCs, including us, to preserve capital by suspending share repurchases and capping common stock dividend payments for the third and fourth quarters of 2020 to the lower of (i) the amount paid in the second quarter of 2020 and (ii) an amount equal to the average net income earned across the four preceding calendar quarters. Scheduled payments on additional Tier 1 and Tier 2 capital instruments, such as preferred stock and subordinated debt, were not similarly restricted.

We conducted a second round of stress tests and submitted our updated capital plan to the Federal Reserve on November 2, 2020. On December 18, 2020, the Federal Reserve released the results of its second round of supervisory stress tests. The Federal Reserve did not recalculate our stress capital buffer requirement at that time, but reserved its ability to do so until March 31, 2021. Finally, the Federal Reserve extended the capital distribution restrictions for all participating BHCs through at least the first quarter of 2021, with certain modifications. In particular, for the first quarter of 2021, participating BHCs may resume share repurchases, but the aggregate amount of common stock dividend payments and share repurchases shall not exceed an amount equal to the average net income earned across the four preceding calendar quarters. In addition, common stock dividend payments for the first quarter of 2021 continue to be capped at the amount paid in the second quarter of 2020.

Investment in the Company and the Banks

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

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

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

Deposit Insurance Assessments

Each of CONA and COBNA, as an insured depository institution, is a member of the DIF maintained by the FDIC. Through the DIF, the FDIC insures the deposits of insured depository institutions up to prescribed limits for each depositor. The FDIC sets a Designated Reserve Ratio ("DRR") for the DIF. To maintain the DIF, member institutions may be assessed an insurance premium, and the FDIC may take action to increase insurance premiums if the DRR falls below its required level.

As of June 30, 2020, the DIF reserve ratio fell to 1.30 percent. The FDIC, as required under the Federal Deposit Insurance Act, established a plan in September 2020, to restore the DIF reserve ratio to meet or exceed 1.35 percent within eight years. The FDIC's restoration plan projects the reserve ratio to exceed 1.35 percent without increasing the deposit insurance assessment rate, subject to ongoing monitoring over the next eight years.

Source of Strength and Liability for Commonly Controlled Institutions

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

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

FDIC Orderly Liquidation Authority

The Dodd-Frank Act provides the FDIC with liquidation authority that may be used to liquidate non-bank financial companies and BHCs if the Treasury Secretary, in consultation with the President and based on the recommendation of the Federal Reserve and other appropriate Federal Banking Agencies, determines that doing so is necessary, among other criteria, to mitigate serious adverse effects on U.S. financial stability. Upon such a determination, the FDIC would be appointed receiver and must liquidate the company in a way that mitigates significant risks to financial stability and minimizes moral hazard. The costs of a liquidation of the company would be borne by shareholders and unsecured creditors and then, if necessary, by risk-based assessments on large financial companies. The FDIC has issued rules implementing certain provisions of its liquidation authority and may issue additional rules in the future.

COVID-19 Activities

In response to disruptions in economic conditions caused by the COVID-19 pandemic, federal and state governments and agencies and government-sponsored enterprises have taken a variety of actions to support people and entities affected by the pandemic, including the passage of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") in March 2020. The CARES Act, among other provisions, authorized a number of lending programs to support the flow of credit to consumers and businesses. For example, the CARES Act established several programs with the Small Business Administration, including the PPP, to provide loans to small businesses.

The Federal Reserve had also taken extraordinary efforts in response to the pandemic, including, among other actions, the establishment of a Main Street Lending Program that is intended to support lending to eligible small and midsize businesses. The Federal Banking Agencies had also encouraged banking organizations to take certain additional actions to support the financial services needs of their customers in a prudent and safe and sound manner, including through loan modifications. Further, banking organizations had been provided with certain accounting, supervisory and regulatory relief during this period, including relief that is intended to allow banking organizations to enter into loan modifications without certain accounting and regulatory capital consequences. For example, the CARES Act gave banking organizations an option to temporarily suspend the determination of certain qualified loans modified as a result of the COVID-19 pandemic as being troubled debt restructurings ("TDRs"). See "MD&A—Credit Risk Profile—COVID-19 Customer Assistance Programs and Loan Modifications" for additional information. The CARES Act also amended the Fair Credit Reporting Act to impose new, temporary reporting requirements on furnishers of information to consumer reporting agencies related to accounts of consumers in payment accommodation programs in light of the COVID-19 pandemic.

The Consolidated Appropriations Act, 2021, which was enacted in December 2020, extends certain relief provided by the CARES Act while also modifying or clarifying certain other provisions. Among other amendments to the CARES Act, the Consolidated Appropriations Act, 2021, extends the relief related to TDRs until January 1, 2022 and the PPP until March 31, 2021. In addition, the Consolidated Appropriations Act, 2021, rescinds certain funds that were appropriated to the U.S. Treasury to provide loans, loan guarantees, and make other investments in programs or facilities established by the Federal Reserve, and prohibits the Federal Reserve from making any new investments, loans or loan guarantees, or extensions of credit through those rescinded funds after December 31, 2020. Congress could determine to reauthorize these programs in future legislative packages. Federal Reserve programs and facilities that were not established using CARES Act funding are not affected by the Consolidated Appropriations Act, 2021.

For a discussion of the risks associated with the impact of the COVID-19 pandemic and related public health measures, see "Part I—Item 1A. Risk Factors" under the heading "The COVID-19 pandemic has adversely impacted our business, operations and financial results, and the extent to which the pandemic and measures taken in response to the pandemic could materially and adversely impact our business, operations, financial condition, liquidity, capital and results of operations will depend on future developments, which are highly uncertain and are difficult to predict."

Regulation of Businesses by Authorities Outside the United States

COBNA is subject to regulation in foreign jurisdictions where it operates, currently in the United Kingdom ("U.K.") and Canada.

United Kingdom

In the United Kingdom, COBNA operates through COEP, which was established in 2000 and is an authorized payment institution regulated by the Financial Conduct Authority ("FCA") under the Payment Services Regulations 2017 and the Financial Services and Markets Act 2000. COEP's indirect parent, Capital One Global Corporation, is wholly-owned by COBNA and is subject to regulation by the Federal Reserve as an "agreement corporation" under the Federal Reserve's Regulation K.

Previously, the FCA set a deadline of August 29, 2019 ("the Deadline") for the submission of complaints to firms (including COEP) that had previously sold Payment Protection Insurance ("PPI") to its customers. In order to ensure complainants are treated fairly, the FCA closely supervises all large lenders (including COEP). COEP has now finished handling almost all complaints it received prior to the Deadline and is in the process of finalizing all remaining complaints, through continued discussions with third parties. Escalations to the Financial Ombudsman Service ("FOS") are permitted to take place until the first quarter of 2021.

Canada

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

On December 13, 2018, Bill C-86, Budget Implementation Act, 2018, No. 2 was passed by Parliament. Among other things, Bill C-86 amends the Bank Act (Canada) to consolidate and strengthen provisions that apply to banks and authorized foreign banks in the areas of consumer protection, corporate governance, business practices, public reporting, disclosure of information and access to basic banking services. Bill C-86 also amends the FCAC Act to enhance the role and powers of the FCAC by increasing the maximum penalty for a violation of the consumer protection provisions of the Bank Act from 50,000 Canadian dollars ("CAD") for natural persons and 500,000 CAD in the case of financial institutions or a payment card network to 1 million CAD and 10 million CAD, respectively. We are continuing to analyze the impacts of Bill C-86 and the final regulations related thereto in order to determine its applicability and impact to our business.

In August 2018, the Government of Canada announced new voluntary commitments from Visa Canada and MasterCard Canada, which took effect when the original commitments ended in 2020. As part of their new commitments, Visa and Mastercard will further reduce interchange fees for consumer credit cards by approximately 10 basis points to an annual average effective rate of 1.4% for a period of five years. Visa and Mastercard will also narrow the range of interchange rates (lowest vs. highest fee) charged to businesses.

HUMAN CAPITAL RESOURCES

Our culture is rooted in putting people first with a focus on building and maintaining a workforce which fosters an inclusive environment based on diversity of our people, ideas and the merit of our work. Our workforce is our largest and one of our most valuable assets. We prioritize the recruitment, development, recognition, and retention of the 51,985 employees worldwide that we had as of December 31, 2020, whom we refer to as "associates." The following disclosures provide information on our human capital resources, including certain human capital objectives and measures that we focus on in managing our business.

Governance of Human Capital

Our full Board of Directors oversees our human capital management, including strategies, policies and practices, and diversity, inclusion and belonging ("DIB"), and is assisted by our Board's Compensation Committee and Governance and Nominating Committee. Our Executive Committee, a committee of senior management which includes our Chief Human Resources Officer, advises, assists and makes recommendations to our Chief Executive Officer and Board of Directors on human capital matters such as human resource practices and programs, including general employee benefits and compensation programs. Our Chief Diversity, Inclusion and Belonging Officer ("Chief DIB Officer") provides an annual update on the progress, success and challenges on workforce representation, trends and programs to the Board of Directors and Executive Committee.

Hiring, Retention and Development

We employ a comprehensive people strategy that includes significant investments in recruiting, sourcing, and associate development to attract and retain top talent from all backgrounds to help drive our business' long-term success. We recruit through a variety of channels, including professional partnerships, job fairs, online platforms, on-campus recruiting, diversity-related recruiting events and initiatives, and internship and rotational programs, among others. We empower our associates to learn new skills, meet personalized development goals, and grow their careers. Investment in associate training and professional development is critical to maintaining our talent competitiveness. Our internal enterprise learning and development team blends multiple approaches to learning to support associate development across lines of business, levels, and roles, including online and live classroom training. In addition to formal programming provided by learning professionals, including regulatory compliance, role-specific topics and others, our peer-to-peer learning strategy empowers associates to be both learners and teachers, further enhancing a culture of learning. We also focus on cultivating talent with leadership development courses, cohort-based programs, network building, and coaching.

On a quarterly basis, we review our ability to attract and retain talent needed to deliver on our strategic business objectives. Each line of business and staff group reviews hiring, tenure and attrition metrics as part of this assessment, and they implement mitigation plans when needed.

Diversity, Inclusion and Belonging

We continuously strive to empower our associates to do great work by creating an inclusive workplace and a culture of belonging that values diverse perspectives, fosters collaboration and encourages innovative ideas. We aim to create a place where associates of all backgrounds can thrive by bringing their best, most authentic selves to work. Our diversity and inclusion efforts are overseen by our Chief DIB Officer. This culture of belonging rests at the heart of our DIB efforts. Central to this effort are our business resource groups, associate-led organizations which deepen our understanding of different cultures, people and experiences, and enable associates to build connections, invest in their professional development, and support our commitment to attract, develop and retain a diverse workforce. In addition, our Chief Executive Officer and the Executive Committee engage with leaders of our business resource groups to identify opportunities to further our DIB agenda, enact positive change and build on existing initiatives designed to nurture our culture and workplace environment.

Growing the diversity of our workforce at all levels, with an emphasis on leader and executive roles, is an important component of our comprehensive DIB strategy. As of December 31, 2020, key measures of our workforce representation include:

- Of the 11 members of our Board of Directors, 4 are women and 3 are people of color;
- In the U.S., of the associates who are vice president level and above, approximately 32% are women and 21% are people of color;
- In the U.S., approximately 50% of associates are people of color; and

- Worldwide, approximately 52% of associates are women, 47% of associates are men, and 1% of associates are undisclosed/other.

Our corporate website contains additional information regarding programs and other information integral to our philosophy of diversity, inclusion and belonging. We believe in the importance of transparency and will also provide on our website the 2020 Consolidated EEO-1 Report upon submission to the U.S. Equal Employment Opportunity Commission.

Compensation and Wellness

We are committed to providing a competitive total compensation package that will attract, retain and motivate talent to help drive our business' long-term success. Our benefits, including competitive parental leave, on-site health centers, flexible work solutions, company contributions to associates' 401(k) plans, educational assistance and other health, wellness, and financial benefits, are all designed to help associates grow and develop inside and outside of the workplace and empower them in their lives. Furthermore, pay equity has long been a core tenet of our pay philosophy and is central to our values. We annually evaluate base pay and incentive pay for all of our associates globally. This review and evaluation may occur more frequently as deemed necessary and prudent. We review groups of associates in similar roles, adjusting for factors that appropriately explain differences in pay such as job location and experience. Based on our analysis, our aggregated adjusted pay gap results show that we pay women 100% of what men are paid, and we pay racial and ethnic minorities in the U.S. 100% of what non-minorities are paid. We use statistical modeling to understand what drives pay gaps, instill new practices to eliminate them in the future, and if we find unexplained pay gaps, we close them.

In 2020, a significant majority of our associates across our workforce have transitioned to working remotely as we prioritize the safety of our associates during the COVID-19 pandemic. For more information on our response to the pandemic, please refer to *Part I—Item 1.—Business—Overview—Coronavirus Disease 2019 (COVID-19) Pandemic*.

Communication and Connection

We communicate with our associates regularly to understand their perspectives and to hear their voices. Our senior leaders and Chief Executive Officer also communicate directly on societal events impacting our associates. To assess and improve associate retention and engagement, the Company surveys associates on a periodic basis with the assistance of third-party consultants, and takes actions to address areas of associate concern. We encourage full participation and use the results to effect change and promote transparency.

ADDITIONAL INFORMATION

Technology/Systems

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

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

We are committed to safeguarding our customers' and our own information and technology, implementing backup and recovery systems, and generally require the same of our third-party service providers. We take measures that mitigate against known attacks and use internal and external resources to scan for vulnerabilities in platforms, systems, and applications necessary for delivering our products and services. For a discussion of the risks associated with our use of technology systems, see "Part I—Item 1A. Risk Factors" under the headings "*We face risks related to our operational, technological and organizational infrastructure*" and *"Increased costs, reductions in revenue, reputational damage and business disruptions can result from the theft, loss or misuse of information, including as a result of a cyber-attack."*

Intellectual Property

As part of our overall and ongoing strategy to protect and enhance our intellectual property, we rely on a variety of protections, including copyrights, trademarks, trade secrets, patents and certain restrictions on disclosure, solicitation and competition. We also undertake other measures to control access to, or distribution of, our other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use certain intellectual property or proprietary information without authorization. Our precautions may not prevent misappropriation or infringement of our intellectual property or proprietary information. In addition, our competitors and other third parties also file patent applications for innovations that are used in our industry. The ability of our competitors and other third parties to obtain patents may adversely affect our ability to compete and our financial results. Conversely, our ability to obtain patents may increase our competitive advantage, preserve our freedom to operate, and allow us to enter into licensing (e.g., cross-licenses) or other arrangements with third parties. There can be no assurance that we will be successful in such efforts, or that the ability of our competitors to obtain such patents may not adversely impact our financial results. For a discussion of risks associated with intellectual property, see "Part I—Item 1A. Risk Factors" under the heading "*If we are not able to protect our intellectual property, our revenue and profitability could be negatively affected."*

FORWARD-LOOKING STATEMENTS

From time to time, we have made and will make forward-looking statements, including those that discuss, among other things, strategies, goals, outlook or other non-historical matters; projections, revenues, income, returns, expenses, capital measures, 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 this report. 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 Offering 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.

Item 1A. Risk Factors

This section highlights significant factors, events, and uncertainties that make an investment in our securities risky. The events and consequences discussed in these risk factors could, in circumstances we may not be able to accurately predict, recognize, or control, have a material adverse effect on our business, growth, reputation, prospects, financial condition, operating results, cash flows, liquidity, and stock price. These risk factors do not identify all risks that we face; our operations could also be affected by factors, events, or uncertainties that are not presently known to us or that we currently do not consider to present significant risks to our operations. In addition, the global economic and political climate may amplify many of these risks.

Summary of Risk Factors

Below is a summary of the principal factors that make an investment in our securities risky. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below and should be carefully considered, together with other information in this Form 10-K and our other filings with the SEC, before making an investment decision regarding our common stock.

- The COVID-19 pandemic has adversely impacted our business and financial results, and the extent to which the pandemic and measures taken in response to the pandemic could materially and adversely impact our business, financial condition, liquidity, capital and results of operations will depend on future developments, which are highly uncertain and are difficult to predict.
- Changes and instability in the macroeconomic environment, consumer confidence and customer behavior may adversely affect our business.
- Financial market instability and volatility could adversely affect our business.
- We may experience increased delinquencies, credit losses, inaccurate estimates and inadequate reserves.
- We may not be able to maintain adequate capital or liquidity levels, which could have a negative impact on our financial results and our ability to return capital to our stockholders.
- We face risks related to our operational, technological and organizational infrastructure.

- Theft, loss or misuse of information as a result of a cyber-attack may result in increased costs, reductions in revenue, reputational damage and business disruptions.
- Potential data protection and privacy incidents, and our required compliance with regulations related to these areas, may increase our costs, reduce our revenue and limit our ability to pursue business opportunities.
- Compliance with new and existing laws, regulations and regulatory expectations is costly and complex.
- Our businesses are subject to the risk of increased litigation, government investigations and regulatory enforcement.
- We face intense competition in all of our markets.
- 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.
- If we are not able to invest successfully in and introduce digital and other technological developments across all our businesses, our financial performance may suffer.
- We may fail to realize all of the anticipated benefits of our mergers, acquisitions and strategic partnerships.
- Reputational risk and social factors may impact our results and damage our brand.
- If we are not able to protect our intellectual property, our revenue and profitability could be negatively affected.
- Our risk management strategies may not be fully effective in mitigating our risk exposures in all market environments or against all types of risk.
- Fluctuations in market interest rates or volatility in the capital markets could adversely affect our income and expense, the value of assets and obligations, our regulatory capital, cost of capital or liquidity.
- Uncertainty regarding, and transition away from, LIBOR may adversely affect our business.
- Our business could be negatively affected if we are unable to attract, retain and motivate skilled employees.
- We face risks from unpredictable catastrophic events.
- We face risks from the use of or changes to assumptions or estimates in our financial statements.
- Limitations on our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends and repurchase common stock.
- The soundness of other financial institutions and other third parties could adversely affect us.

General Economic and Market Risks

The COVID-19 pandemic has adversely impacted our business and financial results, and the extent to which the pandemic and measures taken in response to the pandemic could materially and adversely impact our business, financial condition, liquidity, capital and results of operations will depend on future developments, which are highly uncertain and are difficult to predict.

Global health concerns relating to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have impacted the macroeconomic environment, significantly increased economic uncertainty and reduced economic activity. The pandemic has also caused governmental authorities to implement numerous measures to try to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. These measures have negatively impacted and may further negatively impact consumer and business payment and spending patterns.

The COVID-19 pandemic has adversely impacted, and may continue to adversely impact, our business, operations, financial condition, capital and results of operations. The extent of these impacts depends on future developments, which are highly uncertain and difficult to predict, including, but not limited to, the duration and magnitude of the pandemic, the actions taken to contain the virus or treat its impact, the effectiveness of economic stimulus measures in the United States, and how quickly and to what extent economic and operating conditions and consumer and business spending can return to their pre-pandemic levels. As of December 31, 2020, several vaccines have been authorized for limited distribution. The plan for larger community-based distribution is being developed and may begin during the second quarter of 2021. However, the timing and extent of any such widespread distribution of vaccines remains uncertain. As a result of this uncertainty, our purchase volume, loan growth and the overall demand for our products and services may be significantly impacted, which could adversely affect our revenue and other results of operations. In addition, we could experience higher credit losses in our loan portfolios and increases in our allowance for credit losses beyond current levels. For example, as a result of the significant uncertainty due to the COVID-19 pandemic, we realized a substantial build in our allowance for credit losses for the first two quarters of 2020. We could also experience impairments of other financial assets and other negative impacts on our financial position, including possible constraints on liquidity and capital, as well as higher costs of capital. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business and results of operations, which could be material, as a result of the macroeconomic impact and any recession that has occurred or may occur in the future.

The spread of COVID-19 has caused us to modify our business practices and operations, including providing a range of forbearance options to our customers in certain circumstances, which could impact our credit metrics, financial condition, capital and results of operations. We may need to further modify our practices and operations as this event unfolds. We have also implemented work-from-home policies for a vast majority of our employees, and social distancing plans for our employees who are working from Capital One facilities. Nearly all of our Cafés and bank branches across our network are open with increased safety precautions. We will continue to monitor local conditions to ensure the safety of our associates and customers while providing critical banking services. These measures could impair our ability to perform critical functions and may adversely impact our results of operations. In addition, these measures and other changes in consumer behavior as a result of the COVID-19 pandemic may require changes to retail distribution strategies and adversely impact our investments in our bank premises and equipment and other retail distribution assets, leading to increased costs and exposure to additional risks. We may take further actions as required by government authorities or that we otherwise determine are in the best interests of our customers, employees and business partners.

Federal, state, local and foreign governmental authorities have enacted, and may enact in the future, legislation, regulations and protocols in response to the COVID-19 pandemic, including governmental programs intended to provide economic relief to businesses and individuals. We have participated in certain of these programs, including participating as an eligible lender in the Small Business Administration's Paycheck Protection Program. Our participation in and execution of any such programs may cause operational, compliance, reputational and credit risks, which could result in litigation, governmental action or other forms of loss. The extent of these impacts, which may be substantial, will depend on the degree of our participation in these programs. There remains significant uncertainty regarding the measures that authorities will enact in the future and the ultimate impact of the legislation, regulations and protocols that have been and will be enacted. Moreover, we expect that the effects of the COVID-19 pandemic will heighten many of the other known risks described herein. See Part I—Item 1.—Business—Overview—Coronavirus Disease 2019 (COVID-19) Pandemic.

Changes and instability in the macroeconomic environment, consumer confidence and customer behavior may adversely affect our business.

We offer a broad array of financial products and services to consumers, small businesses and commercial clients. A prolonged period of economic volatility, slow growth, or a significant deterioration in economic conditions, in the U.S., Canada or the U.K., could have a material adverse effect on our financial condition and results of operations as customers default on their loans, maintain lower deposit levels or, in the case of credit card accounts, carry lower balances and reduce credit card purchase activity.

Some of the risks we face in connection with adverse changes and instability in the macroeconomic environment, including changes in consumer confidence levels and behavior, include the following:

- Changes in payment patterns, increases in delinquencies and default rates, decreased consumer spending, lower demand for credit and shifts in consumer payment behavior towards avoiding late fees, finance charges and other fees;
- Increases in our charge-off rate caused by bankruptcies and reduced ability to recover debt that we have previously charged-off;
- Decreased reliability of the process and models we use to estimate our allowance for loan and lease losses, particularly if unexpected variations in key inputs and assumptions cause actual losses to diverge from the projections of our models

and our estimates become increasingly subject to management's judgment. See "*We face risks resulting from the extensive use of models and data.*"

The U.K. and the European Union agreed to a free trade deal at the end of 2020 relating to the U.K.'s exit from the European Union ("Brexit"). While this deal provides greater near-term stability, the on-going impact of Brexit and its full effects on the U.K. economy and our business related thereto remain uncertain. We continue to consider and monitor the potential impacts, and other factors, including the COVID-19 pandemic, that could also impact U.K. economic performance.

Financial market instability and volatility could adversely affect our business.

Our ability to borrow from other financial institutions or to engage in funding transactions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, which could limit our access to funding. In addition, fluctuations in interest rates, credit spreads and other market factors could negatively impact our results of operations. Both shorter-term and longer-term interest rates remain below long-term historical averages and the yield curve has been relatively flat compared to past periods. A flat yield curve combined with low interest rates generally leads to lower revenue and reduced margins because it tends to limit our ability to increase the spread between asset yields and funding costs. Sustained periods of time with a flat yield curve coupled with low interest rates, or an inversion of the yield curve, could have a material adverse effect on our net interest margin and earnings.

In response to the economic consequences of the COVID-19 pandemic, the Federal Reserve lowered its target for the federal funds rate to a range of 0% to 0.25%. Such low rates increase the risk in the U.S. of a negative interest rate environment in which interest rates drop below zero, either broadly or for some types of instruments. For example, yields on one-month and three-month Treasuries briefly dropped below zero in March 2020. Such an occurrence would likely further reduce the interest we earn on loans and other interest-earning assets, while also likely requiring us to pay to maintain our deposits with the Federal Reserve. Our systems may not be able to handle adequately a negative interest rate environment and not all variable rate instruments are designed for such a circumstance. We cannot predict the nature or timing of future changes in monetary policies in response to the COVID-19 pandemic or the precise effects that they may have on our activities and financial results.

Credit Risk

We may experience increased delinquencies, credit losses, inaccurate estimates and inadequate reserves.

Like other lenders, we face the risk that our customers will not repay their loans. A customer's ability and willingness to repay us can be adversely affected by increases in their payment obligations to other lenders, whether as a result of higher debt levels or rising interest rates, by restricted availability of credit generally, or by the revenue and income of the borrower. We may fail to quickly identify and reduce our exposure to customers that are likely to default on their payment obligations, whether by closing credit lines or restricting authorizations. Our ability to manage credit risk also is affected by legal or regulatory changes (such as restrictions on collections, bankruptcy laws, minimum payment regulations and re-age guidance), competitors' actions and consumer behavior, and depends on the effectiveness of our collections staff, techniques and models.

Rising losses or leading indicators of rising losses (such as higher delinquencies, higher rates of nonperforming loans, higher bankruptcy rates, lower collateral values, elevated unemployment rates or changing market terms) may require us to increase our allowance for credit losses, which may degrade our profitability if we are unable to raise revenue or reduce costs to compensate for higher losses. In particular, we face the following risks in this area:

- *Missed Payments:* Our customers may miss payments. Loan charge-offs (including from bankruptcies) are generally preceded by missed payments or other indications of worsening financial condition for our customers. Historically, customers are more likely to miss payments during an economic downturn or prolonged periods of slow economic growth. In addition, we face the risk that consumer and commercial customer behavior may change (for example, an increase in the unwillingness or inability of customers to repay debt, which may be heightened by increasing interest rates or levels of consumer debt), causing a long-term rise in delinquencies and charge-offs.

- *Incorrect Estimates of Expected Losses:* The credit quality of our portfolio can have a significant impact on our earnings. We allow for and reserve against credit risks based on our assessment of expected credit losses in our loan portfolios. This process, which is critical to our financial condition and results of operations, requires complex judgments, including forecasts of economic conditions. We may underestimate our expected losses and fail to hold an allowance for credit losses sufficient to account for these losses. Incorrect assumptions could lead to material underestimations of expected credit losses and an inadequate allowance for credit losses.

- *Inaccurate Underwriting:* Our ability to accurately assess the creditworthiness of our customers may diminish, which could result in an increase in our credit losses and a deterioration of our returns. See "*Our risk management strategies may not be fully effective in mitigating our risk exposures in all market environments or against all types of risk*."
- *Business Mix:* We engage in a diverse mix of businesses with a broad range of potential credit exposure. Because we originate a relatively greater proportion of consumer loans in our loan portfolio compared to other large bank peers and originate both prime and subprime credit card accounts and auto loans, we may experience higher delinquencies and a greater number of accounts charging off compared to other large bank peers, which could result in increased credit losses, operating costs and regulatory scrutiny. Additionally, a change in this business mix over time to include proportionally more consumer loans or subprime credit card accounts or auto loans could adversely affect the credit quality of our portfolio.
- *Increasing Charge-off Recognition/Allowance for Credit Losses:* We account for the allowance for credit losses according to accounting and regulatory guidelines and rules, including Financial Accounting Standards Board ("FASB") standards and the Federal Financial Institutions Examination Council ("FFIEC") Account Management Guidance. Effective as of January 1, 2020, we adopted the CECL standard which is based on expected lifetime losses rather than incurred losses. Adoption of the CECL standard has resulted and may continue to result in an increase to our reserves for credit losses on financial instruments with a resulting adverse impact on our financial condition. The continued impact of CECL on our future results will depend on the characteristics of our financial instruments, economic conditions, and our economic and loss forecasts. The application of the CECL standard requires us to increase reserves faster and to a higher level in an economic downturn, resulting in greater impact to our results and our capital ratios than we would have experienced in similar circumstances prior to the adoption of CECL. In addition, because credit cards represent a significant portion of our product mix, we could be disproportionately affected by use of the CECL standard, as compared to our large bank peers with a different product mix. See "MD&A—Accounting Changes and Developments" for additional information.
- *Insufficient Asset Values:* The collateral we have on secured loans could be insufficient to compensate us for credit losses. When customers default on their secured loans, we attempt to recover collateral where permissible and appropriate. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan, and we may be unsuccessful in recovering the remaining balance from our customers. Decreases in real estate and other asset values adversely affect the collateral value for our commercial lending activities, while the auto business is similarly exposed to collateral risks arising from the auction markets that determine used car prices. Borrowers may be less likely to continue making payments on loans if the value of the property used as collateral for the loan is less than what the borrower owes, even if the borrower is still financially able to make the payments. In that circumstance, the recovery of such property could be insufficient to compensate us for the value of these loans upon a default. In our auto business, business and economic conditions that negatively affect household incomes, housing prices and consumer behavior, as well as technological advances that make older cars obsolete faster, could decrease (i) the demand for new and used vehicles and (ii) the value of the collateral underlying our portfolio of auto loans, which could cause the number of consumers who become delinquent or default on their loans to increase.
- *Geographic and Industry Concentration:* Although our consumer lending is geographically diversified, approximately 27% of our commercial loan portfolio is concentrated in the tri-state area of New York, New Jersey and Connecticut. The regional economic conditions in the tri-state area affect the demand for our commercial products and services as well as the ability of our customers to repay their commercial loans and the value of the collateral securing these loans. An economic downturn or prolonged period of slow economic growth in, or a catastrophic event that disproportionately affects, the tri-state area could have a material adverse effect on the performance of our commercial loan portfolio and our results of operations. In addition, our Commercial Banking strategy includes an industry-specific focus. If any of the industries that we focus on experience changes, we may experience increased credit losses and our results of operations could be adversely impacted. For example, as of December 31, 2020, healthcare and healthcare-related real estate loans represented approximately 19% of our total commercial loan portfolio. If healthcare-related industries or any of the other industries that we focus on experience adverse changes, we may experience increased credit losses and our results of operations could be adversely impacted.

Capital and Liquidity Risk

We may not be able to maintain adequate capital or liquidity levels, which could have a negative impact on our financial results and our ability to return capital to our stockholders.

Financial institutions are subject to extensive and complex capital and liquidity requirements. These requirements affect our ability to lend, grow deposit balances, make acquisitions and make most capital distributions. Failure to maintain adequate capital or liquidity levels, whether due to adverse developments in our business or the economy or to changes in the applicable requirements, could subject us to a variety of remedies available to our regulators. These include limitations on the ability to pay dividends, repurchase shares and the issuance of a capital directive to increase capital. Such limitations could have a material adverse effect on our business and results of operations.

We consider various factors in the management of capital, including the impact of stress on our capital levels, as determined by both our internal modeling and the Federal Reserve's modeling of our capital position in supervisory stress tests and CCAR. There can be significant differences between our modeling and the Federal Reserve's estimates for a given scenario and between the capital needs suggested by our internal bank holding company scenarios relative to the supervisory scenarios. Therefore, although our estimated capital levels under stress disclosed as part of the CCAR or DFAST processes may suggest that we have substantial capacity to return capital to stockholders and remain well capitalized under stress, the Federal Reserve's modeling, our internal modeling of another scenario or other factors related to our capital management process may result in a materially lower capacity to return capital to stockholders than that indicated by the projections released in the CCAR or DFAST processes. This in turn, could lead to restrictions on our ability to pay dividends and engage in share repurchase transactions. See "Part I—Item 1. Business—Supervision and Regulation" for additional information.

In addition, the current capital and liquidity requirements are subject to change. The Federal Banking Agencies finalized the Tailoring Rule in the fourth quarter of 2019. Under the Tailoring Rule, we are a Category III institution, and are no longer subject to the Basel III Advanced Approaches and associated capital requirements, but we continue to be subject to the countercyclical capital buffer and supplementary leverage ratio. In March 2020, the Federal Reserve issued a final rule to implement the stress capital buffer requirement. This final rule became effective in May 2020. Pursuant to the Stress Capital Buffer Rule, the Federal Reserve will use the results of its supervisory stress test to determine the size of a large banking institution's stress capital buffer requirement, which replaces the previous 2.5% capital conservation buffer under the Basel III Standardized Approach. Our stress capital buffer requirement is 5.6% for the period from October 1, 2020 through September 30, 2021, at which point a revised stress capital buffer requirement will be applicable to us based on our 2021 stress testing results. In addition, on June 25, 2020 the Federal Reserve introduced measures to ensure that large BHCs maintained a high level of capital resilience. Specifically, the Federal Reserve required certain large BHCs, including us, to suspend share repurchases and cap common dividends during the third and fourth quarters of 2020. Consistent with the Federal Reserve's capital distribution restrictions, we reduced our quarterly dividend on our common stock from $0.40 per share to $0.10 per share for the third quarter of 2020, which we maintained into the fourth quarter of 2020. The Federal Banking Agencies also finalized rules to implement the NSFR in October 2020. The NSFR is designed to ensure that banking organizations maintain a stable, long-term funding profile in relation to their asset composition and off-balance sheet activities and its requirements will become effective as of July 1, 2021. On December 18, 2020, the Federal Reserve extended the capital distribution restrictions for all participating BHCs to the first quarter of 2021, with certain modifications. In particular, for the first quarter of 2021, participating BHCs may resume share repurchases however the aggregate amount of dividend payments and share repurchases will be limited to an amount based on net income earned in the preceding four calendar quarters. See "Part I—Item 1. Business—Supervision and Regulation" for additional information. Further changes to applicable capital and liquidity requirements could result in unexpected or new limitations on our ability to pay dividends and engage in share repurchases.

Operational Risk

We face risks related to our operational, technological and organizational infrastructure.

Our ability to retain and attract customers depends on our ability to develop, operate, and adapt our technology and organizational infrastructure in a rapidly changing environment. In addition, we must accurately process, record and monitor an increasingly large number of complex transactions. Digital technology, data and software development are deeply embedded into our business model and how we work.

Similar to other large corporations, we are exposed to operational risk that can manifest itself in many ways, such as errors in execution, inadequate processes, inaccurate models, faulty or disabled technological infrastructure, and fraud by employees or persons outside of our company. In addition, we are heavily dependent on the security, capability and continuous availability of the technology systems that we use to manage our internal financial and other systems, monitor risk and compliance with regulatory requirements, provide services to our customers, develop and offer new products and communicate with stakeholders. We also face risk of adverse customer impacts and business disruption arising from the execution of strategic initiatives we may pursue across our operations.

If we do not maintain the necessary operational, technological and organizational infrastructure to operate our business, including to maintain the security of that infrastructure, our business and reputation could be materially adversely affected. We also are subject to disruptions to our operating systems arising from events that are wholly or partially beyond our control, which may include computer viruses, electrical or telecommunications outages, design flaws in foundational components or platforms, availability and quality of vulnerability patches from key vendors, cyber-attacks (including Distributed Denial of Service ("DDOS") and other attacks on our infrastructure as discussed below), natural disasters, other damage to property or physical assets, or events arising from local or larger scale politics, including terrorist acts. Any failure to maintain our infrastructure or disruption of our operating systems and applications could diminish our ability to operate our businesses, service customer accounts and protect customers' information, or result in potential liability to customers, reputational damage, regulatory intervention and customers' loss of confidence in our businesses, any of which could result in a material adverse effect.

We also rely on the business infrastructure and systems of third parties with which we do business and to whom we outsource the operation, maintenance and development of our information technology and communications systems. We have migrated substantially all, and intend to migrate all, of our core information technology systems and customer-facing applications to third-party cloud infrastructure platforms, principally AWS. If we do not complete the transition or fail to administer these new environments in a well-managed, secure and effective manner, or if AWS platforms become unavailable or do not meet their service level agreements for any reason, we may experience unplanned service disruption or unforeseen costs which could result in material harm to our business and results of operations. We must successfully develop and maintain information, financial reporting, disclosure, data-protection and other controls adapted to our reliance on outside platforms and providers. In addition, AWS, or other service providers, could experience system breakdowns or failures, outages, downtime, cyber-attacks, adverse changes to financial condition, bankruptcy, or other adverse conditions, which could have a material adverse effect on our business and reputation. Thus, the substantial amount of our infrastructure that we outsource to AWS or to other third parties may increase our risk exposure.

Any disruptions, failures or inaccuracies of our operational and technology systems and models, including those associated with improvements or modifications to such systems and models, could cause us to be unable to market and manage our products and services, manage our risk, meet our regulatory obligations or report our financial results in a timely and accurate manner, all of which could have a negative impact on our results of operations. In addition, our ongoing investments in infrastructure, which are necessary to maintain a competitive business, integrate acquisitions and establish scalable operations, may increase our expenses. As our business develops, changes or expands, additional expenses can arise as a result of a reevaluation of business strategies, management of outsourced services, asset purchases or other acquisitions, structural reorganization, compliance with new laws or regulations, or the integration of newly acquired businesses, or the prevention or occurrence of data security incidents. If we are unable to successfully manage our expenses, our financial results will be negatively affected. Changes to our business, including as a result of our strategic objectives, also requires robust governance to ensure that our objectives are executed as intended without adversely impacting our customers, associates, operations or financial performance. Ineffective change management oversight and governance over the execution of our strategic objectives could expose us to operational, strategic and reputational risk and could negatively impact customers or our financial performance.

Theft, loss or misuse of information as a result of a cyber-attack may result in increased costs, reductions in revenue, reputational damage and business disruptions.

Our products and services involve the gathering, authenticating, managing, processing, and the storing and transmission of sensitive and confidential information regarding our customers and their accounts, our employees and third parties with which we do business. Our ability to provide such products and services, many of which are web-based, depends upon the management and safeguarding of information, software, methodologies and business secrets. To provide these products and services to, as well as communicate with, our customers, we rely on information systems and infrastructure, including software and data engineering, and information security personnel, digital technologies, computer and email systems, software, networks and other web-based technologies. We also have arrangements in place with third parties through which we share and receive information about their customers who are or may become our customers.

Technologies, systems, networks and devices of Capital One or our employees, service providers or other third parties with whom we interact may continue to be the subject of attempted unauthorized access, mishandling or misuse of information, denial-of-service attacks, computer viruses, website defacement, hacking, malware, ransomware, phishing or other forms of social engineering, and other forms of cyber-attacks designed to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, and other events. These threats, such as the Cybersecurity Incident, may derive from error, fraud or malice on the part of our employees, insiders or third parties or may result from accidental technological failure. Any of these parties may also attempt to fraudulently induce employees, customers or other third-party users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or third parties with whom we interact, or to unlawfully obtain monetary benefit through misdirected or otherwise improper payment. Further, cyber and information security risks for large financial institutions like us continue to increase due to the proliferation of new technologies, the use of the internet to conduct financial transactions, and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists, activists, formal and informal instrumentalities of foreign governments and other external parties. In addition, our customers access our products and services using computers, smartphones, tablets and other mobile devices that are beyond our security control systems.

The methods and techniques employed by perpetrators of fraud and others to attack, disable, degrade or sabotage platforms, systems and applications change frequently, are increasingly sophisticated and often are not fully recognized or understood until after they have occurred, and some techniques could occur and persist for an extended period of time before being detected. For example, although we immediately fixed the configuration vulnerability that was exploited in the Cybersecurity Incident once we discovered the unauthorized access, a period of time elapsed between the occurrence of the unauthorized access and the time when we discovered it. In other circumstances, we and our third-party service providers and partners may be unable to anticipate or identify certain attack methods in order to implement effective preventative measures or mitigate or remediate the damages caused in a timely manner. We may also be unable to hire and develop talent capable of detecting, mitigating or remediating these risks. Although we seek to maintain a robust suite of authentication and layered information security controls, including our cyber threat analytics, data encryption and tokenization technologies, anti-malware defenses and vulnerability management program, any one or combination of these controls could fail to detect, mitigate or remediate these risks in a timely manner. We will likely face an increasing number of attempted cyber-attacks as we expand our mobile and other internet-based products and services, as well as our usage of mobile and cloud technologies and as we provide more of these services to a greater number of retail clients.

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

In addition, the increasing prevalence and the evolution of cyber-attacks and other efforts to breach or disrupt our systems or those of our partners, retailers or other market participants has led, and will likely continue to lead, to increased costs to us with respect to preventing, mitigating and remediating these risks, as well as any related attempted fraud. In order to address ongoing and future risks, including from the Cybersecurity Incident, we must expend significant resources to support protective security measures, investigate and remediate any vulnerabilities of our information systems and infrastructure and invest in new technology designed to mitigate security risks. The Cybersecurity Incident, or successful cyber-attacks at other large financial institutions or other market participants (whether or not we are impacted), could lead to a general loss of customer confidence in financial institutions that could negatively affect us, including harming the market perception of the effectiveness of our security measures or the financial system in general which could result in reduced use of our financial products. We have insurance against some cyber-risks and attacks, including insurance that is expected to cover certain costs associated with the Cybersecurity Incident; nonetheless, our insurance coverage may not be sufficient to offset the impact of a material loss event, and such insurance may increase in cost or cease to be available on commercial terms in the future.

Potential data protection and privacy incidents, and our required compliance with regulations related to these areas, may increase our costs, reduce our revenue and limit our ability to pursue business opportunities.

A breach, failure or other disruption of our information systems or infrastructure or data management processes, or those of our customers, partners, service providers or other market participants, could lead, depending on the nature of the incident, to the unauthorized or unintended access to and release, gathering, monitoring, misuse, loss or destruction of personal or confidential data about our customers, employees or other third parties in our possession. Any party that obtains this personal or confidential data through a breach or disruption may use this information for ransom, to be paid by us or a third-party, as part of a fraudulent activity that is part of a broader criminal activity, or for other illicit purposes. Further, such disruption or breach could also result in unauthorized access to our proprietary information, intellectual property, software, methodologies and business secrets and in unauthorized transactions in Capital One accounts or unauthorized access to personal or confidential information maintained by those entities. There has been a significant proliferation of consumer information available on the internet resulting from breaches of third-party entities, including personal information, log-in credentials and authentication data. While we were not directly involved in these third-party breach events, the stolen information can create a vulnerability for our customers if their Capital One log-in credentials are the same as or similar to the credentials that have been compromised on other sites. This vulnerability could include the risk of unauthorized account access, data loss and fraud. The use of artificial intelligence, “bots” or other automation software, can increase the velocity and efficacy of these types of attacks.

We are continuing to assess the impact of the Cybersecurity Incident. The Cybersecurity Incident, other data security incidents we may experience in the future, or media reports of perceived security vulnerabilities at Capital One or at third-party service providers, could result in significant legal and financial exposure, regulatory intervention, remediation costs, card reissuance, supervisory liability, damage to our reputation or loss of confidence in the security of our systems, products and services that could adversely affect our business.

We are subject to a variety of continuously evolving and developing laws and regulations in the United States and abroad regarding privacy, data protection and data security, including those related to the collection, storage, handling, use, disclosure, transfer and security of personal data. Significant uncertainty exists as privacy and data protection laws may be interpreted and applied differently from country to country and may create inconsistent or conflicting requirements. For example, in Canada we are subject to the Personal Information Protection and Electronic Documents Act (“PIPEDA”). In addition, the General Data Protection Regulation (“GDPR”) applies EU data protection law to all companies processing data of EU residents, regardless of the company’s location. More recently, on January 1, 2020, the CCPA went into effect for companies doing business in California. These laws impose strict requirements regarding the collection, storage, handling, use, disclosure, transfer and security of personal data, which may have adverse consequences, including severe monetary penalties. Our efforts to comply with PIPEDA, GDPR, CCPA and other privacy and data protection laws entail substantial expenses, may divert resources from other initiatives and projects, and could limit the services we are able to offer. Furthermore, enforcement actions and investigations by regulatory authorities related to data security incidents and privacy violations continue to increase. The enactment of more restrictive laws, rules, regulations, or future enforcement actions or investigations could impact us through increased costs or restrictions on our business, and noncompliance could result in monetary or other penalties and significant legal liability.

We face risks resulting from the extensive use of models and data.

We rely on quantitative models, and our ability to manage data and aggregate data in an accurate and timely manner, assess and manage our various risk exposures, estimate certain financial values and manage compliance with required regulatory capital requirements. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting deposit levels or loan losses, assessing capital adequacy and calculating economic and regulatory capital levels, estimating the value of financial instruments and balance sheet items, and other operational functions. Our risk reporting and management, including business decisions based on information incorporating models, depend on the effectiveness of our models and our policies, programs, processes and practices governing how data is acquired, validated, stored, protected, processed and analyzed. Any issues with the quality or effectiveness of our data aggregation and validation procedures, as well as the quality and integrity of data inputs, formulas or algorithms, could result in inaccurate forecasts, ineffective risk management practices or inaccurate risk reporting. In addition, models based on historical data sets might not be accurate predictors of future outcomes and their ability to appropriately predict future outcomes may degrade over time. While we continuously update our policies, programs, processes and practices, many of our data management, aggregation and implementation processes are manual and subject to human error or system failure. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risk, to produce accurate financial, regulatory and operational reporting as well as to manage changing business needs. If our risk management framework is ineffective, we could suffer unexpected losses which could materially adversely affect our results of operation or financial condition. Also, any information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distribution to our stockholders, could be affected adversely due to the perception that the quality of the models used to generate the relevant information is insufficient.

Legal and Regulatory Risk

Compliance with new and existing laws, regulations and regulatory expectations is costly and complex.

We are subject to extensive regulatory oversight by the federal banking regulators to ensure that we build systems and processes that are commensurate with the nature of our business and that meet the risk management and prudential standards issued by our regulators. A wide array of banking and consumer lending laws apply to almost every aspect of our business. Failure to comply with these laws and regulations could result in financial, structural and operational penalties, including significant fines and criminal sanctions, and/or damage to our reputation with regulators, our customers or the public. Hiring, training and retaining qualified compliance and legal personnel, and establishing and maintaining compliance-related systems, infrastructure and processes, is difficult and these efforts could limit our ability to invest in other business opportunities. Furthermore, applicable rules and regulations may affect us in an unforeseen manner, or may have a disproportionate impact on us as compared to our competitors. Over the last several years, state and federal regulators have focused on compliance with the Bank Secrecy Act and anti-money laundering ("AML") laws, data integrity and security, use of service providers, fair lending and other consumer protection issues. For example, in July 2015, Capital One entered into a consent order with the OCC to address concerns about our AML program and in October 2018, Capital One paid a civil monetary penalty assessed by the OCC relating to our AML program. The OCC lifted the AML consent order in November 2019. In addition, in August 2020 we entered into consent orders with the Federal Reserve and the OCC resulting from regulatory reviews of the Cybersecurity Incident and relating to ongoing enhancements of our cybersecurity and operational risk management processes, and we paid a civil monetary penalty as part of the OCC agreement. In January 2021, we also paid a civil monetary penalty assessed by the Financial Crimes Enforcement Network ("FinCEN") against CONA in connection with our AML program. Failure to maintain compliance with laws and regulations could result in significant additional governmental fines or penalties.

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

The legislative and regulatory environment is beyond our control, may change rapidly and unpredictably and may negatively influence our revenue, costs, earnings, growth, liquidity and capital levels. In addition, some rules and regulations may be subject to litigation or other challenges that delay or modify their implementation and impact on us. Adoption of new technologies, such as distributed ledger technologies, artificial intelligence and machine learning technologies, can present unforeseen challenges in applying and relying on existing compliance systems.

Certain laws and regulations, and any interpretations and applications with respect thereto, are generally intended to protect consumers, borrowers, depositors, the DIF, the U.S. banking and financial system, and financial markets as a whole, but not stockholders. Our success depends on our ability to maintain compliance with both existing and new laws and regulations. For a description of the material laws and regulations to which we are subject, see "Part I—Item 1. Business—Supervision and Regulation."

Our businesses are subject to the risk of increased litigation, government investigations and regulatory enforcement.

Our businesses are subject to increased litigation, government investigations and other regulatory enforcement risks as a result of a number of factors and from various sources, including the highly regulated nature of the financial services industry, the focus of state and federal prosecutors on banks and the financial services industry and the structure of the credit card industry.

Given the inherent uncertainties involved in litigation, government investigations and regulatory enforcement decisions, and the very large or indeterminate damages sought in some matters asserted against us, there can be significant uncertainty as to the ultimate liability we may incur from these kinds of matters. The finding, or even the assertion, of substantial legal liability against us could have a material adverse effect on our business and financial condition and could cause significant reputational harm to us, which could seriously harm our business. The Cybersecurity Incident has resulted in litigation, government investigations and other regulatory enforcement inquiries.

In addition, financial institutions, such as ourselves, face significant regulatory scrutiny, which can lead to public enforcement actions or non-public supervisory actions. We and our subsidiaries are subject to comprehensive regulation and periodic examination by, among other regulatory bodies, the Federal Reserve, the SEC, OCC, FDIC and CFPB. We have been subject to enforcement actions by many of these and other regulators and may continue to be involved in such actions, including governmental inquiries, investigations and enforcement proceedings, including by the OCC, Department of Justice, FinCEN and state Attorneys General.

We expect that regulators and governmental enforcement bodies will continue taking formal enforcement actions against financial institutions in addition to addressing supervisory concerns through non-public supervisory actions or findings, which could involve restrictions on our activities, or our ability to make acquisitions or otherwise expand our business, among other limitations that could adversely affect our business. In addition, a violation of law or regulation by another financial institution is likely to give rise to an investigation by regulators and other governmental agencies of the same or similar practices by us. Furthermore, a single event may give rise to numerous and overlapping investigations and proceedings. These and other initiatives from governmental authorities and officials may subject us to further judgments, settlements, fines or penalties, or cause us to restructure our operations and activities or to cease offering certain products or services, all of which could harm our reputation or lead to higher operational costs. Litigation, government investigations and other regulatory actions could involve restrictions on our activities, generally subject us to significant fines, increased expenses, restrictions on our activities and damage to our reputation and our brand, and could adversely affect our business, financial condition and results of operations. For additional information regarding legal and regulatory proceedings that we are subject to, see "Note 18—Commitments, Contingencies, Guarantees and Others."

Other Business Risks

We face intense competition in all of our markets.

We operate in a highly competitive environment, whether in making loans, attracting deposits or in the global payments industry, and we expect competitive conditions to continue to intensify with respect to most of our products. We compete on the basis of the rates we pay on deposits and the rates and other terms we charge on the loans we originate or purchase, as well as the quality and range of our customer service, products, innovation and experience. This increasingly competitive environment is primarily a result of changes in technology, product delivery systems and regulation, as well as the emergence of new or significantly larger financial services providers, all of which may affect our customers' expectations and demands. In addition to offering competitive products and services, we invest in and conduct marketing campaigns to attract and inform customers.

Some of our competitors, including new and emerging competitors in the digital and mobile payments space and other financial technology providers, are not subject to the same regulatory requirements or legislative scrutiny to which we are subject, which also could place us at a competitive disadvantage, in particular in the development of new technology platforms or the ability to rapidly innovate. We compete with many forms of payments offered by both bank and non-bank providers, including a variety of new and evolving alternative payment mechanisms, systems and products, such as aggregators and web-based and wireless payment platforms or technologies, digital or "crypto" currencies, prepaid systems and payment services targeting users of social networks, communications platforms and online gaming. If we are unable to continue to keep pace with innovation, do not effectively market our products and services or are prohibited from or unwilling to enter emerging areas of competition, our business and results of operations could be adversely affected.

Some of our competitors are substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, the ability to reach more customers and potential customers, operational efficiencies, broad-based local distribution capabilities, lower-cost funding and larger existing branch networks. Many of our competitors are also focusing on cross-selling their products and developing new products or technologies, which could affect our ability to maintain or grow existing customer relationships or require us to offer lower interest rates or fees on our lending products or higher interest rates on deposits. Competition for loans could result in origination of fewer loans, earning less on our loans or an increase in loans that perform below expectations.

As of December 31, 2020, we operate as one of the largest online direct banks in the United States by deposits. While direct banking provides a significant opportunity to attract new customers that value greater and more flexible access to banking services at reduced costs, we face strong and increasing competition in the direct banking market. Aggressive pricing throughout the industry may adversely affect the retention of existing balances and the cost-efficient acquisition of new deposit funds and may affect our growth and profitability. Customers could also close their online accounts or reduce balances or deposits in favor of products and services offered by competitors for other reasons. These shifts, which could be rapid, could result from general dissatisfaction with our products or services, including concerns over pricing, online security or our reputation. The potential consequences of this competitive environment are exacerbated by the flexibility of direct banking and the financial and technological sophistication of our online customer base.

In our credit card business, competition for rewards customers may result in higher rewards expenses, or we may fail to attract new customers or retain existing rewards customers due to increasing competition for these consumers. As of December 31, 2020, we have a number of large partnerships in our credit card loan portfolio. The market for key business partners, especially in the credit card business, is very competitive, and we may not be able to grow or maintain these partner relationships. We face the risk that we could lose partner relationships, even after we have invested significant resources into acquiring and developing the relationships. The loss of any of our key business partners could have a negative impact on our results of operations, including lower returns, excess operating expense and excess funding capacity.

We depend on our partners to effectively promote our cobrand and private label products and integrate the use of our credit cards into their retail operations. The failure by our partners to effectively promote and support our products as well as changes they may make in their business models could adversely affect card usage and our ability to achieve the growth and profitability objectives of our partnerships. In addition, if our partners do not adhere to the terms of our program agreements and standards, or otherwise diminish the value of our brand, we may suffer reputational damage and customers may be less likely to use our products.

Some of our competitors have developed, or may develop, substantially greater financial and other resources than we have, may offer richer value propositions or a wider range of programs and services than we offer or may use more effective advertising, marketing or cross-selling strategies to acquire and retain more customers, capture a greater share of spending and borrowings, attain and develop more attractive cobrand card programs and maintain greater merchant acceptance than we have. We may not be able to compete effectively against these threats or respond or adapt to changes in consumer spending habits as effectively as our competitors.

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

Our business, financial condition and results of operations may be adversely affected by merchants' increasing focus on the fees charged by credit card networks and by legislation and regulation impacting such fees.

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

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

In addition to this regulatory activity, merchants are also seeking avenues to reduce interchange fees. During the past few years, merchants and their trade groups have filed numerous lawsuits against Visa, MasterCard, American Express and their card-issuing banks, claiming that their practices toward merchants, including interchange and similar fees, violate federal antitrust laws. In 2005, a number of entities filed antitrust lawsuits against MasterCard and Visa and several member banks, including our subsidiaries and us, alleging among other things, that the defendants conspired to fix the level of interchange fees. In December 2013, the U.S. District Court for the Eastern District of New York granted final approval of the proposed class settlement. The settlement provided, among other things, that merchants would be entitled to join together to negotiate lower interchange fees. The settlement was appealed to the Second Circuit Court of Appeals, which rejected the settlement in June 2016; a revised settlement was reached in the second half of 2018, and the trial court issued its final approval of the settlement in December 2019. See "Note 18—Commitments, Contingencies, Guarantees and Others" for further details.

Some major retailers may have sufficient bargaining power to independently negotiate lower interchange fees with MasterCard and Visa, which could, in turn, result in lower interchange fees for us when our cardholders undertake purchase transactions with these retailers. In 2016, some of the largest merchants individually negotiated lower interchange rates with MasterCard and/or Visa. These and other merchants also continue to lobby aggressively for caps and restrictions on interchange fees and their efforts may be successful or they may in the future bring legal proceedings against us or other credit card and debit card issuers and networks.

Beyond pursuing litigation, legislation and regulation, merchants may also promote forms of payment with lower fees, such as ACH-based payments, or seek to impose surcharges at the point of sale for use of credit or debit cards. New payment systems, particularly mobile-based payment technologies, could also gain widespread adoption and lead to issuer transaction fees or the displacement of credit card accounts as a payment method.

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

If we are not able to invest successfully in and introduce digital and other technological developments across all our businesses, our financial performance may suffer.

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

Our continued success depends, in part, upon our ability to address the needs of our customers by using digital technology to provide products and services that meet their expectations. The development and launch of new digital products and services depends in large part on our capacity to invest in and build the technology platforms that can enable them, in a cost effective and timely manner. See "*We face intense competition in all of our markets*" and "*We face risks related to our operational, technological and organizational infrastructure.*"

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

We may fail to realize all of the anticipated benefits of our mergers, acquisitions and strategic partnerships.

We have engaged in merger and acquisition activity and entered into strategic partnerships over the past several years. We continue to evaluate and anticipate engaging in, among other merger and acquisition activity, additional strategic partnerships and selected acquisitions of financial institutions and other acquisition targets, including credit card and other loan portfolios. We may not be able to identify and secure future acquisition targets on terms and conditions that are acceptable to us, or successfully complete within the anticipated time frame and achieve the anticipated benefits of proposed mergers, acquisitions and strategic partnerships, which could impair our growth.

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

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

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

- *Identification and Assessment of Merger and Acquisition Targets and Deployment of Acquired Assets:* We may not be able to identify, acquire or partner with suitable targets. Further, our ability to achieve the anticipated benefits of any merger, acquisition or strategic partnership will depend on our ability to assess the asset quality and value of the particular assets or institutions we partner with, merge with or acquire. We may be unable to profitably deploy any assets we acquire.

- *Accuracy of Assumptions:* In connection with any merger, acquisition or strategic partnership, we may make certain assumptions relating to the proposed merger, acquisition or strategic partnership that may be, or may prove to be, inaccurate, including as a result of the failure to realize the expected benefits of any merger, acquisition or strategic partnership. The inaccuracy of any assumptions we may make could result in unanticipated consequences that could have a material adverse effect on our results of operations or financial condition.

- *Target-specific Risk:* Assets and companies that we acquire, or companies that we enter into strategic partnerships with, will have their own risks that are specific to a particular asset or company. These risks include, but are not limited to, particular or specific regulatory, accounting, operational, reputational and industry risks, any of which could have a material adverse effect on our results of operations or financial condition. For example, we may face challenges associated with integrating other companies due to differences in corporate culture, compliance systems or standards of conduct. Indemnification rights, if any, may be insufficient to compensate us for any losses or damages resulting from such risks. In addition to regulatory approvals discussed below, certain of our merger, acquisition or partnership activity may require third-party consents in order for us to fully realize the anticipated benefits of any such transaction.

- *Conditions to Regulatory Approval:* Certain acquisitions may not be consummated without obtaining approvals from one or more of our regulators. We cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Consequently, we might be required to sell portions of acquired assets or our own assets as a condition to receiving regulatory approval or we may not obtain regulatory approval for a proposed acquisition on acceptable terms or at all, in which case we would not be able to complete the acquisition despite the time and expenses invested in pursuing it.

Reputational risk and social factors may impact our results and damage our brand.

Our ability to attract and retain customers is highly dependent upon the perceptions of consumer and commercial borrowers and deposit holders and other external perceptions of our products, services, trustworthiness, business practices, workplace culture, compliance practices or our financial health. In addition, our brand is very important to us. Maintaining and enhancing our brand depends largely on our ability to continue to provide high-quality products and services. Adverse perceptions regarding our reputation in the consumer, commercial and funding markets could lead to difficulties in generating and maintaining accounts as well as in financing them. In particular, negative public perceptions regarding our reputation, including negative perceptions regarding our ability to maintain the security of our technology systems and protect customer data, could lead to decreases in the levels of deposits that consumer and commercial customers and potential customers choose to maintain with us or significantly increase the costs of attracting and retaining customers. In addition, negative perceptions regarding certain industries, partners or clients could also prompt us to cease business activities associated with those entities.

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

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

If we are not able to protect our intellectual property, our revenue and profitability could be negatively affected.

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

Our risk management strategies may not be fully effective in mitigating our risk exposures in all market environments or against all types of risk.

Management of market, credit, liquidity, operational and compliance risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. See "MD&A—Risk Management" for further details. Even though we continue to devote significant resources to developing our risk management framework, our risk management strategies may not be fully effective in identifying and mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated.

Some of our methods of managing these risks are based upon our use of observed historical market behavior and management's judgment. These methods may not accurately predict future exposures, which could be significantly greater than the historical measures indicate and market conditions, particularly during a period of financial market stress, can involve unprecedented dislocations. Credit risk is inherent in the financial services business and results from, among other things, extending credit to customers. Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite our consumer and commercial customers become less predictive of future charge-offs due, for example, to rapid changes in the economy, including rapid changes in tariff rates and international trade relations.

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

Fluctuations in market interest rates or volatility in the capital markets could adversely affect our income and expense, the value of assets and obligations, our regulatory capital, cost of capital or liquidity.

Like other financial institutions, our business is sensitive to market interest rate movements and the performance of the capital markets. Disruptions, uncertainty or volatility across the capital markets could negatively impact market liquidity and limit our access to the funding required to operate and grow our business. In addition, changes in interest rates or in valuations in the debt or equity markets could directly impact us. For example, we borrow money from other institutions and depositors, which we use to make loans to customers and invest in debt securities and other interest-earning assets. We earn interest on these loans and assets and pay interest on the money we borrow from institutions and depositors. The interest rates that we pay on the securities we have issued are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Increased charge-offs, rising LIBOR or other applicable reference rates and other events may cause our securitization transactions to amortize earlier than scheduled, which could accelerate our need for additional funding from other sources. Fluctuations in interest rates, including changes in the relationship between short-term rates and long-term rates and in the relationship between our funding basis rate and our lending basis rate, may have negative impacts on our net interest income and therefore our earnings.

In addition, interest rate fluctuations and competitor responses to those changes may affect the rate of customer prepayments for auto and other term loans and may affect the balances customers carry on their credit cards. For example, increases in interest rates increase debt service requirements for some of our borrowers, which may adversely affect those borrowers' ability to pay as contractually obligated. This could result in additional delinquencies or charge-offs and negatively impact our results of operations. These changes can reduce the overall yield on our interest-earning asset portfolio. Changes in interest rates and competitor responses to these changes may also impact customer decisions to maintain balances in the deposit accounts they have with us. An inability to attract or maintain deposits could materially affect our ability to fund our business and our liquidity position. Many other financial institutions have increased their reliance on deposit funding and, as such, we expect continued competition in the deposit markets. We cannot predict how this competition will affect our costs. If we are required to offer higher interest rates to attract or maintain deposits, our funding costs will be adversely impacted. Changes in valuations in the debt and equity markets could have a negative impact on the assets we hold in our investment portfolio. Such market changes could also have a negative impact on the valuation of assets for which we provide servicing.

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

Uncertainty regarding, and transition away from, LIBOR may adversely affect our business.

The U.K. FCA, which regulates LIBOR, has announced that it will no longer compel banks to contribute data for the calculation of LIBOR after December 31, 2021. It is likely that banks will no longer continue to contribute submissions for the calculation of LIBOR after that date, which creates significant uncertainty around the publication of LIBOR beyond 2021 and whether LIBOR will continue to be viewed as a reliable market benchmark. In November 2020, the ICE Benchmark Administration (IBA), the administrator of LIBOR, announced that it will consult on 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 consultation closed on January 25, 2021 and we will continue to engage with industry experts to better understand the proposed IBA's extension announcement and its impact on the markets and our transition plans. It remains unclear what rate or rates may develop as accepted alternatives to LIBOR, or what the effect of such changes will be on the markets for LIBOR-based financial instruments. The Secured Overnight Financing Rate ("SOFR") has been recommended by the Alternative

Reference Rates Committee as an alternative for USD LIBOR, but issues and uncertainty remain with respect to its implementation.

Given LIBOR's extensive use across financial markets, the transition away from LIBOR presents several risks and challenges to the financial markets and financial institutions, including Capital One. We have loans, derivative contracts, unsecured debt, securitizations, vendor agreements and other instruments with attributes that are either directly or indirectly dependent on LIBOR. Uncertainty as to the nature of potential changes, alternative reference rates such as SOFR, or other reforms may adversely affect market liquidity, the pricing of LIBOR-based instruments, and the availability and cost of associated hedging instruments and borrowings. If SOFR or another rate does not achieve wide acceptance as the alternative to LIBOR, there likely will be disruption to the markets relying on the availability of a broadly accepted reference rate. In addition, uncertainty regarding LIBOR could result in loss of market share in certain products, adverse tax or accounting impacts, compliance, legal or operational costs and risks associated with client disclosures, as well as systems disruption, model disruption and other business continuity issues for us.

Even if SOFR or another reference rate becomes a widely acceptable replacement for LIBOR, risks will remain for us with respect to outstanding instruments which rely on LIBOR. Those risks arise in connection with transitioning such instruments to a new reference rate, the taking of discretionary actions or the negotiation of fallback provisions and final amendments to existing LIBOR based agreements. Payments under contracts referencing new reference rates may significantly differ from those referencing LIBOR. For some instruments, the method of transitioning to a new reference rate may be challenging, especially if parties to an instrument cannot agree as to how to effect that transition. If a contract is not transitioned to a new reference rate and LIBOR ceases to exist, the impact on our obligations is likely to vary by contract. In addition, prior to LIBOR cessation, instruments that continue to refer to LIBOR may be impacted if there is a change in the availability or calculation of LIBOR. The transition from LIBOR to an alternative reference rate may change our market risk profile and require changes to risk and pricing models, valuation tools, product design, information technology systems, reporting infrastructure, operational processes and controls, and hedging strategies. In many cases, we may be dependent on third parties to upgrade systems, software and other critical functions that could materially disrupt our readiness if they are not done on a timely basis or otherwise fail. Our assessment of the ultimate impact of, and our planning for, the transition from LIBOR remains ongoing. Failure to adequately manage the transition could have a material adverse effect on our reputation, business, financial condition and results of operations. See "MD&A—Market Risk Profile" for additional information.

Our business could be negatively affected if we are unable to attract, retain and motivate skilled employees.

Our success depends, in large part, on our ability to retain key senior leaders and to attract and retain skilled employees, particularly employees with advanced expertise in credit, risk, digital and technology skills. We depend on our senior leaders and skilled employees to oversee simultaneous, transformative initiatives across the enterprise and execute on our business plans in an efficient and effective manner. Competition for such senior leaders and employees, and the costs associated with attracting and retaining them, is high. Our ability to attract and retain qualified employees also is affected by perceptions of our culture and management, our profile in the regions where we have offices and the professional opportunities we offer. Regulation or regulatory guidance restricting executive compensation, as well as evolving investor expectations, may limit the types of compensation arrangements that we may enter into with our most senior leaders and could have a negative impact on our ability to attract, retain and motivate such leaders in support of our long-term strategy. These laws and regulations may not apply in the same manner to all financial institutions, and we therefore may face more restrictions than other institutions and companies with which we compete for talent. These laws and regulations may also hinder our ability to compete for talent with other industries. We rely upon our senior leaders not only for business success, but also to lead with integrity. To the extent our senior leaders behave in a manner that does not comport with our values, the consequences to our brand and reputation could be severe and could adversely affect our financial condition and results of operations. If we are unable to attract, develop and retain talented senior leadership and employees, or to implement appropriate succession plans for our senior leadership, our business could be negatively affected.

We face risks from unpredictable catastrophic events.

Despite the business contingency plans we have in place, such plans do not fully mitigate all potential business continuity risks to us. Natural disasters and other catastrophic events could harm our business and infrastructure, including our information technology systems and third-party platforms. Our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our business and the communities where we are located, which are concentrated in the Northern Virginia and New York metropolitan areas, as well as Richmond, Virginia and Plano, Texas. This may include a disruption involving damage or loss of access to a physical site, cyber incidents, terrorist activities, the occurrence or worsening of disease outbreaks or pandemics (including the COVID-19 pandemic), natural disasters, extreme weather events, electrical outage, environmental hazard, technological infrastructure, communications or other services we use, our employees or third parties with whom we conduct business. Our business, financial condition and results of operations may be impacted by any such disruption and our ability to implement corresponding response measures, including, for example, our ability to adapt to a remote work environment as a result of the ongoing COVID-19 pandemic and related response measures. In addition, if a natural disaster or other catastrophic event occurs in certain regions where our business and customers are concentrated, such as the mid-Atlantic, New York or Texas metropolitan areas, we could be disproportionately impacted as compared to our competitors. The impact of such events and other catastrophes on the overall economy may also adversely affect our financial condition and results of operations.

We face risks from the use of or changes to assumptions or estimates in our financial statements.

Pursuant to generally accepted accounting principles in the U.S. ("U.S. GAAP"), we are required to use certain assumptions and estimates in preparing our financial statements, including determining our allowance for credit losses, the fair value of certain assets and liabilities, and asset impairment, among other items. In addition, the FASB, the SEC and other regulatory bodies may change the financial accounting and reporting standards, including those related to assumptions and estimates we use to prepare our financial statements, in ways that we cannot predict and that could impact our financial statements. If actual results differ from the assumptions or estimates underlying our financial statements or if financial accounting and reporting standards are changed, we may experience unexpected material losses. For a discussion of our use of estimates in the preparation of our consolidated financial statements, see "MD&A—Critical Accounting Policies and Estimates" and "Note 1—Summary of Significant Accounting Policies."

Limitations on our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends and repurchase common stock.

We are a separate and distinct legal entity from our subsidiaries, including the Banks. Dividends to us from our direct and indirect subsidiaries, including the Banks, have represented a major source of funds for us to pay dividends on our common and preferred stock, repurchase common stock, make payments on corporate debt securities and meet other obligations. There are various federal law limitations on the extent to which the Banks can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. If our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our liquidity may be affected and we may not be able to make dividend payments to our common or preferred stockholders, repurchase our common stock, make payments on outstanding corporate debt securities or meet other obligations, each and any of which could have a material adverse impact on our results of operations, financial position or perception of financial health. See "Part I—Item 1.Business—Supervision and Regulation" for additional information regarding dividend limitations applicable to us and the Banks.

The soundness of other financial institutions and other third parties could adversely affect us.

Our ability to engage in routine funding and other transactions could be adversely affected by the stability and actions of other financial services institutions. Financial services institutions are interrelated as a result of trading, clearing, servicing, counterparty and other relationships. We have exposure to financial institutions, intermediaries and counterparties that are exposed to risks over which we have little or no control.

In addition, we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration with respect to the financial services industry overall. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions.

Likewise, adverse developments affecting the overall strength and soundness of our competitors, the financial services industry as a whole and the general economic climate or sovereign debt could have a negative impact on perceptions about the strength and soundness of our business even if we are not subject to the same adverse developments. In addition, adverse developments with respect to third parties with whom we have important relationships also could negatively impact perceptions about us. These perceptions about us could cause our business to be negatively affected and exacerbate the other risks that we face.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate and banking real estate portfolio consists of approximately 13.5 million square feet of owned or leased office and retail space, which is used to support our business. Of this overall portfolio, approximately 11.3 million square feet of space is dedicated for various corporate office uses and approximately 2.2 million square feet of space is for bank branches and Cafés.

Our 11.3 million square feet of corporate office space consists of approximately 5.0 million square feet of leased space and 6.3 million square feet of owned space. Our headquarters is located in McLean, Virginia, and is included in our corporate office space. We maintain corporate office space primarily in Virginia, Texas, Illinois, New York and Delaware.

Our 2.3 million square feet of bank branches and Cafés is located primarily across New York, Louisiana, Texas, Maryland, Virginia, New Jersey and California and consists of approximately 1.4 million square feet of leased space and 0.9 million square feet of owned space. See "Note 7—Premises, Equipment and Leases" for information about our premises.

Item 3. Legal Proceedings

The information required by Item 103 of Regulation S-K is included in "Note 18—Commitments, Contingencies, Guarantees and Others."

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

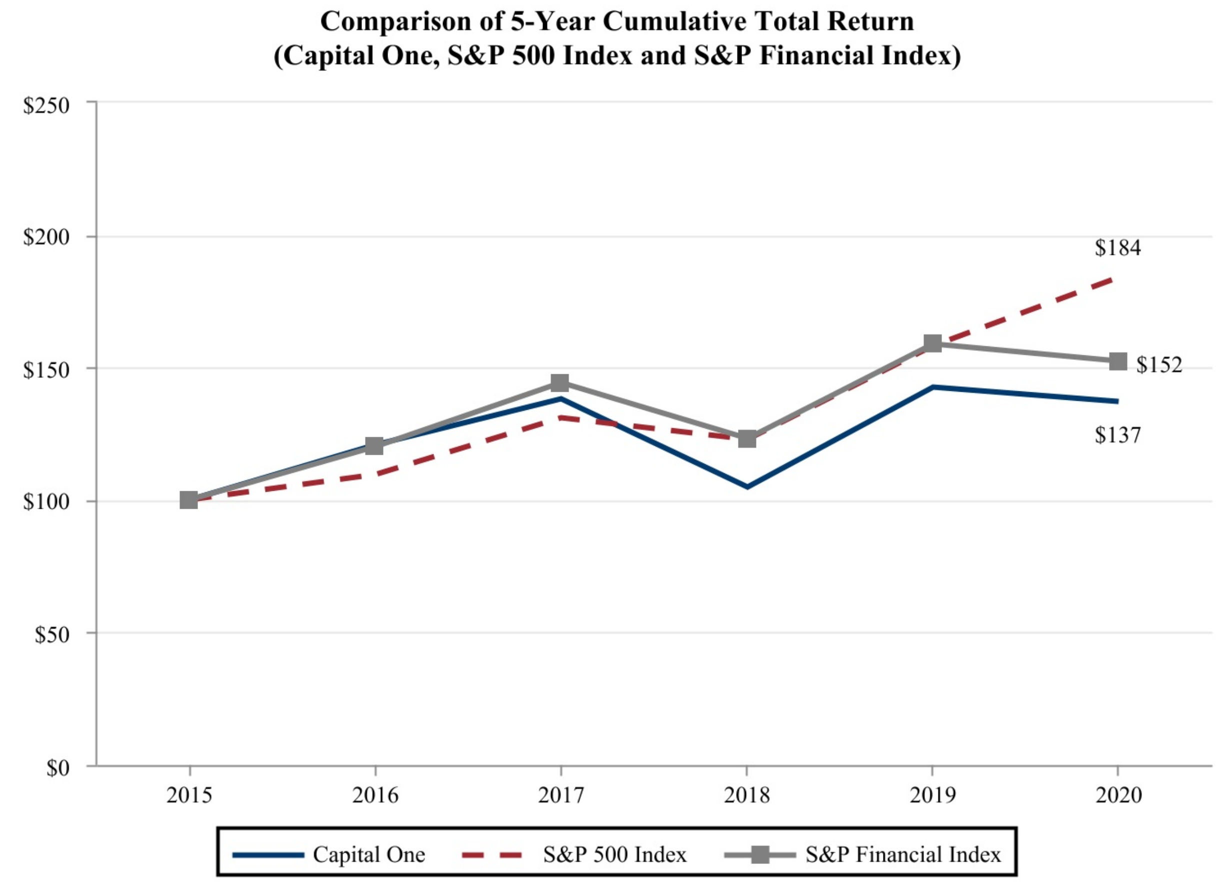
Our common stock is listed on the NYSE and is traded under the symbol "COF." As of January 31, 2021, there were 9,763 holders of record of our common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Common Stock Performance Graph

The following graph shows the cumulative total stockholder return on our common stock compared to an overall stock market index, the S&P Composite 500 Stock Index (“S&P 500 Index”), and a published industry index, the S&P Financial Composite Index (“S&P Financial Index”), over the five-year period commencing December 31, 2015 and ended December 31, 2020. The stock performance graph assumes that $100 was invested in our common stock and each index and that all dividends were reinvested. The stock price performance on the graph below is not necessarily indicative of future performance.



	December 31,					
	2015	2016	2017	2018	2019	2020
Capital One	$ 100.00	$ 120.86	$ 137.96	$ 104.72	$ 142.57	**$ 136.95**
S&P 500 Index	100.00	109.54	130.81	122.65	158.07	**183.77**
S&P Financial Index	100.00	120.14	144.20	123.06	158.95	**152.43**

Recent Sales of Unregistered Securities

We did not have any sales of unregistered equity securities in 2020.

Issuer Purchases of Equity Securities

We suspended our 2019 Stock Repurchase Program in March 2020 and the program subsequently expired at the end of the second quarter of 2020. During the fourth quarter of 2020, we withheld shares of common stock to cover taxes on restricted stock units ("RSUs") whose restrictions lapsed. Commission costs are excluded from the amounts presented below.

	Total Number of Shares Withheld	Average Price per Share
October	—	—
November	**39,344**	**$ 73.08**
December	**53**	**92.68**
Total	**39,397**	**73.11**

Item 6. Selected Financial Data

The following table presents selected consolidated financial data and performance metrics for the five-year period ended 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.

Five-Year Summary of Selected Financial Data

	Year Ended December 31,					Change	
(Dollars in millions, except per share data and as noted)	2020	2019	2018	2017	2016	2020 vs. 2019	2019 vs. 2018
Income statement							
Interest income	**$ 26,033**	$ 28,513	$ 27,176	$ 25,222	$ 22,891	(9)%	5 %
Interest expense	**3,120**	5,173	4,301	2,762	2,018	(40)	20
Net interest income	**22,913**	23,340	22,875	22,460	20,873	(2)	2
Non-interest income	**5,610**	5,253	5,201	4,777	4,628	7	1
Total net revenue	**28,523**	28,593	28,076	27,237	25,501	—	2
Provision for credit losses	**10,264**	6,236	5,856	7,551	6,459	65	6
Non-interest expense:							
Marketing	**1,610**	2,274	2,174	1,670	1,811	(29)	5
Operating expense	**13,446**	13,209	12,728	12,524	11,747	2	4
Total non-interest expense	**15,056**	15,483	14,902	14,194	13,558	(3)	4
Income from continuing operations before income taxes	**3,203**	6,874	7,318	5,492	5,484	(53)	(6)
Income tax provision	**486**	1,341	1,293	3,375	1,714	(64)	4
Income from continuing operations, net of tax	**2,717**	5,533	6,025	2,117	3,770	(51)	(8)
Income (loss) from discontinued operations, net of tax	**(3)**	13	(10)	(135)	(19)	**	**
Net income	**2,714**	5,546	6,015	1,982	3,751	(51)	(8)
Dividends and undistributed earnings allocated to participating securities	**(20)**	(41)	(40)	(13)	(24)	(51)	3
Preferred stock dividends	**(280)**	(282)	(265)	(265)	(214)	(1)	6
Issuance cost for redeemed preferred stock	**(39)**	(31)	—	—	—	26	**
Net income available to common stockholders	**$ 2,375**	$ 5,192	$ 5,710	$ 1,704	$ 3,513	(54)	(9)

(Dollars in millions, except per share data and as noted)	Year Ended December 31, 2020	2019	2018	2017	2016	Change 2020 vs. 2019	2019 vs. 2018
Common share statistics							
Basic earnings per common share:							
Net income from continuing operations	**$ 5.20**	$ 11.07	$ 11.92	$ 3.80	$ 7.00	(53) %	(7) %
Income (loss) from discontinued operations	**(0.01)**	0.03	(0.02)	(0.28)	(0.04)	**	**
Net income per basic common share	**$ 5.19**	$ 11.10	$ 11.90	$ 3.52	$ 6.96	(53)	(7)
Diluted earnings per common share:							
Net income from continuing operations	**$ 5.19**	$ 11.02	$ 11.84	$ 3.76	$ 6.93	(53) %	(7) %
Income (loss) from discontinued operations	**(0.01)**	0.03	(0.02)	(0.27)	(0.04)	**	**
Net income per diluted common share	**$ 5.18**	$ 11.05	$ 11.82	$ 3.49	$ 6.89	(53)	(7)
Common shares outstanding (period-end, in millions)	**459.0**	456.6	467.7	485.5	480.2	1	(2)
Dividends declared and paid per common share	**$ 1.00**	$ 1.60	$ 1.60	$ 1.60	$ 1.60	(38)	—
Book value per common share (period-end)	**131.16**	127.05	110.47	100.37	98.95	3	15
Tangible book value per common share (period-end)[1]	**88.34**	83.72	69.20	60.28	57.76	6	21
Common dividend payout ratio[2]	**19.27 %**	14.41 %	13.45 %	45.45 %	22.99 %	5	1
Stock price per common share (period end)	**$ 98.85**	$ 102.91	$ 75.59	$ 99.58	$ 87.24	(4)	36
Total market capitalization (period-end)	**45,372**	46,989	35,353	48,346	41,893	(3)	33
Balance sheet (average balances)							
Loans held for investment	**$ 253,335**	$ 247,450	$ 242,118	$ 245,565	$ 233,272	2 %	2 %
Interest-earning assets	**378,362**	341,510	332,738	322,330	307,796	11	3
Total assets	**411,187**	374,924	363,036	354,924	339,974	10	3
Interest-bearing deposits	**263,279**	231,609	221,760	213,949	198,304	14	4
Total deposits	**290,835**	255,065	247,117	239,882	223,714	14	3
Borrowings	**46,588**	50,965	53,144	53,659	56,878	(9)	(4)
Common equity	**52,954**	50,960	45,831	45,170	45,162	4	11
Total stockholders' equity	**58,201**	55,690	50,192	49,530	48,753	5	11
Selected performance metrics							
Purchase volume	**$ 414,312**	$ 424,765	$ 387,102	$ 336,440	$ 307,138	(2) %	10 %
Total net revenue margin[3]	**7.54 %**	8.37 %	8.44 %	8.45 %	8.29 %	(83)bps	(7)bps
Net interest margin	**6.06**	6.83	6.87	6.97	6.78	(77)	(4)
Return on average assets[4]	**0.66**	1.48	1.66	0.60	1.11	(82)	(18)
Return on average tangible assets[5]	**0.69**	1.54	1.73	0.62	1.16	(85)	(19)
Return on average common equity[6]	**4.49**	10.16	12.48	4.07	7.82	(6) %	(232)
Return on average tangible common equity[7]	**6.24**	14.37	18.56	6.16	11.93	(8)	(419)
Equity-to-assets ratio[8]	**14.15**	14.85	13.83	13.96	14.34	(70)bps	102
Non-interest expense as a percentage of average loans held for investment	**5.94**	6.26	6.15	5.78	5.81	(32)	11
Efficiency ratio[9]	**52.79**	54.15	53.08	52.11	53.17	(136)	107
Operating efficiency ratio[10]	**47.14**	46.20	45.33	45.98	46.06	94	87
Effective income tax rate from continuing operations	**15.2**	19.5	17.7	61.5	31.3	(4) %	180
Net charge-offs	**$ 5,225**	$ 6,252	$ 6,112	$ 6,562	$ 5,062	(16)	2 %
Net charge-off rate	**2.06 %**	2.53 %	2.52 %	2.67 %	2.17 %	(47)bps	1 bps

(Dollars in millions, except as noted)	December 31, 2020	2019	2018	2017	2016	Change 2020 vs. 2019	2019 vs. 2018
Balance sheet (period-end)							
Loans held for investment	**$ 251,624**	$ 265,809	$ 245,899	$ 254,473	$ 245,586	(5) %	8 %
Interest-earning assets	**388,917**	355,202	341,293	334,124	321,807	9	4
Total assets	**421,602**	390,365	372,538	365,693	357,033	8	5
Interest-bearing deposits	**274,300**	239,209	226,281	217,298	211,266	15	6
Total deposits	**305,442**	262,697	249,764	243,702	236,768	16	5
Borrowings	**40,539**	55,697	58,905	60,281	60,460	(27)	(5)
Common equity	**55,356**	53,157	47,307	44,370	43,154	4	12
Total stockholders' equity	**60,204**	58,011	51,668	48,730	47,514	4	12
Credit quality metrics							
Allowance for credit losses	**$ 15,564**	$ 7,208	$ 7,220	$ 7,502	$ 6,503	116 %	—
Allowance as a percentage of loans held for investment ("allowance coverage ratio")	**6.19 %**	2.71 %	2.94 %	2.95 %	2.65 %	348 bps	(23)bps
30+ day performing delinquency rate	**2.41**	3.51	3.62	3.23	2.93	(110)	(11)
30+ day delinquency rate	**2.61**	3.74	3.84	3.48	3.27	(113)	(10)
Capital ratios							
Common equity Tier 1 capital[11]	**13.7 %**	12.2 %	11.2 %	10.3 %	10.1 %	150 bps	100 bps
Tier 1 capital[11]	**15.3**	13.7	12.7	11.8	11.6	160	100
Total capital[11]	**17.7**	16.1	15.1	14.4	14.3	160	100
Tier 1 leverage[11]	**11.2**	11.7	10.7	9.9	9.9	(50)	100
Tangible common equity[12]	**10.0**	10.2	9.1	8.3	8.1	(20)	110
Supplementary leverage[11]	**10.7**	9.9	9.0	8.4	8.6	80	90
Other							
Employees (period end, in thousands)	**52.0**	51.9	47.6	49.3	47.3	—	9 %

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

(2) Common dividend payout ratio is calculated based on dividends per common share for the period divided by basic earnings per common share for the period.

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

(4) Return on average assets is calculated based on income from continuing operations, net of tax, for the period divided by average total assets for the period.

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

(6) Return on average common equity is calculated based on net income available to common stockholders less 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.

(7) Return on average tangible common equity ("TCE") is a non-GAAP measure calculated based on net income available to common stockholders less 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 F—Reconciliation of Non-GAAP Measures" for additional information on non-GAAP measures.

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

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

(10) Operating efficiency ratio is calculated based on operating expense for the period divided by total net revenue for the period.

(11) Capital ratios are calculated based on the Basel III Standardized Approach framework, see "MD&A—Capital Management" for additional information.

(12) Tangible common equity ratio is a non-GAAP measure calculated based on TCE divided by tangible assets. See "MD&A—Table F—Reconciliation of Non-GAAP Measures" for the calculation of this measure and reconciliation to the comparative U.S. GAAP measure.

** Not meaningful

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

This discussion contains forward-looking statements that are based upon management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Part I—Item 1. Business—Forward-Looking Statements" for more information on the forward-looking statements in this 2020 Annual Report on Form 10-K ("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 the Cybersecurity Incident described in "Part I—Item 1.—Business—Overview—Cybersecurity Incident" and "Note 18—Commitments, Contingencies, Guarantees and Others" as well as the potential impacts of the COVID-19 pandemic described in "Part I—Item 1.—Business—Overview—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 this Report. Unless otherwise specified, references to notes to our consolidated financial statements refer to the notes to our consolidated financial statements as of December 31, 2020 included in this Report.

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by focusing on changes from year to year in certain key measures used by management to evaluate performance, such as profitability, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements as of and for the year ended December 31, 2020 and accompanying notes. MD&A is organized in the following sections:

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

Financial Highlights

We reported net income of $2.7 billion ($5.18 per diluted common share) on total net revenue of $28.5 billion for 2020. In comparison, we reported net income of $5.5 billion ($11.05 per diluted common share) on total net revenue of $28.6 billion for 2019, and net income of $6.0 billion ($11.82 per diluted common share) on total net revenue of $28.1 billion for 2018.

Our common equity Tier 1 capital ratio as calculated under the Basel III Standardized Approach was 13.7% and 12.2% as of December 31, 2020 and 2019, respectively. See "MD&A—Capital Management" for additional information.

On June 27, 2019, we announced that our Board of Directors authorized the repurchase of up to $2.2 billion of shares of our common stock ("2019 Stock Repurchase Program") beginning in the third quarter of 2019 through the end of the second quarter of 2020. During the first quarter of 2020, we repurchased approximately $312 million of shares of our common stock under the 2019 Stock Repurchase Program before suspending further repurchases on March 13, 2020 in response to the COVID-19 pandemic through the program's expiration at the end of the second quarter of 2020. On January 25, 2021, our Board of Directors authorized the repurchase of up to $7.5 billion of shares of our common stock. See "MD&A—Capital Management—Dividend Policy and Stock Purchases" for additional information.

Below are additional highlights of our performance in 2020. These highlights are based on a comparison between the results of 2020 and 2019, except as otherwise noted. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of December 31, 2020 compared to December 31, 2019. We provide a more detailed discussion of our financial performance in the sections following this "Executive Summary and Business Outlook."

Discussions of our performance in 2018 and comparisons between 2019 and 2018 can be found in "Part II—Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Total Company Performance

- *Earnings:* Our net income decreased by $2.8 billion to $2.7 billion in 2020 compared to 2019 primarily driven by:
    - higher provision for credit losses driven by allowance builds in the first and second quarters of 2020 due to expectations of economic worsening as a result of the COVID-19 pandemic;
    - lower net interest income due to lower yields on average earning assets and lower outstanding balances in Domestic Card, as well as higher interest-bearing deposit balances, partially offset by the lower interest rate paid on interest-bearing liabilities; and
    - higher operating expenses driven by an increase in salaries and associate benefits due to continued investment in technology and legal reserve builds.

  These drivers were partially offset by:
    - lower marketing expense driven by our decision to decrease marketing spend due to the economic environment created by the COVID-19 pandemic
    - higher non-interest income due to an unrealized valuation gain of $535 million on our equity investment in Snowflake Inc.
- *Loans Held for Investment*:
    - Period-end loans held for investment decreased by $14.2 billion to $251.6 billion as of December 31, 2020 from December 31, 2019 primarily due to a decline in purchase volume and higher payment rates in Domestic Card driven by the customer response to the COVID-19 pandemic and our decision to decrease marketing spend due to the economic environment, partially offset by growth in our auto and commercial loan portfolios.

    - Average loans held for investment increased by $5.9 billion to $253.3 billion in 2020 compared to 2019 primarily driven by growth in our auto and commercial loan portfolios and the Walmart portfolio acquired during the fourth quarter of 2019, partially offset by a decline in purchase volume and higher payments in Domestic Card.

- *Net Charge-Off and Delinquency Metrics:* Our net charge-off rate decreased by 47 basis points to 2.06% in 2020 compared to 2019, primarily driven by strong credit performance in Domestic Card due to consumer payment behavior and the related impacts from government stimulus and the impact of short-term payment extensions offered to affected auto borrowers in response to the COVID-19 pandemic.

  Our 30+ day delinquency rate decreased by 113 basis points to 2.61% as of December 31, 2020 from December 31, 2019 driven by strong credit performance in Domestic Card due to consumer payment behavior and the related impact from government stimulus, and short-term payment extensions offered to affected auto borrowers in response to the COVID-19 pandemic.

- *Allowance for Credit Losses:* Our allowance for credit losses increased by $8.4 billion to $15.6 billion, and our allowance coverage ratio increased by 348 basis points to 6.19% as of December 31, 2020 from December 31, 2019, driven by the allowance builds in the first and second quarters of 2020 from expectations of economic worsening as a result of the COVID-19 pandemic as well as the adoption of the CECL standard in the first quarter of 2020.

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 this Report. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Except as otherwise disclosed, forward-looking statements do not reflect:

- any change in current dividend or repurchase strategies;
- the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed;
- any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made; or
- the potential impact on our business, operations and reputation from, and expenses and uncertainties associated with, the Cybersecurity Incident, other than the incremental costs related to the incident we expect to incur in 2021 which will be separately reported as an adjusting item as it relates to the Company's financial results.

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 this Report for factors that could materially influence our results.

Business Segment Expectations

We expect that the Auto 30+ day delinquency rate and net charge-off rate will increase as used car auction prices decrease from elevated levels and the temporary favorable impact of our COVID-19 customer assistance program diminishes.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for 2020 and 2019. 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 1 below presents the average outstanding balance, interest income earned, interest expense incurred and average yield for 2020, 2019 and 2018 for each major category of our interest-earning assets and interest-bearing liabilities. Nonperforming loans are included in the average loan balances below.

Table 1: Average Balances, Net Interest Income and Net Interest Margin

	Year Ended December 31,								
	2020			2019			2018		
(Dollars in millions)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:									
Interest-earning assets:									
Loans:[1]									
Credit card	**$ 110,634**	**$ 15,575**	**14.08 %**	$ 114,256	$ 17,688	15.48 %	$ 109,820	$ 16,948	15.43 %
Consumer banking	**66,299**	**5,551**	**8.37**	60,708	5,082	8.37	65,146	4,904	7.53
Commercial banking[2]	**77,968**	**2,438**	**3.13**	73,572	3,306	4.49	68,221	3,033	4.45
Other[3]	**—**	**510**	**	16	(214)	**	184	(157)	**
Total loans, including loans held for sale	**254,901**	**24,074**	**9.44**	248,552	25,862	10.41	243,371	24,728	10.16
Investment securities	**87,222**	**1,877**	**2.15**	81,467	2,411	2.96	79,224	2,211	2.79
Cash equivalents and other interest-earning assets	**36,239**	**82**	**0.23**	11,491	240	2.08	10,143	237	2.33
Total interest-earning assets	**378,362**	**26,033**	**6.88**	341,510	28,513	8.35	332,738	27,176	8.17
Cash and due from banks	**4,839**			4,300			3,877		
Allowance for credit losses	**(14,382)**			(7,176)			(7,404)		
Premises and equipment, net	**4,334**			4,289			4,163		
Other assets	**38,034**			32,001			29,662		
Total assets	**$ 411,187**			$ 374,924			$ 363,036		
Liabilities and stockholders' equity:									
Interest-bearing liabilities:									
Interest-bearing deposits	**$ 263,279**	**$ 2,165**	**0.82 %**	$ 231,609	$ 3,420	1.48 %	$ 221,760	$ 2,598	1.17 %
Securitized debt obligations	**15,533**	**232**	**1.49**	18,020	523	2.90	19,014	496	2.61
Senior and subordinated notes	**29,621**	**679**	**2.29**	30,821	1,159	3.76	31,295	1,125	3.60
Other borrowings and liabilities	**2,882**	**44**	**1.55**	3,369	71	2.12	4,028	82	2.04
Total interest-bearing liabilities	**311,315**	**3,120**	**1.00**	283,819	5,173	1.82	276,097	4,301	1.56
Non-interest-bearing deposits	**27,556**			23,456			25,357		
Other liabilities	**14,115**			11,959			11,390		
Total liabilities	**352,986**			319,234			312,844		
Stockholders' equity	**58,201**			55,690			50,192		
Total liabilities and stockholders' equity	**$ 411,187**			$ 374,924			$ 363,036		
Net interest income/spread		**$ 22,913**	**5.88**		$ 23,340	6.53		$ 22,875	6.61
Impact of non-interest-bearing funding			**0.18**			0.30			0.26
Net interest margin			**6.06 %**			6.83 %			6.87 %

(1) Past due fees included in interest income totaled approximately $1.3 billion for 2020 and $1.7 billion for 2019 and 2018.

(2) 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 (21% for all periods presented) 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 $81 million for 2020 and $82 million for 2019 and 2018, with corresponding reductions to the Other category.

(3) Interest income/expense of Other 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.

** Not meaningful.

Net interest income decreased by $427 million to $22.9 billion in 2020 compared to 2019 primarily driven by lower yields on average earning assets and lower outstanding balances in Domestic Card, as well as higher interest-bearing deposit balances, partially offset by the lower interest rate paid on interest-bearing liabilities.

Net interest margin decreased by 77 basis points to 6.06% in 2020 compared to 2019 primarily driven by a shift in our asset mix with cash balances representing a greater proportion of total average interest-earning assets, and lower interest rates received on interest-earning assets, partially offset by the lower interest rate paid on interest-bearing deposits.

Table 2 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 2: Rate/Volume Analysis of Net Interest Income[(1)]

	2020 vs. 2019			2019 vs. 2018		
(Dollars in millions)	Total Variance	Volume	Rate	Total Variance	Volume	Rate
Interest income:						
Loans:						
Credit card	**$ (2,113)**	**$ (547)**	**$ (1,566)**	$ 740	$ 687	$ 53
Consumer banking	**469**	**468**	**1**	178	(334)	512
Commercial banking[(2)]	**(868)**	**137**	**(1,005)**	273	240	33
Other[(3)]	**724**	**—**	**724**	(57)	50	(107)
Total loans, including loans held for sale	**(1,788)**	**58**	**(1,846)**	1,134	643	491
Investment securities	**(534)**	**124**	**(658)**	200	64	136
Cash equivalents and other interest-earning assets	**(158)**	**56**	**(214)**	3	28	(25)
Total interest income	**(2,480)**	**238**	**(2,718)**	1,337	735	602
Interest expense:						
Interest-bearing deposits	**(1,255)**	**259**	**(1,514)**	822	120	702
Securitized debt obligations	**(291)**	**(63)**	**(228)**	27	(26)	53
Senior and subordinated notes	**(480)**	**(43)**	**(437)**	34	(17)	51
Other borrowings and liabilities	**(27)**	**(9)**	**(18)**	(11)	(14)	3
Total interest expense	**(2,053)**	**144**	**(2,197)**	872	63	809
Net interest income	**$ (427)**	**$ 94**	**$ (521)**	$ 465	$ 672	$ (207)

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

(2) Some of our 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 (21% for all periods presented) and state taxes where applicable, with offsetting reductions to the Other category.

(3) Interest income/expense of Other 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 3 displays the components of non-interest income for 2020, 2019 and 2018.

Table 3: Non-Interest Income

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Interchange fees, net	**$ 3,017**	$ 3,179	$ 2,823
Service charges and other customer-related fees	**1,243**	1,330	1,585
Net securities gains (losses)	**25**	26	(209)
Other non-interest income:(1)			
Mortgage banking revenue	**249**	165	661
Treasury and other investment income	**701**	193	49
Other	**375**	360	292
Total other non-interest income	**1,325**	718	1,002
Total non-interest income	**$ 5,610**	$ 5,253	$ 5,201

(1) Includes gains of $45 million, $61 million and losses of $15 million on deferred compensation plan investments in 2020, 2019 and 2018, respectively.

Non-interest income increased by $357 million to $5.6 billion in 2020 compared to 2019 primarily driven by a gain of $535 million on our equity investment in Snowflake Inc., partially offset by lower net interchange fees from a decline in purchase volume.

Provision for Credit Losses

Our provision for credit losses in each period is driven by changes to the allowance for credit losses including the impact of net charge-offs and changes to the reserve for unfunded lending commitments. Beginning in the first quarter of 2020, our allowance for credit losses and reserve for unfunded lending commitments are measured under the CECL standard. We recorded a provision for credit losses of $10.3 billion, $6.2 billion and $5.9 billion in 2020, 2019 and 2018, respectively. The provision for credit losses as a percentage of net interest income was 44.8%, 26.7% and 25.6% in 2020, 2019 and 2018, respectively.

Our provision for credit losses increased by $4.0 billion to $10.3 billion in 2020 compared to 2019 primarily driven by allowance builds in the first and second quarters of 2020 due to expectations of economic worsening as a result 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.”

Non-Interest Expense

Table 4 displays the components of non-interest expense for 2020, 2019 and 2018.

Table 4: Non-Interest Expense

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Salaries and associate benefits[1]	**$ 6,805**	$ 6,388	$ 5,727
Occupancy and equipment	**2,118**	2,098	2,118
Marketing	**1,610**	2,274	2,174
Professional services	**1,312**	1,237	1,145
Communications and data processing	**1,215**	1,290	1,260
Amortization of intangibles	**60**	112	174
Other non-interest expense:			
Bankcard, regulatory and other fee assessments	**267**	362	490
Collections	**323**	400	413
Fraud losses	**261**	383	364
Other[2]	**1,085**	939	1,037
Total other non-interest expense	**1,936**	2,084	2,304
Total non-interest expense	**$ 15,056**	$ 15,483	$ 14,902

(1) Includes expenses of $45 million, $61 million and a benefit of $15 million related to our deferred compensation plan in 2020, 2019, and 2018, respectively. These amounts have corresponding offsets in other non-interest income.

(2) Includes legal reserve builds of $313 million and net Cybersecurity Incident expenses of $27 million in 2020.

Non-interest expense decreased by $427 million to $15.1 billion in 2020 compared to 2019 primarily driven by lower marketing expense, partly offset by increases in salaries and associate benefits due to continued investment in technology.

Income Taxes

We recorded income tax provisions of $486 million (15.2% effective income tax rate), $1.3 billion (19.5% effective income tax rate) and $1.3 billion (17.7% effective income tax rate) in 2020, 2019 and 2018, 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.

We recorded discrete tax benefits of $22 million in 2020, $19 million in 2019 and $318 million in 2018 primarily driven by a benefit of $284 million related to a tax methodology change on rewards costs.

The decrease in our effective tax rate in 2020 compared to 2019 was primarily due to a decrease in our pre-tax earnings and the proportional impact of credits from tax advantaged investments.

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

CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets increased by $31.2 billion to $421.6 billion as of December 31, 2020 from December 31, 2019 primarily driven by an increase in our cash balances from deposit growth due to increased consumer savings aided by the impact of government stimulus as well as growth in our investment securities portfolio due to our elevated cash position, partially offset by a decline in loan balances.

Total liabilities increased by $29.0 billion to $361.4 billion as of December 31, 2020 from December 31, 2019 primarily driven by deposit growth from increased consumer savings aided by the impact of government stimulus.

Stockholders' equity increased by $2.2 billion to $60.2 billion as of December 31, 2020 from December 31, 2019 primarily due to our net income of $2.7 billion and changes in accumulated other comprehensive income of $2.3 billion from investment valuation gains, partially offset by the cumulative effect from the adoption of the CECL standard and dividend payments to our stockholders.

The following is a discussion of material changes in the major components of our assets and liabilities during 2020. 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 December 31, 2020 and 2019.

The fair value of our available for sale securities portfolio increased by $21.2 billion to $100.4 billion as of December 31, 2020 from December 31, 2019, primarily driven by net purchases. See "Note 2—Investment Securities" for more information.

Table 5 presents the amortized cost and fair value for the major security types in our available for sale securities portfolio as of December 31, 2020, 2019 and 2018.

Table 5: Investment Securities

	December 31,					
	2020		2019		2018	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale:						
U.S. Treasury securities	**$ 9,302**	**$ 9,318**	$ 4,122	$ 4,124	$ 6,146	$ 6,144
RMBS:						
Agency	**73,248**	**75,466**	62,003	62,839	32,710	31,903
Non-agency	**1,035**	**1,237**	1,235	1,499	1,440	1,742
Total RMBS	**74,283**	**76,703**	63,238	64,338	34,150	33,645
Agency CMBS	**11,298**	**11,735**	9,303	9,426	4,806	4,739
Other securities[1]	**2,686**	**2,689**	1,321	1,325	1,626	1,622
Total investment securities available for sale	**$ 97,569**	**$ 100,445**	$ 77,984	$ 79,213	$ 46,728	$ 46,150

(1) Includes $1.8 billion, $117 million and $260 million of asset-backed securities as of December 31, 2020, 2019 and 2018, respectively. The remaining amount is primarily comprised of supranational bonds and foreign government bonds.

Loans Held for Investment

Total loans held for investment consist of both unsecuritized loans and loans held in our consolidated trusts. Table 6 summarizes the carrying value of our loans held for investment by portfolio segment, the allowance for credit losses and net loan balance as of December 31, 2020 and 2019.

Table 6: Loans Held for Investment

	December 31, 2020			December 31, 2019		
(Dollars in millions)	Loans	Allowance	Net Loans	Loans	Allowance	Net Loans
Credit Card	**$ 106,956**	**$ 11,191**	**$ 95,765**	$ 128,236	$ 5,395	$ 122,841
Consumer Banking	**68,888**	**2,715**	**66,173**	63,065	1,038	62,027
Commercial Banking	**75,780**	**1,658**	**74,122**	74,508	775	73,733
Total	**$ 251,624**	**$ 15,564**	**$ 236,060**	$ 265,809	$ 7,208	$ 258,601

Loans held for investment decreased by $14.2 billion to $251.6 billion as of December 31, 2020 from December 31, 2019 primarily due to a decline in purchase volume and higher payment rates in Domestic Card driven by the customer response to the COVID-19 pandemic and our decision to decrease marketing spend due to the economic environment, partially offset by growth in our auto and commercial loan portfolios.

We provide additional information on the composition of our loan portfolio and credit quality below in "MD&A—Credit Risk Profile," "MD&A—Consolidated Results of Operations" and "Note 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 7 provides the composition of our primary sources of funding as of December 31, 2020 and 2019.

Table 7: Funding Sources Composition

	December 31, 2020		December 31, 2019	
(Dollars in millions)	Amount	% of Total	Amount	% of Total
Deposits:				
Consumer Banking	**$ 249,815**	**72 %**	$ 213,099	67 %
Commercial Banking	**39,590**	**11**	32,134	10
Other[1]	**16,037**	**5**	17,464	5
Total deposits	**305,442**	**88**	262,697	82
Securitized debt obligations	**12,414**	**4**	17,808	6
Other debt	**28,125**	**8**	37,889	12
Total funding sources	**$ 345,981**	**100 %**	$ 318,394	100 %

(1) Includes brokered deposits of $15.0 billion and $16.7 billion as of December 31, 2020 and 2019, respectively.

Total deposits increased by $42.7 billion to $305.4 billion as of December 31, 2020 from December 31, 2019 primarily driven by deposit growth from increased consumer savings aided by the impact of government stimulus.

Securitized debt obligations decreased by $5.4 billion to $12.4 billion as of December 31, 2020 from December 31, 2019 primarily driven by net maturities in our credit card securitization program.

Other debt decreased by $9.8 billion to $28.1 billion as of December 31, 2020 from December 31, 2019 primarily driven by maturities of our short-term FHLB advances and the repurchase of a portion of our senior unsecured debt.

We provide additional information on our funding sources in "MD&A—Liquidity Risk Profile" and "Note 8—Deposits and Borrowings."

Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. Deferred tax assets are recognized subject to management's judgment that these future deductions are more likely than not to be realized. We evaluate the recoverability of these future tax deductions by assessing the adequacy of expected taxable income from all sources, including taxable income in carryback years, reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates. We use our historical experience and our short and long-range business forecasts to provide insight.

Deferred tax assets, net of deferred tax liabilities and valuation allowances, were approximately $3.3 billion as of December 31, 2020, an increase of $1.6 billion from December 31, 2019. The increase in our net deferred tax assets was primarily driven by the increase in the allowance for credit losses due to expectations of economic worsening as a result of the COVID-19 pandemic as well as the adoption of the CECL standard in the first quarter of 2020.

We recorded valuation allowances of $296 million and $223 million as of December 31, 2020 and 2019, respectively. If changes in circumstances lead us to change our judgment about our ability to realize deferred tax assets in future years, we will adjust our valuation allowances in the period that our change in judgment occurs and record a corresponding increase or charge to income.

We provide additional information on income taxes in "MD&A—Consolidated Results of Operations" and "Note 15—Income Taxes."

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in certain activities that are not reflected on our consolidated balance sheets, generally referred to as off-balance sheet arrangements. These activities typically involve transactions with unconsolidated variable interest entities ("VIEs") as well as other arrangements, such as 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 18—Commitments, Contingencies, Guarantees and Others."

BUSINESS SEGMENT FINANCIAL PERFORMANCE

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 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 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 years ended December 31, 2020, 2019 and 2018 and provide a comparative discussion of these results for 2020 and 2019, as well as changes in our financial condition and credit performance metrics as of December 31, 2020 compared to December 31, 2019. We provide a reconciliation of our total business segment results to our reported consolidated results in "Note 17—Business Segments and Revenue from Contracts with Customers."

Business Segment Financial Performance

Table 8 summarizes our business segment results, which we report based on revenue and income (loss) from continuing operations, for the years ended December 31, 2020, 2019 and 2018. We provide information on the allocation methodologies used to derive our business segment results in "Note 17—Business Segments and Revenue from Contracts with Customers."

Table 8: Business Segment Results

	Year Ended December 31,											
	2020				2019				2018			
	Total Net Revenue[1]		Net Income (Loss)[2]		Total Net Revenue[1]		Net Income (Loss)[2]		Total Net Revenue[1]		Net Income[2]	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	**$ 17,599**	**62 %**	**$ 1,361**	**50 %**	$ 18,349	64 %	$ 3,127	57 %	$ 17,687	63 %	$ 3,191	53 %
Consumer Banking	**7,704**	**27**	**1,367**	**51**	7,375	26	1,799	32	7,212	26	1,800	30
Commercial Banking[3]	**2,971**	**10**	**65**	**2**	2,814	10	621	11	2,788	10	806	13
Other[3]	**249**	**1**	**(76)**	**(3)**	55	—	(14)	—	389	1	228	4
Total	**$ 28,523**	**100 %**	**$ 2,717**	**100 %**	$ 28,593	100 %	$ 5,533	100 %	$ 28,076	100 %	$ 6,025	100 %

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

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

(3) Some of our 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% for all periods presented) 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 $1.4 billion, $3.1 billion and $3.2 billion in 2020, 2019 and 2018, respectively.

Table 9 summarizes the financial results of our Credit Card business and displays selected key metrics for the periods indicated.

Table 9: Credit Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions, except as noted)	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Selected income statement data:					
Net interest income	**$ 13,776**	$ 14,461	$ 14,167	(5) %	2 %
Non-interest income	**3,823**	3,888	3,520	(2)	10
Total net revenue[1]	**17,599**	18,349	17,687	(4)	4
Provision for credit losses	**7,327**	4,992	4,984	47	—
Non-interest expense	**8,491**	9,271	8,542	(8)	9
Income from continuing operations before income taxes	**1,781**	4,086	4,161	(56)	(2)
Income tax provision	**420**	959	970	(56)	(1)
Income from continuing operations, net of tax	**$ 1,361**	$ 3,127	$ 3,191	(56)	(2)
Selected performance metrics:					
Average loans held for investment[2]	**$ 110,082**	$ 114,202	$ 109,820	(4)	4
Average yield on loans[3]	**14.08 %**	15.49 %	15.43 %	(141)bps	6 bps
Total net revenue margin[4]	**15.91**	16.07	16.11	(16)	(4)
Net charge-offs	**$ 4,270**	$ 5,149	$ 5,069	(17) %	2 %
Net charge-off rate	**3.88 %**	4.51 %	4.62 %	(63)bps	(11)bps
Purchase volume	**$ 414,312**	$ 424,765	$ 387,102	(2) %	10 %

(Dollars in millions, except as noted)	December 31, 2020	December 31, 2019	Change
Selected period-end data:			
Loans held for investment[2][5]	**$ 106,956**	$ 128,236	(17) %
30+ day performing delinquency rate	**2.44 %**	3.89 %	(145)bps
30+ day delinquency rate	**2.45**	3.91	(146)
Nonperforming loan rate[6]	**0.02**	0.02	—
Allowance for credit losses[2]	**$ 11,191**	$ 5,395	107 %
Allowance coverage ratio	**10.46 %**	4.21 %	625 bps

(1) 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 $1.1 billion in 2020 for finance charges and fees charged-off as uncollectible and by $1.4 billion and $1.3 billion in 2019 and 2018, respectively, for the estimated uncollectible amount of billed finance charges and fees and related losses.

(2) Period-end loans held for investment and average loans held for investment include billed finance charges and fees. 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.

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

(4) Total net revenue margin is calculated based on total net revenue for the period divided by average loans during the period.

(5) We reclassified $2.1 billion in partnership loans to held for sale as of September 30, 2020.

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

Key factors affecting the results of our Credit Card business for 2020 compared to 2019, and changes in financial condition and credit performance between December 31, 2020 and December 31, 2019 include the following:

- *Net Interest Income:* Net interest income decreased by $685 million to $13.8 billion in 2020 primarily driven by lower average loan balances from customer behavior in response to the COVID-19 pandemic and lower margins, partially offset by an increase in average loan balances from the Walmart portfolio acquired during the fourth quarter of 2019.

- *Non-Interest Income:* Non-interest income decreased by $65 million to $3.8 billion in 2020 primarily driven by lower net interchange fees from a decline in purchase volume, partially offset by higher revenues from card partnership arrangements.

- *Provision for Credit Losses:* Provision for credit losses increased by $2.3 billion to $7.3 billion in 2020 driven by allowance builds in the first and second quarters of 2020 due to expectations of economic worsening as a result of the COVID-19 pandemic.

- *Non-Interest Expense:* Non-interest expense decreased by $780 million to $8.5 billion in 2020 primarily driven by our decision to decrease marketing spend due to the economic environment created by the COVID-19 pandemic.

- *Loans Held for Investment:* Period-end loans held for investment decreased by $21.3 billion to $107.0 billion as of December 31, 2020 from December 31, 2019, and average loans held for investment decreased by $4.1 billion to $110.1 billion in 2020 compared to 2019 primarily due to a decline in purchase volume and higher payments in response to the COVID-19 pandemic, as well as the transfer of a $2.1 billion partnership loan portfolio to held for sale in the third quarter of 2020. The decline in average balances was partially offset by the impact of the Walmart portfolio acquired during the fourth quarter of 2019.

- *Net Charge-Off and Delinquency Metrics:* The net charge-off rate decreased by 63 basis points to 3.88% in 2020 compared to 2019 primarily driven by strong credit performance in Domestic Card due to consumer payment behavior and the impact of the government stimulus.

  The 30+ day delinquency rate decreased by 146 basis points to 2.45% as of December 31, 2020 from December 31, 2019 due to lower delinquency inventories in our domestic credit card loan portfolio primarily driven by consumer payment behavior and the impact of government stimulus, partially offset by lower outstanding balances.

Domestic Card Business

The Domestic Card business generated net income from continuing operations of $1.2 billion in 2020 and $3.0 billion in both 2019 and 2018. In 2020, 2019 and 2018, the Domestic Card business accounted for greater than 90% of total net revenue of our Credit Card business.

Table 9.1 summarizes the financial results for Domestic Card business and displays selected key metrics for the periods indicated.

Table 9.1: Domestic Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions, except as noted)	**2020**	**2019**	**2018**	**2020 vs. 2019**	**2019 vs. 2018**
Selected income statement data:					
Net interest income	**$ 12,599**	$ 13,265	$ 12,926	(5) %	3 %
Non-interest income	**3,583**	3,684	3,239	(3)	14
Total net revenue[1][2]	**16,182**	16,949	16,165	(5)	5
Provision for credit losses	**6,979**	4,671	4,653	49	—
Non-interest expense	**7,625**	8,308	7,621	(8)	9
Income from continuing operations before income taxes	**1,578**	3,970	3,891	(60)	2
Income tax provision	**374**	925	907	(60)	2
Income from continuing operations, net of tax	**$ 1,204**	$ 3,045	$ 2,984	(60)	2
Selected performance metrics:					
Average loans held for investment[3]	**$ 101,837**	$ 105,270	$ 100,832	(3)	4
Average yield on loans[4]	**13.88 %**	15.47 %	15.36 %	(159)bps	11 bps
Total net revenue margin[5]	**15.80**	16.10	16.03	(30)	7
Net charge-offs	**$ 4,002**	$ 4,818	$ 4,782	(17) %	1 %
Net charge-off rate	**3.93 %**	4.58 %	4.74 %	(65)bps	(16)bps
Purchase volume	**$ 380,787**	$ 390,032	$ 354,158	(2) %	10 %

(Dollars in millions, except as noted)	**December 31, 2020**	**December 31, 2019**	**Change**
Selected period-end data:			
Loans held for investment[3][6]	**$ 98,504**	$ 118,606	(17) %
30+ day performing delinquency rate	**2.42 %**	3.93 %	(151)bps
Allowance for credit losses	**$ 10,650**	$ 4,997	113 %
Allowance coverage ratio	**10.81 %**	4.21 %	660 bps

(1) 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.

(2) Total net revenue was reduced by $434 million, $471 million and $278 million in 2020, 2019 and 2018, respectively, due to the amortization of loan origination bounties. As of December 31, 2020, approximately $45 million of deferred bounty payments remained to be amortized as an offset to revenue in future periods.

(3) Period-end loans held for investment and average loans held for investment include billed finance charges and fees. 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.

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

(5) Total net revenue margin is calculated based on total net revenue for the period divided by average loans during the period.

(6) We reclassified $2.1 billion in partnership loans to held for sale as of September 30, 2020.

Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results are similar to the key factors affecting our total Credit Card business. Net Income for our Domestic Card business decreased in 2020 compared to 2019 primarily driven by:

- higher provision for credit losses due to allowance builds in the first and second quarters of 2020 due to expectations of economic worsening as a result of the COVID-19 pandemic;
- lower net interest income due to lower average outstanding balances and lower margins; and
- lower non-interest income due to lower net interchange fees from a decline in purchase volume, partially offset by higher revenues from card partnership arrangements,
- partially offset by lower non-interest expense from our decision to decrease marketing spend due to the economic environment created by the COVID-19 pandemic.

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 $1.4 billion in 2020 and $1.8 billion in both 2019 and 2018.

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

Table 10: Consumer Banking Business Results

	Year Ended December 31,			Change	
(Dollars in millions, except as noted)	**2020**	**2019**	**2018**	**2020 vs. 2019**	**2019 vs. 2018**
Selected income statement data:					
Net interest income	**$ 7,238**	$ 6,732	$ 6,549	8 %	3 %
Non-interest income	**466**	643	663	(28)	(3)
Total net revenue	**7,704**	7,375	7,212	4	2
Provision for credit losses	**1,753**	938	838	87	12
Non-interest expense	**4,159**	4,091	4,027	2	2
Income from continuing operations before income taxes	**1,792**	2,346	2,347	(24)	—
Income tax provision	**425**	547	547	(22)	—
Income from continuing operations, net of tax	**$ 1,367**	$ 1,799	$ 1,800	(24)	—
Selected performance metrics:					
Average loans held for investment:					
Auto	**$ 63,227**	$ 57,938	$ 55,610	9	4
Home loan[1]	**—**	—	6,266	—	**
Retail banking	**3,072**	2,770	3,075	11	(10)
Total consumer banking	**$ 66,299**	$ 60,708	$ 64,951	9	(7)
Average yield on loans held for investment[2]	**8.37 %**	8.37 %	7.54 %	—	83 bps
Average deposits	**$ 236,369**	$ 205,012	$ 193,053	15 %	6 %
Average deposits interest rate	**0.76 %**	1.24 %	0.95 %	(48)bps	29 bps
Net charge-offs	**$ 578**	$ 947	$ 981	(39) %	(3) %
Net charge-off rate	**0.87 %**	1.56 %	1.51 %	(69)bps	5 bps
Auto loan originations	**$ 32,282**	$ 29,251	$ 26,276	10 %	11 %

(Dollars in millions, except as noted)	December 31, 2020	December 31, 2019	Change
Selected period-end data:			
Loans held for investment:			
Auto	**$ 65,762**	$ 60,362	9 %
Retail banking	**3,126**	2,703	16
Total consumer banking	**$ 68,888**	$ 63,065	9
30+ day performing delinquency rate	**4.62 %**	6.63 %	(201)bps
30+ day delinquency rate	**5.00**	7.34	(234)
Nonperforming loan rate	**0.47**	0.81	(34)
Nonperforming asset rate[(3)]	**0.54**	0.91	(37)
Allowance for credit losses	**$ 2,715**	$ 1,038	162 %
Allowance coverage ratio	**3.94 %**	1.65 %	229 bps
Deposits	**$ 249,815**	$ 213,099	17 %

(1) In 2018, we sold all of our consumer home loan portfolio and the related servicing. The impact of this sale is reflected in the Other category.

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

(3) 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 2020 compared to 2019, and changes in financial condition and credit performance between December 31, 2020 and December 31, 2019 include the following:

- *Net Interest Income:* Net interest income increased by $506 million to $7.2 billion in 2020 primarily driven by growth in our auto loan portfolio.
- *Non-Interest Income:* Non-interest income decreased by $177 million to $466 million in 2020 primarily driven by lower service charges and fees on deposit accounts as a result of the COVID-19 pandemic.
- *Provision for Credit Losses:* Provision for credit losses increased by $815 million to $1.8 billion in 2020 driven by allowance builds in the first and second quarters of 2020 due to expectations of economic worsening as a result of the COVID-19 pandemic.
- *Non-Interest Expense:* Non-interest expense increased by $68 million to $4.2 billion in 2020 primarily driven by growth in our auto loan portfolio.
- *Loans Held for Investment:* Period-end loans held for investment increased by $5.8 billion to $68.9 billion as of December 31, 2020 from December 31, 2019, and average loans held for investment increased by $5.6 billion to $66.3 billion in 2020 compared to 2019 primarily due to growth in our auto loan portfolio.
- *Deposits:* Period-end deposits increased by $36.7 billion to $249.8 billion as of December 31, 2020 from December 31, 2019 primarily driven by deposit growth from increased consumer savings aided by the impact of government stimulus.
- *Net Charge-Off and Delinquency Metrics:* The net charge-off rate decreased by 69 basis points to 0.87% in 2020 compared to 2019 primarily driven by the impact of short-term payment extensions offered to affected auto borrowers in response to the COVID-19 pandemic.

  The 30+ day delinquency rate decreased by 234 basis points to 5.00% as of December 31, 2020 from December 31, 2019 driven by lower auto delinquency inventories resulting from the short-term payment extensions offered to affected auto borrowers in response to the COVID-19 pandemic.

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 $65 million, $621 million and $806 million in 2020, 2019 and 2018, respectively.

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

Table 11: Commercial Banking Business Results

(Dollars in millions, except as noted)	Year Ended December 31, 2020	2019	2018	Change 2020 vs. 2019	2019 vs. 2018
Selected income statement data:					
Net interest income	**$ 2,048**	$ 1,983	$ 2,044	3 %	(3) %
Non-interest income	**923**	831	744	11	12
Total net revenue[1]	**2,971**	2,814	2,788	6	1
Provision for credit losses[2]	**1,181**	306	83	286	**
Non-interest expense	**1,706**	1,699	1,654	—	3
Income from continuing operations before income taxes	**84**	809	1,051	(90)	(23)
Income tax provision	**19**	188	245	(90)	(23)
Income from continuing operations, net of tax	**$ 65**	$ 621	$ 806	(90)	(23)
Selected performance metrics:					
Average loans held for investment:					
Commercial and multifamily real estate	**$ 31,135**	$ 29,608	$ 27,771	5	7
Commercial and industrial	**45,819**	42,863	39,188	7	9
Total commercial lending	**76,954**	72,471	66,959	6	8
Small-ticket commercial real estate	**—**	69	371	**	(81)
Total commercial banking	**$ 76,954**	$ 72,540	$ 67,330	6	8
Average yield on loans held for investment[1][3]	**3.13 %**	4.51 %	4.46 %	(138)bps	5 bps
Average deposits	**$ 35,468**	$ 31,229	$ 32,175	14 %	(3) %
Average deposits interest rate	**0.40 %**	1.18 %	0.72 %	(78)bps	46 bps
Net charge-offs	**$ 377**	$ 156	$ 56	142 %	179 %
Net charge-off rate	**0.49 %**	0.22 %	0.08 %	27 bps	14 bps

(Dollars in millions, except as noted)	December 31, 2020	December 31, 2019	Change
Selected period-end data:			
Loans held for investment:			
Commercial and multifamily real estate	**$ 30,681**	$ 30,245	1 %
Commercial and industrial	**45,099**	44,263	2
Total commercial banking	**$ 75,780**	$ 74,508	2
Nonperforming loan rate	**0.86 %**	0.60 %	26 bps
Nonperforming asset rate[4]	**0.86**	0.60	26
Allowance for credit losses[2]	**$ 1,658**	$ 775	114 %
Allowance coverage ratio	**2.19 %**	1.04 %	115 bps
Deposits	**$ 39,590**	$ 32,134	23 %
Loans serviced for others	**44,162**	38,481	15

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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% for all periods presented) 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 $195 million, $130 million and $118 million as of December 31, 2020, 2019 and 2018, respectively.

(3) Average yield is calculated based on 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 2020 compared to 2019, and changes in financial condition and credit performance between December 31, 2020 and December 31, 2019 include the following:

- *Net Interest Income:* Net interest income increased by $65 million to $2.0 billion in 2020 as higher average loans and deposits were partially offset by slightly lower margins.

- *Non-Interest Income:* Non-interest income increased by $92 million to $923 million in 2020 primarily driven by higher revenue from our agency and capital markets businesses.

- *Provision for Credit Losses:* Provision for credit losses increased by $875 million to $1.2 billion in 2020 driven by allowance builds in the first and second quarters of 2020 due to expectations of economic worsening as a result of the COVID-19 pandemic as well as credit deterioration in our energy loan portfolio primarily in the first quarter of 2020.

- *Non-Interest Expense:* Non-interest expense remained substantially flat at $1.7 billion in 2020.

- *Loans Held for Investment:* Period-end loans held for investment increased by $1.3 billion to $75.8 billion as of December 31, 2020 from December 31, 2019, and average loans held for investment increased by $4.4 billion to $77.0 billion in 2020 compared to 2019 driven by growth across our commercial loan portfolio.

- *Deposits:* Period-end deposits increased by $7.5 billion to $39.6 billion as of December 31, 2020 from December 31, 2019 primarily driven by elevated client liquidity.

- *Net Charge-Off and Nonperforming Metrics:* The net charge-off rate increased by 27 basis points to 0.49% in 2020 primarily driven by elevated charge-offs in our energy loan portfolio.

  The nonperforming loan rate increased by 26 basis points to 0.86% as of December 31, 2020 from December 31, 2019 driven by credit downgrades in industries that are impacted by the COVID-19 pandemic.

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

Table 12: Other Category Results

	Year Ended December 31,			Change	
(Dollars in millions)	**2020**	**2019**	**2018**	**2020 vs. 2019**	**2019 vs. 2018**
Selected income statement data:					
Net interest income (loss)	**$ (149)**	$ 164	$ 115	**	43 %
Non-interest income (loss)	**398**	(109)	274	**	**
Total net revenue[1]	**249**	55	389	**	(86)
Provision (benefit) for credit losses	**3**	—	(49)	**	**
Non-interest expense[2]	**700**	422	679	66 %	(38)
Loss from continuing operations before income taxes	**(454)**	(367)	(241)	24	52
Income tax benefit	**(378)**	(353)	(469)	7	(25)
Income (loss) from continuing operations, net of tax	**$ (76)**	$ (14)	$ 228	**	**

(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% for all periods presented) and state taxes where applicable, with offsetting reductions to the Other category.

(2) Includes legal reserve builds of $313 million and net Cybersecurity Incident expenses of $27 million in 2020.

** Not meaningful.

Net loss from continuing operations was $76 million and $14 million in 2020 and 2019, respectively, primarily driven by lower net interest income due to the decline in market interest rates and funding demands by our segments and increased non-interest expense resulting from legal reserve builds, partially offset by a gain of $535 million on our equity investment in Snowflake Inc.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We have identified the following accounting 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.

Loan Loss Reserves

In the first quarter of 2020, we adopted the CECL standard and updated our critical accounting policy and estimate for loan loss reserves. We maintain an allowance for credit losses that represents management's current estimate of expected credit losses inherent in our credit card, consumer banking and commercial banking loans held for investment portfolios as of each balance sheet date. We also separately reserve for unfunded lending commitments that are not unconditionally cancellable. For all such loans and unfunded lending commitments, our estimate of expected credit losses includes a reasonable and supportable forecast period of one year and then reverts over a one-year period to historical losses at each relevant loss component of the estimate. We build our allowance for credit losses and reserve for unfunded lending commitments through the provision for credit losses, which is driven by charge-offs, changes in the allowance for credit losses and changes in the reserve for unfunded lending commitments. The allowance for credit losses was $15.6 billion as of December 31, 2020, compared to $7.2 billion as of December 31, 2019. In periods prior to 2020, the allowance for loan and lease losses represented management's estimate of incurred loan and lease losses as fully described in "Note 1—Summary of Significant Accounting Policies" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

We have an established process, using analytical tools and management judgment, to determine our allowance for credit losses. Establishing the allowance on a quarterly basis involves evaluating many factors including, but not limited to, historical loss and recovery experience, recent trends in delinquencies and charge-offs, risk ratings, the impact of bankruptcy filings, the value of collateral underlying secured loans, account seasoning, changes in our credit evaluation, underwriting and collection management policies, seasonality, credit bureau scores, current general economic conditions, our reasonable and supportable forecasts of future economic conditions, changes in the legal and regulatory environment and uncertainties in forecasting and modeling techniques used in estimating our allowance for credit losses. Key factors that have a significant impact on our allowance for credit losses include assumptions about employment levels, home prices and the valuation of commercial properties, automobiles and other collateral.

We have a governance framework intended to ensure that our estimate of the allowance for credit losses is appropriate. Our governance framework provides for oversight of methods, models, qualitative adjustments, process controls and results. At least quarterly, representatives from the Finance and Risk Management organizations review and assess our allowance methodologies, key assumptions and the appropriateness of the allowance for credit losses.

Groups independent of our estimation functions participate in the review and validation process. Tasks performed by these groups include periodic review of the rationale for and quantification of inputs requiring judgment as well as adjustments to results.

We have a model policy, established by an independent Model Risk Office, which governs the validation of models and related supporting documentation to ensure the appropriate use of models for estimating credit losses. The Model Risk Office validates all models and requires ongoing monitoring of their performance.

In addition to the allowance for credit losses, on a quarterly basis, we review and assess our estimate of expected losses related to unfunded lending commitments that are not unconditionally cancellable. The factors impacting our assessment generally align with those considered in our evaluation of the allowance for credit losses for the Commercial Banking business. Changes to the reserve for losses on unfunded lending commitments are recorded through the provision for credit losses in the consolidated statements of income and to other liabilities on the consolidated balance sheets.

Although we examine a variety of externally available data, as well as our internal loan performance data, to determine our allowance for credit losses and reserve for unfunded lending commitments, our estimation process is subject to risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance as well as economic forecasts that may not align with actual future economic conditions. Accordingly, our actual credit loss experience may not be in line with our expectations. We provide additional information on the methodologies and key assumptions used in determining our allowance for credit losses for each of our loan portfolio segments in "Note 1—Summary of Significant Accounting Policies." We provide information on the components of our allowance, disaggregated by impairment methodology, and changes in our allowance in "Note 4—Allowance for Credit Losses and Reserve for Unfunded Lending Commitments."

Finance Charge and Fee Reserves

Finance charges and fees on credit card loans are recorded in revenue when earned. Billed finance charges and fees on credit card loans are included in loans held for investment while unbilled finance charges and fees are included in interest receivable.

We continue to accrue finance charges and fees on credit card loans until the account is charged off. We estimate the uncollectible portion of finance charges and fees in our finance charge and fee reserve. Billed finance charges and fees that are ultimately charged-off as uncollectible are reflected as a reduction to revenue.

Concurrent with our adoption of the CECL standard in the first quarter of 2020, we reclassified our finance charge and fee reserve of $462 million to our allowance for credit losses, with a corresponding increase to credit card loans held for investment. We review and assess the appropriateness of our finance charge and fee reserve on a quarterly basis. Our methodology for estimating the uncollectible portion of finance charges and fees is consistent with the methodology we use to estimate the allowance for credit losses on the principal portion of our credit card loan receivables.

Asset Impairment

In addition to our loan portfolio, we review other assets for impairment on a regular basis in accordance with applicable accounting guidance. This process requires significant management judgment and involves various estimates and assumptions.

Goodwill

Goodwill represents the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date.

Goodwill totaled $14.7 billion as of both December 31, 2020 and 2019. We did not recognize any goodwill impairment in 2020 and 2019. See “Note 6—Goodwill and Intangible Assets” for additional information.

We perform our goodwill impairment test annually on October 1 at a reporting unit level. We are also required to test goodwill for impairment whenever events or circumstances indicate it is more-likely-than-not that an impairment may have occurred. We have four reporting units: Credit Card, Auto Finance, Other Consumer Banking and Commercial Banking.

In the first quarter of 2020, we adopted Accounting Standards Update (“ASU”) No. 2017-04, Intangibles—Goodwill and Other (Topic 350): *Simplifying the Test for Goodwill Impairment*. Under the new guidance, an impairment of a reporting unit’s goodwill is determined based on the amount by which the reporting unit’s carrying value exceeds its fair value, limited to the amount of goodwill allocated to the reporting unit.

For the purpose of our goodwill impairment testing, we calculate the carrying amount of a reporting unit using an allocated capital approach based on each reporting unit’s specific regulatory capital requirements, economic capital requirements and underlying risks. The carrying amount for a reporting unit is the sum of its respective capital requirements, goodwill and intangibles balances. Consolidated stockholder’s equity in excess of the sum of all reporting unit’s capital requirements that is not identified for future capital needs, such as dividends, share buybacks or other strategic initiatives, is allocated to the reporting units and the Other category and assumed distributed to equity holders in future periods.

Determining the fair value of a reporting unit is a subjective process that requires the use of estimates and the exercise of significant judgment. We calculate the fair value of our reporting units using a discounted cash flow (“DCF”) calculation, a form of the income approach. This DCF calculation uses projected cash flows based on each reporting unit’s internal forecast and the perpetuity growth method to calculate terminal values. Our DCF calculation requires management to make estimates about future loan, deposit and revenue growth, as well as credit losses and capital rates. These cash flows and terminal values are then discounted using discount rates based on our external cost of capital with adjustments for the risk inherent in each reporting unit. Discount rates used for our reporting units ranged from 8.1% to 14.3%, and we applied a terminal year long-term growth rate of 3.97% to all reporting units. The reasonableness of our DCF calculation is assessed by reference to a market-based approach using comparable market multiples and recent market transactions where available. The results of the 2020 annual impairment test for the reporting units indicated that the estimated fair values of the Commercial Banking, Credit Card, Auto Finance, and Other Consumer Banking reporting units exceeded their carrying amounts by between 11% and 273%.

Assumptions used in estimating the fair value of a reporting unit are judgmental and inherently uncertain. A change in the economic conditions of a reporting unit, such as declines in business performance from industry or macroeconomic trends or from changes in our strategy, adverse impacts to loan or deposit growth trends, decreases in revenue, increases in expenses, increases in credit losses, increases in capital requirements, deterioration of market conditions, declines in long-term growth expectations, adverse impacts of regulatory or legislative changes or increases in the estimated cost of capital, including if these conditions are merely forecasted to occur in future periods, could cause the estimated fair values of our reporting units to decline in the future, and increase the risk of a goodwill impairment in a future period.

Fair Value

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 degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted prices in active markets or observable market parameters. When quoted prices and observable data in active markets are not fully available, management judgment is necessary to estimate fair value. Changes in market conditions, such as reduced liquidity in the capital markets or changes in secondary market activities, may reduce the availability and reliability of quoted prices or observable data used to determine fair value.

We have developed policies and procedures to determine when markets for our financial assets and liabilities are inactive if the level and volume of activity has declined significantly relative to normal conditions. If markets are determined to be inactive, it may be appropriate to adjust price quotes received. When significant adjustments are required to price quotes or inputs, it may be appropriate to utilize an estimate based primarily on unobservable inputs.

Significant judgment may be required to determine whether certain financial instruments measured at fair value are classified as Level 2 or Level 3. In making this determination, we consider all available information that market participants use to measure the fair value of the financial instrument, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions. We discuss changes in the valuation inputs and assumptions used in determining the fair value of our financial instruments, including the extent to which we have relied on significant unobservable inputs to estimate fair value and our process for corroborating these inputs, in "Note 16—Fair Value Measurement."

We have a governance framework and a number of key controls that are intended to ensure that our fair value measurements are appropriate and reliable. Our governance framework provides for independent oversight and segregation of duties. Our control processes include review and approval of new transaction types, price verification, and review of valuation judgments, methods, models, process controls and results.

Groups independent of our trading and investing functions participate in the review and validation process. Tasks performed by these groups include periodic verification of fair value measurements to determine if assigned fair values are reasonable, including comparing prices from vendor pricing services to other available market information.

Our Fair Value Committee ("FVC"), which includes representation from business areas, Risk Management and Finance, provides guidance and oversight to ensure an appropriate valuation control environment. The FVC regularly reviews and approves our fair valuations to ensure that our valuation practices are consistent with industry standards and adhere to regulatory and accounting guidance.

We have a model policy, established by an independent Model Risk Office, which governs the validation of models and related supporting documentation to ensure the appropriate use of models for pricing and fair value measurements. The Model Risk Office validates all models and requires ongoing monitoring of their performance.

The fair value governance process is set up in a manner that allows the Chairperson of the FVC to escalate valuation disputes that cannot be resolved by the FVC to a more senior committee called the Valuations Advisory Committee ("VAC") for resolution. The VAC is chaired by the Chief Financial Officer and includes other members of senior management. The VAC convenes to review escalated valuation disputes. There were no disputes for the years ended December 31, 2020 and 2019.

Customer Rewards Reserve

We offer products, primarily credit cards, which include programs that allow members to earn rewards based on account activity that can be redeemed for cash (primarily in the form of statement credits), gift cards, travel, or covering eligible charges. The amount of rewards that a customer earns varies based on the terms and conditions of the rewards program and product. The majority of our rewards do not expire and there is no limit on the amount of rewards an eligible card member can earn. Customer rewards costs, which we generally record as an offset to interchange income, are driven by various factors such as card member purchase volume, the terms and conditions of the rewards program and rewards redemption cost. We establish a customer rewards reserve that reflects management's judgment regarding rewards earned that are expected to be redeemed and the estimated redemption cost.

We use financial models to estimate ultimate redemption rates of rewards earned to date by current card members based on historical redemption trends, current enrollee redemption behavior, card product type, year of program enrollment, enrollment tenure and card spend levels. Our current assumption is that the vast majority of all rewards earned will eventually be redeemed. We use the weighted-average redemption cost during the previous twelve months, adjusted as appropriate for recent changes in redemption costs, including changes related to the mix of rewards redeemed, to estimate future redemption costs. We continually evaluate our reserve and assumptions based on developments in redemption patterns, changes to the terms and conditions of the rewards program and other factors. We recognized customer rewards expense of $4.9 billion in both 2020 and 2019 and $4.4 billion in 2018. Our customer rewards reserve, which is included in other liabilities on our consolidated balance sheets, totaled $5.4 billion and $4.7 billion as of December 31, 2020 and 2019, respectively.

ACCOUNTING CHANGES AND DEVELOPMENTS

Accounting Standards Issued but Not Adopted as of December 31, 2020

Standard	Guidance	Adoption Timing and Financial Statement Impacts
Income Tax Accounting Simplification ASU No. 2019-12, Income Taxes (Topic 740): *Simplifying the Accounting for Income Taxes* *Issued December 2019*	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. Our adoption of this standard did not have a material impact on our consolidated financial statements.

See "Note 1—Summary of Significant Accounting Policies" for information on the accounting standards we adopted in 2020.

CAPITAL MANAGEMENT

The level and composition of our capital are determined by multiple factors, including our consolidated regulatory capital requirements and internal risk-based capital assessments such as internal stress testing and economic capital. The level and composition of our capital may also be influenced by rating agency guidelines, subsidiary capital requirements, 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 Federal Reserve and the OCC respectively. The Basel III Capital Rules implement certain capital and liquidity requirements published by the Basel Committee, along with certain Dodd-Frank Act and other capital provisions. Moreover, the Banks, as insured depository institutions, are subject to PCA capital regulations.

Basel III and United States Capital Rules

Under the Basel III Capital Rules, we must maintain a minimum 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.

In July 2019, the Federal Banking Agencies issued the Capital Simplification Rule, which finalized certain changes to the Basel III Capital Rules for institutions not subject to the Basel III Advanced Approaches. These changes, effective January 1, 2020, generally raised the threshold above which a covered institution such as the Company must deduct certain assets from its CET1 capital, including certain deferred tax assets, mortgage servicing assets, and investments in unconsolidated financial institutions.

In October 2019, the Federal Banking Agencies finalized the Tailoring Rules, which amended the Basel III Capital Rules to provide for tailored application of certain capital requirements across different categories of banking institutions. These categories are determined primarily by an institution's asset size, with adjustments to a more stringent category possible if the institution exceeds certain risk-based thresholds. As a BHC 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. Therefore, effective January 1, 2020, we are no longer subject to the Basel III "Advanced Approaches" framework and certain associated capital requirements, such as the requirement to include certain elements of AOCI in our regulatory capital. We remain subject to the countercyclical capital buffer requirement (which is currently set at 0%) and supplementary leverage ratio requirement, which were previously required only for Basel III Advanced Approaches institutions. Effective as of the first quarter of 2020, we excluded certain elements of AOCI from our regulatory capital as permitted by the Tailoring Rules. The Tailoring Rules and Capital Simplification Rule have, taken together, decreased our capital requirements.

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 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 will use 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 will equal, 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 new "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 Banking Agencies set an earlier effective date.

The Company's stress capital buffer requirement is 5.6% for the period from October 1, 2020 through September 30, 2021, at which point a revised stress capital buffer requirement will be applicable to the Company based on the Company's 2021 stress testing results. 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 10.1%, 11.6% and 13.6%, respectively, for the period from October 1, 2020 through September 30, 2021.

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 remain at 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 December 31, 2020 and 2019, 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 requires institutions subject to the rule to adjust their risk-based capital ratios to reflect the market risk in their trading portfolios. As of December 31, 2020, the Company and CONA are subject to the Market Risk Rule. See "MD&A—Market Risk Profile" below for additional information.

CECL Transition Rule

As part of their response to the COVID-19 pandemic, the Federal Banking Agencies adopted the 2020 CECL Transition Rule which provides banking institutions an optional five-year transition period to phase in the impact of the CECL standard on their regulatory capital.

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		25% Phased In	50% Phased In	75% Phased In	Fully Phased In
Cumulative "day 2" ongoing impact	25% scaling factor as an approximation of the increase in allowance under CECL					

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.

Temporary Exclusions for Supplementary Leverage Ratio

In addition, in April 2020, as part of the response to the COVID-19 pandemic, the Federal Reserve issued an interim final rule that temporarily excludes U.S. Treasury securities and deposits at Federal Reserve Banks from the calculation of the supplementary leverage ratio for BHCs. These exclusions became effective on April 1, 2020, and will remain in effect through March 31, 2021.

Subsequently, in May 2020, the Federal Banking Agencies issued an interim final rule that provides an option for depository institutions to make similar exclusions to the calculation of the supplementary leverage ratio. If a depository institution elects to make such exclusions, it must request prior approval from its primary federal banking regulator before making capital distributions, such as paying dividends to its parent company, for as long as the exclusions are in effect. Neither CONA nor COBNA elected to make such exclusions.

For the description of the regulatory capital rules we are subject to, see "Part I—Item 1. Business—Supervision and Regulation."

Table 13 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 December 31, 2020 and 2019.

Table 13: Capital Ratios Under Basel III[(1)]

	December 31, 2020			December 31, 2019		
	Ratio	Minimum Capital Adequacy	Well-Capitalized	Ratio	Minimum Capital Adequacy	Well-Capitalized
Capital One Financial Corp:						
Common equity Tier 1 capital[(2)]	**13.7 %**	**4.5 %**	**N/A**	12.2 %	4.5 %	N/A
Tier 1 capital[(3)]	**15.3**	**6.0**	**6.0 %**	13.7	6.0	6.0 %
Total capital[(4)]	**17.7**	**8.0**	**10.0**	16.1	8.0	10.0
Tier 1 leverage[(5)]	**11.2**	**4.0**	**N/A**	11.7	4.0	N/A
Supplementary leverage[(6)(7)]	**10.7**	**3.0**	**N/A**	9.9	3.0	N/A
COBNA:						
Common equity Tier 1 capital[(2)]	**21.5**	**4.5**	**6.5**	16.1	4.5	6.5
Tier 1 capital[(3)]	**21.5**	**6.0**	**8.0**	16.1	6.0	8.0
Total capital[(4)]	**23.4**	**8.0**	**10.0**	18.1	8.0	10.0
Tier 1 leverage[(5)]	**18.3**	**4.0**	**5.0**	14.8	4.0	5.0
Supplementary leverage[(6)]	**14.7**	**3.0**	**N/A**	12.1	3.0	N/A
CONA:						
Common equity Tier 1 capital[(2)]	**12.4**	**4.5**	**6.5**	13.4	4.5	6.5
Tier 1 capital[(3)]	**12.4**	**6.0**	**8.0**	13.4	6.0	8.0
Total capital[(4)]	**13.7**	**8.0**	**10.0**	14.5	8.0	10.0
Tier 1 leverage[(5)]	**7.6**	**4.0**	**5.0**	9.2	4.0	5.0
Supplementary leverage[(6)]	**6.9**	**3.0**	**N/A**	8.2	3.0	N/A

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

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

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

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

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

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

(7) Supplementary leverage ratio for the Company as of December 31, 2020 excludes U.S. Treasury securities and deposits with the Federal Reserve Banks pursuant to an interim final rule issued by the Federal Reserve, see "Part I—Item 1. Business—Supervision and Regulation" for more information.

Table 14 presents regulatory capital under the Basel III Standardized Approach and regulatory capital metrics as of December 31, 2020 and 2019.

Table 14: Regulatory Risk-Based Capital Components and Regulatory Capital Metrics

(Dollars in millions)	December 31, 2020	December 31, 2019
Regulatory Capital Under Basel III Standardized Approach		
Common equity excluding AOCI	**$ 55,299**	$ 52,001
Adjustments:		
AOCI, net of tax[1]	**(29)**	1,156
Goodwill, net of related deferred tax liabilities	**(14,448)**	(14,465)
Intangible assets, net of related deferred tax liabilities	**(86)**	(170)
Other[1]	**—**	(360)
Common equity Tier 1 capital	**40,736**	38,162
Tier 1 capital instruments	**4,847**	4,853
Tier 1 capital	**45,583**	43,015
Tier 2 capital instruments	**3,385**	3,377
Qualifying allowance for credit losses	**3,820**	3,956
Tier 2 capital	**7,205**	7,333
Total capital	**$ 52,788**	$ 50,348
Regulatory Capital Metrics		
Risk-weighted assets	**$ 297,903**	$ 313,155
Adjusted average assets	**406,762**	368,511
Total leverage exposure	**427,522**	435,976

(1) In the first quarter of 2020, we elected to exclude from our regulatory capital ratios certain components of AOCI as permitted under the Tailoring Rules. As such, we revised our presentation herein to only include those components of AOCI that impact our regulatory capital ratios.

Capital Planning and Regulatory Stress Testing

On June 25, 2020, the Federal Reserve released the stress testing results for the 2020 CCAR cycle, including additional sensitivity analyses conducted due to the COVID-19 pandemic, and notified all participating BHCs, including us, of their stress capital buffer requirements. In light of the COVID-19 pandemic, the Federal Reserve required all participating BHCs, including us, to update and resubmit their capital plans in the fourth quarter of 2020, and to preserve capital by suspending share repurchases and capping common stock dividend payments for the third and fourth quarters of 2020 to the lower of (i) the amount paid in the second quarter of 2020 and (ii) an amount equal to the average net income earned across the four preceding calendar quarters. Scheduled payments on additional Tier 1 and Tier 2 capital instruments, such as preferred stock and subordinated debt, were not similarly restricted.

We conducted a second round of stress tests and submitted our updated capital plan to the Federal Reserve on November 2, 2020. On December 18, 2020, the Federal Reserve released the results of its second round of supervisory stress tests. The Federal Reserve did not recalculate our stress capital buffer requirement at this time but reserved its ability to do so until March 31, 2021. Finally, the Federal Reserve extended the capital distribution restrictions for all participating BHCs through at least the first quarter of 2021 with certain modifications. In particular, for the first quarter of 2021, participating BHCs may resume share repurchases but the aggregate amount of common stock dividend payments and share repurchases shall not exceed an amount equal to the average net income earned across the four preceding calendar quarters. In addition, common stock dividend payments for the first quarter of 2021 continue to be capped at the amount paid in the second quarter of 2020.

We suspended our 2019 Stock Repurchase Program on March 13, 2020, in response to the COVID-19 pandemic through the program's expiration at the end of the second quarter of 2020. As described above, for the third and fourth quarters of 2020, we were restricted from engaging in share repurchases. On January 25, 2021, our Board of Directors authorized the repurchase of up to $7.5 billion of shares of our common stock.

We distributed dividends of $0.40 per share on our common stock in the first and second quarters of 2020. Consistent with the Federal Reserve's capital distribution restrictions described above, we reduced our quarterly dividend on our common stock from $0.40 per share to $0.10 per share for the third quarter of 2020. For the fourth quarter of 2020, while our third quarter results would have permitted us to increase our common stock dividend pursuant to the Federal Reserve's limitations described above, we maintained our quarterly dividend at $0.10 per share as the process surrounding our resubmitted capital plan had not been completed at that time.

On February 4, 2021, our Board of Directors approved returning our quarterly common stock dividend to $0.40 per share for the first quarter of 2021.

For the description of the regulatory capital planning rules we are subject to, see "Part I—Item 1. Business—Supervision and Regulation."

Equity Offerings and Transactions

On January 31, 2020, we issued 50,000,000 depositary shares, each representing a 1/40th interest in a share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series J, $0.01 par value, with a liquidation preference of $25 per depositary share ("Series J Preferred Stock"). The net proceeds of the offering of Series J Preferred Stock were approximately $1.2 billion after deducting underwriting commissions and offering expenses. Dividends on the Series J Preferred Stock are payable quarterly in arrears at a rate of 4.80% per annum.

On March 2, 2020, we redeemed all outstanding shares of our Fixed Rate 6.00% Non-Cumulative Perpetual Preferred Stock Series B. The redemption resulted in the recognition of deferred issuance costs, which reduced our net income available to common shareholders by $22 million for the year ended December 31, 2020.

On September 17, 2020, we issued 5,000,000 depositary shares, each representing a 1/40th interest in a share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series K, $0.01 par value, with a liquidation preference of $25 per depositary share ("Series K Preferred Stock"). The net proceeds of the offering of Series K Preferred Stock were approximately $122 million after deducting underwriting commissions and offering expenses. Dividends on the Series K Preferred Stock are payable quarterly in arrears at a rate of 4.625% per annum.

On December 1, 2020, we redeemed all outstanding shares of our Fixed Rate 6.20% Non-Cumulative Perpetual Preferred Stock Series F. The redemption resulted in the recognition of deferred issuance costs, which reduced our net income available to common shareholders by $17 million for the year ended December 31, 2020.

Dividend Policy and Stock Purchases

For the year ended December 31, 2020, we declared and paid common stock dividends of $463 million, or $1.00 per share, and preferred stock dividends of $280 million. The following table summarizes the dividends paid per share on our various preferred stock series in each quarter of 2020.

Table 15: Preferred Stock Dividends Paid Per Share

Series	Description	Issuance Date	Per Annum Dividend Rate	Dividend Frequency	2020 Q4	2020 Q3	2020 Q2	2020 Q1
Series B[(1)]	6.000% Non-Cumulative	August 20, 2012	6.000%	Quarterly	—	—	—	$15.00
Series E	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	**$10.23**	$10.61	$27.75	—
Series F[(2)]	6.200% Non-Cumulative	August 24, 2015	6.200	Quarterly	**15.50**	15.50	15.50	15.50
Series G	5.200% Non-Cumulative	July 29, 2016	5.200	Quarterly	**13.00**	13.00	13.00	13.00
Series H	6.000% Non-Cumulative	November 29, 2016	6.000	Quarterly	**15.00**	15.00	15.00	15.00
Series I	5.000% Non-Cumulative	September 11, 2019	5.000	Quarterly	**12.50**	12.50	12.50	12.50
Series J	4.800% Non-Cumulative	January 31, 2020	4.800	Quarterly	**12.00**	12.00	16.13	—
Series K	4.625% Non-Cumulative	September 17, 2020	4.625	Quarterly	**9.51**	—	—	—

(1) On March 2, 2020, we redeemed all outstanding shares of our preferred stock Series B.

(2) On December 1, 2020, we redeemed all outstanding shares of our preferred stock Series F.

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 December 31, 2020, funds available for dividend payments from COBNA and CONA were $4.0 billion and $1.8 billion, respectively. There can be no assurance that we will declare and pay any dividends to stockholders.

Consistent with our 2019 Stock Repurchase Program which was announced on June 27, 2019, our Board of Directors authorized the repurchase of up to $2.2 billion of shares of common stock beginning in the third quarter of 2019 through the end of the second quarter of 2020. During the first quarter of 2020, we repurchased approximately $312 million of shares of our common stock under the 2019 Stock Repurchase Program before suspending further repurchases on March 13, 2020 in response to the COVID-19 pandemic through the program's expiration at the end of the second quarter of 2020. As noted above, for the third and fourth quarters of 2020, the Federal Reserve required all participating banking organizations, including us, to suspend share repurchases as a measure of capital preservation. On January 25, 2021, our Board of Directors authorized the repurchase of up to $7.5 billion of shares of our common stock.

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”.

RISK MANAGEMENT

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 must manage 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:

Governance and Accountability			
Strategy and Risk Alignment			
Risk Identification	Assessment, Measurement and Response	Monitoring and Testing	Aggregation, Reporting and Escalation
Capital and Liquidity Management (including Stress Testing)			
Risk Data and Enabling Technology			
Culture and Talent Management			

Governance and Accountability

Governance and accountability sets the foundation for the methods for governing risk taking and the interactions within and among our three lines of defense.

We established a risk governance structure and accountabilities to effectively and consistently oversee the management of risks across the Company. Our Board of Directors, Chief Executive Officer and management establish the tone at the top regarding the culture of the Company, including management of risk. Management reinforces expectations at the various levels of the organization.

Strategy and Risk Alignment

Our strategy is informed by and aligned with risk appetite, from development to execution. The Chief Executive Officer develops the strategy with input from the first, second, and third lines of defense, as well as the Board of Directors. The strategic planning process should consider relevant changes to the Company's overall risk profile.

Our Board of Directors approves a Risk Appetite Statement for the Company to set forth the high-level principles that govern risk taking at the Company. The Risk Appetite Statement 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. This Risk Appetite Statement is also supported by risk category specific risk appetite statements as well as metrics and, where appropriate, Board Limits and Board Notification Thresholds.

Risk Identification

The first line of defense and certain Support Functions shall identify new and emerging risks across the relevant risk categories associated with their business activities and objectives, in consultation with IRM. Risk identification also must be informed by major changes in infrastructure or organization, introduction of new products and services, acquisitions of businesses, or substantial changes in the internal or external environment.

IRM and certain Support Functions, where appropriate, provide effective challenge in the risk identification process. IRM is also responsible for identifying our material aggregate risks on an ongoing basis.

Assessment, Measurement and Response

Management shall assess risks associated with our activities. Risks identified should be assessed to understand the severity of each risk and likelihood of occurrence under both normal and stressful conditions. Risk severity is measured through modeling and other quantitative estimation approaches, as well as qualitative approaches, based on management judgment. As part of the risk assessment process, the first and second lines of defense also evaluate the effectiveness of the existing control environment and mitigation strategies.

Management shall determine the appropriate risk response. Risks may be mitigated, accepted, transferred, or avoided. Actions taken to respond to the risk include implementing new controls, enhancing existing controls, developing additional mitigation strategies to reduce the impact of the risk, and/or monitoring the risk.

Monitoring and Testing

Management periodically monitors risks to evaluate and measure how the risk is affecting our strategy and business objectives, in alignment with management's risk appetite, including established concentration risk limits. The scope and frequency of monitoring activities depend on the results of relevant risk assessments, as well as specific business risk operations and activities.

The first line of defense is required to evaluate the effectiveness of risk management practices and controls through testing and other activities. IRM and Support Functions, as appropriate, assess the first line of defense's evaluation of risk management, which may include conducting effective challenge, performing independent monitoring, or conducting risk or control validations. The third line of defense provides independent assurance for first and second line risk management practices and controls.

Aggregation, Reporting and Escalation

Risk aggregation supports strategic decision making and risk management practices through collectively reporting risks across different levels of the Company and providing a comprehensive view of performance against risk appetite. Capital One's risk aggregation processes are designed to aggregate risk information from lower levels of the business hierarchy to high levels and to aggregate risk information to determine material risk themes.

Material risks, new or emerging risks, aggregate risks, risk appetite metrics and other measures across all risk categories are reported to the appropriate governance forum no less than quarterly. Material risks are reported to the Board of Directors and senior management committees no less than quarterly.

Capital and Liquidity Management (including Stress Testing)

Our capital management processes are linked to our risk management practices, including the enterprise-wide identification, assessment and measurement of risks to ensure that all relevant risks are incorporated in the assessment of the Company's capital adequacy. We use identified risks to inform key aspects of the Company's capital planning, including the development of stress scenarios, the assessment of the adequacy of post-stress capital levels, and the appropriateness of potential capital actions considering the Company's capital objectives. We quantify capital needs through stress testing, regulatory capital, economic capital and assessments of market considerations. In assessing our capital adequacy, we identify how and where our material risks are accounted for within the capital planning process. Monitoring and escalation processes exist for key capital thresholds and metrics to continuously monitor capital adequacy.

Capital One identifies and manages funding and liquidity risks that could affect its earnings, balance sheet strength and investor confidence. The Company also manages its liquidity position to satisfy regulatory requirements. The Company implements its liquidity management philosophy through the Liquidity Adequacy Framework ("Liquidity Framework"). The Liquidity Framework enables Capital One to meet its liquidity goal of maintaining a fortified balance sheet that is resilient to uncertainties that may arise because of systemic or idiosyncratic liquidity events.

Risk Data and Enabling Technology

Risk data and technology provides the basis for risk reporting and is used in decision making and to monitor and review changes to our risk profile. There is a core Governance, Risk Management and Compliance system which is used as the system of record for risks, controls, issues and events for our risk categories and supports the analysis, aggregation and reporting capabilities across the categories.

Culture and Talent Management

The Framework must be supported with the right culture, talent and skills to enable effective risk management across the Company.

Every associate at the Company is responsible for risk management; however, associates with specific risk management skills and expertise within the first, second and third lines of defense are critical to executing appropriate risk management across the enterprise.

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. Our seven major categories of risk are:

Major Categories of Risk	
Compliance	The risk to current or anticipated earnings or capital arising from violations of laws, rules or regulations. Compliance risk can also arise from nonconformance with prescribed practices, internal policies and procedures, contractual obligations or ethical standards that reinforce those laws, rules or regulations
Credit	The risk to current or projected financial condition and resilience arising from an obligor's failure to meet the terms of any contract with the Company or otherwise perform as agreed
Liquidity	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
Market	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
Operational	The risk of loss, capital impairment, adverse customer experience or reputational impact resulting from failure to comply with policies and procedures, failed internal processes or systems, or from external events
Reputation	The risk to market value, recruitment and retention of talented associates and maintenance of a loyal customer base due to the negative perceptions of our internal and external constituents regarding our business strategies and activities
Strategic	The risk of a material impact on current or anticipated earnings, capital, franchise or enterprise value arising from the Company's competitive and market position and evolving forces in the industry that can affect that position; lack of responsiveness to these conditions; strategic decisions to change the Company's scale, market position or operating model; or, failure to appropriately consider implementation risks inherent in the Company's strategy

We provide an overview of how we manage our seven major categories of risk below.

Compliance Risk Management

We recognize that compliance requirements for financial institutions are increasingly complex and that there are heightened expectations from our regulators and our customers. In response, we continuously evaluate the regulatory environment and proactively adjust our compliance program to fully address these expectations.

Our Compliance Management Program establishes expectations for determining compliance requirements, assessing the risk of new product offerings, creating appropriate controls and training to address requirements, monitoring for control performance and independently testing for adherence to compliance requirements. The program also establishes regular compliance reporting to senior business leaders, the executive committee and the Board of Directors.

The Chief Compliance Officer is responsible for establishing and overseeing our Compliance Management Program. Business areas incorporate compliance requirements and controls into their business policies, standards, processes and procedures. They regularly monitor and report on the efficacy of their compliance controls and our Corporate Compliance team periodically independently tests to validate the effectiveness of business controls.

Credit Risk Management

We recognize that we are exposed to cyclical changes in credit quality. Consequently, we try to ensure our credit portfolio is resilient to economic downturns. Our most important tool in this endeavor is sound underwriting. In unsecured consumer loan underwriting, we generally assume that loans will be subject to an environment in which losses are higher than those prevailing at the time of underwriting. In commercial underwriting, we generally require strong cash flow, collateral, covenants, structural enhancements, or and guarantees. In addition to sound underwriting, we continually monitor our portfolio and take steps to collect or work out distressed loans.

The Chief Risk Officer, in conjunction with the Consumer and Commercial Chief Credit Officers, is responsible for establishing credit risk policies and procedures, including underwriting and hold guidelines and credit approval authority, and monitoring credit exposure and performance of our lending related transactions. Our Consumer and Commercial Chief Credit Officers are responsible for evaluating the risk implications of credit strategy and the oversight of credit for both the existing portfolio and any new credit investments. They also have formal approval authority for various types and levels of credit decisions, including individual commercial loan transactions. Division Presidents within each segment are responsible for managing the credit risk within their divisions and maintaining processes to control credit risk and comply with credit policies and guidelines. In addition, the Chief Risk Officer establishes policies, delegates approval authority and monitors performance for non-loan credit exposure entered into with financial counterparties or through the purchase of credit sensitive securities in our investment portfolio.

Our credit policies establish standards in five areas: customer selection, underwriting, monitoring, remediation and portfolio management. The standards in each area provide a framework comprising specific objectives and control processes. These standards are supported by detailed policies and procedures for each component of the credit process. Starting with customer selection, our goal is to generally provide credit on terms that generate above hurdle returns. We use a number of quantitative and qualitative factors to manage credit risk, including setting credit risk limits and guidelines for each of our lines of business. We monitor performance relative to these guidelines and report results and any required mitigating actions to appropriate senior management committees and our Board of Directors.

Liquidity Risk Management

We manage liquidity risk by applying our 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 continuously monitor market and economic conditions to evaluate emerging stress conditions and to develop appropriate action plans in accordance with our Contingency Funding Plan and our Recovery Plan, which include the Company’s policies, procedures and action plans for managing liquidity stress events. The Liquidity Framework enables us to manage our liquidity risk in accordance with regulatory requirements.

Additionally, the Liquidity Framework establishes governing principles that apply to the management of liquidity risk. We use these principles to monitor, measure and report liquidity risk; to develop funding and investment strategies that enable us to maintain an adequate level of liquidity to support our businesses and satisfy regulatory requirements; and to protect us from a broad range of liquidity events should they arise.

The Chief Risk Officer, in conjunction with the Chief Market and Liquidity Risk Officer, 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 through idiosyncratic, systemic, and combined liquidity stress scenarios. Management reports liquidity metrics to appropriate senior management committees and our Board of Directors no less than quarterly.

We seek to mitigate liquidity risk strategically and tactically. From a strategic perspective, we have acquired and built deposit gathering businesses and actively monitor our funding concentration. From a tactical perspective, we have accumulated a sizable liquidity reserve comprised of cash and cash equivalents, high-quality, unencumbered securities and committed collateralized credit lines. We also continue to maintain access to secured and unsecured debt markets through regular issuance. This combination of stable and diversified funding sources and our stockpile of liquidity reserves enable us to maintain confidence in our liquidity position.

Market Risk Management

The Chief Financial Officer and the Chief Risk Officer are responsible for the establishment of market risk management policies and standards for the governance and monitoring of market risk at a corporate level. Market risk is inherent from the financial instruments associated with our business operations and activities including loans, deposits, securities, short-term borrowings, long-term debt and derivatives. We manage market risk exposure, which is principally driven by balance sheet interest rate risk, centrally and establish quantitative risk limits to monitor and control our exposure.

We recognize that interest rate and foreign exchange risk is present in our business due to the nature of our assets and liabilities. Banks typically manage the trade-off between near-term earnings volatility and market value volatility by targeting moderate levels of each. In addition to using industry accepted techniques to analyze and measure interest rate and foreign exchange risk, we perform sensitivity analyses to identify our risk exposures under a broad range of scenarios. Investment securities and derivatives are the main levers for the management of interest rate risk. In addition, we also use derivatives to manage our foreign exchange risk.

The market risk positions for the Company and each of the Banks are calculated separately and in aggregate, and analyzed against pre-established limits. Results are reported to the Asset Liability Committee monthly and to the Risk Committee of the Board of Directors no less than quarterly. Management is authorized to utilize financial instruments as outlined in our policy to actively manage market risk exposure.

Operational Risk Management

We recognize the criticality of managing operational risk on both a strategic and day-to-day basis and that there are heightened expectations from our regulators and our customers. We have implemented appropriate operational risk management policies, standards, processes and controls to enable the delivery of high quality and consistent customer experiences and to achieve business objectives in a controlled manner.

The Chief Operational Risk Officer is responsible for establishing and overseeing our Operational Risk Management Program. In accordance with Basel III requirements, the program establishes practices for assessing the operational risk profile and executing key control processes for operational risks. These risks include topics such as internal and external fraud, cyber and technology risk, data management, model risk, third party management and business continuity. Operational Risk Management enforces these practices and delivers reporting of operational risk results to senior business leaders, the executive committee and the Board of Directors.

Reputation Risk Management

We recognize that reputation risk is of particular concern for financial institutions and, increasingly, technology companies, in the current environment. Areas of concern have expanded to include company policies, practices and values and, with the growing use of social and digital platforms, public corporations face a new level of scrutiny and channels for activism and advocacy. The heightened expectations of internal and external stakeholders have made corporate culture, values and conduct pressure points for individuals and advocates voicing concerns or seeking change. We manage both strategic and tactical reputation issues and build our relationships with government officials, media, community and consumer advocates, customers and other constituencies to help strengthen the reputations of both our Company and industry. Our actions include implementing pro-customer practices in our business and serving low to moderate income communities in our market area consistent with a quality bank and an innovative technology leader. The Executive Vice President of External Affairs is responsible for managing our overall reputation risk program. Day-to-day activities are controlled by the frameworks set forth in our Reputation Risk Management Policy and other risk management policies.

Strategic Risk Management

We monitor external market and industry developments to identify potential areas of strategic opportunity or risk. These items provide input for development of the Company's strategy led by the Chief Executive Officer and other senior executives. Through the ongoing development and vetting of the corporate strategy, the Chief Risk Officer identifies and assesses risks associated with the strategy across all risk categories and monitors them throughout the year.

CREDIT RISK PROFILE

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

We also engage in certain non-lending activities that may give rise to 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 9—Derivative Instruments and Hedging Activities."

Primary Loan Products

We provide a variety of lending products. Our primary loan products include credit cards, auto loans and commercial lending products. We sold all of our consumer home loan portfolio and the related servicing during 2018.

- *Credit cards:* We originate both prime and subprime credit cards through a variety of channels. Our credit cards generally have variable interest rates. Credit card accounts are primarily underwritten using an automated underwriting system based on predictive models that we have developed. The underwriting criteria, which are customized for individual products and marketing programs, are established based on an analysis of the net present value of expected revenues, expenses and losses, subject to further analysis using a variety of stress conditions. Underwriting decisions are generally based on credit bureau information, including payment history, debt burden and credit scores, such as FICO scores, and on other factors, such as applicant income. We maintain a credit card securitization program and selectively sell charged-off credit card loans.

- *Auto:* We originate both prime and subprime auto loans through a network of auto dealers and direct marketing. Our auto loans generally have fixed interest rates and loan terms of 75 months or less, but can go up to 84 months. Loan size limits are customized by program and are generally less than $75,000. Similar to credit card accounts, the underwriting criteria are customized for individual products and marketing programs and based on analysis of net present value of expected revenues, expenses and losses, and are subject to maintaining resilience under a variety of stress conditions. Underwriting decisions are generally based on an applicant's income, estimated net disposable income, and credit bureau information including FICO scores, along with collateral characteristics such as loan-to-value ("LTV") ratio. We maintain an auto securitization program.

- *Commercial:* We offer a range of commercial lending products, including loans secured by commercial real estate and loans to middle market commercial and industrial companies. Our commercial loans may have a fixed or variable interest rate; however, the majority of our commercial loans have variable rates. Our underwriting standards require an analysis of the borrower's financial condition and prospects, as well as an assessment of the industry in which the borrower operates. Where relevant, we evaluate and appraise underlying collateral and guarantees. We maintain underwriting guidelines and limits for major types of borrowers and loan products that specify, where applicable, guidelines for debt service coverage, leverage, LTV ratio and standard covenants and conditions. We assign a risk rating and establish a monitoring schedule for loans based on the risk profile of the borrower, industry segment, source of repayment, the underlying collateral and guarantees, if any, and current market conditions. Although we generally retain the commercial loans we underwrite, we may syndicate positions for risk mitigation purposes, including bridge financing transactions we have underwritten. In addition, we originate and service multifamily commercial real estate loans which are sold to government-sponsored enterprises.

Portfolio Composition and Maturity Profile of Loans Held for Investment

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 $2.7 billion and $400 million as of December 31, 2020 and 2019, respectively. 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.

Table 16 presents the composition of our portfolio of loans held for investment by portfolio segment as of December 31, 2020 and 2019.

Table 16: Portfolio Composition of Loans Held for Investment

	December 31, 2020		December 31, 2019	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Credit Card:				
Domestic credit card	**$ 98,504**	**39.1 %**	$ 118,606	44.6 %
International card businesses	**8,452**	**3.4**	9,630	3.6
Total credit card	**106,956**	**42.5**	128,236	48.2
Consumer Banking:				
Auto	**65,762**	**26.2**	60,362	22.7
Retail banking[1]	**3,126**	**1.2**	2,703	1.0
Total consumer banking	**68,888**	**27.4**	63,065	23.7
Commercial Banking:[1]				
Commercial and multifamily real estate	**30,681**	**12.2**	30,245	11.4
Commercial and industrial	**45,099**	**17.9**	44,263	16.7
Total commercial banking	**75,780**	**30.1**	74,508	28.1
Total loans held for investment	**$ 251,624**	**100.0 %**	$ 265,809	100.0 %

(1) Includes PPP loans of $919 million and $238 million in our retail and commercial loan portfolios, respectively, as of December 31, 2020. See "MD&A—Credit Risk Profile—COVID-19 Customer Assistance Programs and Loan Modifications" for more information.

Table 17 presents the maturities of our loans held for investment portfolio as of December 31, 2020.

Table 17: Loan Maturity Schedule

	December 31, 2020			
(Dollars in millions)	Due Up to 1 Year	> 1 Year to 5 Years	> 5 Years	Total
Fixed rate:				
Credit card[1]	$ 646	$ 11,294	—	$ 11,940
Consumer banking	711	40,176	$ 27,263	68,150
Commercial banking	1,370	5,414	8,444	15,228
Total fixed-rate loans	2,727	56,884	35,707	95,318
Variable rate:				
Credit card[1]	95,015	1	—	95,016
Consumer banking	711	22	5	738
Commercial banking	14,006	38,299	8,247	60,552
Total variable-rate loans	109,732	38,322	8,252	156,306
Total loans	$ 112,459	$ 95,206	$ 43,959	$ 251,624

(1) Due to the revolving nature of credit card loans, we report the majority of our variable-rate credit card loans as due in one year or less. We report fixed-rate credit card loans with introductory rates that expire after a certain period of time as due in one year or less. We assume that the rest of our remaining fixed-rate credit card loans will mature within one to three years.

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 December 31, 2020 and 2019.

Table 18: Credit Card Portfolio by Geographic Region

	December 31, 2020		December 31, 2019	
(Dollars in millions)	Amount	% of Total	Amount	% of Total
Domestic credit card:				
California	$ 9,943	9.3 %	$ 12,538	9.8 %
Texas	8,090	7.6	9,353	7.3
Florida	6,910	6.5	8,093	6.3
New York	6,327	5.9	7,941	6.2
Pennsylvania	4,158	3.9	4,979	3.9
Illinois	4,149	3.9	5,195	4.1
Ohio	3,645	3.4	4,388	3.4
New Jersey	3,179	3.0	3,915	3.1
Georgia	3,046	2.8	3,553	2.8
Michigan	3,010	2.8	3,811	3.0
Other	46,047	43.0	54,840	42.6
Total domestic credit card	98,504	92.1	118,606	92.5
International card businesses:				
Canada	5,728	5.4	6,493	5.1
United Kingdom	2,724	2.5	3,137	2.4
Total international card businesses	8,452	7.9	9,630	7.5
Total credit card	$ 106,956	100.0 %	$ 128,236	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 December 31, 2020 and 2019.

Table 19: Consumer Banking Portfolio by Geographic Region

	December 31, 2020		December 31, 2019	
(Dollars in millions)	Amount	% of Total	Amount	% of Total
Auto:				
Texas	**$ 8,207**	**11.9 %**	$ 7,675	12.2 %
California	**7,573**	**11.0**	6,918	11.0
Florida	**5,544**	**8.1**	5,013	7.9
Georgia	**2,989**	**4.3**	2,757	4.4
Ohio	**2,770**	**4.0**	2,652	4.2
Pennsylvania	**2,569**	**3.7**	2,334	3.7
Illinois	**2,431**	**3.5**	2,239	3.6
North Carolina	**2,280**	**3.3**	2,060	3.3
Other	**31,399**	**45.7**	28,714	45.4
Total auto	**65,762**	**95.5**	60,362	95.7
Retail banking:				
New York	**1,081**	**1.6**	793	1.3
Louisiana	**634**	**0.9**	708	1.1
Texas	**576**	**0.8**	595	1.0
Maryland	**224**	**0.3**	155	0.2
New Jersey	**222**	**0.3**	194	0.3
Virginia	**179**	**0.3**	125	0.2
Other	**210**	**0.3**	133	0.2
Total retail banking	**3,126**	**4.5**	2,703	4.3
Total consumer banking	**$ 68,888**	**100.0 %**	$ 63,065	100.0 %

We originate commercial loans in most regions of the United States. The table below presents the geographic profile of our commercial loan portfolio by segment as of December 31, 2020 and 2019.

Table 20: Commercial Banking Portfolio by Geographic Region

	December 31, 2020					
(Dollars in millions)	Commercial and Multifamily Real Estate	% of Total	Commercial and Industrial	% of Total	Total Commercial Banking	% of Total
Geographic concentration:[(1)]						
Northeast	**$ 17,306**	**56.4 %**	**$ 8,995**	**20.0 %**	**$ 26,301**	**34.7 %**
Mid-Atlantic	**3,006**	**9.8**	**6,228**	**13.8**	**9,234**	**12.2**
South	**4,134**	**13.5**	**14,974**	**33.2**	**19,108**	**25.2**
Other	**6,235**	**20.3**	**14,902**	**33.0**	**21,137**	**27.9**
Total	**$ 30,681**	**100.0 %**	**$ 45,099**	**100.0 %**	**$ 75,780**	**100.0 %**

(Dollars in millions)	December 31, 2019 Commercial and Multifamily Real Estate	% of Total	Commercial and Industrial	% of Total	Total Commercial Banking	% of Total
Geographic concentration:[1]						
Northeast	$ 17,139	56.7 %	$ 7,899	17.8 %	$ 25,038	33.6 %
Mid-Atlantic	3,024	10.0	5,927	13.4	8,951	12.0
South	4,087	13.5	16,403	37.1	20,490	27.5
Other	5,995	19.8	14,034	31.7	20,029	26.9
Total	$ 30,245	100.0 %	$ 44,263	100.0 %	$ 74,508	100.0 %

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

Commercial Loans by Industry

Table 21 summarizes our commercial loans held for investment portfolio by industry classification as of December 31, 2020 and 2019. 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

(Percentage of portfolio)	December 31, 2020	December 31, 2019
Real estate	**39 %**	39 %
Finance	**17**	16
Healthcare	**11**	12
Business services	**6**	6
Educational services	**5**	4
Public administration	**4**	4
Oil and gas	**3**	5
Retail trade	**3**	4
Construction and land	**3**	2
Other	**9**	8
Total	**100 %**	100 %

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 December 31, 2020 and 2019.

Table 22: Credit Score Distribution

(Percentage of portfolio)	December 31, 2020	December 31, 2019
Domestic credit card—Refreshed FICO scores:[1]		
Greater than 660	**69 %**	67 %
660 or below	**31**	33
Total	**100 %**	100 %
Auto—At origination FICO scores:[2]		
Greater than 660	**46 %**	48 %
621 - 660	**20**	20
620 or below	**34**	32
Total	**100 %**	100 %

(1) 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.

(2) 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 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 loans that are 30 or more days past due but are currently classified as performing and accruing interest. The 30+ day delinquency and 30+ day performing delinquency metrics are the same for domestic credit card loans, as we continue to classify 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" 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." Amounts as of December 31, 2020 include the impacts of COVID-19 customer assistance programs where applicable. See "MD&A—Credit Risk Profile—COVID-19 Customer Assistance Programs and Loan Modifications" for more information.

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 December 31, 2020 and 2019.

Table 23: 30+ Day Delinquencies

	December 31, 2020				December 31, 2019			
	30+ Day Performing Delinquencies		30+ Day Delinquencies		30+ Day Performing Delinquencies		30+ Day Delinquencies	
(Dollars in millions)	Amount	Rate[(1)]	Amount	Rate[(1)]	Amount	Rate[(1)]	Amount	Rate[(1)]
Credit Card:								
Domestic credit card	**$ 2,388**	**2.42 %**	**$ 2,388**	**2.42 %**	$ 4,656	3.93 %	$ 4,656	3.93 %
International card businesses	**221**	**2.61**	**234**	**2.77**	335	3.47	353	3.66
Total credit card	**2,609**	**2.44**	**2,622**	**2.45**	4,991	3.89	5,009	3.91
Consumer Banking:								
Auto	**3,140**	**4.78**	**3,381**	**5.14**	4,154	6.88	4,584	7.59
Retail banking	**41**	**1.32**	**62**	**1.99**	28	1.02	43	1.59
Total consumer banking	**3,181**	**4.62**	**3,443**	**5.00**	4,182	6.63	4,627	7.34
Commercial Banking:								
Commercial and multifamily real estate	**202**	**0.66**	**341**	**1.11**	63	0.21	67	0.22
Commercial and industrial	**84**	**0.19**	**158**	**0.35**	101	0.23	244	0.55
Total commercial banking	**286**	**0.38**	**499**	**0.66**	164	0.22	311	0.42
Total	**$ 6,076**	**2.41**	**$ 6,564**	**2.61**	$ 9,337	3.51	$ 9,947	3.74

(1) 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 December 31, 2020 and 2019.

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

	December 31, 2020		December 31, 2019	
(Dollars in millions)	Amount	Rate[(1)]	Amount	Rate[(1)]
Delinquency status:				
30 – 59 days	**$ 3,330**	**1.32 %**	$ 4,444	1.67 %
60 – 89 days	**1,485**	**0.59**	2,537	0.95
≥ 90 days	**1,749**	**0.70**	2,966	1.12
Total	**$ 6,564**	**2.61 %**	$ 9,947	3.74 %
Geographic region:				
Domestic	**$ 6,330**	**2.52 %**	$ 9,594	3.61 %
International	**234**	**0.09**	353	0.13
Total	**$ 6,564**	**2.61 %**	$ 9,947	3.74 %

(1) 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 December 31, 2020 and 2019. 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

	December 31, 2020		December 31, 2019	
(Dollars in millions)	Amount	Rate[(1)]	Amount	Rate[(1)]
Loan category:				
Credit card	**$ 1,251**	**1.17 %**	$ 2,407	1.88 %
Commercial banking	**51**	**0.07**	—	—
Total	**$ 1,302**	**0.52**	$ 2,407	0.91
Geographic region:				
Domestic	**$ 1,220**	**0.50 %**	$ 2,277	0.89 %
International	**82**	**0.97**	130	1.34
Total	**$ 1,302**	**0.52**	$ 2,407	0.91

(1) 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" 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 December 31, 2020 and 2019. 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[(1)]

	December 31, 2020		December 31, 2019	
(Dollars in millions)	Amount	Rate	Amount	Rate
Nonperforming loans held for investment:[(2)]				
Credit Card:				
International card businesses	**$ 21**	**0.24 %**	$ 25	0.26 %
Total credit card	**21**	**0.02**	25	0.02
Consumer Banking:				
Auto	**294**	**0.45**	487	0.81
Retail banking	**30**	**0.96**	23	0.87
Total consumer banking	**324**	**0.47**	510	0.81
Commercial Banking:				
Commercial and multifamily real estate	**200**	**0.65**	38	0.12
Commercial and industrial	**450**	**1.00**	410	0.93
Total commercial banking	**650**	**0.86**	448	0.60
Total nonperforming loans held for investment[(3)]	**$ 995**	**0.40**	$ 983	0.37
Other nonperforming assets[(4)]	**45**	**0.01**	63	0.02
Total nonperforming assets	**$ 1,040**	**0.41**	$ 1,046	0.39

(1) We recognized interest income for loans classified as nonperforming of $39 million and $63 million in 2020 and 2019, respectively. Interest income foregone related to nonperforming loans was $49 million and $60 million in 2020 and 2019, 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.

(2) 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.

(3) Excluding the impact of domestic credit card loans, nonperforming loans as a percentage of total loans held for investment was 0.65% and 0.67% as of December 31, 2020 and 2019, respectively.

(4) 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" 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 2020, 2019 and 2018.

Table 27: Net Charge-Offs (Recoveries)

	Year Ended December 31,					
	2020		**2019**		**2018**	
(Dollars in millions)	**Amount**	**Rate**[1]	**Amount**	**Rate**[1]	**Amount**	**Rate**[1]
Credit Card:						
Domestic credit card	**$ 4,002**	**3.93 %**	$ 4,818	4.58 %	$ 4,782	4.74 %
International card businesses	**268**	**3.26**	331	3.71	287	3.19
Total credit card	**4,270**	**3.88**	5,149	4.51	5,069	4.62
Consumer Banking:						
Auto	**522**	**0.83**	876	1.51	912	1.64
Retail banking	**56**	**1.82**	71	2.57	70	2.26
Home Loan	**—**	**—**	—	—	(1)	(0.02)
Total consumer banking	**578**	**0.87**	947	1.56	981	1.51
Commercial Banking:						
Commercial and multifamily real estate	**41**	**0.13**	1	—	2	0.01
Commercial and industrial	**336**	**0.73**	155	0.36	54	0.14
Total commercial banking	**377**	**0.49**	156	0.22	56	0.08
Other loans	**—**	**—**	—	—	6	34.09
Total net charge-offs	**$ 5,225**	**2.06**	$ 6,252	2.53	$ 6,112	2.52
Average loans held for investment	**$ 253,335**		$ 247,450		$ 242,118	

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

COVID-19 Customer Assistance Programs and Loan Modifications

In response to the COVID-19 pandemic, the Federal Banking Agencies supported banking organizations that are taking actions to assist customers in a prudent, safe and sound manner, including through loan modifications. As part of our response to the COVID-19 pandemic, we began offering programs to accommodate customer hardship across our lines of business in the first quarter of 2020, with the largest programs offered to our Auto and Domestic Card customers. Our COVID-19 programs were designed to be short-term accommodations so that we could provide our customers with prompt relief. Information about the customer accommodation programs we offered during 2020 is below, along with the impacts of enrollment on accrual and delinquency status.

Additional guidance issued by the Federal Banking Agencies and contained in the CARES Act provides banking organizations with TDR 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 December 31, 2020, 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. Through December 31, 2020, approximately 80% of enrollments in our customer accommodation programs have been for only 1-2 months, which 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 offered via our COVID-19 programs, 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.

Auto Customer Assistance Program

Within our auto business, we generally offered customers a 1-2 month payment extension, with an option to renew, and fee waivers. Auto loans enrolled in short-term payment extensions continue to accrue interest. The contractual term of the loan is extended by the length of the short-term payment extension and the delinquency status is updated to reflect the revised terms of the loan. For customers that were delinquent at the time of enrollment, their delinquency status is reduced commensurate with the length of the short-term payment extension. For most of 2020, relief was limited to a maximum of six monthly payments. In December 2020, the limit was reduced to a maximum of four monthly payments when temporary payment reduction programs were made available to customers.

Through December 31, 2020, a total of 17.8% of accounts representing $12.3 billion of loans outstanding have received a short-term payment extension at any time through this program (including those who are no longer enrolled). Approximately 73% of these customers were current at the time of their first enrollment. As of December 31, 2020, approximately 0.6% of accounts, representing $437 million of loans outstanding, were enrolled and had been approved to skip their upcoming payment. Approximately 81% of total cumulative enrollments, representing $10.3 billion of loans outstanding, were current as of December 31, 2020.

Domestic Card Customer Assistance Program

Within our domestic credit card business, customers were offered a one-month payment deferral, with the option to renew, and fee waivers. Card loans enrolled in the deferral program continue to accrue interest. Their delinquency status was generally frozen at the time of enrollment and, upon exiting the program, resumed the delinquency status at the time of enrollment.

Through December 31, 2020, excluding certain retail partnership portfolios, a total of 2.9% of active accounts representing $3.9 billion of loans outstanding have received a payment deferral at any time through this program (including those who are no longer enrolled as of December 31, 2020). Approximately 91% of these customers were current at the time of their first enrollment. As of December 31, 2020, approximately 0.1% of active accounts, representing $135 million of loans outstanding, were enrolled and had been approved to skip their upcoming payment. Approximately 83% of total cumulative enrollments, representing $3.1 billion of loans outstanding, were current as of December 31, 2020.

Temporary Payment Reduction Programs

As the COVID-19 pandemic has progressed, we have continued to work with customers to understand their needs. In response to those efforts, temporary payment reduction programs, ranging from 6-9 months, were made available to auto and domestic card customers in the fourth quarter of 2020. As of December 31, 2020, less than 0.1% of accounts were enrolled in these programs.

Other Customer Assistance Programs

While the vast majority of enrollments were in our auto and domestic card business, hardship accommodations were also made available to our international credit card, small business banking, and commercial banking customers. For our commercial banking customers, our offerings are more customized, but generally include short-term payment deferrals. We also offered PPP loans to our eligible small business banking and commercial banking clients.

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.

Table 28 presents our amortized cost of loans modified in TDRs as of December 31, 2020 and 2019, 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

	December 31, 2020		December 31, 2019	
(Dollars in millions)	Amount	% of Total Modifications	Amount	% of Total Modifications
Credit Card:				
Domestic credit card	**$ 511**	**24.5 %**	$ 630	38.1 %
International card businesses	**217**	**10.4**	201	12.2
Total credit card	**728**	**34.9**	831	50.3
Consumer banking:				
Auto	**615**	**29.5**	346	20.9
Retail banking	**18**	**0.9**	24	1.5
Total consumer banking	**633**	**30.4**	370	22.4
Commercial banking	**723**	**34.7**	451	27.3
Total	**$ 2,084**	**100.0 %**	$ 1,652	100.0 %
Status of TDRs:				
Performing	**$ 1,718**	**82.4 %**	$ 1,347	81.5 %
Nonperforming	**366**	**17.6**	305	18.5
Total	**$ 2,084**	**100.0 %**	$ 1,652	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."

Table 29 presents changes in our allowance for credit losses and reserve for unfunded lending commitments for 2020 and 2019, and details by portfolio segment for the provision for credit losses, charge-offs and recoveries. The cumulative effects from the adoption of the CECL standard and the change to include our finance charge and fee reserve in the allowance for credit losses are included in Table 29 and Table 30 below.

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

	Credit Card			Consumer Banking				
(Dollars in millions)	Domestic Card	International Card Businesses	Total Credit Card	Auto	Retail Banking	Total Consumer Banking	Commercial Banking	Total
Allowance for loan and lease losses:								
Balance as of December 31, 2018	$ 5,144	$ 391	$ 5,535	$ 990	$ 58	$ 1,048	$ 637	$ 7,220
Charge-offs	(6,189)	(522)	(6,711)	(1,829)	(88)	(1,917)	(181)	(8,809)
Recoveries[1]	1,371	191	1,562	953	17	970	25	2,557
Net charge-offs	(4,818)	(331)	(5,149)	(876)	(71)	(947)	(156)	(6,252)
Provision for loan and lease losses	4,671	321	4,992	870	67	937	294	6,223
Allowance build (release) for loan and lease losses	(147)	(10)	(157)	(6)	(4)	(10)	138	(29)
Other changes[2]	—	17	17	—	—	—	—	17
Balance as of December 31, 2019	4,997	398	5,395	984	54	1,038	775	7,208
Reserve for unfunded lending commitments:								
Balance as of December 31, 2018	—	—	—	—	4	4	118	122
Provision for losses on unfunded lending commitments	—	—	—	—	1	1	12	13
Balance as of December 31, 2019	—	—	—	—	5	5	130	135
Combined allowance and reserve as of December 31, 2019	$ 4,997	$ 398	$ 5,395	$ 984	$ 59	$ 1,043	$ 905	$ 7,343
Allowance for credit losses:								
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[3]	**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	**(5,318)**	**(431)**	**(5,749)**	**(1,464)**	**(70)**	**(1,534)**	**(394)**	**(7,677)**
Recoveries[1]	**1,316**	**163**	**1,479**	**942**	**14**	**956**	**17**	**2,452**
Net charge-offs	**(4,002)**	**(268)**	**(4,270)**	**(522)**	**(56)**	**(578)**	**(377)**	**(5,225)**
Provision for credit losses	**6,979**	**348**	**7,327**	**1,676**	**77**	**1,753**	**1,158**	**10,238**
Allowance build for credit losses	**2,977**	**80**	**3,057**	**1,154**	**21**	**1,175**	**781**	**5,013**
Other changes[2]	**—**	**36**	**36**	**—**	**—**	**—**	**—**	**36**
Balance as of December 31, 2020	**10,650**	**541**	**11,191**	**2,615**	**100**	**2,715**	**1,658**	**15,564**
Reserve for unfunded lending commitments:								
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 for losses on unfunded lending commitments	**—**	**—**	**—**	**—**	**—**	**—**	**23**	**23**
Balance as of December 31, 2020	**—**	**—**	**—**	**—**	**—**	**—**	**195**	**195**
Combined allowance and reserve as of December 31, 2020	**$ 10,650**	**$ 541**	**$ 11,191**	**$ 2,615**	**$ 100**	**$ 2,715**	**$ 1,853**	**$ 15,759**

(1) 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.

(2) Represents foreign currency translation adjustments.

(3) 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.

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 December 31, 2020 and 2019.

Table 30: Allowance Coverage Ratios

	December 31, 2020			December 31, 2019		
(Dollars in millions)	Allowance for Credit Losses	Amount[(1)]	Allowance Coverage Ratio	Allowance for Loan and Lease Losses	Amount[(1)]	Allowance Coverage Ratio
Credit Card	**$ 11,191**	**$ 2,622**	**426.80 %**	$ 5,395	$ 5,009	107.70 %
Consumer Banking	**2,715**	**3,443**	**78.85**	1,038	4,627	22.42
Commercial Banking	**1,658**	**650**	**254.97**	775	448	173.20
Total	**$ 15,564**	**251,624**	**6.19**	$ 7,208	265,809	2.71

(1) 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 increased by $8.4 billion to $15.6 billion, and our allowance coverage ratio increased by 348 basis points to 6.19% as of December 31, 2020 from 2019, driven by the allowance builds in the first and second quarters of 2020 from expectations of economic worsening as a result of the COVID-19 pandemic as well as the adoption of the CECL standard in the first quarter of 2020.

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 December 31, 2020 and 2019.

Table 31: Liquidity Reserves

(Dollars in millions)	December 31, 2020	December 31, 2019
Cash and cash equivalents	**$ 40,509**	$ 13,407
Investment securities available for sale, at fair value	**100,445**	79,213
FHLB borrowing capacity secured by loans	**10,162**	10,835
Outstanding FHLB advances and letters of credit secured by loans	**(72)**	(7,210)
Investment securities encumbered for Public Funds and others	**(7,052)**	(5,688)
Total liquidity reserves	**$ 143,992**	$ 90,557

Our liquidity reserves increased by $53.4 billion to $144.0 billion as of December 31, 2020 from December 31, 2019 primarily driven by increases in our cash balances from deposit growth and in our investment securities. See "MD&A—Risk Management" for additional information on our management of liquidity risk.

Liquidity Coverage Ratio

We are subject to the LCR Rule as implemented by the Federal Reserve and OCC. 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 fourth quarter of 2020 was 145%, 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" for additional information.

Borrowing Capacity

We maintain a shelf registration with the SEC so that we may periodically offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depositary shares, common stock, purchase contracts, warrants and units. There is no limit under this shelf registration to the amount or number of such securities that we may offer and sell, subject to market conditions. 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 December 31, 2020, we pledged both loans and securities to the FHLB to secure a maximum borrowing capacity of $19.6 billion, of which only $72 million was used. Our FHLB membership is supported by our investment in FHLB stock of $30 million and $328 million as of December 31, 2020 and 2019, respectively, which was determined in part based on our outstanding advances. As of December 31, 2020, we pledged loans to secure a borrowing capacity of $20.0 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 December 31, 2020 and 2019.

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 deposit interest rates for the years ended December 31, 2020, 2019 and 2018.

Table 32: Deposits Composition and Average Deposit Interest Rates

	Year Ended December 31,								
	2020			2019			2018		
(Dollars in millions)	Average Balance	Interest Expense	Average Deposit Interest Rate	Average Balance	Interest Expense	Average Deposit Interest Rate	Average Balance	Interest Expense	Average Deposit Interest Rate
Interest-bearing checking accounts[1]	**$ 37,136**	**$ 129**	**0.35 %**	$ 34,343	$ 289	0.84 %	$ 38,843	$ 245	0.63 %
Saving deposits[2]	**184,466**	**1,278**	**0.69**	154,910	2,048	1.32	149,443	1,603	1.07
Time deposits less than $100,000	**26,253**	**522**	**1.99**	27,202	746	2.74	25,535	606	2.37
Total interest-bearing core deposits	**247,855**	**1,929**	**0.78**	216,455	3,083	1.42	213,821	2,454	1.15
Time deposits of $100,000 or more	**15,424**	**236**	**1.53**	15,154	337	2.22	7,672	143	1.87
Foreign deposits	**—**	**—**	**—**	—	—	—	267	1	0.41
Total interest-bearing deposits	**$ 263,279**	**$ 2,165**	**0.82**	$ 231,609	$ 3,420	1.48	$ 221,760	$ 2,598	1.17

(1) Includes negotiable order of withdrawal accounts.

(2) 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 December 31, 2020 and 2019, respectively. See "Part I—Item 1. Business—Supervision and Regulation" 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 8—Deposits and Borrowings."

Table 33 presents the contractual maturities of large-denomination domestic time deposits of $100,000 or more as of December 31, 2020 and 2019. Our funding and liquidity management activities factor into the expected maturities of these deposits.

Table 33: Maturities of Large-Denomination Domestic Time Deposits—$100,000 or More

	December 31,			
	2020		2019	
(Dollars in millions)	Amount	% of Total	Amount	% of Total
Up to three months	**$ 4,285**	**37.3 %**	$ 3,801	21.8 %
> 3 months to 6 months	**2,924**	**25.5**	3,953	22.6
> 6 months to 12 months	**2,106**	**18.3**	6,139	35.2
> 12 months	**2,167**	**18.9**	3,564	20.4
Total	**$ 11,482**	**100.0 %**	$ 17,457	100.0 %

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 short-term FHLB advances and federal funds purchased, securities loaned or sold under agreements to repurchase, decreased by $6.6 billion to $668 million as of December 31, 2020 from December 31, 2019 driven by maturities of our short-term FHLB advances.

Our long-term debt, which primarily consists of securitized debt obligations and senior and subordinated notes, decreased by $8.5 billion to $39.9 billion as of December 31, 2020 from December 31, 2019 primarily due to the repurchase of a portion of our senior unsecured debt and net maturities in our credit card securitization program. 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 FHLB advances and their respective maturities or redemptions for the years ended December 31, 2020, 2019 and 2018.

Table 34: Long-Term Funding

	Issuances			Maturities/Redemptions		
	Year Ended December 31,			Year Ended December 31,		
(Dollars in millions)	2020	2019	2018	2020	2019	2018
Securitized debt obligations	**$ 1,250**	$ 6,673	$ 1,000	**$ 6,868**	$ 7,285	$ 2,673
Senior and subordinated notes	**4,000**	4,161	5,250	**8,092**	5,344	5,055
FHLB advances	**—**	—	750	**—**	251	9,108
Total	**$ 5,250**	$ 10,834	$ 7,000	**$ 14,960**	$ 12,880	$ 16,836

Credit Ratings

Our credit ratings impact our ability to access capital markets and our borrowing costs. Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, asset quality, quality of earnings and the probability of systemic support. Significant changes in these factors could result in different ratings.

Table 35 provides a summary of the credit ratings for the senior unsecured long-term debt of Capital One Financial Corporation, COBNA and CONA as of December 31, 2020 and 2019.

Table 35: Senior Unsecured Long-Term Debt Credit Ratings

	December 31, 2020			December 31, 2019		
	Capital One Financial Corporation	**COBNA**	**CONA**	**Capital One Financial Corporation**	**COBNA**	**CONA**
Moody's	**Baa1**	**Baa1**	**Baa1**	Baa1	Baa1	Baa1
S&P	**BBB**	**BBB+**	**BBB+**	BBB	BBB+	BBB+
Fitch	**A-**	**A-**	**A-**	A-	A-	A-

As of February 18, 2021, Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P"), and Fitch Ratings ("Fitch") have our credit ratings on a negative outlook.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments that affect our short-term and long-term liquidity and capital resource needs. Our future cash outflows primarily relate to deposits, borrowings and operating leases. Table 36 summarizes, by remaining contractual maturity, our significant contractual cash obligations as of December 31, 2020. The actual timing and amounts of future cash payments may differ from the amounts presented below due to a number of factors, such as discretionary debt repurchases. Table 36 excludes short-term obligations such as trade payables, commitments to fund certain equity investments, obligations for pension and post-retirement benefit plans, and representation and warranty reserves, which are discussed in more detail in "Note 5—Variable Interest Entities and Securitizations," "Note 14—Employee Benefit Plans" and "Note 18—Commitments, Contingencies, Guarantees and Others."

Table 36: Contractual Obligations

	December 31, 2020				
(Dollars in millions)	**Up to 1 Year**	**> 1 Years to 3 Years**	**> 3 Years to 5 Years**	**> 5 Years**	**Total**
Interest-bearing time deposits[(1)(2)]	**$ 21,381**	**$ 8,659**	**$ 2,581**	**$ 126**	**$ 32,747**
Securitized debt obligations[(2)]	**2,331**	**6,722**	**1,858**	**1,503**	**12,414**
Other debt:					
Federal funds purchased and securities loaned or sold under agreements to repurchase	**668**	**—**	**—**	**—**	**668**
Senior and subordinated notes	**3,878**	**8,520**	**8,149**	**6,835**	**27,382**
Other borrowings	**20**	**38**	**8**	**9**	**75**
Total other debt[(2)]	**4,566**	**8,558**	**8,157**	**6,844**	**28,125**
Operating leases	**296**	**522**	**396**	**721**	**1,935**
Purchase obligations[(3)]	**498**	**760**	**278**	**104**	**1,640**
Total	**$ 29,072**	**$ 25,221**	**$ 13,270**	**$ 9,298**	**$ 76,861**

(1) Includes only those interest-bearing deposits which have a contractual maturity date.

(2) These amounts represent the carrying value of the obligations and do not include amounts related to contractual interest obligations. Total contractual interest obligations were approximately $2.8 billion as of December 31, 2020, and represent forecasted net interest payments based on interest rates as of December 31, 2020. These forecasts use the contractual maturity date of each liability and include the impact of hedges where applicable.

(3) Represents substantial agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms. Purchase obligations are included through the termination date of the agreements even if the contract is renewable.

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, including 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 interest rate-sensitive revenue resulting from movements in interest rates. Interest rate-sensitive revenue consists of net interest income and certain components of other non-interest income significantly impacted by movements in interest rates, including changes in the fair value of freestanding interest rate derivatives. In addition to our existing assets and liabilities, we incorporate expected future business growth assumptions, such as loan and deposit growth and pricing, and plans for projected changes in our funding mix in our baseline forecast. In measuring the sensitivity of interest rate movements on our projected interest rate-sensitive revenue, we assume a hypothetical instantaneous parallel shift in the level of interest rates detailed in Table 37 below. At the current level of interest rates, our interest rate sensitive revenue is expected to increase in higher rate scenarios and decrease modestly in lower rate scenarios. Our current sensitivity to upward shocks has increased as compared to December 31, 2019 mainly due to the decline in interest rates and the growth in deposits and cash.

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 37 below. Our current economic value of equity sensitivity profile demonstrates that our economic value of equity increases in higher rate scenarios and decreases in lower interest rate scenarios. Similar to the changes in net interest income sensitivity, our current economic value of equity sensitivity to upward shocks has also increased as compared to December 31, 2019 mainly due to the decline in interest rates and the growth in deposits and cash.

Table 37 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 December 31, 2020 and 2019. In instances where a declining interest rate scenario would result in a rate less than 0%, we assume a rate of 0% for that scenario.

Table 37: Interest Rate Sensitivity Analysis

	December 31, 2020	December 31, 2019
Estimated impact on projected baseline net interest income:		
+200 basis points	**5.6 %**	1.8 %
+100 basis points	**4.3**	1.3
+50 basis points	**2.4**	1.1
–50 basis points	**(0.9)**	(0.5)
Estimated impact on economic value of equity:		
+200 basis points	**4.2**	(3.6)
+100 basis points	**6.0**	0.5
+50 basis points	**4.0**	0.8
–50 basis points	**(7.0)**	(2.4)

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 9—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 320 million GBP and 761 million GBP as of December 31, 2020 and 2019, respectively, and 5.3 billion CAD and 6.6 billion CAD as of December 31, 2020 and 2019, respectively. Our EUR-denominated borrowings outstanding were 1.3 billion EUR and 1.2 billion EUR as of December 31, 2020 and 2019, respectively.

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 1.7 billion GBP and 1.6 billion GBP as of December 31, 2020 and 2019, respectively, and 1.5 billion CAD and 1.4 billion CAD as of December 31, 2020 and 2019, 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 an 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 9—Derivative Instruments and Hedging Activities."

London Interbank Offered Rate ("LIBOR") Transition

On July 27, 2017, the U.K. Financial Conduct Authority, 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. In the U.S., the Federal Reserve Board and the Federal Reserve Bank of New York established the Alternative Reference Rates Committee ("ARRC"), a group of private market participants and ex-officio members representing banking and financial sector regulators. The ARRC has recommended SOFR as the preferred alternative rate for certain U.S. dollar derivative and cash instruments. While the ARRC has recommended SOFR as the replacement rate for LIBOR, there is acknowledgment that the development of a credit-sensitive element could be a complement to SOFR. It is unclear as to the likelihood and timing, but such a development would have impacts to our transition efforts.

On November 30, 2020, the ICE Benchmark Administration ("IBA"), the administrator of LIBOR, announced that it will consult on 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 allows many legacy USD LIBOR contracts to mature prior to cessation and should support customers' and financial services firms' building operational readiness to support new products and additional market developments. Responses were due on January 25, 2021 with a final decision thereafter.

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:

- implemented a robust governance framework and transition planning;
- completed an assessment of exposures and are developing exposure reporting for products, legal contracts, systems, models and processes;
- included LIBOR transition language ("fallback language") for certain new legal contracts and agreements;
- started issuing securities and originating agency multifamily loans with SOFR-based features in 2020 to align with GSE new-issue requirements, and
- officially adhered to the International Swaps and Derivatives Association ("ISDA") fallback protocol in January 2021.

We also continue to focus our transition efforts on:

- monitoring market developments for the application of hardwired language from the ARRC;
- engaging with industry experts to better understand the proposed IBA’s extension announcement and its impact on the markets and our transition plans;
- reviewing existing legal contracts and agreements and assessing fallback language impacts;
- monitoring and reducing our LIBOR exposure;
- building internal operational readiness and risk management processes;
- implementing necessary updates to our infrastructure including systems, models, valuation tools and processes;
- engaging with our clients, industry working groups, and regulators; and
- monitoring developments associated with LIBOR alternatives and industry practices related to LIBOR-indexed instruments.

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.*”

SUPPLEMENTAL TABLES

Table A—Loans Held for Investment Portfolio Composition

	December 31,				
(Dollars in millions)	**2020**	2019	2018	2017	2016
Credit Card:					
Domestic credit card	**$ 98,504**	$ 118,606	$ 107,350	$ 105,293	$ 97,120
International card businesses	**8,452**	9,630	9,011	9,469	8,432
Total credit card	**106,956**	128,236	116,361	114,762	105,552
Consumer Banking:					
Auto	**65,762**	60,362	56,341	53,991	47,916
Home loan	**—**	—	—	17,633	21,584
Retail banking	**3,126**	2,703	2,864	3,454	3,554
Total consumer banking	**68,888**	63,065	59,205	75,078	73,054
Commercial Banking:					
Commercial and multifamily real estate	**30,681**	30,245	28,899	26,150	26,609
Commercial and industrial	**45,099**	44,263	41,091	38,025	39,824
Total commercial lending	**75,780**	74,508	69,990	64,175	66,433
Small-ticket commercial real estate	**—**	—	343	400	483
Total commercial banking	**75,780**	74,508	70,333	64,575	66,916
Other loans	**—**	—	—	58	64
Total loans	**$ 251,624**	$ 265,809	$ 245,899	$ 254,473	$ 245,586

Table B—Performing Delinquencies

	December 31,									
	2020		2019		2018		2017		2016	
(Dollars in millions)	**Loans[(1)(2)]**	**Rate[(3)]**	Loans[(2)]	Rate[(3)]	Loans[(2)]	Rate[(3)]	Loans[(2)]	Rate[(3)]	Loans[(2)]	Rate[(3)]
Delinquent loans:										
30 – 59 days	**$ 3,307**	**1.31 %**	$ 4,417	1.66 %	$ 4,255	1.73 %	$ 3,908	1.53 %	$ 3,416	1.39 %
60 – 89 days	**1,467**	**0.58**	2,513	0.94	2,406	0.98	2,086	0.82	1,833	0.75
90 – 119 days	**552**	**0.22**	975	0.37	866	0.35	862	0.34	771	0.31
120 – 149 days	**407**	**0.16**	813	0.31	736	0.30	734	0.29	628	0.26
150 or more days	**343**	**0.14**	619	0.23	632	0.26	637	0.25	537	0.22
Total	**$ 6,076**	**2.41 %**	$ 9,337	3.51 %	$ 8,895	3.62 %	$ 8,227	3.23 %	$ 7,185	2.93 %
By geographic area:										
Domestic	**$ 5,855**	**2.32 %**	$ 9,002	3.38 %	$ 8,578	3.49 %	$ 7,883	3.10 %	$ 6,902	2.81 %
International	**221**	**0.09**	335	0.13	317	0.13	344	0.13	283	0.12
Total	**$ 6,076**	**2.41 %**	$ 9,337	3.51 %	$ 8,895	3.62 %	$ 8,227	3.23 %	$ 7,185	2.93 %
Total loans held for investment	**$ 251,624**		$ 265,809		$ 245,899		$ 254,473		$ 245,586	

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(1) 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.

(2) Performing TDRs totaled $1.7 billion, $1.3 billion, $1.4 billion, $1.9 billion and $1.6 billion as of December 31, 2020, 2019, 2018, 2017 and 2016, respectively.

(3) Delinquency rates are calculated by dividing loans in each delinquency status category and geographic region as of the end of the period by the total loan portfolio.

Table C—Nonperforming Loans and Other Nonperforming Assets

	December 31,				
(Dollars in millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Nonperforming loans held for investment:					
Credit Card:					
International card businesses	**$ 21**	$ 25	$ 22	$ 24	$ 42
Total credit card	**21**	25	22	24	42
Consumer Banking:					
Auto	**294**	487	449	376	223
Home loan	**—**	—	—	176	273
Retail banking	**30**	23	30	35	31
Total consumer banking	**324**	510	479	587	527
Commercial Banking:					
Commercial and multifamily real estate	**200**	38	83	38	30
Commercial and industrial	**450**	410	223	239	988
Total commercial lending	**650**	448	306	277	1,018
Small-ticket commercial real estate	**—**	—	6	7	4
Total commercial banking	**650**	448	312	284	1,022
Other loans	**—**	—	—	4	8
Total nonperforming loans held for investment	**$ 995**	$ 983	$ 813	$ 899	$ 1,599
Other nonperforming assets	**45**	63	59	153	280
Total nonperforming assets	**$ 1,040**	$ 1,046	$ 872	$ 1,052	$ 1,879
Total nonperforming loans[1]	**0.40 %**	0.37 %	0.33 %	0.35 %	0.65 %
Total nonperforming assets[2]	**0.41**	0.39	0.35	0.41	0.76

(1) Nonperforming loan rate is calculated based on total nonperforming loans divided by period-end total loans held for investment.

(2) The denominator used in calculating the total nonperforming assets ratio consists of total loans held for investment and total other nonperforming assets.

Table D—Net Charge-Offs

	Year Ended December 31,				
(Dollars in millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Average loans held for investment	**$ 253,335**	$ 247,450	$ 242,118	$ 245,565	$ 233,272
Net charge-offs	**5,225**	6,252	6,112	6,562	5,062
Net charge-off rate	**2.06 %**	2.53 %	2.52 %	2.67 %	2.17 %

Table E—Summary of Allowance for Credit Losses and Reserve for Unfunded Lending Commitments

	December 31,				
(Dollars in millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Allowance for credit losses:					
Balance at beginning of period[1]	**$ 10,515**	$ 7,220	$ 7,502	$ 6,503	$ 5,130
Charge-offs:					
Credit card	**(5,749)**	(6,711)	(6,657)	(6,321)	(5,019)
Consumer banking	**(1,534)**	(1,917)	(1,832)	(1,677)	(1,226)
Commercial banking	**(394)**	(181)	(119)	(481)	(307)
Other	**—**	—	(7)	(34)	(3)
Total charge-offs	**(7,677)**	(8,809)	(8,615)	(8,513)	(6,555)
Recoveries:					
Credit card	**1,479**	1,562	1,588	1,267	1,066
Consumer banking	**956**	970	851	639	406
Commercial banking	**17**	25	63	16	15
Other	**—**	—	1	29	6
Total recoveries	**2,452**	2,557	2,503	1,951	1,493
Net charge-offs	**(5,225)**	(6,252)	(6,112)	(6,562)	(5,062)
Provision for credit losses	**10,238**	6,223	5,858	7,563	6,491
Allowance build (release) for credit losses	**5,013**	(29)	(254)	1,001	1,429
Other changes	**36**	17	(28)	(2)	(56)
Balance at end of period	**$ 15,564**	$ 7,208	$ 7,220	$ 7,502	$ 6,503
Reserve for unfunded lending commitments:					
Balance at beginning of period[2]	**$ 172**	$ 122	$ 124	$ 136	$ 168
Provision (benefit) for losses on unfunded lending commitments	**23**	13	(2)	(12)	(32)
Balance at end of period	**195**	135	122	124	136
Combined allowance and reserve at end of period	**$ 15,759**	$ 7,343	$ 7,342	$ 7,626	$ 6,639
Allowance for credit losses as a percentage of loans held for investment	**6.19 %**	2.71 %	2.94 %	2.95 %	2.65 %
Combined allowance and reserve by geographic distribution:					
Domestic	**$ 15,218**	$ 6,945	$ 6,951	$ 7,251	$ 6,262
International	**541**	398	391	375	377
Total	**$ 15,759**	$ 7,343	$ 7,342	$ 7,626	$ 6,639
Combined allowance and reserve by portfolio segment:					
Credit card	**$ 11,191**	$ 5,395	$ 5,535	$ 5,648	$ 4,606
Consumer banking	**2,715**	1,043	1,052	1,249	1,109
Commercial banking	**1,853**	905	755	728	922
Other	**—**	—	—	1	2
Total	**$ 15,759**	$ 7,343	$ 7,342	$ 7,626	$ 6,639

(1) Includes both the cumulative effects from adoption of the CECL standard of $2.8 billion and the reclassification of our finance charge and fee reserve of $462 million to our allowance for credit losses in the first quarter of 2020.

(2) Includes cumulative effects from adoption of the CECL standard of $37 million in the first quarter of 2020.

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 F—Reconciliation of Non-GAAP Measures

	December 31,				
(Dollars in millions, except as noted)	**2020**	**2019**	**2018**	**2017**	**2016**
Tangible Common Equity (Period-End):					
Stockholders' equity	**$ 60,204**	$ 58,011	$ 51,668	$ 48,730	$ 47,514
Goodwill and intangible assets[1]	**(14,809)**	(14,932)	(14,941)	(15,106)	(15,420)
Noncumulative perpetual preferred stock	**(4,847)**	(4,853)	(4,360)	(4,360)	(4,360)
Tangible common equity	**$ 40,548**	$ 38,226	$ 32,367	$ 29,264	$ 27,734
Tangible Common Equity (Average):					
Stockholders' equity	**$ 58,201**	$ 55,690	$ 50,192	$ 49,530	$ 48,753
Goodwill and intangible assets[1]	**(14,875)**	(14,927)	(15,017)	(15,308)	(15,550)
Noncumulative perpetual preferred stock	**(5,247)**	(4,729)	(4,360)	(4,360)	(3,591)
Tangible common equity	**$ 38,079**	$ 36,034	$ 30,815	$ 29,862	$ 29,612
Tangible Assets (Period-End):					
Total assets	**$ 421,602**	$ 390,365	$ 372,538	$ 365,693	$ 357,033
Goodwill and intangible assets[1]	**(14,809)**	(14,932)	(14,941)	(15,106)	(15,420)
Tangible assets	**$ 406,793**	$ 375,433	$ 357,597	$ 350,587	$ 341,613
Tangible Assets (Average):					
Total assets	**$ 411,187**	$ 374,924	$ 363,036	$ 354,924	$ 339,974
Goodwill and intangible assets[1]	**(14,875)**	(14,927)	(15,017)	(15,308)	(15,550)
Tangible assets	**$ 396,312**	$ 359,997	$ 348,019	$ 339,616	$ 324,424
Non-GAAP Ratio:					
Tangible common equity ("TCE")[2]	**10.0 %**	10.2 %	9.1 %	8.3 %	8.1 %

(1) Includes impact of related deferred taxes.

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

Table G—Selected Quarterly Financial Information

(Dollars in millions, except per share data and as noted) *(unaudited)*	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1
Summarized results of operations:								
Interest income	**$ 6,391**	$ 6,215	$ 6,318	$ 7,109	$ 7,270	$ 7,075	$ 7,076	$ 7,092
Interest expense	**518**	660	858	1,084	1,204	1,338	1,330	1,301
Net interest income	**5,873**	5,555	5,460	6,025	6,066	5,737	5,746	5,791
Provision for credit losses	**264**	331	4,246	5,423	1,818	1,383	1,342	1,693
Net interest income after provision for credit losses	**5,609**	5,224	1,214	602	4,248	4,354	4,404	4,098
Non-interest income	**1,464**	1,826	1,096	1,224	1,361	1,222	1,378	1,292
Non-interest expense	**4,009**	3,548	3,770	3,729	4,161	3,872	3,779	3,671
Income (loss) from continuing operations before income taxes	**3,064**	3,502	(1,460)	(1,903)	1,448	1,704	2,003	1,719
Income tax provision (benefit)	**496**	1,096	(543)	(563)	270	375	387	309
Income (loss) from continuing operations, net of tax	**2,568**	2,406	(917)	(1,340)	1,178	1,329	1,616	1,410
Income (loss) from discontinued operations, net of tax	**(2)**	—	(1)	—	(2)	4	9	2
Net income (loss)	**2,566**	2,406	(918)	(1,340)	1,176	1,333	1,625	1,412
Dividends and undistributed earnings allocated to participating securities	**(19)**	(20)	(1)	(3)	(7)	(10)	(12)	(12)
Preferred stock dividends	**(68)**	(67)	(90)	(55)	(97)	(53)	(80)	(52)
Issuance cost for redeemed preferred stock	**(17)**	—	—	(22)	(31)	—	—	—
Net income (loss) available to common stockholders	**$ 2,462**	$ 2,319	$ (1,009)	$ (1,420)	$ 1,041	$ 1,270	$ 1,533	$ 1,348
Common share statistics:								
Basic earnings per common share:								
Net income (loss) from continuing operations	**$ 5.36**	$ 5.07	$ (2.21)	$ (3.10)	$ 2.26	$ 2.70	$ 3.24	$ 2.87
Income from discontinued operations	**—**	—	—	—	—	0.01	0.02	—
Net income (loss) per basic common share	**$ 5.36**	$ 5.07	$ (2.21)	$ (3.10)	$ 2.26	$ 2.71	$ 3.26	$ 2.87
Diluted earnings per common share:								
Net income (loss) from continuing operations	**$ 5.35**	$ 5.06	$ (2.21)	$ (3.10)	$ 2.25	$ 2.68	$ 3.22	$ 2.86
Income from discontinued operations	**—**	—	—	—	—	0.01	0.02	—
Net income (loss) per diluted common share	**$ 5.35**	$ 5.06	$ (2.21)	$ (3.10)	$ 2.25	$ 2.69	$ 3.24	$ 2.86
Weighted-average common shares outstanding (in millions):								
Basic common shares	**459.1**	457.8	456.7	457.6	460.9	469.5	470.8	469.4
Diluted common shares	**460.2**	458.5	456.7	457.6	463.4	471.8	473.0	471.6
Balance sheet (average balances):								
Loans held for investment	**$ 247,689**	$ 249,511	$ 253,358	$ 262,889	$ 258,870	$ 246,147	$ 242,653	$ 241,959
Interest-earning assets	**388,252**	391,451	378,145	355,347	349,150	340,949	338,026	337,793
Total assets	**420,011**	422,854	411,075	390,380	383,162	374,905	371,095	370,394
Interest-bearing deposits	**274,142**	276,339	261,256	241,115	236,250	232,063	230,452	227,572
Total deposits	**304,513**	305,516	288,344	264,653	260,040	255,082	253,634	251,410
Borrowings	**40,662**	44,161	49,827	51,795	51,442	49,413	49,982	53,055
Common equity	**54,220**	51,995	52,413	53,186	52,641	52,566	50,209	48,359
Total stockholders' equity	**59,389**	57,223	57,623	58,568	58,148	57,245	54,570	52,720

Glossary and Acronyms

2019 Stock Repurchase Program: On June 27, 2019, we announced that our Board of Directors authorized the repurchase of up to $2.2 billion of shares of our common stock from the third quarter of 2019 through the end of the second quarter of 2020.

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 laws 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 and debit card products, other lending products and deposit products.

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.

Eligible retained income: The greater of (a) a banking organization's net income for the four preceding calendar quarters, net of any distributions and associated tax effects not already reflected in net income, or (b) the average of a banking organization's net income over the preceding four quarters.

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 currency derivative contracts: An agreement to exchange contractual amounts of one currency for another currency at one or more future dates.

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

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 Moody's long-term rating of Baa3 or better; and/or a Standard & Poor's 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 revenue 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-backed security ("MBS"): An asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans.

Mortgage servicing rights ("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.

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.

Option-ARM loans: The option-ARM real estate loan product is an adjustable-rate mortgage ("ARM") loan that initially provides the borrower with the monthly option to make a fully-amortizing, interest-only or minimum fixed payment. After the initial payment option period, usually five years, the recalculated minimum payment represents a fully-amortizing principal and interest payment that would effectively repay the loan by the end of its contractual term.

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.

Purchased credit-impaired ("PCI") loans: Loans acquired in a business combination or asset acquisition that were recorded at fair value at acquisition and subsequently accounted for based on cash flows expected to be collected in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality.*

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.

Tax Act: The Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018 enacted on December 22, 2017.

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.

Acronyms

AML: Anti-money laundering
AOCI: Accumulated other comprehensive income
ARM: Adjustable rate mortgage
ARRC: Alternative Reference Rates Committee
ASU: Accounting Standards Update
ASC: Accounting Standards Codification
BHC: Bank holding company
bps: Basis points
CAD: Canadian dollar
CCAR: Comprehensive Capital Analysis and Review
CCP: Central Counterparty Clearinghouse, or Central Clearinghouse
CDE: Community development entities
CECL: Current expected credit loss
CFTC: Commodity Futures Trading Commission
CMBS: Commercial mortgage-backed securities
CME: Chicago Mercantile Exchange
COEP: Capital One (Europe) plc
COF: Capital One Financial Corporation
CVA: Credit valuation adjustment
DIF: Deposit Insurance Fund
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
FFIEC: Federal Financial Institutions Examination Council
FHLB: Federal Home Loan Banks
FinCEN: Financial Crimes Enforcement Network
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
GSE or **Agency:** Government-sponsored enterprise
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
PCD: Purchased credit-deteriorated
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
SCB: Stress Capital Buffer
SOFR: Secured Overnight Financing Rate
TCE: Tangible common equity
TDR: Troubled debt restructuring
U.K.: United Kingdom
U.S.: United States of America

Item 7A. 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 8. Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Capital One Financial Corporation (the "Company" or "Capital One") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Capital One's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, based on the framework in "2013 Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), commonly referred to as the "2013 Framework."

Based on this assessment, management concluded that, as of December 31, 2020, the Company's internal control over financial reporting was effective based on the criteria established by COSO in the 2013 Framework. Additionally, based upon management's assessment, the Company determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2020.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2020, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their accompanying report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2020.

/s/ RICHARD D. FAIRBANK

Richard D. Fairbank
Chair, Chief Executive Officer and President

/s/ R. SCOTT BLACKLEY

R. Scott Blackley
Chief Financial Officer

February 25, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Capital One Financial Corporation:

Opinion on Internal Control over Financial Reporting

We have audited Capital One Financial Corporation's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Capital One Financial Corporation (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Capital One Financial Corporation as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tysons, Virginia

February 25, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Capital One Financial Corporation:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Capital One Financial Corporation (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 1 and Note 4 to the consolidated financial statements, the Company changed its method for accounting for credit losses in 2020. As explained below, auditing the Company's allowance for credit losses, including adoption of the change in method of accounting for credit losses, was a critical audit matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for credit losses—Credit Card and Consumer Banking

Description of the Matter	As discussed above and in Note 1 and Note 4 to the consolidated financial statements, the Company changed its method of accounting for credit losses. On January 1, 2020, the Company adopted the Financial Accounting Standards Board Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which resulted in an increase to the allowance for credit losses (ACL or allowance) for the credit card and consumer banking portfolios of $2.2 billion and $0.5 billion, respectively. At December 31, 2020, the Company's allowance for the credit card and consumer banking portfolios was $11.2 billion and $2.7 billion, respectively. As more fully described in Note 1 and Note 4 of the consolidated financial statements, the ACL represents management's current estimate of expected credit losses over the contractual terms of the Company's held for investment (HFI) loan portfolios as of the balance sheet date and is comprised of two elements. The first is 'quantitative' and involves the use of complex econometric statistical loss forecasting models tailored to each portfolio based on, among other things, expected economic conditions; historical loss, recovery, and paydown experience; account seasoning; and the value of collateral underlying secured loans. The second is 'qualitative' and involves factors that represent management's judgment of the imprecision and risks inherent in the processes and assumptions used in establishing the allowance for credit losses. Auditing the allowance for the credit card and consumer banking portfolios was especially challenging and highly judgmental due to the significant complexity of the loss forecasting models used in the quantitative element and the significant judgment required in establishing the qualitative element. The qualitative element requires management to make significant judgments regarding current and forward-looking conditions, internal and external factors, and uncertainty as it relates to economic, model, or forecasts risks, where not already captured in the modeled results.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of the internal controls over the ACL process, including, among others, controls over the development, operation, and monitoring of loss forecasting models and management review controls over key assumptions and qualitative judgments used in reviewing the final credit card and consumer banking allowance results, including the economic forecast. Our tests of controls included observation of certain of management's quarterly ACL governance meetings, at which key management judgments, qualitative adjustments, and final ACL results are subjected to critical challenge by management groups independent of the group responsible for producing the ACL estimate. We involved EY specialists in testing management's credit card and consumer banking econometric statistical loss forecasting models including evaluating model methodology, model performance and testing key modeling assumptions as well as model governance and the economic forecast used by the ACL models. We compared actual loss history with prior forecasts at a disaggregated loan portfolio level to evaluate the reasonableness of management's consumer forecasts (e.g., look-back analysis). We performed sensitivity analysis on the ACL, charge-off and delinquency rates, and coverage ratios used within each segment of the credit card and consumer banking allowance. Our audit response also included specific substantive tests of management's process to measure credit card and consumer banking qualitative factors, including those related to the significant judgments made by management outlined above. We compared calculations to alternative model scenarios and industry peer data and compared qualitative factors to prior periods and prior economic cycles. We also evaluated if credit card and consumer banking allowance qualitative factors were applied based on a comprehensive framework and that all available information was considered, well-documented, and consistently applied.

Goodwill Impairment Assessment

Description of the Matter	At December 31, 2020, the Company's goodwill was $14.7 billion recorded across four reporting units. As discussed in Note 1 and Note 6 of the consolidated financial statements, goodwill is tested for impairment at least annually at the reporting unit level by comparing the fair value of the reporting unit to its carrying value. Management uses a discounted cash flow analysis (DCF) to calculate the fair value of its reporting units. Auditing of the annual goodwill impairment test was especially challenging, complex, and highly judgmental due to the significant estimation required in determining the fair value of the reporting units. The fair value estimate is sensitive to significant assumptions including prospective financial information (PFI) and market discount rates. These PFI assumptions require management to make judgments about future loan and deposit growth, revenue and expenses, and credit losses. Management utilizes a financial forecasting process to estimate the PFI and an estimation process to determine the appropriate discount rates.
How We Addressed the Matter in Our Audit	Our audit procedures related to the goodwill impairment assessment included, among others, testing the design and operating effectiveness of controls over the Company's PFI forecasting process and management's impairment assessment process, including controls over the estimation of discount rates. To test the appropriateness of management's assessment process, we assessed the goodwill impairment methodology and involved EY valuation specialists to assist in the testing of the significant assumptions, including testing the Company's estimate of discount rates, and evaluating the reasonableness of total fair value through comparison to the Company's market capitalization and analysis of the resulting premium to applicable market transactions. We evaluated certain of management's assumptions with historical performance (e.g., trend analysis), current industry and economic trends, changes in the Company's strategies, and the customer base or product mix. We also evaluated the consistency of the PFI by comparing the projections to other analyses used within the organization and inquiries performed of senior management regarding strategic plans within each reporting unit. We compared prior year forecasts to current year actual performance. We performed sensitivity analyses related to the significant assumptions to evaluate the change in the fair value of the reporting units resulting from changes in the assumptions. We also recalculated the reconciliation of the fair value of all reporting units to the market capitalization of the Company and then assessed the resulting premium.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1994.

Tysons, Virginia

February 25, 2021

CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
(Dollars in millions, except per share-related data)	**2020**	**2019**	**2018**
Interest income:			
Loans, including loans held for sale	**$ 24,074**	$ 25,862	$ 24,728
Investment securities	**1,877**	2,411	2,211
Other	**82**	240	237
Total interest income	**26,033**	28,513	27,176
Interest expense:			
Deposits	**2,165**	3,420	2,598
Securitized debt obligations	**232**	523	496
Senior and subordinated notes	**679**	1,159	1,125
Other borrowings	**44**	71	82
Total interest expense	**3,120**	5,173	4,301
Net interest income	**22,913**	23,340	22,875
Provision for credit losses	**10,264**	6,236	5,856
Net interest income after provision for credit losses	**12,649**	17,104	17,019
Non-interest income:			
Interchange fees, net	**3,017**	3,179	2,823
Service charges and other customer-related fees	**1,243**	1,330	1,585
Net securities gains (losses)	**25**	26	(209)
Other	**1,325**	718	1,002
Total non-interest income	**5,610**	5,253	5,201
Non-interest expense:			
Salaries and associate benefits	**6,805**	6,388	5,727
Occupancy and equipment	**2,118**	2,098	2,118
Marketing	**1,610**	2,274	2,174
Professional services	**1,312**	1,237	1,145
Communications and data processing	**1,215**	1,290	1,260
Amortization of intangibles	**60**	112	174
Other	**1,936**	2,084	2,304
Total non-interest expense	**15,056**	15,483	14,902
Income from continuing operations before income taxes	**3,203**	6,874	7,318
Income tax provision	**486**	1,341	1,293
Income from continuing operations, net of tax	**2,717**	5,533	6,025
Income (loss) from discontinued operations, net of tax	**(3)**	13	(10)
Net income	**2,714**	5,546	6,015
Dividends and undistributed earnings allocated to participating securities	**(20)**	(41)	(40)
Preferred stock dividends	**(280)**	(282)	(265)
Issuance cost for redeemed preferred stock	**(39)**	(31)	0
Net income available to common stockholders	**$ 2,375**	$ 5,192	$ 5,710
Basic earnings per common share:			
Net income from continuing operations	**$ 5.20**	$ 11.07	$ 11.92
Income (loss) from discontinued operations	**(0.01)**	0.03	(0.02)
Net income per basic common share	**$ 5.19**	$ 11.10	$ 11.90
Diluted earnings per common share:			
Net income from continuing operations	**$ 5.19**	$ 11.02	$ 11.84
Income (loss) from discontinued operations	**(0.01)**	0.03	(0.02)
Net income per diluted common share	**$ 5.18**	$ 11.05	$ 11.82

See Notes to Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Net income	**$ 2,714**	$ 5,546	$ 6,015
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities available for sale	**1,259**	650	(459)
Net unrealized gains (losses) on hedging relationships	**1,008**	772	(74)
Foreign currency translation adjustments	**76**	70	(39)
Net changes in securities held to maturity	**0**	26	447
Other	**3**	13	(11)
Other comprehensive income (loss), net of tax	**2,346**	1,531	(136)
Comprehensive income	**$ 5,060**	$ 7,077	$ 5,879

See Notes to Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share-related data)	December 31, 2020	December 31, 2019
Assets:		
Cash and cash equivalents:		
Cash and due from banks	**$ 4,708**	$ 4,129
Interest-bearing deposits and other short-term investments	**35,801**	9,278
Total cash and cash equivalents	**40,509**	13,407
Restricted cash for securitization investors	**262**	342
Securities available for sale (amortized cost of $97.6 billion and allowance for credit losses of $1 million as of December 31, 2020)	**100,445**	79,213
Loans held for investment:		
Unsecuritized loans held for investment	**225,698**	231,992
Loans held in consolidated trusts	**25,926**	33,817
Total loans held for investment	**251,624**	265,809
Allowance for credit losses	**(15,564)**	(7,208)
Net loans held for investment	**236,060**	258,601
Loans held for sale ($596 million and $251 million carried at fair value at December 31, 2020 and 2019, respectively)	**2,710**	400
Premises and equipment, net	**4,287**	4,378
Interest receivable	**1,471**	1,758
Goodwill	**14,653**	14,653
Other assets	**21,205**	17,613
Total assets	**$ 421,602**	$ 390,365
Liabilities:		
Interest payable	**$ 352**	$ 439
Deposits:		
Non-interest-bearing deposits	**31,142**	23,488
Interest-bearing deposits	**274,300**	239,209
Total deposits	**305,442**	262,697
Securitized debt obligations	**12,414**	17,808
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	**668**	314
Senior and subordinated notes	**27,382**	30,472
Other borrowings	**75**	7,103
Total other debt	**28,125**	37,889
Other liabilities	**15,065**	13,521
Total liabilities	**361,398**	332,354
Commitments, contingencies and guarantees (see Note 18)		
Stockholders' equity:		
Preferred stock (par value $0.01 per share; 50,000,000 shares authorized; 4,975,000 shares issued and outstanding as of both December 31, 2020 and 2019)	**0**	0
Common stock (par value $0.01 per share; 1,000,000,000 shares authorized; 679,932,837 and 672,969,391 shares issued as of December 31, 2020 and 2019, respectively; 458,972,202 and 456,562,399 shares outstanding as of December 31, 2020 and 2019, respectively)	**7**	7
Additional paid-in capital, net	**33,480**	32,980
Retained earnings	**40,088**	40,340
Accumulated other comprehensive income	**3,494**	1,156
Treasury stock, at cost (par value $0.01 per share; 220,960,635 and 216,406,992 shares as of December 31, 2020 and 2019, respectively)	**(16,865)**	(16,472)
Total stockholders' equity	**60,204**	58,011
Total liabilities and stockholders' equity	**$ 421,602**	$ 390,365

See Notes to Consolidated Financial Statements.

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

	Preferred Stock		Common Stock						
(Dollars in millions)	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance as of December 31, 2017	4,475,000	$ 0	661,724,927	$ 7	$ 31,656	$ 30,700	$ (926)	$ (12,707)	$ 48,730
Cumulative effects from adoption of new accounting standards						201	(201)		0
Comprehensive income (loss)						6,015	(136)		5,879
Dividends—common stock[(1)]			35,813	0	3	(776)			(773)
Dividends—preferred stock						(265)			(265)
Purchases of treasury stock								(2,284)	(2,284)
Issuances of common stock and restricted stock, net of forfeitures			4,183,783	0	175				175
Exercises of stock options and warrants			2,024,546	0	38				38
Compensation expense for restricted stock awards, restricted stock units and stock options					168				168
Balance as of December 31, 2018	4,475,000	$ 0	667,969,069	$ 7	$ 32,040	$ 35,875	$ (1,263)	$ (14,991)	$ 51,668
Cumulative effects from adoption of new lease standard						(11)			(11)
Comprehensive income						5,546	1,531		7,077
Effects from transfer of securities held to maturity to available for sale							888		888
Dividends—common stock[(1)]			49,963	0	4	(757)			(753)
Dividends—preferred stock						(282)			(282)
Purchases of treasury stock								(1,481)	(1,481)
Issuances of common stock and restricted stock, net of forfeitures			4,678,940	0	199				199
Exercises of stock options			271,419	0	17				17
Issuances of preferred stock	1,500,000	0			1,462				1,462
Redemptions of preferred stock	(1,000,000)	0			(969)	(31)			(1,000)
Compensation expense for restricted stock units and stock options					227				227
Balance as of December 31, 2019	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						**2,714**	**2,346**		**5,060**
Dividends—common stock[(1)]			**32,466**	**0**	**3**	**(463)**			**(460)**
Dividends—preferred stock						**(280)**			**(280)**
Purchases of treasury stock								**(393)**	**(393)**
Issuances of common stock and restricted stock, net of forfeitures			**5,539,010**	**0**	**241**				**241**
Exercises of stock options			**1,391,970**	**0**	**62**				**62**
Issuances of preferred stock	**1,375,000**	**0**			**1,330**				**1,330**
Redemptions of preferred stock	**(1,375,000)**	**0**			**(1,336)**	**(39)**			**(1,375)**
Compensation expense for restricted stock units and stock options					**200**				**200**
Balance as of December 31, 2020	**4,975,000**	**$ 0**	**679,932,837**	**$ 7**	**$ 33,480**	**$ 40,088**	**$ 3,494**	**$ (16,865)**	**$ 60,204**

(1) We declared dividends per share on our common stock of $0.40 in both of the first two quarters and $0.10 in both of the latter two quarters of 2020 and $0.40 in each quarter of 2019 and 2018.

See Notes to Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Operating activities:			
Income from continuing operations, net of tax	**$ 2,717**	$ 5,533	$ 6,025
Income (loss) from discontinued operations, net of tax	**(3)**	13	(10)
Net income	**2,714**	5,546	6,015
Adjustments to reconcile net income to net cash from operating activities:			
Provision for credit losses	**10,264**	6,236	5,856
Depreciation and amortization, net	**3,501**	3,339	2,396
Deferred tax provision (benefit)	**(1,627)**	(296)	714
Net securities losses (gains)	**(25)**	(26)	209
Gain on sales of loans	**(6)**	(50)	(548)
Stock-based compensation expense	**203**	239	170
Other (including unrealized gains from equity investments)	**(520)**	0	(125)
Loans held for sale:			
Originations and purchases	**(10,055)**	(9,798)	(9,039)
Proceeds from sales and paydowns	**9,856**	10,668	8,442
Changes in operating assets and liabilities:			
Changes in interest receivable	**287**	(63)	(74)
Changes in other assets	**979**	662	476
Changes in interest payable	**(87)**	(19)	45
Changes in other liabilities	**1,212**	194	(1,553)
Net change from discontinued operations	**3**	7	(6)
Net cash from operating activities	**16,699**	16,639	12,978
Investing activities:			
Securities available for sale:			
Purchases	**(43,026)**	(12,105)	(14,022)
Proceeds from paydowns and maturities	**22,324**	8,553	7,510
Proceeds from sales	**812**	4,780	6,399
Securities held to maturity:			
Purchases	**0**	(396)	(19,166)
Proceeds from paydowns and maturities	**0**	5,050	2,419
Loans:			
Net changes in loans held for investment	**4,136**	(21,280)	1,015
Principal recoveries of loans previously charged off	**2,452**	2,557	2,503
Net purchases of premises and equipment	**(710)**	(887)	(874)
Net cash from acquisition activities	**(7)**	(8,393)	(600)
Net cash from other investing activities	**(822)**	(877)	(802)
Net cash from investing activities	**(14,841)**	(22,998)	(15,618)

See Notes to Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Financing activities:			
Deposits and borrowings:			
Changes in deposits	**$ 42,519**	$ 12,643	$ 6,077
Issuance of securitized debt obligations	**1,248**	6,656	997
Maturities and paydowns of securitized debt obligations	**(6,885)**	(7,285)	(2,673)
Issuance of senior and subordinated notes and long-term FHLB advances	**3,987**	4,142	5,977
Maturities and paydowns of senior and subordinated notes and long-term FHLB advances	**(8,156)**	(5,595)	(14,163)
Changes in other borrowings	**(6,674)**	(2,104)	8,671
Common stock:			
Net proceeds from issuances	**241**	199	175
Dividends paid	**(460)**	(753)	(773)
Preferred stock:			
Net proceeds from issuances	**1,330**	1,462	0
Dividends paid	**(280)**	(282)	(265)
Redemptions	**(1,375)**	(1,000)	0
Purchases of treasury stock	**(393)**	(1,481)	(2,284)
Proceeds from share-based payment activities	**62**	17	38
Net cash from financing activities	**25,164**	6,619	1,777
Changes in cash, cash equivalents and restricted cash for securitization investors	**27,022**	260	(863)
Cash, cash equivalents and restricted cash for securitization investors, beginning of the period	**13,749**	13,489	14,352
Cash, cash equivalents and restricted cash for securitization investors, end of the period	**$ 40,771**	$ 13,749	$ 13,489
Supplemental cash flow information:			
Non-cash items:			
Net transfers from (to) loans held for investment to (from) loans held for sale	**$ 2,192**	$ 1,589	$ 855
Transfers from securities held to maturity to securities available for sale	**0**	33,187	0
Interest paid	**3,580**	4,790	3,933
Income tax paid	**988**	626	407

See Notes to Consolidated Financial Statements.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Capital One Financial Corporation, a Delaware Corporation established in 1994 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company") offer a broad array of financial products and services to consumers, small businesses and commercial clients through digital channels, branches, Cafés and other distribution channels. As of December 31, 2020, our principal subsidiaries included:

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

The Company is hereafter collectively referred to as "we," "us" or "our." COBNA and CONA are collectively referred to as the "Banks."

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

Our principal operations are 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 17—Business Segments and Revenue from Contracts with Customers."

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). The preparation of 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. Certain prior period amounts have been reclassified to conform to the current period presentation.

Principles of Consolidation

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

Voting Interest Entities

VOEs are entities that have sufficient equity and provide the equity investors voting rights that give them the power to make significant decisions relating to the entity's operations. Since a controlling financial interest in an entity is typically obtained through ownership of a majority voting interest, we consolidate our majority-owned subsidiaries and other voting interest entities in which we hold, directly or indirectly, more than 50% of the voting rights or where we exercise control through other contractual rights.

Investments in which we do not hold a controlling financial interest but have significant influence over the entity's financial and operating decisions (generally defined as owning a voting interest of 20% to 50%) are accounted for under the equity method. If we own less than 20% of a voting interest entity, we measure equity investments at fair value with changes in fair value recorded through net income, except those that do not have a readily determinable fair value (for which a measurement alternative is applied). We report equity investments in other assets on our consolidated balance sheets and include our share of income or loss and dividends from those investments in other non-interest income in our consolidated statements of income.

Variable Interest Entities

VIEs are entities that, by design, either (i) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. The entity that is deemed the primary beneficiary of a VIE is required to consolidate the VIE. An entity is deemed to be the primary beneficiary of a VIE if that entity has both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

In determining whether we are the primary beneficiary of a VIE, we consider both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIE, such as our role in establishing the VIE and our ongoing rights and responsibilities; our economic interests, including debt and equity investments, servicing fees and other arrangements deemed to be variable interests in the VIE; the design of the VIE, including the capitalization structure, subordination of interests, payment priority, relative share of interests held across various classes within the VIE's capital structure and the reasons why the interests are held by us.

We perform on-going reassessments to evaluate whether changes in an entity's capital structure or changes in the nature of our involvement with the entity result in a change to the VIE designation or a change to our consolidation conclusion. See "Note 5—Variable Interest Entities and Securitizations" for further details.

Balance Sheet Offsetting of Financial Assets and Liabilities

Derivative contracts that we execute bilaterally in the over-the-counter ("OTC") market or are centrally cleared 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 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. See "Note 9—Derivative Instruments and Hedging Activities" for more details.

We also elect to present securities purchased or sold under resale or repurchase agreements on a net basis when a legally enforceable master netting agreement exists and other applicable criteria are met. Security collateral received from or pledged to the counterparties are not eligible for netting and are presented gross in our consolidated balance sheet. See "Note 8—Deposits and Borrowings" and "Note 9—Derivative Instruments and Hedging Activities" for more details.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits and other short-term investments, all of which, if applicable, have stated maturities of three months or less when acquired.

Securities Resale and Repurchase Agreements

Securities purchased under resale agreements and securities loaned or sold under agreements to repurchase, principally U.S. government and agency obligations, are not accounted for as sales but as collateralized financing transactions and recorded at the amounts at which the securities were acquired or sold, plus accrued interest. We continually monitor the market value of these securities and deliver additional collateral to or obtain additional collateral from counterparties, as appropriate. See "Note 8—Deposits and Borrowings" for further details.

Significant Accounting Policies Impacted by our Adoption of the CECL Standard

In the first quarter of 2020, we adopted Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments—Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments* ("CECL standard") and updated the significant accounting policies described under the "Investment Securities" and "Loans" sections below.

Investment Securities

Our investment portfolio consists primarily of the following: U.S. Treasury securities; U.S. government-sponsored enterprise or agency ("Agency") and non-agency residential mortgage-backed securities ("RMBS"); Agency commercial mortgage-backed securities ("CMBS"); and other securities. The accounting and measurement framework for our investment securities differs depending on the security classification.

We classify securities as available for sale or held to maturity based on our investment strategy and management's assessment of our intent and ability to hold the securities until maturity. On December 31, 2019, we transferred our entire portfolio of held to maturity securities to available for sale. We did not have any securities that were classified as held to maturity as of December 31, 2020 and 2019.

We report securities available for sale on our consolidated balance sheets at fair value. The amortized cost of investment securities reflects the amount for which the security was acquired, adjusted for accrued interest, amortization of premiums, discounts, and net deferred fees and costs, any applicable fair value hedge accounting adjustments, collection of cash, and charge-offs. We elect to present accrued interest for securities available for sale within interest receivable on our consolidated balance sheets. Unrealized gains or losses are recorded, net of tax, as a component of accumulated other comprehensive income ("AOCI"). Unamortized premiums, discounts and other basis adjustments for available for sale securities are generally recognized in interest income over the contractual lives of the securities using the effective interest method. However, premiums on certain callable investment securities are amortized to the earliest call date. We record purchases and sales of investment securities available for sale on a trade date basis. Realized gains or losses from the sale of debt securities are computed using the first-in first-out method of identification, and are included in non-interest income in our consolidated statements of income. We elect to present accrued interest for securities available for sale within interest receivable on our consolidated balance sheets.

An individual debt security is impaired when the fair value of the security is less than its amortized cost. If we intend to sell an available for sale security in an unrealized loss position or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, any allowance for credit losses is reversed through our provision for credit losses and the difference between the amortized cost basis of the security and its fair value is recognized in our consolidated statements of income.

For impaired debt securities that we have both the intent and ability to hold, the securities are evaluated to determine if a credit loss exists. The allowance for credit losses on our investment securities is recognized through our provision for credit losses and limited by the unrealized losses of a security measured as the difference between the security's amortized cost and fair value. See further discussion below under the "Allowance for Credit Losses - Available for Sale Investment Securities" section of this Note.

Our investment portfolio also includes certain debt securities that, at the time of purchase, had experienced a more-than-insignificant deterioration in credit quality since origination. Such debt securities are accounted for in accordance with accounting guidance for purchased financial assets with credit deterioration and are herein referred to as purchased credit-deteriorated ("PCD") securities.

PCD securities require the recognition of an allowance for credit losses at the time of acquisition. The allowance for credit losses is not recognized in provision for credit losses. Instead, the purchase price and the initial allowance collectively represent the amortized cost basis of a PCD security. Any non-credit discount or premium at the date of acquisition is amortized into interest income over the remaining life of the security. Subsequent to the date of purchase, we remeasure the allowance for credit losses on the amortized cost basis using the same policies as for other debt securities available for sale and changes are recognized through our provision for credit losses. See further discussion below under the "Allowance for Credit Losses - Available for Sale Investment Securities" section of this Note.

We charge off any portion of an investment security that we determine is uncollectible. The amortized cost basis, excluding accrued interest, is charged off through the allowance for credit losses. Accrued interest is charged off as a reduction to interest income. Recoveries of previously charged off principal amounts are recognized in our provision for credit losses when received.

Allowance for Credit Losses - Available for Sale Investment Securities

We maintain an allowance for credit losses ("allowance") that represents management's current estimate of expected credit losses over the contractual terms of our investment securities classified as available for sale. When an investment security available for sale is impaired due to credit factors, we recognize a provision for credit losses in our consolidated statements of income and an allowance for credit losses on our consolidated balance sheets. Credit losses recognized in the allowance for credit losses are limited to the amount by which the investment security's amortized cost basis exceeds its fair value. Investment securities in unrealized gain positions do not have an allowance for credit losses as the investment security could be sold at its fair value to prevent realization of credit losses. We exclude accrued interest from the fair value and amortized cost basis of an investment security for purposes of measuring impairment. Charge-offs of uncollectible amounts of investment securities are deducted from the allowance for credit losses.

For certain of our securities available for sale, we have determined that there is no risk of impairment due to credit factors. These investment securities include high quality debt instruments that are issued and guaranteed by the United States government and its agencies or are issued through certain government-sponsored enterprises. Management performs periodic assessments to reevaluate this conclusion by considering any changes in historical losses, current conditions, and reasonable and supportable forecasts.

We evaluate impairment on a quarterly basis at the individual security level and determine whether any portion of the decline in fair value is due to a credit loss. We make this determination through the use of quantitative and qualitative analyses. Our qualitative analysis includes factors such as the extent to which fair value is less than amortized cost, any changes in the security's credit rating, past defaults or delayed payments, and adverse conditions impacting the security or issuer. A credit loss exists to the extent that management does not expect to recover the amortized cost basis.

For investment securities which require further assessment, we perform a quantitative analysis using a discounted cash flow methodology and compare the present value of expected future cash flows from the security available for sale to the security's amortized cost basis. Projected future cash flows reflect management's best estimate and are based on our understanding of past events, current conditions, reasonable and supportable forecasts, and are discounted by the security's effective interest rate adjusted for prepayments. The allowance for credit losses for investment securities reflects the difference by which the amortized cost basis exceeds the present value of future cash flows and is limited to the amount by which the security's amortized cost exceeds its fair value. See "Note 2—Investment Securities" for additional information.

Loans

Our loan portfolio consists of loans held for investment, including loans underlying our consolidated securitization trusts, and loans held for sale and is divided into three portfolio segments: credit card, consumer banking and commercial banking loans. 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 loans as well as commercial and industrial loans.

Loan Classification

We classify loans as held for investment or held for sale based on our investment strategy and management's intent and ability with regard to the loans, which may change over time. The accounting and measurement framework for loans differs depending on the loan classification, whether we elect the fair value option, whether the loans are originated or purchased and whether purchased loans are considered to have experienced a more-than-insignificant deterioration in credit quality since origination. The presentation within the consolidated statements of cash flows is based on management's intent at acquisition or origination. Cash flows related to loans that are acquired or originated with the intent to hold for investment are included in cash flows from investing activities on our consolidated statements of cash flows. Cash flows related to loans that are acquired or originated with the intent to sell are included in cash flows from operating activities on our consolidated statements of cash flows.

Loans Held for Investment

Loans that we have the ability and intent to hold for the foreseeable future and loans associated with consolidated securitization transactions are classified as held for investment. Loans classified as held for investment, except for credit card loans, are reported at their amortized cost basis, excluding accrued interest. For these loans, we elect to present accrued interest within interest receivable on our consolidated balance sheets. For credit card loans, billed finance charges and fees are included in loans held for investment. Unbilled finance charges and fees on credit card loans are included in interest receivable.

Interest income is recognized on performing loans on an accrual basis. We defer loan origination fees and direct loan origination costs on originated loans, premiums and discounts on purchased loans and loan commitment fees. We recognize these amounts in interest income as yield adjustments over the life of the loan and/or commitment period using the effective interest method. For credit card loans, loan origination fees and direct loan origination costs are amortized on a straight-line basis over a 12-month period. The amortized cost of loans held for investment is subject to our allowance for credit losses methodology described below under the "Allowance for Credit Losses - Loans Held for Investment" section of this Note.

Loans Held for Sale

Loans that we intend to sell or for which we do not have the ability and intent to hold for the foreseeable future are classified as held for sale. Multifamily commercial real estate loans originated with the intent to sell to government-sponsored enterprises are accounted for under the fair value option. We elect the fair value option on these loans as part of our management of interest rate risk along with the corresponding forward sale commitments. Loan origination fees and direct loan origination costs are recognized as incurred and are reported in other non-interest income in the consolidated statements of income. Interest income is calculated based on the loan's stated rate of interest and is reported in interest income in the consolidated statements of income. Fair value adjustments are recorded in other non-interest income in the consolidated statements of income.

All other loans classified as held for sale are recorded at the lower of cost or fair value. Loan origination fees, direct loan origination costs and any discounts and premiums are deferred until the loan is sold and are then recognized as part of the total gain or loss on sale. The fair value of loans held for sale is determined on an aggregate portfolio basis for each loan type. Fair value adjustments are recorded in other non-interest income in the consolidated statements of income.

If a loan is transferred from held for investment to held for sale, then on the transfer date, any decline in fair value related to credit is recorded as a charge-off and any allowance for credit losses is reversed through our provision for credit losses. The loan is then reclassified to held for sale at its amortized cost at the date of the transfer. A valuation allowance is established, if needed, such that the loan held for sale is recorded at the lower of cost or fair value. Subsequent to transfer, we report write-downs or recoveries in fair value up to the carrying value at the date of transfer and realized gains or losses on loans held for sale in our consolidated statements of income as a component of other non-interest income. We calculate the gain or loss on loan sales as the difference between the proceeds received and the carrying value of the loans sold, net of the fair value of any residual interests retained.

Loans Acquired

All purchased loans, including loans transferred in a business combination, are initially recorded at fair value, which includes consideration of expected future losses, as of the date of the acquisition. To determine the fair value of loans at acquisition, we estimate discounted contractual cash flows due using an observable market rate of interest, when available, adjusted for factors that a market participant would consider in determining fair value. In determining fair value, contractual cash flows are adjusted to include prepayment estimates based upon historical payment trends, forecasted default rates and loss severities and other relevant factors. The difference between the fair value and the contractual cash flows is recorded as a loan premium or discount, which may relate to either credit or non-credit factors, at acquisition.

We account for purchased loans under the accounting guidance for purchased financial assets with credit deterioration when, at the time of purchase, the loans have experienced a more-than-insignificant deterioration in credit quality since origination. We also account for loans under this guidance when the loans were previously accounted for under the accounting guidance for purchased credit impaired loans and debt securities ("PCI") prior to our adoption of the CECL standard. We refer to these loans which are accounted for under accounting guidance for purchased financial assets with more-than-insignificant deterioration in credit quality since origination as "PCD loans".

We recognize an allowance for credit losses on purchased loans that have not experienced a more-than-insignificant deterioration in credit quality since origination at the time of purchase through earnings in a manner that is consistent with originated loans. The policies relating to the allowance for credit losses on loans is described below in the "Allowance for Credit Losses - Loans Held for Investment" section of this Note.

Loan Modifications and Restructurings

As part of our loss mitigation efforts, we may provide modifications to a borrower experiencing financial difficulty to improve long-term collectability of the loan and to avoid the need for foreclosure or repossession of collateral, if any. Our loan modifications typically include short-term payment deferrals, an extension of the loan term, a reduction in the interest rate, a reduction in the loan balance, or a combination of these concessions. A loan modification in which a concession is granted to a borrower experiencing financial difficulty is accounted for and reported as a troubled debt restructuring ("TDR"). See "Note 3—Loans" for additional information on our loan modifications and restructurings, including those in response to the COVID-19 pandemic.

Delinquent and Nonperforming Loans

The entire balance of a loan is considered contractually delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer's billing statement. Delinquency is reported on loans that are 30 or more days past due. Interest and fees continue to accrue on past due loans until the date the loan is placed on nonaccrual status, if applicable. For loan modifications, delinquency and nonaccrual status are reported in accordance with the revised terms of the loans. We generally place loans on nonaccrual status when we believe the collectability of interest and principal is not reasonably assured.

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

Our policies for classifying loans as nonperforming, by loan category, are as follows:

- *Credit card loans:* As permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ("FFIEC"), our policy is generally to exempt credit card loans from being classified as nonperforming, as these loans are generally charged off in the period the account becomes 180 days past due. Consistent with industry conventions, we generally continue to accrue interest and fees on delinquent credit card loans until the loans are charged off.

- *Consumer banking loans:* We classify consumer banking loans as nonperforming when we determine that the collectability of all interest and principal on the loan is not reasonably assured, generally when the loan becomes 90 days past due.

- *Commercial banking loans*: We classify commercial banking loans as nonperforming as of the date we determine that the collectability of all interest and principal on the loan is not reasonably assured.

- *Modified loans and troubled debt restructurings:* Modified loans, including TDRs, that are current at the time of the restructuring remain in accrual status if there is demonstrated performance prior to the restructuring and continued performance under the modified terms is expected. Otherwise, the modified loan is classified as nonperforming.

Interest and fees accrued but not collected at the date a loan is placed on nonaccrual status are reversed against earnings. In addition, the amortization of deferred loan fees, costs, premiums and discounts is suspended. Interest and fee income are subsequently recognized only upon the receipt of cash payments. However, if there is doubt regarding the ultimate collectability of loan principal, cash received is generally applied against the principal balance of the loan. Nonaccrual loans are generally returned to accrual status when all principal and interest is current and repayment of the remaining contractual principal and interest is reasonably assured, or when the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

Charge-Offs

We charge off loans when we determine that the loan is uncollectible. The amortized cost basis, excluding accrued interest, is charged off as a reduction to the allowance for credit losses based on the time frames presented below. Accrued interest on loans other than credit card loans determined to be uncollectible is reversed as a reduction of interest income when the loan is classified as nonperforming. For credit card loans, accrued interest is charged off simultaneously with the charge off of other components of amortized cost and as a reduction of interest income. When received, recoveries of previously charged off amounts are recorded as an increase to the allowance for credit losses (see the "Allowance for Credit Losses - Loans Held for Investment" section of this Note for information on how we account for expected recoveries). Costs to recover charged off loans are recorded as collection expense and included in our consolidated statements of income as a component of other non-interest expense as incurred. Our charge-off time frames by loan type are presented below.

- *Credit card loans*: We generally charge off credit card loans in the period the account becomes 180 days past due. We charge off delinquent credit card loans for which revolving privileges have been revoked as part of loan workout when the account becomes 120 days past due. Credit card loans in bankruptcy are generally charged off by the end of the month following 30 days after the receipt of a complete bankruptcy notification from the bankruptcy court. Credit card loans of deceased account holders are generally charged off 5 days after receipt of notification.

- *Consumer banking loans:* We generally charge off consumer banking loans at the earlier of the date when the account is a specified number of days past due or upon repossession of the underlying collateral. Our charge-off period for auto loans is 120 days past due. Small business banking loans generally charge off at 120 days past due based on the date the amortized cost basis is deemed uncollectible. Auto loans that have not been previously charged off where the borrower has filed for bankruptcy and the loan has not been reaffirmed charge off in the period that the loan is 60 days from the bankruptcy notification date, regardless of delinquency status. Auto loans that have not been previously charged off and have been discharged under Chapter 7 bankruptcy are charged off at the end of the month in which the bankruptcy discharge occurs. Remaining consumer loans generally are charged off within 40 days of receipt of notification from the bankruptcy court. Consumer loans of deceased account holders are charged off by the end of the month following 60 days of receipt of notification.

- *Commercial banking loans:* We charge off commercial loans in the period we determine that the amortized cost basis is uncollectible.

Allowance for Credit Losses - Loans Held for Investment

We maintain an allowance for credit losses ("allowance") that represents management's current estimate of expected credit losses over the contractual terms of our loans held for investment. We measure the allowance on a quarterly basis through consideration of past events, including historical experience, current conditions and reasonable and supportable forecasts.

We measure current expected credit losses over the contractual terms of our loans. The contractual terms are adjusted for expected prepayments but are not extended for renewals or extensions, except when an extension or renewal arises from a borrower option that is not unconditionally cancellable or through a TDR that is reasonably expected to occur.

We aggregate loans sharing similar risk characteristics into pools for purposes of measuring expected credit losses. Pools are reassessed periodically to confirm that all loans within each pool continue to share similar risk characteristics. Expected credit losses for loans that do not share similar risk characteristics with other financial assets are measured individually.

Expected recoveries of amounts previously charged off or expected to be charged off are recognized within the allowance, with a corresponding reduction to our provision for credit losses. At times expected recoveries may result in a negative allowance. We limit the allowance to amounts previously charged off and expected to be charged off. Charge-offs of uncollectible amounts result in a reduction to the allowance and recoveries of previously charged off amounts result in an increase to 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. Significant judgment is applied to the development and duration of reasonable and supportable forecasts used in our estimation of lifetime losses. We estimate expected credit losses over the duration of those forecasts and then revert, on a rational and systematic basis, to historical losses at each relevant loss component of the estimate. Expected losses for contractual terms extending beyond the reasonable and supportable forecast and reversion periods are based on those historical losses.

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. Management's judgment may involve an assessment of current and forward-looking conditions including but not limited to changes in lending policies and procedures, nature and volume of the portfolio, external factors, and uncertainty as it relates to economic, model or forecast risks, where not already captured in the modeled results.

Expected credit losses for collateral-dependent loans are based on the fair value of the underlying collateral. When we intend to liquidate the collateral, the fair value of the collateral is adjusted for expected costs to sell. A loan is deemed to be a collateral-dependent loan when (i) we determine foreclosure or repossession of the underlying collateral is probable, or (ii) foreclosure or repossession is not probable, but the borrower is experiencing financial difficulty and we expect repayment to be provided substantially through the operation or sale of the collateral. The allowance for a collateral-dependent loan reflects the difference between the loan's amortized cost basis and the fair value (less selling costs, where applicable) of the loan's underlying collateral.

Our credit card and consumer banking loan portfolios consist of smaller-balance, homogeneous loans. The consumer banking loan portfolio is divided into two primary portfolio segments: auto loans and retail banking loans. The credit card and consumer banking loan portfolios are further divided by our business units into groups based on common risk characteristics, such as origination year, contract type, interest rate, borrower credit score and geography. The commercial banking loan portfolio is primarily composed of larger-balance, non-homogeneous loans. These loans are subject to reviews that result in internal risk ratings. In assessing the risk rating of a particular commercial banking loan, among the factors we consider are the financial condition of the borrower, geography, collateral performance, historical loss experience and industry-specific information that management believes is relevant in determining and measuring expected credit losses. Subjective assessment and interpretation are involved. Emphasizing one factor over another or considering additional factors could impact the risk rating assigned to that commercial banking loan.

For consumer banking and commercial banking loans, the contractual period typically does not include renewals or extensions because the renewals and extensions are generally not at the borrower's exclusive option to exercise. Management has determined that the undrawn credit exposure that is associated with our credit card loans is unconditionally cancellable. For this reason, expected credit losses are measured based on the drawn balance at each quarterly measurement date, but not on the undrawn exposure. Because credit card loans do not have a defined contractual life, management estimates both the volume and application of payments to determine a contractual life of the drawn balance at the measurement date over which expected credit losses are developed for credit card loans.

With the exception of credit card loans, we have made a policy election to not measure an allowance on accrued interest for loans held for investment because we reverse uncollectible accrued interest in a timely manner. See the “Delinquent and Nonperforming Loans” and “Charge-Offs - Loans” sections of this Note for information on what we consider timely. For credit card loans, we do not make this election, as we reserve for uncollectible accrued interest relating to credit card loans in the allowance.

The allowance related to credit card and consumer banking loans assessed on a pooled basis is based on a modeled calculation, which is supplemented by management judgment as described above. Because of the homogeneous nature of our consumer loan portfolios, the allowance is based on the aggregated portfolio segment evaluations. The allowance is established through a process that begins with estimates of historical losses in each pool based upon various statistical analyses, with adjustments for current conditions and reasonable and supportable forecasts of conditions, which includes expected economic conditions. Loss forecast models are utilized to estimate expected credit losses and consider several portfolio indicators including, but not limited to, expected economic conditions, historical loss experience, account seasoning, the value of collateral underlying secured loans, estimated foreclosures or defaults based on observable trends, delinquencies, bankruptcy filings, unemployment, borrower credit scores and general business trends. Management believes these factors are relevant in estimating expected credit losses and also considers an evaluation of overall portfolio credit quality based on indicators such as changes in our credit evaluation, underwriting and collection management policies, the effect of other external factors such as competition and legal and regulatory requirements, general economic conditions and business trends, and uncertainties in forecasting and modeling techniques used in estimating our allowance.

The allowance related to commercial banking loans assessed on a pooled basis is based on our historical loss experience for loans with similar risk characteristics and consideration of the current credit quality of the portfolio, which is supplemented by management judgment as described above. These are adjusted for current conditions, and reasonable and supportable forecasts of conditions likely to cause future losses which vary from historical levels. We apply internal risk ratings to commercial banking loans, which we use to assess credit quality and derive a total loss estimate based on an estimated probability of default (“default rate”) and loss given default (“loss severity”). Management may also apply judgment to adjust the loss factors derived, taking into consideration both quantitative and qualitative factors, including general economic conditions, industry-specific and geographic trends, portfolio concentrations, trends in internal credit quality indicators, and current and past underwriting standards that have occurred but are not yet reflected in the historical data underlying our loss estimates.

The allowance related to smaller-balance homogeneous credit card and consumer banking loans whose terms have been modified in a TDR is calculated on a pool basis using historical loss experience, adjusted for current conditions and reasonable and supportable forecasts of conditions likely to cause future losses which vary from historical levels for the respective class of assets. The allowance related to consumer banking loans that are assessed at a loan-level is determined based on key considerations that include the borrower’s overall financial condition, resources and payment history, prospects for support from financially responsible guarantors, and when applicable, the estimated realizable value of any collateral. The allowance related to commercial banking loans that are assessed at a loan-level is generally determined in accordance with our policy for estimating expected credit losses for collateral-dependent loans as described above.

Off-balance sheet credit exposures

In addition to the allowance, we also measure expected credit losses related to unfunded lending commitments that are not unconditionally cancellable in our Commercial Banking business. This reserve is measured using the same measurement objectives as the allowance for loans held for investment and is recorded within other liabilities on our consolidated balance sheets. These commitments are segregated by risk according to our internal risk rating scale, which we use to assess credit quality and derive an expected credit loss estimate. We assess these risk classifications, taking into consideration both quantitative and qualitative factors, including historical loss experience, adjusted for current conditions and reasonable and supportable forecasts of conditions likely to cause future losses which vary from historical levels, and utilization assumptions to estimate the reserve for unfunded lending commitments. Expected credit losses are not measured on unfunded lending commitments that are unconditionally cancellable, including all of our unfunded credit card and consumer banking lending commitments and certain of our unfunded commercial banking lending commitments.

Determining the appropriateness of the allowance and the reserve for unfunded lending commitments is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the reserve for unfunded lending commitments in future periods. See "Note 4—Allowance for Credit Losses and Reserve for Unfunded Lending Commitments" for additional information.

Significant Accounting Policies Prior to our Adoption of the CECL Standard

Loans Held for Investment - Estimate of Incurred Loan and Lease Losses

In periods prior to 2020, the allowance represented management's current estimate of incurred loan and lease losses inherent in our loans held for investment portfolio as of each balance sheet date. The provision for credit losses reflected credit losses we believed had been incurred and would eventually be recognized over time through charge-offs.

Management performed a quarterly analysis of our loan portfolio to determine if impairment had occurred and to assess the adequacy of the allowance based on historical and current trends as well as other factors affecting credit losses. We applied documented systematic methodologies to separately calculate the allowance for our credit card, consumer banking and commercial banking loan portfolios. Our allowance for loan and lease losses consisted of three components that were allocated to cover the estimated probable losses in each loan portfolio based on the results of our detailed review and loan impairment assessment process: (i) a component for loans collectively evaluated for impairment; (ii) an asset-specific component for individually impaired loans; and (iii) a component related to PCI loans that experienced significant decreases in expected cash flows subsequent to acquisition. Each of our allowance components was supplemented by an amount that represented management's qualitative judgment of the imprecision and risks inherent in the processes and assumptions used in establishing the allowance.

The component of the allowance related to credit card and consumer banking loans that we collectively evaluated for impairment was based on a statistical calculation. The component of the allowance for commercial banking loans that we collectively evaluated for impairment was based on our historical loss experience for loans with similar risk characteristics and consideration of the current credit quality of the portfolio. The asset-specific component of the allowance includes smaller-balance homogeneous credit card and consumer banking loans whose terms have been modified in a TDR and larger-balance nonperforming, non-homogeneous commercial banking loans. We generally measured the asset-specific component of the allowance based on the difference between the recorded investment of individually impaired loans and the present value of expected future cash flows. In addition to the allowance, we also estimated probable losses related to contractually binding unfunded lending commitments.

Loans Acquired - Credit Impaired

For PCI loans, we aggregated loans acquired in the same fiscal quarter into one or more pools if the loans have common risk characteristics. A pool is then accounted for as a single asset, with a single composite interest rate and an aggregate fair value and expected cash flows.

Subsequent to acquisition, decreases in expected cash flows resulting from credit deterioration subsequent to acquisition generally resulted in an impairment charge recognized in our provision for credit losses and an increase in the allowance for loan and lease losses. Significant increases in the cash flows expected to be collected would first reduce any previously recorded allowance for loan and lease losses. See "Note 3—Loans" for additional information.

We recorded charge-offs on PCI loans only if actual losses exceed estimated credit losses incorporated into the fair value recorded at acquisition. Further, PCI loans are not classified as delinquent or nonperforming.

Securitization of Loans

Our loan securitization activities primarily involve the securitization of credit card and auto loans, which provides a source of funding for us. See "Note 5—Variable Interest Entities and Securitizations" for additional details. Loan securitization involves the transfer of a pool of loan receivables from our portfolio to a trust. The trust then sells an undivided interest in the pool of loan receivables to third-party investors through the issuance of debt securities and transfers the proceeds from the debt issuance to us as consideration for the loan receivables transferred. The debt securities are collateralized by the loan receivables transferred from our portfolio. We remove loans from our consolidated balance sheets when securitizations qualify as sales to non-consolidated VIEs, recognize assets retained and liabilities assumed at fair value and record a gain or loss on the transferred loans. Alternatively, when the transfer does not qualify as a sale but instead is considered a secured borrowing, the assets will remain on our consolidated balance sheets with an offsetting liability recognized for the amount of proceeds received.

Premises, Equipment and Leases

Premises and Equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. Land is carried at cost. We capitalize direct costs incurred during the application development stage of internally developed software projects. Depreciation and amortization expenses are calculated using the straight-line method over the estimated useful lives of the assets. Useful lives for premises and equipment are estimated as follows:

Premises and Equipment	Useful Lives
Buildings and improvements	5-39 years
Furniture and equipment	3-10 years
Computer software	3 years
Leasehold improvements	Lesser of the useful life or the remaining lease term

Expenditures for maintenance and repairs are expensed as incurred and gains or losses upon disposition are recognized in our consolidated statements of income as realized. See “Note 7—Premises, Equipment and Leases” for additional information.

Leases

Lease classification is determined at inception for all lease transactions with an initial term greater than one year. Operating leases are included as right-of-use (“ROU”) assets within other assets, and operating lease liabilities are classified as other liabilities on our consolidated balance sheets. Finance leases are included in premises and equipment, and other borrowings on our consolidated balance sheets. Our operating lease expense is included in occupancy and equipment within non-interest expense in our consolidated statements of income. Lease expense for minimum lease payments are recognized on a straight-line basis over the lease term. See “Note 7—Premises, Equipment and Leases” for additional information.

Goodwill and Intangible Assets

Goodwill represents the excess of the acquisition price of an acquired business over the fair value of assets acquired and liabilities assumed and is assigned to one or more reporting units at the date of acquisition. A reporting unit is defined as an operating segment, or a business unit that is one level below an operating segment. We have four reporting units: Credit Card, Auto, Other Consumer Banking and Commercial Banking. Goodwill is not amortized but is tested for impairment at the reporting unit level annually or more frequently if adverse circumstances indicate that it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. These indicators could include a sustained, significant decline in the Company’s stock price, a decline in expected future cash flows, significant disposition activity, a significant adverse change in the economic or business environment, and the testing for recoverability of a significant asset group, among others.

Intangible assets with finite useful lives are amortized on either an accelerated or straight-line basis over their estimated useful lives and are evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. See “Note 6—Goodwill and Intangible Assets” for additional information.

Mortgage Servicing Rights

Mortgage servicing rights (“MSRs”) are initially recorded at fair value when mortgage loans are sold or securitized in the secondary market and the right to service these loans is retained for a fee. Commercial MSRs are subsequently accounted for under the amortization method. We evaluate for impairment as of each reporting date and recognize any impairment in other non-interest income. See “Note 6—Goodwill and Intangible Assets” for additional information.

Foreclosed Property and Repossessed Assets

Foreclosed property and repossessed assets obtained through our lending activities typically include commercial real estate or personal property, such as automobiles, and are recorded at net realizable value. For foreclosed property and repossessed assets, we generally reclassify the loan to repossessed assets upon repossession of the property in satisfaction of the loan. Net realizable value is the estimated fair value of the underlying collateral less estimated selling costs and is based on appraisals, when available. Subsequent to initial recognition, foreclosed property and repossessed assets are recorded at the lower of our initial cost basis or net realizable value, which is routinely monitored and updated. Any changes in net realizable value and gains or losses realized from disposition of the property are recorded in other non-interest expense. See "Note 16—Fair Value Measurement" for details.

Restricted Equity Investments

We have investments in Federal Home Loan Banks ("FHLB") stock and in the Board of Governors of the Federal Reserve System ("Federal Reserve") stock. These investments, which are included in other assets on our consolidated balance sheets, are not marketable, are carried at cost, and are reviewed for impairment if there is any indicator of impairment.

Litigation

We establish reserves for litigation-related matters, including mortgage representation and warranty 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. Professional service fees, including lawyers' and experts' fees, expected to be incurred in connection with a loss contingency are expensed as services are provided. See "Note 18—Commitments, Contingencies, Guarantees and Others" for additional information.

Customer Rewards Reserve

We offer products, primarily credit cards, which include programs that allow members to earn rewards based on account activity that can be redeemed for cash (primarily in the form of statement credits), gift cards, travel, or covering eligible charges. The amount of reward that a customer earns varies based on the terms and conditions of the rewards program and product. When rewards are earned by a customer, rewards expense is generally recorded as an offset to interchange income, with a corresponding increase to the customer rewards reserve. The customer rewards reserve is computed based on the estimated future cost of earned rewards that are expected to be redeemed and is reduced as rewards are redeemed. In estimating the customer rewards reserve, we consider historical redemption and spending behavior, as well as the terms and conditions of the current rewards programs, among other factors. We expect the vast majority of all rewards earned will eventually be redeemed. The customer rewards reserve, which is included in other liabilities on our consolidated balance sheets, totaled $5.4 billion and $4.7 billion as of December 31, 2020 and 2019, respectively.

Revenue Recognition

Interest Income and Fees

Interest income and fees on loans and investment securities are recognized based on the contractual provisions of the underlying arrangements.

Loan origination fees and costs and premiums and discounts on loans held for investment are deferred and generally amortized into interest income as yield adjustments over the contractual life and/or commitment period using the effective interest method. Costs deferred include direct origination costs such as bounties paid to third parties for new accounts and incentives paid to our network of auto dealers for loan referrals. In certain circumstances, we elect to factor prepayment estimates into the calculation of the constant effective yield necessary to apply the interest method. Prepayment estimates are based on historical prepayment data, existing and forecasted interest rates, and economic data. For credit card loans, loan origination fees and direct loan origination costs are amortized on a straight-line basis over a 12-month period.

Unamortized premiums, discounts and other basis adjustments on investment securities are generally recognized in interest income over the contractual lives of the securities using the effective interest method. However, premiums for certain callable investment securities are amortized to the earliest call date.

Finance charges and fees on credit card loans are recorded in revenue when earned. Billed finance charges and fees on credit card loans are included in loan receivables. Unbilled finance charges and fees on credit card loans are included in interest receivable on our consolidated balance sheets. Annual membership fees are classified as service charges and other customer-related fees in our consolidated statements of income and are deferred and amortized into income over 12 months on a straight-line basis. We continue to accrue finance charges and fees on credit card loans until the account is charged off.

Interchange Income

Interchange income generally represents fees for standing ready to authorize and providing settlement on credit and debit card transactions processed through the MasterCard® ("MasterCard") and Visa® ("Visa") interchange networks. The levels and structure of interchange rates set by MasterCard and Visa and can vary based on cardholder purchase volumes, among other factors. We recognize interchange income upon settlement. See "Note 17—Business Segments and Revenue from Contracts with Customers" for additional details.

Card Partnership Agreements

We have contractual agreements with certain retailers and other partners to provide lending and other services to mutual customers. We primarily issue private-label and cobrand credit card loans to these customers over the term of the partnership agreements, which typically range from two years to ten years.

Certain partners assist in or perform marketing activities on our behalf and promote our products and services to their customers. As compensation for providing these services, we often pay royalties, bounties or other special bonuses to these partners. Depending upon the nature of the payments, they are recorded as reductions of revenue, marketing expenses or other operating expenses. Our credit card partnership agreements may also provide for profit or revenue sharing payments which are presented as a reduction of the related revenue line item(s) when owed to the partner.

When a partner agrees to share a portion of the credit losses associated with the partnership, we evaluate the contractual provisions for the loss share payments as well as applicable accounting guidance to determine whether to present the sharing of losses on a gross or net basis in our consolidated financial statements. When loss sharing amounts due from partners are presented on a net basis, they are recorded as a reduction to our provision for credit losses in our consolidated statements of income and reduce the charge-off amounts that we report. The allowance for credit losses attributable to these portfolios is also reduced by the expected reimbursements from these partners for loss sharing amounts. See "Note 4—Allowance for Credit Losses and Reserve for Unfunded Lending Commitments" for additional information related to our loss sharing arrangements. For loss sharing arrangements presented on a gross basis, any loss share payments due from the partner are recorded as a part of revenue, and the allowance for credit losses is not reduced by the expected loss share reimbursements, but rather an indemnification asset is recorded. Our consolidated net income is the same regardless of how revenue and loss sharing arrangements are reported.

Collaborative Arrangements

A collaborative arrangement is a contractual arrangement that involves a joint operating activity between two or more parties that are active participants in the activity. These parties are exposed to significant risks and rewards based upon the economic success of the joint operating activity. We assess each of our partnership agreements with profit, revenue or loss sharing payments to determine if a collaborative arrangement exists and, if so, how revenue generated from third parties, costs incurred and transactions between participants in the collaborative arrangement should be accounted for and reported on our consolidated financial statements.

We currently have one partnership agreement that meets the definition of a collaborative agreement. We share a fixed percentage of revenues, consisting of finance charges and late fees, with the partner, and the partner is required to reimburse us for a fixed percentage of credit losses incurred. Revenues and losses related to the partner's credit card program and partnership agreement are reported on a net basis in our consolidated financial statements. Revenue sharing amounts attributable to the partner are recorded as an offset against total net revenue in our consolidated statements of income. Interest income was reduced by $1.1 billion, $1.0 billion and $1.3 billion in December 31, 2020, 2019 and 2018, respectively, for amounts earned by the partner pursuant to the partnership agreement. The impact of all of our loss sharing arrangements that are presented on a net basis is included in "Note 4—Allowance for Credit Losses and Reserve for Unfunded Lending Commitments."

Stock-Based Compensation

We are authorized to issue stock–based compensation to employees and directors in various forms, primarily as restricted stock units ("RSUs"), performance share units and stock options. In addition, we also issue cash equity units and cash-settled restricted stock units which are not counted against the common shares reserved for issuance or available for issuance because they are settled in cash.

For awards settled in shares, we generally recognize compensation expense on a straight-line basis over the award's requisite service period based on the fair value of the award at the grant date. If an award settled in shares contains a performance condition with graded vesting, we recognize compensation expense using the accelerated attribution method. Equity units and restricted stock units that are cash-settled are accounted for as liability awards which results in quarterly expense fluctuations based on changes in our stock price through the date that the awards are settled. Awards that continue to vest after retirement are expensed over the shorter of the time period between the grant date and the final vesting period or between the grant date and when the participant becomes retirement eligible. Awards to participants who are retirement eligible at the grant date are subject to immediate expense recognition. Stock-based compensation expense is included in salaries and associate benefits in the consolidated statements of income.

For RSUs and performance share units, the fair value of stock-based compensation used in determining compensation expense will generally equal the fair market value of our common stock on the date of grant. Stock-based compensation expense for equity classified stock options is based on the grant date fair value, which is estimated using a Black-Scholes option pricing model. Certain share-settled awards have discretionary vesting conditions which result in the remeasurement of these awards at fair value each reporting period and the potential for compensation expense to fluctuate with changes in our stock price. See "Note 13—Stock-Based Compensation Plans" for additional details.

Marketing Expenses

Marketing expense includes the cost of our various promotional efforts to attract and retain customers such as advertising, promotional materials, and certain customer incentives. We expense marketing costs as incurred.

Income Taxes

We recognize the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. Current income tax expense represents our estimated taxes to be paid or refunded for the current period and includes income tax expense related to our uncertain tax positions, as well as tax-related interest and penalties. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. We record the effect of remeasuring deferred tax assets and liabilities due to a change in tax rates or laws as a component of income tax expense related to continuing operations for the period in which the change is enacted. We subsequently release income tax effects stranded in AOCI using a portfolio approach. Income tax benefits are recognized when, based on their technical merits, they are more likely than not to be sustained upon examination. The amount recognized is the largest amount of benefit that is more likely than not to be realized upon settlement. See "Note 15—Income Taxes" for additional details.

Earnings Per Share

Earnings per share is calculated and reported under the "two-class" method. The "two-class" method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared or accumulated and participation rights in undistributed earnings as if all such earnings had been distributed during the period. We have unvested share-based payment awards which have a right to receive non-forfeitable dividends, which are deemed to be participating securities.

We calculate basic earnings per share by dividing net income, after deducting dividends on preferred stock and participating securities as well as undistributed earnings allocated to participating securities, by the average number of common shares outstanding during the period, net of any treasury shares. We calculate diluted earnings per share in a similar manner after consideration of the potential dilutive effect of common stock equivalents on the average number of common shares outstanding during the period. Common stock equivalents include warrants, stock options, restricted stock awards and units, and performance share awards and units. Common stock equivalents are calculated based upon the treasury stock method using an average market price of common shares during the period. Dilution is not considered when a net loss is reported. Common stock equivalents that have an antidilutive effect are excluded from the computation of diluted earnings per share. See "Note 12—Earnings Per Common Share" for additional details.

Derivative Instruments and Hedging Activities

All derivative financial instruments, whether designated for hedge accounting or not, are reported at their fair value on our consolidated balance sheets as either assets or liabilities, with consideration of legally enforceable master netting arrangements that allow us to net settle positive and negative positions and offset cash collateral with the same counterparty. We report net derivatives in a gain position, or derivative assets, on our consolidated balance sheets as a component of other assets. We report net derivatives in a loss position, or derivative liabilities, on our consolidated balance sheets as a component of other liabilities. See "Note 9—Derivative Instruments and Hedging Activities" for additional details.

Fair Value

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 whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Fair value measurement of a financial asset or liability is assigned to 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 requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. The accounting guidance also 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 to fair value in the consolidated statements of income. See "Note 16—Fair Value Measurement" for additional information.

Accounting for Acquisitions

We account for business combinations under the acquisition method of accounting. Under the acquisition method, tangible and intangible identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree are recorded at fair value as of the acquisition date, with limited exceptions. Transaction costs and costs to restructure the acquired company are expensed as incurred. Goodwill is recognized as the excess of the acquisition price over the estimated fair value of the identifiable net assets acquired. Likewise, if the fair value of the net assets acquired is greater than the acquisition price, a bargain purchase gain is recognized and recorded in other non-interest income.

If the acquired set of activities and assets do not meet the accounting definition of a business, the transaction is accounted for as an asset acquisition. In an asset acquisition, the assets acquired are recorded at the purchase price plus any transaction costs incurred and no goodwill is recognized.

Accounting Standards Adopted During the Twelve Months Ended December 31, 2020

Standard	Guidance	Adoption Timing and Financial Statement Impacts
Cloud Computing ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* *Issued August 2018*	Aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).	We adopted this guidance in the first quarter of 2020 using the prospective method of adoption. Our adoption of this standard did not have a material impact on our consolidated financial statements.
Goodwill Impairment Test Simplification ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): *Simplifying the Test for Goodwill Impairment* *Issued January 2017*	Historical guidance for goodwill impairment testing prescribed that the company must compare each reporting unit's carrying value to its fair value. If the carrying value exceeds fair value, an entity performs the second step, which assigns the reporting unit's fair value to its assets and liabilities, including unrecognized assets and liabilities, in the same manner as required in purchase accounting and then records an impairment. This ASU eliminates the second step. Under the new guidance, an impairment of a reporting unit's goodwill is determined based on the amount by which the reporting unit's carrying value exceeds its fair value, limited to the amount of goodwill allocated to the reporting unit.	We adopted this guidance in the first quarter of 2020 using the prospective method of adoption. Our adoption of this standard did not have a material impact on our consolidated financial statements.
Current Expected Credit Loss ("CECL") ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments* *Issued June 2016*	Requires use of the current expected credit loss model that is based on expected losses (net of expected recoveries), rather than incurred losses, to determine our allowance for credit losses on financial assets measured at amortized cost, certain net investments in leases and certain off-balance sheet arrangements. Replaces current accounting for purchased credit-impaired ("PCI") and impaired loans. Amends the other-than-temporary impairment model for available for sale debt securities. The new guidance requires that credit losses be recorded through an allowance approach, rather than through permanent write-downs for credit losses and subsequent accretion of positive changes through interest income over time.	We adopted this guidance in the first quarter of 2020, using the modified retrospective method of adoption. Upon adoption, we recorded an increase to our reserves for credit losses of $2.9 billion, an increase to our deferred tax assets of $694 million, and a decrease to our retained earnings of $2.2 billion. Additionally, we made a prospective change to present our finance charge and fee reserve as a component of our allowance for credit losses instead of as an offset to our loans held for investment. This balance sheet reclassification increased our allowance for credit losses by $462 million as of January 1, 2020, with a corresponding increase to our loans held for investment.
Reference Rate Reform ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effect of Reference Rate Reform on Financial Reporting *Issued March 2020*	The amendments in this ASU provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met.	This ASU is effective from March 12, 2020 through December 31, 2022 with early adoption as of January 1, 2020 permitted. We adopted certain provisions related to derivative contract modifications and hedge accounting in this guidance in the fourth quarter of 2020, using the prospective method of adoption. The early adoption of the expedients in the guidance eased the administrative burden of accounting for London Interbank Offering Rate ("LIBOR") related contract modifications. 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 December 31, 2020 and 2019.

In the first quarter of 2020, we adopted the CECL standard which resulted in an increase of the amortized cost basis and related allowance for credit losses of PCD securities classified as available for sale. The allowance for credit losses for these PCD securities is limited to the amount by which the amortized cost basis of the security exceeds its fair value. This limitation resulted in an increase of $11 million to our retained earnings with a corresponding decrease in AOCI at adoption. Our disclosures below reflect these adoption changes. Prior period presentation was not reclassified to conform to the current period presentation. See "Note 1—Summary of Significant Accounting Policies" for additional information.

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale as of December 31, 2020 and 2019. Accrued interest receivable of $230 million as of December 31, 2020 is not included in the below table.

Table 2.1: Investment Securities Available for Sale

	December 31, 2020				
(Dollars in millions)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale:					
U.S. Treasury securities	**$ 9,302**	**$ 0**	**$ 16**	**$ 0**	**$ 9,318**
RMBS:					
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[(1)]	**2,686**	**0**	**3**	**0**	**2,689**
Total investment securities available for sale	**$ 97,569**	**$ (1)**	**$ 2,997**	**$ (120)**	**$ 100,445**

	December 31, 2019			
(Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	$ 4,122	$ 6	$ (4)	$ 4,124
RMBS:				
Agency	62,003	1,120	(284)	62,839
Non-agency	1,235	266	(2)	1,499
Total RMBS	63,238	1,386	(286)	64,338
Agency CMBS	9,303	165	(42)	9,426
Other securities[(1)]	1,321	4	0	1,325
Total investment securities available for sale	$ 77,984	$ 1,561	$ (332)	$ 79,213

(1) Includes $1.8 billion and $117 million of asset-backed securities ("ABS") as of December 31, 2020, and 2019, 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 December 31, 2020 and 2019. The amounts as of December 31, 2020 only include securities available for sale without an allowance for credit losses.

Table 2.2: Securities in a Gross Unrealized Loss Position

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

	December 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
U.S. Treasury securities	$ 2,647	$ (4)	$ 0	$ 0	$ 2,647	$ (4)
RMBS:						
Agency	10,494	(92)	10,567	(192)	21,061	(284)
Non-agency	35	(1)	16	(1)	51	(2)
Total RMBS	10,529	(93)	10,583	(193)	21,112	(286)
Agency CMBS	2,580	(23)	1,563	(19)	4,143	(42)
Other securities[1]	126	0	106	0	232	0
Total investment securities available for sale in a gross unrealized loss position	$ 15,882	$ (120)	$ 12,252	$ (212)	$ 28,134	$ (332)

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

(2) Consists of approximately 320 securities in gross unrealized loss positions as of December 31, 2020.

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 December 31, 2020. 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

	December 31, 2020				
(Dollars in millions)	Due in 1 Year or Less	Due > 1 Year through 5 Years	Due > 5 Years through 10 Years	Due > 10 Years	Total
Fair value of securities available for sale:					
U.S. Treasury securities	**$ 202**	**$ 9,116**	**$ 0**	**$ 0**	**$ 9,318**
RMBS[1]:					
Agency	**0**	**65**	**1,175**	**74,226**	**75,466**
Non-agency	**0**	**0**	**0**	**1,237**	**1,237**
Total RMBS	**0**	**65**	**1,175**	**75,463**	**76,703**
Agency CMBS[1]	**90**	**2,896**	**5,645**	**3,104**	**11,735**
Other securities	**340**	**2,073**	**276**	**0**	**2,689**
Total securities available for sale	**$ 632**	**$ 14,150**	**$ 7,096**	**$ 78,567**	**$ 100,445**
Amortized cost of securities available for sale	**$ 628**	**$ 14,091**	**$ 6,860**	**$ 75,990**	**$ 97,569**
Weighted-average yield for securities available for sale	**1.43 %**	**0.74 %**	**1.76 %**	**2.20 %**	**1.96 %**

(1) As of December 31, 2020, the weighted-average expected maturities of RMBS and Agency CMBS are 4.0 years and 5.6 years, respectively.

Net Securities Gains or Losses and Proceeds from Sales

The following table presents the gross realized gains or losses and proceeds from the sale of securities available for sale for the years ended December 31, 2020, 2019 and 2018. We did not sell any investment securities that were classified as held to maturity in those periods where we had securities in that classification.

Table 2.4: Realized Gains and Losses on Securities

	Year Ended December 31,		
(Dollars in millions)	2020	2019	2018
Realized gains (losses):			
Gross realized gains	**$ 25**	$ 44	$ 13
Gross realized losses	**0**	(18)	(21)
Net realized gains (losses)	**$ 25**	$ 26	$ (8)
Total proceeds from sales	**$ 812**	$ 4,780	$ 6,399

Securities Pledged and Received

We pledged investment securities totaling $16.5 billion and $14.0 billion as of December 31, 2020 and 2019, 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 December 31, 2020 and 2019, 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. We sold all of our consumer home loan portfolio and the related servicing during 2018. 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.

In the first quarter of 2020, we adopted the CECL standard. Accordingly, our disclosures below reflect these adoption changes. Prior period presentation was not modified to conform to the current period presentation. See "Note 1—Summary of Significant Accounting Policies" for additional information. Amounts as of December 31, 2020 include the impacts of COVID-19 customer assistance programs where applicable.

Accrued interest receivable of $1.2 billion as of 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 December 31, 2020 and 2019. The delinquency aging includes all past due loans, both performing and nonperforming.

Table 3.1: Loan Portfolio Composition and Aging Analysis

	December 31, 2020					
		Delinquent Loans				
(Dollars in millions)	**Current**	**30-59 Days**	**60-89 Days**	**≥ 90 Days**	**Total Delinquent Loans**	**Total Loans**
Credit Card:						
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
Consumer Banking:						
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
Commercial Banking:						
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
Total loans[(1)]	$ 245,060	$ 3,330	$ 1,485	$ 1,749	$ 6,564	$ 251,624
% of Total loans	97.4 %	1.3 %	0.6 %	0.7 %	2.6 %	100.0 %

	December 31, 2019						
		Delinquent Loans					
(Dollars in millions)	Current	30-59 Days	60-89 Days	≥ 90 Days	Total Delinquent Loans	PCI Loans	Total Loans
Credit Card:							
Domestic credit card	$ 113,857	$ 1,341	$ 1,038	$ 2,277	$ 4,656	$ 93	$ 118,606
International card businesses	9,277	133	84	136	353	0	9,630
Total credit card	123,134	1,474	1,122	2,413	5,009	93	128,236
Consumer Banking:							
Auto	55,778	2,828	1,361	395	4,584	0	60,362
Retail banking	2,658	24	8	11	43	2	2,703
Total consumer banking	58,436	2,852	1,369	406	4,627	2	63,065
Commercial Banking:							
Commercial and multifamily real estate	30,157	43	20	4	67	21	30,245
Commercial and industrial	44,009	75	26	143	244	10	44,263
Total commercial banking	74,166	118	46	147	311	31	74,508
Total loans[1]	$ 255,736	$ 4,444	$ 2,537	$ 2,966	$ 9,947	$ 126	$ 265,809
% of Total loans	96.2 %	1.6 %	1.0 %	1.1 %	3.7 %	0.1 %	100.0 %

[1] Loans include unamortized premiums and discounts, and unamortized deferred fees and costs totaling $1.1 billion as of both December 31, 2020 and 2019.

The following table presents our loans held for investment that are 90 days or more past due that continue to accrue interest and loans that are classified as nonperforming as of December 31, 2020 and 2019. We also present nonperforming loans without an allowance as of 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

	December 31, 2020			December 31, 2019	
(Dollars in millions)	≥ 90 Days and Accruing	Nonperforming Loans[1]	Nonperforming Loans Without an Allowance	≥ 90 Days and Accruing	Nonperforming Loans
Credit Card:					
Domestic credit card	**$ 1,169**	**N/A**	**$ 0**	$ 2,277	N/A
International card businesses	**82**	**$ 21**	**0**	130	$ 25
Total credit card	**1,251**	**21**	**0**	2,407	25
Consumer Banking:					
Auto	**0**	**294**	**0**	0	487
Retail banking	**0**	**30**	**0**	0	23
Total consumer banking	**0**	**324**	**0**	0	510
Commercial Banking:					
Commercial and multifamily real estate	**51**	**200**	**184**	0	38
Commercial and industrial	**0**	**450**	**265**	0	410
Total commercial banking	**51**	**650**	**449**	0	448
Total	**$ 1,302**	**$ 995**	**$ 449**	$ 2,407	$ 983
% of Total loans held for investment	**0.5 %**	**0.4 %**	**0.2 %**	0.9 %	0.4 %

[1] We recognized interest income for loans classified as nonperforming of $39 million for the year ended December 31, 2020.

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 December 31, 2020.

Table 3.3: Credit Card Delinquency Status

	December 31, 2020		
(Dollars in millions)	Revolving Loans	Revolving Loans Converted to Term	Total
Credit Card:			
Domestic credit card:			
Current	$ 95,629	$ 487	$ 96,116
30-59 days	734	21	755
60-89 days	451	13	464
Greater than 90 days	1,155	14	1,169
Total domestic credit card	97,969	535	98,504
International card businesses:			
Current	8,152	66	8,218
30-59 days	79	11	90
60-89 days	47	11	58
Greater than 90 days	76	10	86
Total international card businesses	8,354	98	8,452
Total credit card	$ 106,323	$ 633	$ 106,956

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 December 31, 2020 and 2019. 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

	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	December 31, 2019
Auto—At origination FICO scores:[1]											
Greater than 660	**$ 13,352**	**$ 8,091**	**$ 4,675**	**$ 2,810**	**$ 1,168**	**$ 203**	**$ 30,299**	**$ 0**	**$ 0**	**$ 30,299**	$ 28,773
621-660	**5,781**	**3,631**	**2,003**	**1,172**	**488**	**109**	**13,184**	**0**	**0**	**13,184**	11,924
620 or below	**9,550**	**6,298**	**3,317**	**1,985**	**886**	**243**	**22,279**	**0**	**0**	**22,279**	19,665
Total auto	**28,683**	**18,020**	**9,995**	**5,967**	**2,542**	**555**	**65,762**	**0**	**0**	**65,762**	60,362
Retail banking—Delinquency status:											
Current	**1,041**	**233**	**206**	**222**	**167**	**537**	**2,406**	**651**	**7**	**3,064**	2,658
30-59 days	**0**	**0**	**7**	**1**	**2**	**2**	**12**	**15**	**1**	**28**	24
60-89 days	**0**	**0**	**1**	**0**	**5**	**4**	**10**	**8**	**1**	**19**	8
Greater than 90 days	**0**	**0**	**0**	**1**	**1**	**4**	**6**	**9**	**0**	**15**	11
Total retail banking[2]	**1,041**	**233**	**214**	**224**	**175**	**547**	**2,434**	**683**	**9**	**3,126**	2,701
Total consumer banking	**$ 29,724**	**$ 18,253**	**$ 10,209**	**$ 6,191**	**$ 2,717**	**$ 1,102**	**$ 68,196**	**$ 683**	**$ 9**	**$ 68,888**	$ 63,063

(1) 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.

(2) Includes Paycheck Protection Program ("PPP") loans of $919 million as of December 31, 2020.

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 December 31, 2020 and 2019. The internal risk rating status includes all past due loans, both performing and nonperforming.

Table 3.5: Commercial Banking Portfolio by Internal Risk Ratings

	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
Internal risk rating:[1]										
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	4,111	5,389	3,777	1,798	2,043	6,312	23,430	7,226	25	30,681
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	10,151	8,792	4,589	3,020	1,947	3,249	31,748	13,229	122	45,099
Total commercial banking[2]	$ 14,262	$ 14,181	$ 8,366	$ 4,818	$ 3,990	$ 9,561	$ 55,178	$ 20,455	$ 147	$ 75,780

	December 31, 2019					
(Dollars in millions)	Commercial and Multifamily Real Estate	% of Total	Commercial and Industrial	% of Total	Total Commercial Banking	% of Total
Internal risk rating:[1]						
Noncriticized	$ 29,625	97.9 %	$ 42,223	95.4 %	$ 71,848	96.5 %
Criticized performing	561	1.9	1,620	3.7	2,181	2.9
Criticized nonperforming	38	0.1	410	0.9	448	0.6
PCI loans	21	0.1	10	0.0	31	0.0
Total	$ 30,245	100.0 %	$ 44,263	100.0 %	$ 74,508	100.0 %

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

(2) Includes PPP loans of $238 million as of December 31, 2020.

Revolving Loans Converted to Term Loans

For the year ended December 31, 2020, we converted $602 million of revolving loans to term loans, primarily in our domestic credit card and commercial banking loan portfolios.

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 TDR 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 December 31, 2020, 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 offered via our COVID-19 programs, 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 $2.1 billion and $1.7 billion as of December 31, 2020 and 2019, respectively. TDRs classified as performing in our credit card and consumer banking loan portfolios totaled $1.3 billion and $1.1 billion as of December 31, 2020 and 2019, respectively. TDRs classified as performing in our commercial banking loan portfolio totaled $442 million and $224 million as of December 31, 2020 and 2019, respectively. Commitments to lend additional funds on loans modified in TDRs totaled $173 million and $178 million as of December 31, 2020 and 2019, 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 years ended December 31, 2020, 2019 and 2018.

Table 3.6: Troubled Debt Restructurings

	Year Ended December 31, 2020						
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified[1]	% of TDR Activity[2]	Average Rate Reduction	% of TDR Activity[2]	Average Term Extension (Months)	% of TDR Activity[2]	Gross Balance Reduction
Credit Card:							
Domestic credit card	$ 243	100 %	15.94 %	0 %	0	0 %	$ 0
International card businesses	168	100	27.38	0	0	0	0
Total credit card	411	100	20.61	0	0	0	0
Consumer Banking:							
Auto	536	11	5.68	95	3	0	1
Retail banking	5	11	10.86	20	8	0	0
Total consumer banking	541	11	5.73	94	3	0	1
Commercial Banking:							
Commercial and multifamily real estate	98	0	0.00	86	5	0	0
Commercial and industrial	439	4	0.14	52	21	4	7
Total commercial banking	537	3	0.14	58	17	3	7
Total	$ 1,489	33	18.06	55	8	1	$ 8

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		Year Ended December 31, 2019					
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified[1]	% of TDR Activity[2]	Average Rate Reduction	% of TDR Activity[2]	Average Term Extension (Months)	% of TDR Activity[2]	Gross Balance Reduction
Credit Card:							
Domestic credit card	$ 351	100 %	16.60 %	0 %	0	0 %	$ 0
International card businesses	173	100	27.28	0	0	0	0
Total credit card	524	100	20.12	0	0	0	0
Consumer Banking:							
Auto	268	39	3.63	90	7	1	1
Retail banking	7	11	10.66	54	3	33	0
Total consumer banking	275	38	3.68	89	7	2	1
Commercial Banking:							
Commercial and multifamily real estate	39	87	0.00	13	1	0	0
Commercial and industrial	159	3	0.33	20	8	0	0
Total commercial lending	198	19	0.04	18	7	0	0
Small-ticket commercial real estate	1	0	0.00	0	0	0	0
Total commercial banking	199	19	0.04	18	7	0	0
Total	$ 998	67	16.37	28	7	0	$ 1

		Year Ended December 31, 2018					
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified[1]	% of TDR Activity[2]	Average Rate Reduction	% of TDR Activity[2]	Average Term Extension (Months)	% of TDR Activity[2]	Gross Balance Reduction
Credit Card:							
Domestic credit card	$ 412	100 %	15.93 %	0 %	0	0 %	$ 0
International card businesses	184	100	26.96	0	0	0	0
Total credit card	596	100	19.34	0	0	0	0
Consumer Banking:							
Auto[3]	227	49	3.88	89	8	1	1
Home loan	6	28	1.78	83	214	0	0
Retail banking	8	16	10.92	43	12	0	0
Total consumer banking	241	48	3.93	87	13	1	1
Commercial Banking:							
Commercial and multifamily real estate	43	0	0.00	80	5	0	0
Commercial and industrial	170	0	1.03	54	13	0	0
Total commercial lending	213	0	1.03	60	11	0	0
Small-ticket commercial real estate	3	0	0.00	0	0	0	0
Total commercial banking	216	0	1.03	59	11	0	0
Total	$ 1,053	68	16.84	32	12	0	$ 1

(1) 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.

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

(3) Includes certain TDRs that are recorded as other assets on our consolidated balance sheets.

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

	Year Ended December 31,					
	2020		2019		2018	
(Dollars in millions)	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
Credit Card:						
Domestic credit card	**32,639**	**$ 69**	47,086	$ 99	61,070	$ 126
International card businesses	**58,363**	**87**	69,470	110	61,014	106
Total credit card	**91,002**	**156**	116,556	209	122,084	232
Consumer Banking:						
Auto	**5,877**	**77**	5,575	70	6,980	79
Home loan	**0**	**0**	0	0	3	1
Retail banking	**10**	**1**	24	2	26	2
Total consumer banking	**5,887**	**78**	5,599	72	7,009	82
Commercial Banking:						
Commercial and multifamily real estate	**1**	**50**	0	0	1	3
Commercial and industrial	**15**	**130**	1	25	26	120
Total commercial banking	**16**	**180**	1	25	27	123
Total	**96,905**	**$ 414**	122,156	$ 306	129,120	$ 437

Loans Pledged

We pledged loan collateral of $14.1 billion and $14.6 billion to secure the majority of our FHLB borrowing capacity of $19.6 billion and $18.7 billion as of December 31, 2020 and 2019, respectively. We also pledged loan collateral of $25.5 billion and $6.7 billion to secure our Federal Reserve Discount Window borrowing capacity of $20.0 billion and $5.3 billion as of December 31, 2020 and 2019, 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.

Loans Held for Sale

Our total loans held for sale was $2.7 billion and $400 million as of December 31, 2020 and 2019, respectively. We originated for sale $10.0 billion, $9.0 billion and $8.7 billion of commercial multifamily real estate loans in 2020, 2019 and 2018, respectively. We retained servicing rights upon the sale of these loans.

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

In the first quarter of 2020, we adopted the CECL standard. Accordingly, our disclosures below reflect these adoption changes. Prior period presentation was not modified to conform to the current period presentation. See “Note 1—Summary of Significant Accounting Policies” for additional information.

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.

For credit card loans, accrued interest is charged off simultaneously with the charge off of other components of amortized cost as a reduction of revenue. Total net revenue was reduced by $1.1 billion in 2020 for finance charges and fees charged-off as uncollectible and by $1.4 billion and $1.3 billion in 2019 and 2018, respectively, for the estimated uncollectible amount of billed finance charges and fees and related 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.

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 years ended December 31, 2020, 2019 and 2018. The allowance balance as of December 31, 2020 reflects the cumulative effects from adoption of the CECL standard and the change to include finance charge and fee reserve in the allowance for credit losses. The reserve for unfunded lending commitments balance as of December 31, 2020 also reflects the cumulative effects from adoption of the CECL standard, including the component of loss sharing agreements with the government-sponsored enterprises (“GSEs”) on multifamily commercial real estate loans that are within the scope of the CECL standard. Our allowance for credit losses increased by $8.4 billion to $15.6 billion as of December 31, 2020 from 2019, primarily driven by the allowance builds in the first and second quarters of 2020 from expectations of economic worsening as a result of the COVID-19 pandemic as well as the adoption of the CECL standard in the first quarter of 2020.

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

(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:					
Balance as of December 31, 2017	$ 5,648	$ 1,242	$ 611	$ 1	$ 7,502
Charge-offs	(6,657)	(1,832)	(119)	(7)	(8,615)
Recoveries[2]	1,588	851	63	1	2,503
Net charge-offs	(5,069)	(981)	(56)	(6)	(6,112)
Provision (benefit) for loan and lease losses	4,984	841	82	(49)	5,858
Allowance build (release) for loan and lease losses	(85)	(140)	26	(55)	(254)
Other changes[1][3]	(28)	(54)	0	54	(28)
Balance as of December 31, 2018	5,535	1,048	637	0	7,220
Reserve for unfunded lending commitments:					
Balance as of December 31, 2017	0	7	117	0	124
Provision (benefit) for losses on unfunded lending commitments	0	(3)	1	0	(2)
Balance as of December 31, 2018	0	4	118	0	122
Combined allowance and reserve as of December 31, 2018	$ 5,535	$ 1,052	$ 755	$ 0	$ 7,342

(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Total
Allowance for loan and lease losses:				
Balance as of December 31, 2018	$ 5,535	$ 1,048	$ 637	$ 7,220
Charge-offs	(6,711)	(1,917)	(181)	(8,809)
Recoveries[2]	1,562	970	25	2,557
Net charge-offs	(5,149)	(947)	(156)	(6,252)
Provision for loan and lease losses	4,992	937	294	6,223
Allowance build (release) for loan and lease losses	(157)	(10)	138	(29)
Other changes[3]	17	0	0	17
Balance as of December 31, 2019	5,395	1,038	775	7,208
Reserve for unfunded lending commitments:				
Balance as of December 31, 2018	0	4	118	122
Provision for losses on unfunded lending commitments	0	1	12	13
Balance as of December 31, 2019	0	5	130	135
Combined allowance and reserve as of December 31, 2019	$ 5,395	$ 1,043	$ 905	$ 7,343
Allowance for credit losses:				
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[4]	**462**	**0**	**0**	**462**
Balance as of January 1, 2020	**8,098**	**1,540**	**877**	**10,515**
Charge-offs	**(5,749)**	**(1,534)**	**(394)**	**(7,677)**
Recoveries[2]	**1,479**	**956**	**17**	**2,452**
Net charge-offs	**(4,270)**	**(578)**	**(377)**	**(5,225)**
Provision for credit losses	**7,327**	**1,753**	**1,158**	**10,238**
Allowance build for credit losses[5]	**3,057**	**1,175**	**781**	**5,013**
Other changes[3]	**36**	**0**	**0**	**36**
Balance as of December 31, 2020	**11,191**	**2,715**	**1,658**	**15,564**
Reserve for unfunded lending commitments:				
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 for losses on unfunded lending commitments	**0**	**0**	**23**	**23**
Balance as of December 31, 2020	**0**	**0**	**195**	**195**
Combined allowance and reserve as of December 31, 2020	**$ 11,191**	**$ 2,715**	**$ 1,853**	**$ 15,759**

(1) In 2018, we sold all of our consumer home loan portfolio and recognized a gain of approximately $499 million in the Other category, including a benefit for credit losses of $46 million.

(2) 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.

(3) Represents foreign currency translation adjustments.

(4) 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.

(5) Includes an allowance release of $327 million for a partnership credit card loan portfolio transferred to held for sale in the third quarter of 2020.

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" for further discussion of our credit card partnership agreements.

The table below summarizes the changes in the estimated reimbursements from these partners for the years ended December 31, 2020, 2019 and 2018. Beginning in 2019, amounts below include the impacts of our loss sharing arrangement on the acquired Walmart portfolio.

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

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Estimated reimbursements from partners, beginning of period[1]	$ 2,166	$ 379	$ 380
Amounts due from partners which reduced net charge-offs	**(959)**	(600)	(382)
Amounts estimated to be charged to partners which reduced provision for credit losses	**952**	1,383	381
Estimated reimbursements from partners, end of period	**$ 2,159**	$ 1,162	$ 379

(1) Includes effects from adoption of the CECL standard in the first quarter of 2020.

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 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 variable interest, aggregated based on VIEs with similar characteristics as of December 31, 2020 and 2019. We separately present information for consolidated and unconsolidated VIEs.

Table 5.1: Carrying Amount of Consolidated and Unconsolidated VIEs

	December 31, 2020				
	Consolidated		Unconsolidated		
(Dollars in millions)	Carrying Amount of Assets	Carrying Amount of Liabilities	Carrying Amount of Assets	Carrying Amount of Liabilities	Maximum Exposure to Loss
Securitization-Related VIEs:					
Credit card loan securitizations[1]	$ 22,066	$ 10,338	$ 0	$ 0	$ 0
Auto loan securitizations	2,360	2,055	0	0	0
Home loan securitizations	0	0	55	0	305
Total securitization-related VIEs	24,426	12,393	55	0	305
Other VIEs:[2]					
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	$ 5,093	$ 1,240	$ 5,343

	December 31, 2019				
	Consolidated		Unconsolidated		
(Dollars in millions)	Carrying Amount of Assets	Carrying Amount of Liabilities	Carrying Amount of Assets	Carrying Amount of Liabilities	Maximum Exposure to Loss
Securitization-Related VIEs:					
Credit card loan securitizations[1]	$ 31,112	$ 16,113	$ 0	$ 0	$ 0
Auto loan securitizations	2,282	2,012	0	0	0
Home loan securitizations	0	0	66	0	352
Total securitization-related VIEs	33,394	18,125	66	0	352
Other VIEs:[2]					
Affordable housing entities	236	7	4,559	1,289	4,559
Entities that provide capital to low-income and rural communities	1,889	69	0	0	0
Other	0	0	502	0	502
Total other VIEs	2,125	76	5,061	1,289	5,061
Total VIEs	$ 35,519	$ 18,201	$ 5,127	$ 1,289	$ 5,413

(1) 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.

(2) 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 $2.3 billion of assets and $596 million of liabilities as of December 31, 2020, and $2.3 billion of assets and $741 million of liabilities as of December 31, 2019.

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 GSEs who may, in turn, securitize them. We retain the related 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 December 31, 2020 and 2019.

Table 5.2: Continuing Involvement in Securitization-Related VIEs

(Dollars in millions)	Credit Card	Auto	Mortgages
December 31, 2020:			
Securities held by third-party investors	**$ 10,361**	**$ 2,053**	**$ 790**
Receivables in the trust	**23,683**	**2,243**	**793**
Cash balance of spread or reserve accounts	**0**	**10**	**15**
Retained interests	**Yes**	**Yes**	**Yes**
Servicing retained	**Yes**	**Yes**	**No**
December 31, 2019:			
Securities held by third-party investors	$ 15,798	$ 2,010	$ 962
Receivables in the trust	31,625	2,192	978
Cash balance of spread or reserve accounts	0	7	17
Retained interests	Yes	Yes	Yes
Servicing retained	Yes	Yes	No

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.

Mortgage Securitizations

We had previously securitized mortgage loans by transferring these loans to securitization trusts that had issued mortgage-backed securities to investors. These mortgage trusts consist of option-adjustable rate mortgage (“option-ARM”) securitizations and securitizations from our discontinued operations which include the mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (“GreenPoint”) and the manufactured housing operations of GreenPoint Credit, LLC, a subsidiary of GreenPoint (collectively “GreenPoint securitizations”). We retain rights to certain future cash flows arising from these securitizations. We do not consolidate the mortgage securitizations because we do not have the power to direct the activities that most significantly impact the economic performance of the trusts, and the right to receive the 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 of our 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 year ended December 31, 2020 and 2019, we recognized amortization of $556 million and $554 million, respectively, and tax credits of $607 million and $610 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 $4.5 billion and $4.4 billion as of December 31, 2020 and 2019, 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 $1.5 billion as of both December 31, 2020 and 2019, and is largely expected to be paid from 2021 to 2023.

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 $4.6 billion as of both December 31, 2020 and 2019. 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 $11.0 billion and $10.9 billion as of December 31, 2020 and 2019, 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 $2.0 billion and $1.9 billion as of December 31, 2020 and 2019, 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 $436 million and $502 million as of December 31, 2020 and 2019, 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 December 31, 2020 and 2019. 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

	December 31, 2020			
(Dollars in millions)	**Carrying Amount of Assets**	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Remaining Amortization Period**
Goodwill	**$ 14,653**	**N/A**	**$ 14,653**	**N/A**
Intangible assets:				
Purchased credit card relationship ("PCCR") intangibles	**148**	**$ (138)**	**10**	**6.2 years**
Other[1]	**248**	**(168)**	**80**	**7.3 years**
Total intangible assets	**396**	**(306)**	**90**	**7.1 years**
Total goodwill and intangible assets	**$ 15,049**	**$ (306)**	**$ 14,743**	
Commercial MSRs[2]	**$ 542**	**$ (175)**	**$ 367**	

	December 31, 2019			
(Dollars in millions)	**Carrying Amount of Assets**	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Remaining Amortization Period**
Goodwill	$ 14,653	N/A	$ 14,653	N/A
Intangible assets:				
PCCR intangibles	1,932	$ (1,864)	68	3.9 years
Other[1]	246	(140)	106	6.7 years
Total intangible assets	2,178	(2,004)	174	5.6 years
Total goodwill and intangible assets	$ 16,831	$ (2,004)	$ 14,827	
Commercial MSRs[2]	$ 555	$ (255)	$ 300	

[1] Primarily consists of intangibles for sponsorship, customer and merchant relationships, partnership, trade name and other contract intangibles.

[2] Commercial MSRs are accounted for under the amortization method on our consolidated balance sheets. We recorded $69 million and $70 million of amortization expense for the years ended December 31, 2020 and 2019, respectively.

Goodwill

There were no changes in the carrying amount of goodwill by each of our business segments for the year ended December 31, 2020, and the following table presents such changes for the years ended December 31, 2019 and 2018.We did not recognize any goodwill impairment during 2020, 2019 or 2018.

Table 6.2: Goodwill by Business Segments

(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Total
Balance as of December 31, 2017	$ 5,032	$ 4,600	$ 4,901	$ 14,533
Acquisitions	33	0	0	33
Reductions in goodwill related to divestitures	0	0	(17)	(17)
Other adjustments[1]	(5)	0	0	(5)
Balance as of December 31, 2018	5,060	4,600	4,884	14,544
Acquisitions	25	46	36	107
Reductions in goodwill related to divestitures	0	(1)	0	(1)
Other adjustments[1]	3	0	0	3
Balance as of December 31, 2019	$ 5,088	$ 4,645	$ 4,920	$ 14,653
Balance as of December 31, 2020	**$ 5,088**	**$ 4,645**	**$ 4,920**	**$ 14,653**

(1) Represents foreign currency translation adjustments and measurement period adjustments on prior period acquisitions.

The goodwill impairment test is performed as of October 1 of each year. An impairment of a reporting unit's goodwill is determined based on the amount by which the reporting unit's carrying value exceeds its fair value, limited to the amount of goodwill allocated to the reporting unit.

The fair value of reporting units is calculated using a discounted cash flow methodology, a form of the income approach. The calculation uses projected cash flows based on each reporting unit's internal forecast and uses the perpetuity growth method to calculate terminal values. These cash flows and terminal values are then discounted using appropriate discount rates, which are largely based on our external cost of equity with adjustments for risk inherent in each reporting unit. Capital is allocated based on each reporting unit's specific regulatory capital requirements, economic capital requirements, and underlying risks. Consolidated stockholder's equity in excess of the sum of all reporting unit's capital requirements that is not identified for future capital needs, such as dividends, share buybacks, or other strategic initiatives, is allocated to the reporting units and Other category and assumed distributed to equity holders in future periods. Our discounted cash flow analysis requires management to make judgments about future loan and deposit growth, revenue growth, credit losses, and capital rates. The reasonableness of our fair value calculation is assessed by reference to a market-based approach using comparable market multiples and recent market transactions where available.

Intangible Assets

In connection with our acquisitions, we recorded intangible assets including PCCRs, sponsorships, customer and merchant relationships, partnerships, trade names and other contract intangibles. At acquisition, the PCCRs reflect the estimated value of existing credit card holder relationships.

Intangible assets are typically amortized over their respective estimated useful lives on either an accelerated or straight-line basis. The following table summarizes the actual amortization expense recorded for the years ended December 31, 2020, 2019 and 2018 and the estimated future amortization expense for intangible assets as of December 31, 2020:

Table 6.3: Amortization Expense

(Dollars in millions)	**Amortization Expense**
Actual for the year ended December 31,	
2018	$ 174
2019	112
2020	**60**
Estimated future amounts for the year ending December 31,	
2021	**20**
2022	**16**
2023	**13**
2024	**10**
2025	**9**
Thereafter	**14**
Total estimated future amounts	**$ 82**

NOTE 7—PREMISES, EQUIPMENT AND LEASES

Premises and Equipment

The following table presents our premises and equipment as of December 31, 2020 and 2019.

Table 7.1 Components of Premises and Equipment

(Dollars in millions)	December 31, 2020	December 31, 2019
Land	**$ 366**	$ 382
Buildings and improvements	**3,742**	3,903
Furniture and equipment	**1,973**	2,218
Computer software	**2,144**	1,996
In progress	**768**	689
Total premises and equipment, gross	**8,993**	9,188
Less: Accumulated depreciation and amortization	**(4,706)**	(4,810)
Total premises and equipment, net	**$ 4,287**	$ 4,378

Depreciation and amortization expense was $809 million, $741 million and $728 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Leases

Our primary involvement with leases is in the capacity as a lessee where we lease premises to support our business. A majority of our leases are operating leases of office space, retail bank branches and Cafés. For real estate leases, we have elected to account for the lease and non-lease components together as a single lease component. Our operating leases expire at various dates through 2071, and many of them require variable lease payments by us, of property taxes, insurance premiums, common area maintenance and other costs. Certain of these leases also have extension or termination options, and we assess the likelihood of exercising such options. If it is reasonably certain that we will exercise the options, then we include the impact in the measurement of our right-of-use assets and lease liabilities.

Our right-of-use assets and lease liabilities for operating leases are included in other assets and other liabilities on our consolidated balance sheets. As most of our operating leases do not provide an implicit rate, we use our incremental borrowing rate in determining the present value of lease payments. Our operating lease expense is included in occupancy and equipment within non-interest expense in our consolidated statements of income. Total operating lease expense consists of operating lease cost, which is recognized on a straight-line basis over the lease term, and variable lease cost, which is recognized based on actual amounts incurred. We also sublease certain premises, and sublease income is included in other non-interest income in our consolidated statements of income.

The following tables present information about our operating lease portfolio and the related lease costs as of and for the year ended December 31, 2020.

Table 7.2 Operating Lease Portfolio

(Dollars in millions)	December 31, 2020	December 31, 2019
Right-of-use assets	**$ 1,316**	$ 1,433
Lease liabilities	**1,688**	1,756
Weighted-average remaining lease term	**8.7 years**	8.9 years
Weighted-average discount rate	**3.1 %**	3.3 %

Table 7.3 Total Operating Lease Expense and Other Information

	Year Ended December 31,	
(Dollars in millions)	**2020**	**2019**
Operating lease cost	**$ 315**	$ 316
Variable lease cost	**43**	39
Total lease cost	**358**	355
Sublease income	**(26)**	(26)
Net lease cost	**$ 332**	$ 329
Cash paid for amounts included in the measurement of lease liabilities	**$ 325**	$ 328
Right-of-use assets obtained in exchange for lease liabilities	**180**	112
Right-of-use assets recognized upon adoption of new lease standard	**0**	1,601

The following table presents a maturity analysis of our operating leases and a reconciliation of the undiscounted cash flows to our lease liabilities as of December 31, 2020.

Table 7.4 Maturities of Operating Leases and Reconciliation to Lease Liabilities

(Dollars in millions)	**December 31, 2020**
2021	**$ 296**
2022	**272**
2023	**250**
2024	**216**
2025	**180**
Thereafter	**721**
Total undiscounted lease payments	**1,935**
Less: Imputed interest	**(247)**
Total lease liabilities	**$ 1,688**

As of December 31, 2020, we had approximately $69 million and $75 million of right-of-use assets and lease liabilities, respectively, for finance leases with a weighted-average remaining lease term of 4.4 years. As of December 31, 2019, we had approximately $96 million and $103 million of right-of-use assets and lease liabilities, respectively, for finance leases with a weighted-average remaining lease term of 5.9 years. These right-of-use assets and lease liabilities are included in premises and equipment, net and other borrowings, respectively, on our consolidated balance sheets. We recognized $24 million and $27 million of total finance lease expense for the years ended December 31, 2020 and 2019, respectively.

NOTE 8—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. In addition, we utilize FHLB advances, which are secured by certain portions of our loan and investment securities portfolios. 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 and short-term FHLB advances. 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 December 31, 2020 and 2019. 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 8.1: Components of Deposits, Short-Term Borrowings and Long-Term Debt

(Dollars in millions)	**December 31, 2020**	December 31, 2019
Deposits:		
Non-interest-bearing deposits	**$ 31,142**	$ 23,488
Interest-bearing deposits[1]	**274,300**	239,209
Total deposits	**$ 305,442**	$ 262,697
Short-term borrowings:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	**$ 668**	$ 314
FHLB advances	**0**	7,000
Total short-term borrowings	**$ 668**	$ 7,314

	December 31, 2020				**December 31, 2019**
(Dollars in millions)	**Maturity Dates**	**Stated Interest Rates**	**Weighted-Average Interest Rate**	**Carrying Value**	**Carrying Value**
Long-term debt:					
Securitized debt obligations	**2021-2026**	**0.51% - 3.01%**	**1.87 %**	**$ 12,414**	$ 17,808
Senior and subordinated notes:					
Fixed unsecured senior debt[2]	**2021-2029**	**0.80 - 4.75**	**3.24**	**21,045**	23,302
Floating unsecured senior debt	**2021-2023**	**0.64 - 1.36**	**0.97**	**1,609**	2,695
Total unsecured senior debt			**3.08**	**22,654**	25,997
Fixed unsecured subordinated debt	**2023-2026**	**3.38 - 4.20**	**3.78**	**4,728**	4,475
Total senior and subordinated notes				**27,382**	30,472
Other long-term borrowings:					
Finance lease liabilities	**2021-2031**	**0.68 - 9.91**	**3.78**	**75**	103
Total other long-term borrowings				**75**	103
Total long-term debt				**$ 39,871**	$ 48,383
Total short-term borrowings and long-term debt				**$ 40,539**	$ 55,697

(1) Includes $4.2 billion and $6.5 billion of time deposits in denominations in excess of the $250,000 federal insurance limit as of December 31, 2020 and 2019, respectively.

(2) Includes $1.6 billion and $1.4 billion of EUR-denominated unsecured notes as of December 31, 2020 and 2019, respectively.

The following table presents the carrying value of our interest-bearing time deposits with contractual maturities, securitized debt obligations and other debt by remaining contractual maturity as of December 31, 2020.

Table 8.2: Maturity Profile of Borrowings

(Dollars in millions)	2021	2022	2023	2024	2025	Thereafter	Total
Interest-bearing time deposits	$ 21,381	$ 6,447	$ 2,212	$ 2,196	$ 385	$ 126	$ 32,747
Securitized debt obligations	2,331	5,635	1,087	1,569	289	1,503	12,414
Federal funds purchased and securities loaned or sold under agreements to repurchase	668	0	0	0	0	0	668
Senior and subordinated notes	3,878	2,488	6,032	4,661	3,488	6,835	27,382
Other borrowings	20	20	18	5	3	9	75
Total	$ 28,278	$ 14,590	$ 9,349	$ 8,431	$ 4,165	$ 8,473	$ 73,286

NOTE 9—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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 derivatives 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 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 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") and the LCH Group ("LCH") are our CCPs in 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 9.3 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 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 December 31, 2020 and 2019, 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 9.1: Derivative Assets and Liabilities at Fair Value

	December 31, 2020			December 31, 2019		
	Notional or Contractual Amount	Derivative[(1)]		Notional or Contractual Amount	Derivative[(1)]	
(Dollars in millions)		Assets	Liabilities		Assets	Liabilities
Derivatives designated as accounting hedges:						
Interest rate contracts:						
Fair value hedges	**$ 47,349**	**$ 9**	**$ 10**	$ 57,587	$ 11	$ 55
Cash flow hedges	**82,150**	**748**	**1**	96,900	321	29
Total interest rate contracts	**129,499**	**757**	**11**	154,487	332	84
Foreign exchange contracts:						
Fair value hedges	**1,527**	**164**	**0**	1,402	0	6
Cash flow hedges	**4,582**	**0**	**161**	6,103	0	113
Net investment hedges	**3,116**	**0**	**196**	2,829	0	102
Total foreign exchange contracts	**9,225**	**164**	**357**	10,334	0	221
Total derivatives designated as accounting hedges	**138,724**	**921**	**368**	164,821	332	305
Derivatives not designated as accounting hedges:						
Customer accommodation:						
Interest rate contracts	**68,459**	**1,429**	**198**	62,268	552	117
Commodity contracts	**16,871**	**935**	**820**	15,492	758	694
Foreign exchange and other contracts	**4,677**	**58**	**70**	4,674	39	42
Total customer accommodation	**90,007**	**2,422**	**1,088**	82,434	1,349	853
Other interest rate exposures[(2)]	**1,770**	**71**	**56**	6,729	48	30
Other contracts	**1,826**	**1**	**6**	1,562	0	9
Total derivatives not designated as accounting hedges	**93,603**	**2,494**	**1,150**	90,725	1,397	892
Total derivatives	**$ 232,327**	**$ 3,415**	**$ 1,518**	$ 255,546	$ 1,729	$ 1,197
Less: netting adjustment[(3)]		**(1,148)**	**(739)**		(633)	(523)
Total derivative assets/liabilities		**$ 2,267**	**$ 779**		$ 1,096	$ 674

(1) Does not reflect $31 million and $12 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of December 31, 2020 and 2019, 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.

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

(3) 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 December 31, 2020 and 2019.

Table 9.2: Hedged Items in Fair Value Hedging Relationships

	December 31, 2020			December 31, 2019		
		Cumulative Amount of Basis Adjustments Included in the Carrying Amount			Cumulative Amount of Basis Adjustments Included in the Carrying Amount	
(Dollars in millions)	Carrying Amount Assets/(Liabilities)	Total Assets/(Liabilities)	Discontinued-Hedging Relationships	Carrying Amount Assets/(Liabilities)	Total Assets/(Liabilities)	Discontinued-Hedging Relationships
Line item on our consolidated balance sheets in which the hedged item is included:						
Investment securities available for sale[(1)(2)]	**$ 9,797**	**$ 590**	**$ 200**	$ 10,825	$ 300	$ 52
Interest-bearing deposits	**(11,312)**	**(213)**	**0**	(14,310)	(12)	0
Securitized debt obligations	**(7,609)**	**(171)**	**20**	(9,403)	44	64
Senior and subordinated notes	**(21,927)**	**(1,282)**	**(666)**	(27,777)	(458)	324

(1) 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. In the second quarter of 2020, we terminated all last of layer hedging relationships with cumulative basis adjustments related to these discontinued hedging relationships totaling $200 million as of December 31, 2020. As of December 31, 2019, the amortized cost basis of this portfolio was $5.9 billion, the amount of the designated hedged items was $3.1 billion, and the cumulative basis adjustment associated with these hedges was $75 million.

(2) 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 December 31, 2020 and 2019. 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 9.3: Offsetting of Financial Assets and Financial Liabilities

		Gross Amounts Offset in the Balance Sheet				
(Dollars in millions)	Gross Amounts	Financial Instruments	Cash Collateral Received	Net Amounts as Recognized	Securities Collateral Held Under Master Netting Agreements	Net Exposure
As of December 31, 2020						
Derivative assets[1]	**$ 3,415**	**$ (383)**	**$ (765)**	**$ 2,267**	**$ 0**	**$ 2,267**
As of December 31, 2019						
Derivative assets[1]	1,729	(347)	(286)	1,096	0	1,096

		Gross Amounts Offset in the Balance Sheet				
(Dollars in millions)	Gross Amounts	Financial Instruments	Cash Collateral Pledged	Net Amounts as Recognized	Securities Collateral Pledged Under Master Netting Agreements	Net Exposure
As of December 31, 2020						
Derivative liabilities[1]	**$ 1,518**	**$ (383)**	**$ (356)**	**$ 779**	**$ 0**	**$ 779**
Repurchase agreements[2]	**668**	**0**	**0**	**668**	**(668)**	**0**
As of December 31, 2019						
Derivative liabilities[1]	1,197	(347)	(176)	674	0	674
Repurchase agreements[2]	314	0	0	314	(314)	0

(1) We received cash collateral from derivative counterparties totaling $862 million and $347 million as of December 31, 2020 and 2019 , respectively. We also received securities from derivative counterparties with a fair value of approximately $1 million as of both December 31, 2020 and 2019, which we have the ability to re-pledge. We posted $1.5 billion and $954 million of cash collateral as of December 31, 2020 and 2019, respectively.

(2) Under our customer repurchase agreements, which mature the next business day, we pledged collateral with a fair value of $682 million and $320 million as of December 31, 2020 and 2019 , 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 years ended December 31, 2020, 2019 and 2018.

Table 9.4: Effects of Fair Value and Cash Flow Hedge Accounting

	Year Ended December 31, 2020						
	Net Interest Income						Non-Interest Income
(Dollars in millions)	Investment Securities	Loans, Including Loans Held for Sale	Other	Interest-bearing Deposits	Securitized Debt Obligations	Senior and Subordinated Notes	Other
Total amounts presented in our consolidated statements of income	**$ 1,877**	**$ 24,074**	**$ 82**	**$ (2,165)**	**$ (232)**	**$ (679)**	**$ 1,325**
Fair value hedging relationships:							
Interest rate and foreign exchange contracts:							
Interest recognized on derivatives	**$ (76)**	**$ 0**	**$ 0**	**$ 108**	**$ 125**	**$ 225**	**$ 0**
Gains (losses) recognized on derivatives	**(306)**	**0**	**0**	**204**	**176**	**950**	**126**
Gains (losses) recognized on hedged items[1]	**290**	**0**	**0**	**(203)**	**(212)**	**(904)**	**(125)**
Excluded component of fair value hedges[2]	**0**	**0**	**0**	**0**	**0**	**(3)**	**0**
Net income (expense) recognized on fair value hedges	**$ (92)**	**$ 0**	**$ 0**	**$ 109**	**$ 89**	**$ 268**	**$ 1**
Cash flow hedging relationships:[3]							
Interest rate contracts:							
Realized gains reclassified from AOCI into net income	**$ 25**	**$ 541**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**
Foreign exchange contracts:							
Realized gains reclassified from AOCI into net income[4]	**0**	**0**	**10**	**0**	**0**	**0**	**(1)**
Net income recognized on cash flow hedges	**$ 25**	**$ 541**	**$ 10**	**$ 0**	**$ 0**	**$ 0**	**$ (1)**

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	Year Ended December 31, 2019						
	Net Interest Income						Non-Interest Income
(Dollars in millions)	Investment Securities	Loans, Including Loans Held for Sale	Other	Interest-bearing Deposits	Securitized Debt Obligations	Senior and Subordinated Notes	Other
Total amounts presented in our consolidated statements of income	$ 2,411	$ 25,862	$ 240	$ (3,420)	$ (523)	$ (1,159)	$ 718
Fair value hedging relationships:							
Interest rate and foreign exchange contracts:							
Interest recognized on derivatives	$ (12)	$ 0	$ 0	$ (108)	$ (14)	$ (6)	$ 0
Gains (losses) recognized on derivatives	(278)	0	0	263	45	704	(9)
Gains (losses) recognized on hedged items[1]	278	0	0	(258)	(123)	(801)	9
Excluded component of fair value hedges[2]	0	0	0	0	0	(2)	0
Net expense recognized on fair value hedges	$ (12)	$ 0	$ 0	$ (103)	$ (92)	$ (105)	$ 0
Cash flow hedging relationships:[3]							
Interest rate contracts:							
Realized losses reclassified from AOCI into net income	$ (8)	$ (163)	$ 0	$ 0	$ 0	$ 0	$ 0
Foreign exchange contracts:							
Realized gains reclassified from AOCI into net income[4]	0	0	44	0	0	0	(1)
Net income (expense) recognized on cash flow hedges	$ (8)	$ (163)	$ 44	$ 0	$ 0	$ 0	$ (1)

	Year Ended December 31, 2018						
	Net Interest Income						Non-Interest Income
(Dollars in millions)	Investment Securities	Loans, Including Loans Held for Sale	Other	Interest-bearing Deposits	Securitized Debt Obligations	Senior and Subordinated Notes	Other
Total amounts presented in our consolidated statements of income	$ 2,211	$ 24,728	$ 237	$ (2,598)	$ (496)	$ (1,125)	$ 1,002
Fair value hedging relationships:							
Interest rate contracts:							
Interest recognized on derivatives	$ (23)	$ 0	$ 0	$ (76)	$ (53)	$ 2	$ 0
Gains (losses) recognized on derivatives	34	0	0	(60)	(61)	(212)	0
Gains (losses) recognized on hedged items[1]	(33)	0	0	52	38	131	0
Net expense recognized on fair value hedges	$ (22)	$ 0	$ 0	$ (84)	$ (76)	$ (79)	$ 0
Cash flow hedging relationships:[3]							
Interest rate contracts:							
Realized losses reclassified from AOCI into net income	$ (9)	$ (82)	$ 0	$ 0	$ 0	$ 0	$ 0
Foreign exchange contracts:							
Realized gains (losses) reclassified from AOCI into net income[4]	0	0	47	0	0	0	(2)
Net income (expense) recognized on cash flow hedges	$ (9)	$ (82)	$ 47	$ 0	$ 0	$ 0	$ (2)

(1) Includes amortization expense of $12 million, $171 million and $75 million for the years ended December 31, 2020, 2019 and 2018 respectively, related to basis adjustments on discontinued hedges.

(2) 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.

(3) See “Note 10—Stockholders’ Equity” for the effects of cash flow and net investment hedges on AOCI and amounts reclassified to net income, net of tax.

(4) We recognized a loss of $57 million and $341 million for the years ended December 31, 2020 and 2019, respectively, and a gain of $191 million for the year ended December 31, 2018, 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 other non-interest income.

In the next 12 months, we expect to reclassify to earnings net after-tax gains of $652 million recorded in AOCI as of December 31, 2020. 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 years as of December 31, 2020. 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 years ended December 31, 2020, 2019 and 2018. These gains or losses are recognized in other non-interest income in our consolidated statements of income.

Table 9.5: Gains (Losses) on Free-Standing Derivatives

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Gains (losses) recognized in other non-interest income:			
Customer accommodation:			
Interest rate contracts	**$ 15**	$ 48	$ 25
Commodity contracts	**32**	17	16
Foreign exchange and other contracts	**8**	13	7
Total customer accommodation	**55**	78	48
Other interest rate exposures	**(8)**	(16)	33
Other contracts	**(4)**	(10)	(21)
Total	**$ 43**	$ 52	$ 60

NOTE 10—STOCKHOLDERS' EQUITY

Preferred Stock

The following table summarizes our preferred stock outstanding as of December 31, 2020 and 2019.

Table 10.1: Preferred Stock Outstanding[(1)]

Series	Description	Issuance Date	Redeemable by Issuer Beginning	Per Annum Dividend Rate	Dividend Frequency	Liquidation Preference per Share	Total Shares Outstanding as of December 31, 2020	Carrying Value (in millions) December 31, 2020	Carrying Value (in millions) December 31, 2019
Series B[(2)]	6.000% Non-Cumulative	August 20, 2012	September 1, 2017	6.000%	Quarterly	$ 1,000	0	**$ 0**	$ 853
Series E	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	1,000,000	**988**	988
Series F[(3)]	6.200% Non-Cumulative	August 24, 2015	December 1, 2020	6.200	Quarterly	1,000	0	**0**	484
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**	0
Series K	4.625% Non-Cumulative	September 17, 2020	December 1, 2025	4.625	Quarterly	1,000	125,000	**122**	0
Total								**$ 4,847**	$ 4,853

(1) Except for Series E, 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.

(2) On March 2, 2020, we redeemed all outstanding shares of our preferred stock Series B.

(3) On December 1, 2020, we redeemed all outstanding shares of our preferred stock Series F.

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 years ended December 31, 2020, 2019 and 2018.

Table 10.2: AOCI

(Dollars in millions)	Securities Available for Sale	Hedging Relationships[1]	Foreign Currency Translation Adjustments[2]	Securities Held to Maturity	Other	Total
AOCI as of December 31, 2017	$ 17	$ (281)	$ (138)	$ (524)	$ 0	$ (926)
Cumulative effects from adoption of new accounting standards	3	(63)	0	(113)	(28)	(201)
Transfer of securities held to maturity to available for sale[3]	(325)	0	0	407	0	82
Other comprehensive income (loss) before reclassifications	(293)	38	(39)	0	(8)	(302)
Amounts reclassified from AOCI into earnings	159	(112)	0	40	(3)	84
Other comprehensive income (loss), net of tax	(459)	(74)	(39)	447	(11)	(136)
AOCI as of December 31, 2018	(439)	(418)	(177)	(190)	(39)	(1,263)
Other comprehensive income before reclassifications	670	414	70	0	17	1,171
Amounts reclassified from AOCI into earnings	(20)	358	0	26	(4)	360
Other comprehensive income, net of tax	650	772	70	26	13	1,531
Transfer of securities held to maturity to available for sale, net of tax[4]	724	0	0	164	0	888
AOCI as of December 31, 2019	935	354	(107)	0	(26)	1,156
Cumulative effects from the adoption of the CECL standard	**(8)**	**0**	**0**	**0**	**0**	**(8)**
Other comprehensive income before reclassifications	**1,278**	**1,401**	**76**	**0**	**5**	**2,760**
Amounts reclassified from AOCI into earnings	**(19)**	**(393)**	**0**	**0**	**(2)**	**(414)**
Other comprehensive income, net of tax	**1,259**	**1,008**	**76**	**0**	**3**	**2,346**
AOCI as of December 31, 2020	**$ 2,186**	**$ 1,362**	**$ (31)**	**$ 0**	**$ (23)**	**$ 3,494**

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

(2) Includes other comprehensive loss of $65 million, loss of $49 million and gain of $150 million for the years ended December 31, 2020, 2019 and 2018 respectively, from hedging instruments designated as net investment hedges.

(3) In the first quarter of 2018, we made a one-time transfer of held to maturity securities with a carrying value of $9.0 billion to available for sale as a result of our adoption of ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This transfer resulted in an after-tax gain of $82 million ($107 million pre-tax) to AOCI.

(4) On December 31, 2019, we transferred our entire portfolio of held to maturity securities to available for sale in consideration of changes to regulatory capital requirements under the Tailoring Rules.

The following table presents amounts reclassified from each component of AOCI to our consolidated statements of income for the years ended December 31, 2020, 2019 and 2018.

Table 10.3: Reclassifications from AOCI

(Dollars in millions)		Year Ended December 31,		
AOCI Components	**Affected Income Statement Line Item**	**2020**	**2019**	**2018**
Securities available for sale:				
	Non-interest income	**$ 25**	$ 26	$ (209)
	Income tax provision	**6**	6	(50)
	Net income	**19**	20	(159)
Hedging relationships:				
Interest rate contracts:	Interest income	**566**	(171)	(91)
Foreign exchange contracts:	Interest income	**10**	44	47
	Interest expense	**(3)**	(2)	0
	Non-interest income	**(57)**	(341)	191
	Income from continuing operations before income taxes	**516**	(470)	147
	Income tax provision	**123**	(112)	35
	Net income	**393**	(358)	112
Securities held to maturity:[1]				
	Interest income	**0**	(35)	(53)
	Income tax provision	**0**	(9)	(13)
	Net income	**0**	(26)	(40)
Other:				
	Non-interest income and non-interest expense	**2**	5	4
	Income tax provision	**0**	1	1
	Net income	**2**	4	3
Total reclassifications		**$ 414**	$ (360)	$ (84)

(1) On December 31, 2019, we transferred our entire portfolio of held to maturity securities to available for sale.

The table below summarizes other comprehensive income (loss) activity and the related tax impact for the years ended December 31, 2020, 2019 and 2018.

Table 10.4: Other Comprehensive Income (Loss)

	Year Ended December 31,								
	2020			2019			2018		
(Dollars in millions)	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
Other comprehensive income (loss):									
Net unrealized gains (loss) on securities available for sale	**$ 1,659**	**$ 400**	**$ 1,259**	$ 855	$ 205	$ 650	$ (605)	$ (146)	$ (459)
Net unrealized gains (loss) on hedging relationships	**1,329**	**321**	**1,008**	1,016	244	772	(98)	(24)	(74)
Foreign currency translation adjustments[1]	**56**	**(20)**	**76**	54	(16)	70	9	48	(39)
Net changes in securities held to maturity	**0**	**0**	**0**	36	10	26	588	141	447
Other	**4**	**1**	**3**	17	4	13	(15)	(4)	(11)
Other comprehensive income (loss)	**$ 3,048**	**$ 702**	**$ 2,346**	$ 1,978	$ 447	$ 1,531	$ (121)	$ 15	$ (136)

(1) Includes the impact of hedging instruments designated as net investment hedges.

NOTE 11—REGULATORY AND CAPITAL ADEQUACY

Regulation and Capital Adequacy

Bank holding companies ("BHCs") and national banks are subject to capital adequacy standards adopted by the Federal Reserve, Office of the Comptroller of the Currency ("OCC") and Federal Deposit Insurance Corporation (collectively, the "Federal Banking Agencies"), including rules of the Federal Reserve and the OCC "Basel III Capital Rules" to implement certain capital liquidity requirements published by the Basel Committee on Banking Supervision, along with certain Dodd-Frank Act and other provisions. Moreover, the Banks, as insured depository institutions, are subject to prompt corrective action ("PCA") capital regulations, which require the Federal Banking Agencies to take prompt corrective action for banks that do not meet PCA capital requirements.

In July 2019, the Federal Banking Agencies finalized certain changes to the Basel III Capital Rules for institutions not subject to the Basel III Advanced Approaches ("Capital Simplification Rule"). These changes, effective January 1, 2020, generally raised the threshold above which a covered institution such as the Company must deduct certain assets from its common equity Tier 1 capital, including certain deferred tax assets, mortgage servicing assets, and investments in unconsolidated financial institutions.

In October 2019, the Federal Banking Agencies amended the Basel III Capital Rules to provide for tailored application of certain capital requirements across different categories of banking institutions ("Tailoring Rules"). As a BHC 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. As such, we are no longer subject to the Basel III Advanced Approaches and certain associated capital requirements and have the option of excluding certain elements of AOCI from our regulatory capital. Effective in the first quarter of 2020, we excluded certain elements of AOCI from our regulatory capital as permitted by the Tailoring Rules. The Tailoring Rules and Capital Simplification Rule have, taken together, decreased our capital requirements.

As part of their response to the COVID-19 pandemic, the Federal Banking Agencies adopted the 2020 CECL Transition Rule which provides banking institutions an optional five-year transition period to phase in the impact of the CECL standard on their regulatory capital.

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.

<table>
<tr><th></th><th colspan="2">Capital Impact Delayed</th><th colspan="4">Phase In Period</th></tr>
<tr><th></th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th><th>2025</th></tr>
<tr><td>"Day 1" CECL adoption impact</td><td colspan="2">Capital impact delayed to 2022</td><td rowspan="2">25% Phased In</td><td rowspan="2">50% Phased In</td><td rowspan="2">75% Phased In</td><td rowspan="2">Fully Phased In</td></tr>
<tr><td>Cumulative "day 2" ongoing impact</td><td colspan="2">25% scaling factor as an approximation of the increase in allowance under CECL</td></tr>
</table>

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.

Under the Basel III Capital Rules, our regulatory minimum risk-based and leverage capital requirements include a common equity Tier 1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6.0%, a total capital ratio of at least 8.0%, a Tier 1 leverage capital ratio of at least 4.0% and a supplementary leverage ratio of at least 3.0%.

For additional information about the capital adequacy guidelines we are subject to, see "Part I —Item 1. Business—Supervision and Regulation."

The following table provides a comparison of our regulatory capital amounts and ratios under the Basel III Standardized Approach subject to the applicable transition provisions, the regulatory minimum capital adequacy ratios and the PCA well-capitalized level for each ratio, where applicable, as of December 31, 2020 and 2019.

Table 11.1: Capital Ratios Under Basel III[1]

	December 31, 2020				December 31, 2019			
(Dollars in millions)	Capital Amount	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized	Capital Amount	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized
Capital One Financial Corp:								
Common equity Tier 1 capital[2]	**$ 40,736**	**13.7 %**	**4.5 %**	**N/A**	$ 38,162	12.2 %	4.5 %	N/A
Tier 1 capital[3]	**45,583**	**15.3**	**6.0**	**6.0 %**	43,015	13.7	6.0	6.0 %
Total capital[4]	**52,788**	**17.7**	**8.0**	**10.0**	50,348	16.1	8.0	10.0
Tier 1 leverage[5]	**45,583**	**11.2**	**4.0**	**N/A**	43,015	11.7	4.0	N/A
Supplementary leverage[6]	**45,583**	**10.7**	**3.0**	**N/A**	43,015	9.9	3.0	N/A
COBNA:								
Common equity Tier 1 capital[2]	**19,924**	**21.5**	**4.5**	**6.5**	17,883	16.1	4.5	6.5
Tier 1 capital[3]	**19,924**	**21.5**	**6.0**	**8.0**	17,883	16.1	6.0	8.0
Total capital[4]	**21,708**	**23.4**	**8.0**	**10.0**	20,109	18.1	8.0	10.0
Tier 1 leverage[5]	**19,924**	**18.3**	**4.0**	**5.0**	17,883	14.8	4.0	5.0
Supplementary leverage[6]	**19,924**	**14.7**	**3.0**	**N/A**	17,883	12.1	3.0	N/A
CONA:								
Common equity Tier 1 capital[2]	**26,671**	**12.4**	**4.5**	**6.5**	28,445	13.4	4.5	6.5
Tier 1 capital[3]	**26,671**	**12.4**	**6.0**	**8.0**	28,445	13.4	6.0	8.0
Total capital[4]	**29,369**	**13.7**	**8.0**	**10.0**	30,852	14.5	8.0	10.0
Tier 1 leverage[5]	**26,671**	**7.6**	**4.0**	**5.0**	28,445	9.2	4.0	5.0
Supplementary leverage[6]	**26,671**	**6.9**	**3.0**	**N/A**	28,445	8.2	3.0	N/A

(1) Capital requirements that are not applicable are denoted by "N/A."
(2) Common equity Tier 1 capital ratio is a regulatory capital measure calculated based on common equity Tier 1 capital divided by risk-weighted assets.
(3) Tier 1 capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.
(4) Total capital ratio is a regulatory capital measure calculated based on total capital divided by risk-weighted assets.
(5) Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by adjusted average assets.
(6) Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by total leverage exposure.

We exceeded the minimum capital requirements and each of the Banks exceeded the minimum regulatory requirements and were well-capitalized under PCA requirements as of both December 31, 2020 and 2019.

Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our BHC. As of December 31, 2020, funds available for dividend payments from COBNA and CONA were $4.0 billion and $1.8 billion, respectively. Applicable provisions that may be contained in our borrowing agreements or the borrowing agreements of our subsidiaries may limit our subsidiaries' ability to pay dividends to us or our ability to pay dividends to our stockholders.

The reserve requirement the Federal Reserve requires depository institutions to maintain against specified deposit liabilities was $1.7 billion for us as of December 31, 2019, before being reduced to zero for all depository institutions in March 2020.

NOTE 12—EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share. Dividends and undistributed earnings allocated to participating securities represent the application of the "two-class" method as described in "Note 1—Summary of Significant Accounting Policies."

Table 12.1: Computation of Basic and Diluted Earnings per Common Share

	Year Ended December 31,		
(Dollars and shares in millions, except per share data)	**2020**	**2019**	**2018**
Income from continuing operations, net of tax	**$ 2,717**	$ 5,533	$ 6,025
Income (loss) from discontinued operations, net of tax	**(3)**	13	(10)
Net income	**2,714**	5,546	6,015
Dividends and undistributed earnings allocated to participating securities	**(20)**	(41)	(40)
Preferred stock dividends	**(280)**	(282)	(265)
Issuance cost for redeemed preferred stock	**(39)**	(31)	0
Net income available to common stockholders	**$ 2,375**	$ 5,192	$ 5,710
Total weighted-average basic common shares outstanding	**457.8**	467.6	479.9
Effect of dilutive securities:			
Stock options	**0.6**	1.3	1.6
Other contingently issuable shares	**0.5**	1.0	1.1
Warrants[1]	**0.0**	0.0	0.5
Total effect of dilutive securities	**1.1**	2.3	3.2
Total weighted-average diluted common shares outstanding	**458.9**	469.9	483.1
Basic earnings per common share:			
Net income from continuing operations	**$ 5.20**	$ 11.07	$ 11.92
Income (loss) from discontinued operations	**(0.01)**	0.03	(0.02)
Net income per basic common share	**$ 5.19**	$ 11.10	$ 11.90
Diluted earnings per common share:[2]			
Net income from continuing operations	**$ 5.19**	$ 11.02	$ 11.84
Income (loss) from discontinued operations	**(0.01)**	0.03	(0.02)
Net income per diluted common share	**$ 5.18**	$ 11.05	$ 11.82

(1) Represents warrants issued as part of the U.S. Department of Treasury's Troubled Assets Relief Program which were either exercised or expired on November 14, 2018.

(2) Excluded from the computation of diluted earnings per share were awards of 6 thousand and options of 523 thousand with an exercise price ranging from $63.73 to $86.34, 69 thousand shares related to options with an exercise price of $86.34 and 56 thousand shares related to options with an exercise price of $86.34 for the years ended December 31, 2020, 2019 and 2018, respectively, because their inclusion would be anti-dilutive.

NOTE 13—STOCK-BASED COMPENSATION PLANS

Stock Plans

We have one active stock-based compensation plan available for the issuance of shares to employees, directors and third-party service providers (if applicable). As of December 31, 2020, under the Amended and Restated 2004 Stock Incentive plan (“2004 Plan”), we are authorized to issue 55 million common shares in various forms, primarily share-settled restricted stock units (“RSUs”), performance share units (“PSUs”), and non-qualified stock options. Of this amount, approximately 7 million shares remain available for future issuance as of December 31, 2020. The 2004 Plan permits the use of newly issued shares or treasury shares upon the settlement of options and stock-based incentive awards, and we generally settle by issuing new shares.

We also issue cash-settled restricted stock units. These cash-settled units are not counted against the common shares authorized for issuance or available for issuance under the 2004 Plan. Cash-settled units vesting during 2020, 2019 and 2018 resulted in cash payments to associates of $12 million, $15 million and $39 million, respectively. There was no unrecognized compensation cost for unvested cash-settled units as of December 31, 2020.

Total stock-based compensation expense recognized during 2020, 2019 and 2018 was $203 million, $239 million and $170 million, respectively. The total income tax benefit for stock-based compensation recognized during 2020, 2019 and 2018 was $43 million, $50 million and $34 million, respectively.

In addition, we maintain an Associate Stock Purchase Plan (“Purchase Plan”), which is a compensatory plan under the accounting guidance for stock-based compensation. Related to the Purchase Plan, we recognized compensation expense of $30 million, $25 million and $23 million for 2020, 2019 and 2018, respectively. We also maintain a Dividend Reinvestment and Stock Purchase Plan (“DRP”), which allows participating stockholders to purchase additional shares of our common stock through automatic reinvestment of dividends or optional cash investments.

Restricted Stock Units and Performance Share Units

RSUs represent share-settled awards that do not contain performance conditions and are granted to certain employees at no cost to the recipient. RSUs generally vest over three years from the date of grant; however, some RSUs cliff vest on or shortly after the first or third anniversary of the grant date. RSUs are subject to forfeiture until certain restrictions have lapsed, including continued employment for a specified period of time.

PSUs represent share-settled awards that contain performance conditions and are granted to certain employees at no cost to the recipient. PSUs generally vest over three years from the date of grant; however, some PSUs cliff vest on or shortly after the third anniversary of the grant date. The number of PSUs that step vest over three years can be reduced by 50% or 100% depending on whether specific performance goals are met during the vesting period. The number of three-year cliff vesting PSUs that will ultimately vest is contingent upon meeting specific performance goals over a three-year period. These PSUs also include an opportunity to receive from 0% to 150% of the target number of common shares.

A recipient of an RSU or PSU is entitled to receive a share of common stock after the applicable restrictions lapse and is generally entitled to receive cash payments or additional shares of common stock equivalent to any dividends paid on the underlying common stock during the period the RSU or PSU is outstanding, but is not entitled to voting rights. Generally, the value of RSUs and PSUs will equal the fair value of our common stock on the date of grant and the expense is recognized over the vesting period. Certain PSUs have discretionary vesting conditions and are remeasured at fair value each reporting period.

The following table presents a summary of 2020 activity for RSUs and PSUs.

Table 13.1: Summary of Restricted Stock Units and Performance Share Units

	Restricted Stock Units		Performance Share Units[1]	
(Shares/units in thousands)	Units	Weighted-Average Grant Date Fair Value per Unit	Units	Weighted-Average Grant Date Fair Value per Unit
Unvested as of January 1, 2020	3,670	$ 84.74	1,775	$ 89.95
Granted[2]	**1,800**	**92.04**	**988**	**100.04**
Vested	**(1,472)**	**89.39**	**(855)**	**88.19**
Forfeited	**(165)**	**90.98**	**(147)**	**93.76**
Unvested as of December 31, 2020	**3,833**	**$ 86.14**	**1,761**	**$ 96.15**

(1) Granted and vested include adjustments for achievement of specific performance goals for performance share units granted in prior periods.

(2) The weighted-average grant date fair value of RSUs was $83.29 and $100.73 in 2019 and 2018, respectively. The weighted-average grant date fair value of PSUs was $78.18 and $100.65 in 2019 and 2018, respectively.

The total fair value of RSUs that vested during 2020, 2019 and 2018 was $140 million, $122 million and $139 million, respectively. The total fair value of PSUs that vested was $82 million in both 2020 and 2019 and $92 million in 2018. As of December 31, 2020, the unrecognized compensation expense related to unvested RSUs is $166 million, which is expected to be amortized over a weighted-average period of approximately 1.8 years; and the unrecognized compensation related to unvested PSUs was $34 million, which is expected to be amortized over a weighted-average period of approximately 1 year.

Stock Options

Stock options have a maximum contractual term of ten years. Generally, the exercise price of stock options will equal the fair market value of our common stock on the date of grant. Option vesting is determined at the time of grant and may be subject to the achievement of any applicable performance conditions. Options generally become exercisable over three years beginning on the first anniversary of the date of grant; however, some option grants cliff vest on or shortly after the first or third anniversary of the grant date.

The following table presents a summary of 2020 activity for stock options and the balance of stock options exercisable as of December 31, 2020.

Table 13.2: Summary of Stock Options Activity

(Shares in thousands, and intrinsic value in millions)	Shares Subject to Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of January 1, 2020	3,185	$ 55.54		
Granted	**0**	**0.00**		
Exercised	**(1,392)**	**44.76**		
Forfeited	**0**	**0.00**		
Expired	**0**	**0.00**		
Outstanding and Exercisable as of December 31, 2020	**1,793**	**$ 63.91**	**3.27 years**	**$ 63**

There were no stock options granted in 2020, 2019 and 2018. The total intrinsic value of stock options exercised during 2020, 2019 and 2018 was $65 million, $10 million and $94 million, respectively.

NOTE 14—EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

We sponsor a contributory Associate Savings Plan (the "Plan") in which all full-time and part-time associates over the age of 18 are eligible to participate. We make non-elective contributions to each eligible associates' account and match a portion of associate contributions. We also sponsor a voluntary non-qualified deferred compensation plan in which select groups of employees are eligible to participate. We make contributions to this plan based on participants' deferral of salary, bonuses and other eligible pay. In addition, we match participants' excess compensation (compensation over the Internal Revenue Service ("IRS") compensation limit) less deferrals. We contributed a total of $350 million, $316 million and $291 million to these plans during the years ended December 31, 2020, 2019 and 2018, respectively.

Defined Benefit Pension and Other Postretirement Benefit Plans

We sponsor a frozen qualified defined benefit pension plan and several non-qualified defined benefit pension plans. We also sponsor a plan that provides other postretirement benefits, including medical and life insurance coverage. Our pension plans and the other postretirement benefit plan are valued using December 31 as the measurement date each year. Our policy is to amortize prior service amounts on a straight-line basis over the average remaining years of service to full eligibility for benefits of active plan participants.

The following table sets forth, on an aggregated basis, changes in the benefit obligation and plan assets, the funded status and how the funded status is recognized on our consolidated balance sheets.

Table 14.1: Changes in Benefit Obligation and Plan Assets

	Defined Pension Benefits		Other Postretirement Benefits	
(Dollars in millions)	**2020**	**2019**	**2020**	**2019**
Change in benefit obligation:				
Accumulated benefit obligation as of January 1,	**$ 165**	$ 157	**$ 27**	$ 29
Service cost	**1**	1	**0**	0
Interest cost	**5**	6	**1**	1
Benefits paid	**(11)**	(13)	**(2)**	(2)
Actuarial loss (gain)	**18**	14	**(5)**	(1)
Accumulated benefit obligation as of December 31,	**$ 178**	$ 165	**$ 21**	$ 27
Change in plan assets:				
Fair value of plan assets as of January 1,	**$ 254**	$ 218	**$ 6**	$ 6
Actual return on plan assets	**30**	48	**1**	1
Employer contributions	**1**	1	**1**	1
Benefits paid	**(11)**	(13)	**(2)**	(2)
Fair value of plan assets as of December 31,	**$ 274**	$ 254	**$ 6**	$ 6
Over (under) funded status as of December 31,	**$ 96**	$ 89	**$ (15)**	$ (21)

	Defined Pension Benefits		Other Postretirement Benefits	
(Dollars in millions)	**2020**	**2019**	**2020**	**2019**
Balance sheet presentation as of December 31,				
Other assets	**$ 108**	$ 100	**$ 0**	$ 0
Other liabilities	**(12)**	(11)	**(15)**	(21)
Net amount recognized as of December 31,	**$ 96**	$ 89	**$ (15)**	$ (21)

Net periodic benefit gain for our defined benefit pension plans and other postretirement benefit plan totaled $8 million, $10 million and $12 million in 2020, 2019 and 2018, respectively. We recognized a pre-tax gain of $4 million and $18 million in other comprehensive income for our defined benefit pension plans and other postretirement benefit plan in 2020 and 2019, respectively, compared to a pre-tax loss of $17 million in 2018.

Pre-tax amounts recognized in AOCI that have not yet been recognized as a component of net periodic benefit cost consist of net actuarial loss of $40 million and $41 million for our defined benefit pension plans as of December 31, 2020 and 2019, respectively, and net actuarial gain of $6 million and $4 million for our other postretirement benefit plan as of December 31, 2020 and 2019, respectively. There was no meaningful prior service cost recognized in AOCI.

Plan Assets and Fair Value Measurement

Plan assets are invested using a total return investment approach whereby a mix of equity securities and debt securities are used to preserve asset values, diversify risk and enhance our ability to achieve our benchmark for long-term investment return. Investment strategies and asset allocations are based on careful consideration of plan liabilities, the plan's funded status and our financial condition. Investment performance and asset allocation are measured and monitored on a daily basis.

As of December 31, 2020 and 2019, our plan assets totaled $280 million and $260 million, respectively. We invested substantially all our plan assets in common collective trusts, which primarily consist of domestic and international equity securities, government securities and corporate and municipal bonds. Our plan assets were classified as Level 2 in the fair value hierarchy as of December 31, 2020 and 2019. For information on fair value measurements, including descriptions of Level 1, 2 and 3 of the fair value hierarchy and the valuation methods we utilize, see "Note 16—Fair Value Measurement."

Expected Future Benefit Payments

As of December 31, 2020, the benefits expected to be paid in the next ten years totaled $110 million for our defined pension benefit plans and $14 million for our other postretirement benefit plan, respectively.

NOTE 15—INCOME TAXES

We recognize the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. Current income tax expense represents our estimated taxes to be paid or refunded for the current period and includes income tax expense related to our uncertain tax positions, as well as tax-related interest and penalties. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. We record the effect of remeasuring deferred tax assets and liabilities due to a change in tax rates or laws as a component of income tax expense related to continuing operations for the period in which the change is enacted. We subsequently release income tax effects stranded in AOCI using a portfolio approach. Income tax benefits are recognized when, based on their technical merits, they are more likely than not to be sustained upon examination. The amount recognized is the largest amount of benefit that is more likely than not to be realized upon settlement.

The following table presents significant components of the provision for income taxes attributable to continuing operations for the years ended December 31, 2020, 2019 and 2018.

Table 15.1: Significant Components of the Provision for Income Taxes Attributable to Continuing Operations

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Current income tax provision:			
Federal taxes	**$ 1,676**	$ 1,207	$ 210
State taxes	**370**	301	234
International taxes	**67**	129	135
Total current provision	**$ 2,113**	$ 1,637	$ 579
Deferred income tax provision (benefit):			
Federal taxes	**$ (1,357)**	$ (222)	$ 620
State taxes	**(266)**	(45)	115
International taxes	**(4)**	(29)	(21)
Total deferred provision (benefit)	**(1,627)**	(296)	714
Total income tax provision	**$ 486**	$ 1,341	$ 1,293

The international income tax provision is related to pre-tax earnings from foreign operations of approximately $293 million, $215 million and $382 million in 2020, 2019 and 2018, respectively.

Total income tax provision does not reflect the tax effects of items that are included in AOCI, which include tax provisions of $702 million, $727 million and $15 million in 2020, 2019 and 2018, respectively. See “Note 10—Stockholders’ Equity” for additional information.

The following table presents the reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate applicable to income from continuing operations for the years ended December 31, 2020, 2019 and 2018.

Table 15.2: Effective Income Tax Rate

	Year Ended December 31,		
	2020	**2019**	**2018**
Income tax at U.S. federal statutory tax rate	**21.0 %**	21.0 %	21.0 %
State taxes, net of federal benefit	**3.5**	3.1	3.2
Non-deductible expenses	**3.2**	1.6	2.2
Affordable housing, new markets and other tax credits	**(11.4)**	(5.2)	(4.0)
Tax-exempt interest and other nontaxable income	**(1.7)**	(0.8)	(0.7)
IRS method changes	**0.0**	0.0	(3.9)
Changes in valuation allowance	**2.3**	(0.3)	0.3
Other, net	**(1.7)**	0.1	(0.4)
Effective income tax rate	**15.2 %**	19.5 %	17.7 %

The following table presents significant components of our deferred tax assets and liabilities as of December 31, 2020 and 2019. The valuation allowance below represents the adjustment of our foreign tax credit carryforward, certain state deferred tax assets and net operating loss carryforwards to the amount we have determined is more likely than not to be realized.

Table 15.3: Significant Components of Deferred Tax Assets and Liabilities

(Dollars in millions)	**December 31, 2020**	**December 31, 2019**
Deferred tax assets:		
Allowance for credit losses	**$ 3,649**	$ 1,729
Rewards programs	**711**	579
Lease liabilities	**396**	407
Net operating loss and tax credit carryforwards	**314**	284
Compensation and employee benefits	**306**	301
Partnership investments	**237**	202
Unearned income	**117**	95
Goodwill and intangibles	**116**	161
Fixed assets and leases	**42**	0
Other assets	**143**	142
Subtotal	**6,031**	3,900
Valuation allowance	**(296)**	(223)
Total deferred tax assets	**5,735**	3,677
Deferred tax liabilities:		
Security and loan valuations[1]	**805**	234
Original issue discount	**481**	600
Net unrealized gains on derivatives	**387**	93
Right-of-use assets	**342**	393
Partnership investments	**142**	147
Mortgage servicing rights	**73**	55
Loan fees and expenses	**36**	100
Fixed assets and leases	**0**	189
Other liabilities	**143**	146
Total deferred tax liabilities	**2,409**	1,957
Net deferred tax assets	**$ 3,326**	$ 1,720

(1) Amount includes the tax impact of our December 31, 2019 transfer of our entire portfolio of held to maturity securities to available for sale.

Our gross federal net operating loss carryforwards were $36 million and $31 million as of December 31, 2020 and 2019, respectively. These operating loss carryforwards were attributable to acquisitions and will expire from 2028 to 2037, though $26 million has no expiration. Under IRS rules, our ability to utilize these losses against future income is limited. The net tax value of our state net operating loss carryforwards were $250 million and $237 million as of December 31, 2020 and 2019, respectively, and they will expire from 2021 to 2040. Our foreign tax credit carryforward was $56 million and $40 million as of December 31, 2020 and 2019, respectively. This carryforward will begin expiring in 2028.

Our valuation allowance increased by $73 million to $296 million as of December 31, 2020 compared to $223 million as of December 31, 2019. Of the total increase, $56 million is due to the determination that our foreign tax credit carryforwards will not be fully realized prior to expiration. The remaining increase relates to current year increments for state net operating loss and interest carryforwards.

We recognize accrued interest and penalties related to income taxes as a component of income tax expense. We recognized $16 million, $4 million and $6 million of such expense in 2020, 2019 and 2018, respectively.

The following table presents the accrued balance of tax, interest and penalties related to unrecognized tax benefits.

Table 15.4: Reconciliation of the Change in Unrecognized Tax Benefits

(Dollars in millions)	Gross Unrecognized Tax Benefits	Accrued Interest and Penalties	Gross Tax, Interest and Penalties
Balance as of January 1, 2018	$ 86	$ 29	$ 115
Additions for tax positions related to the current year	28	0	28
Additions for tax positions related to prior years	402	25	427
Reductions for tax positions related to prior years due to IRS and other settlements	(76)	(19)	(95)
Balance as of December 31, 2018	440	35	475
Additions for tax positions related to the current year	23	17	40
Additions for tax positions related to prior years	12	4	16
Reductions for tax positions related to prior years due to IRS and other settlements	(44)	(25)	(69)
Balance as of December 31, 2019	431	31	462
Additions for tax positions related to the current year	**33**	**0**	**33**
Additions for tax positions related to prior years	**3**	**21**	**24**
Reductions for tax positions related to prior years due to IRS and other settlements	**(16)**	**(6)**	**(22)**
Balance as of December 31, 2020	**$ 451**	**$ 46**	**$ 497**
Portion of balance at December 31, 2020 that, if recognized, would impact the effective income tax rate	**$ 153**	**$ 35**	**$ 188**

We are subject to examination by the IRS and other tax authorities in certain countries and states in which we operate. The tax years subject to examination vary by jurisdiction. During 2020, we continued to participate in the IRS Compliance Assurance Process (“CAP”) for our 2018, 2019 and 2020 federal income tax return years, and have been accepted into CAP for 2021. During 2020, the IRS review of our 2017 federal income tax return was completed, with one issue remaining open. This issue is now pending at the IRS Independent Office of Appeals, with a resolution expected during 2021. The IRS review of our 2018 and 2019 federal income tax returns is also substantially completed and these years are also expected to be closed in 2021. We expect that the IRS review of our 2020 federal income tax return will be substantially completed prior to its filing in 2021.

It is reasonably possible that further adjustments to the Company’s unrecognized tax benefits may be made within 12 months of the reporting date as a result of future judicial or regulatory interpretations of existing tax laws. At this time, an estimate of the potential changes to the amount of unrecognized tax benefits cannot be made.

As of December 31, 2020, the company has approximately $1.6 billion of unremitted earnings of subsidiaries operating outside the U.S. that upon repatriation would have no additional U.S. income taxes. In accordance with the guidance for accounting for income taxes in special areas, these earnings are considered by management to be invested indefinitely, except for the earnings of our Philippines subsidiary as we have made distributions and expect to make distributions in the future.

As of December 31, 2020, U.S. income taxes of $69 million have not been provided for approximately $287 million of previously acquired thrift bad debt reserves created for tax purposes as of December 31, 1987. These amounts, acquired as a result of previous mergers and acquisitions, are subject to recapture in the unlikely event that CONA, as the successor to the merged and acquired entities, makes distributions in excess of earnings and profits, redeems its stock or liquidates.

NOTE 16—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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following describes the valuation techniques used in estimating the fair value of our financial assets and liabilities recorded at fair value on a recurring basis.

Investment Securities

We measure the fair value of our U.S. Treasury securities using quoted prices in active markets. For the majority of securities in other investment categories, we utilize multiple vendor pricing services to obtain fair value measurements. We use a waterfall of pricing vendors determined using our annual assessment of pricing service performance. A pricing service may be considered as the preferred or primary pricing provider depending on how closely aligned its prices are to other vendor prices, and how consistent the prices are with other available market information. The price of each security is confirmed by comparing with other vendor prices before it is finalized.

RMBS and CMBS are generally classified as Level 2 or 3. When significant assumptions are not consistently observable, fair values are derived using the best available data. Such data may include quotes provided by dealers, valuation from external pricing services, independent pricing models, or other model-based valuation techniques, for example, calculation of the present values of future cash flows incorporating assumptions such as benchmark yields, spreads, prepayment speeds, credit ratings and losses. Generally, the pricing services utilize observable market data to the extent available. Pricing models may be used, which can vary by asset class and may also incorporate available trade, bid and other market information. Across asset classes, information such as trader/dealer inputs, credit spreads, forward curves and prepayment speeds are used to help determine appropriate valuations. Because many fixed income securities do not trade on a daily basis, the pricing models may apply available information through processes such as benchmarking curves, grouping securities based on their characteristics and using matrix pricing to prepare valuations. In addition, model processes are used by the pricing services to develop prepayment assumptions.

We validate the pricing obtained from the primary pricing providers through comparison of pricing to additional sources, including other pricing services, dealer pricing indications in transaction results and other internal sources. Pricing variances among different pricing sources are analyzed. Additionally, on an on-going basis, we request more detailed information from the valuation vendors to understand the pricing methodology and assumptions used to value the securities.

Derivative Assets and Liabilities

We use both exchange-traded and OTC derivatives to manage our interest rate, foreign currency and commodity risk exposures. When quoted market prices are available and used to value our exchange-traded derivatives, we classify them as Level 1. However, the majority of our derivatives do not have readily available quoted market prices. Therefore, we value most of our derivatives using vendor-based models. We primarily rely on market observable inputs for these models, including, for example, interest rate yield curves, credit curves, option volatility and currency rates. These inputs can vary depending on the type of derivatives and nature of the underlying rate, price or index upon which the value of the derivative is based. We typically classify derivatives as Level 2 when significant inputs can be observed in a liquid market and the model itself does not require significant judgment. When instruments are traded in less liquid markets and significant inputs are unobservable, such as interest rate swaps whose remaining terms do not correlate with market observable interest rate yield curves, such derivatives are classified as Level 3. We consider the impact of credit risk valuation adjustments when measuring the fair value of derivative contracts in order to reflect the credit quality of the counterparty and our own credit quality. Official internal pricing is compared against additional pricing sources such as external valuation agents and other internal sources. Pricing variances among different pricing sources are analyzed and validated. These derivatives are included in other assets or other liabilities on the consolidated balance sheets.

Loans Held for Sale

In our commercial business, we originate multifamily commercial real estate loans with the intent to sell them to GSEs. Beginning in the fourth quarter of 2019, we elected the fair value option for such loans as part of our management of interest rate risk in our multifamily agency business. These held for sale loans are valued based on market observable inputs and are therefore classified as Level 2. Unrealized gains and losses on these loans are recorded in other non-interest income in our consolidated statements of income.

Retained Interests in Securitizations

We have retained interests in various mortgage securitizations from previous acquisitions. Our retained interests primarily include interest-only bonds and negative amortization bonds. We record these retained interests at fair value using market indications and valuation models to calculate the present value of future cash flows. The models incorporate various assumptions that market participants use in estimating future cash flows including voluntary prepayment rate, discount rate, default rate and loss severity. Due to the use of significant unobservable inputs, retained interests in securitizations are classified as Level 3 under the fair value hierarchy.

Deferred Compensation Plan Assets

We offer a voluntary non-qualified deferred compensation plan to eligible associates. In addition to participant deferrals, we make contributions to the plan. Participants invest these contributions in a variety of publicly traded mutual funds. The plan assets, which consist of publicly traded mutual funds, are classified as Level 1.

The determination of the leveling 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. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the observable or unobservable inputs to the instruments' fair value measurement in its entirety. If unobservable inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions

The following table displays our assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis as of December 31, 2020 and 2019.

Table 16.1: Assets and Liabilities Measured at Fair Value on a Recurring Basis

	December 31, 2020				
	Fair Value Measurements Using				
(Dollars in millions)	Level 1	Level 2	Level 3	Netting Adjustments[1]	Total
Assets:					
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**
Total securities available for sale	**9,460**	**90,546**	**439**	**—**	**100,445**
Loans held for sale	**0**	**596**	**0**	**—**	**596**
Other assets:					
Derivative assets[2]	**268**	**3,006**	**141**	**$ (1,148)**	**2,267**
Other[3]	**430**	**552**	**55**	**—**	**1,037**
Total assets	**$ 10,158**	**$ 94,700**	**$ 635**	**$ (1,148)**	**$ 104,345**
Liabilities:					
Other liabilities:					
Derivative liabilities[2]	**$ 271**	**$ 1,137**	**$ 110**	**$ (739)**	**$ 779**
Total liabilities	**$ 271**	**$ 1,137**	**$ 110**	**$ (739)**	**$ 779**

	December 31, 2019				
	Fair Value Measurements Using				
(Dollars in millions)	Level 1	Level 2	Level 3	Netting Adjustments[1]	Total
Assets:					
Securities available for sale:					
U.S. Treasury securities	$ 4,124	$ 0	$ 0	—	$ 4,124
RMBS	0	63,909	429	—	64,338
CMBS	0	9,413	13	—	9,426
Other securities	231	1,094	0	—	1,325
Total securities available for sale	4,355	74,416	442	—	79,213
Loans held for sale	0	251	0	—	251
Other assets:					
Derivative assets[2]	84	1,568	77	$ (633)	1,096
Other[3]	344	0	66	—	410
Total assets	$ 4,783	$ 76,235	$ 585	$ (633)	$ 80,970
Liabilities:					
Other liabilities:					
Derivative liabilities[2]	$ 17	$ 1,129	$ 51	$ (523)	$ 674
Total liabilities	$ 17	$ 1,129	$ 51	$ (523)	$ 674

(1) 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 9—Derivative Instruments and Hedging Activities" for additional information.

(2) Does not reflect $31 million and $12 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of December 31, 2020 and 2019, 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.

(3) As of December 31, 2020 and 2019, other includes retained interests in securitizations of $55 million and $66 million, deferred compensation plan assets of $414 million and $343 million, and equity securities of $568 million (including unrealized gains of $535 million) and $1 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 years ended December 31, 2020, 2019 and 2018. 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 16.2: Level 3 Recurring Fair Value Rollforward

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Year Ended December 31, 2020										
		Total Gains (Losses) (Realized/Unrealized)									
(Dollars in millions)	Balance, January 1, 2020	Included in Net Income[1]	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfers Into Level 3	Transfers Out of Level 3	Balance, December 31, 2020	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2020[1]
Securities available for sale:[2][4]											
RMBS	$ 433	**$ 22**	**$ (19)**	**$ 0**	**$ 0**	**$ 0**	**$ (72)**	**$ 206**	**$ (242)**	**$ 328**	**$ 16**
CMBS	13	**(3)**	**(9)**	**0**	**0**	**0**	**(32)**	**371**	**(229)**	**111**	**0**
Total securities available for sale	446	**19**	**(28)**	**0**	**0**	**0**	**(104)**	**577**	**(471)**	**439**	**16**
Other assets:											
Retained interests in securitizations	66	**(11)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**55**	**(11)**
Net derivative assets (liabilities)[3]	26	**10**	**0**	**0**	**0**	**43**	**(37)**	**0**	**(11)**	**31**	**10**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Year Ended December 31, 2019										
		Total Gains (Losses) (Realized/Unrealized)									
(Dollars in millions)	Balance, January 1, 2019	Included in Net Income[1]	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfers Into Level 3	Transfers Out of Level 3	Balance, December 31, 2019	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2019[1]
Securities available for sale:[2]											
RMBS	$ 433	$ 35	$ 5	$ 0	$ 0	$ 0	$ (63)	$ 177	$ (158)	$ 429	$ 34
CMBS	10	0	0	0	0	0	(2)	5	0	13	0
Total securities available for sale	443	35	5	0	0	0	(65)	182	(158)	442	34
Other assets:											
Retained interests in securitizations	158	18	0	0	0	0	(110)	0	0	66	(19)
Net derivative assets (liabilities)[3]	(10)	6	0	0	0	(16)	52	0	(6)	26	1

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Year Ended December 31, 2018										
		Total Gains (Losses) (Realized/Unrealized)									
(Dollars in millions)	Balance, January 1, 2018	Included in Net Income(1)	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfers Into Level 3	Transfers Out of Level 3	Balance, December 31, 2018	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2018(1)
Securities available for sale:(2)											
RMBS	$ 614	$ 32	$ (8)	$ 0	$ 0	$ 0	$ (74)	$ 203	$ (334)	$ 433	$ 28
CMBS	14	0	0	0	0	0	(4)	0	0	10	0
Other securities	5	0	0	0	0	0	(5)	0	0	0	0
Total securities available for sale	633	32	(8)	0	0	0	(83)	203	(334)	443	28
Other assets:											
Consumer MSRs	92	3	0	0	(97)	2	0	0	0	0	0
Retained interests in securitizations	172	(14)	0	0	0	0	0	0	0	158	(14)
Net derivative assets (liabilities)(3)	13	(20)	0	0	0	13	(17)	0	1	(10)	(20)

(1) 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.

(2) Net unrealized losses included in other comprehensive income related to Level 3 securities available for sale still held as of December 31, 2020 were $21 million. Net unrealized losses included in other comprehensive income related to Level 3 securities available for sale still held as of December 31, 2019 were $4 million. Net unrealized losses included in other comprehensive income related to Level 3 securities available for sale still held as of December 31, 2018 were $17 million.

(3) Includes derivative assets and liabilities of $141 million and $110 million, respectively, as of December 31, 2020, $77 million and $51 million, respectively, as of December 31, 2019 and $38 million and $48 million, respectively, as of December 31, 2018.

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

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 16.3: Quantitative Information about Level 3 Fair Value Measurements

	Quantitative Information about Level 3 Fair Value Measurements				
(Dollars in millions)	Fair Value at December 31, 2020	Significant Valuation Techniques	Significant Unobservable Inputs	Range	Weighted Average[1]
Securities available for sale:					
RMBS	$ 328	Discounted cash flows (vendor pricing)	Yield Voluntary prepayment rate Default rate Loss severity	2-12% 8-15% 0-11% 30-100%	3% 10% 2% 73%
CMBS	111	Discounted cash flows (vendor pricing)	Yield	1-3%	2%
Other assets:					
Retained interests in securitizations[2]	55	Discounted cash flows	Life of receivables (months) Voluntary prepayment rate Discount rate Default rate Loss severity	37-52 3-13% 2-12% 3-3% 55-70%	N/A
Net derivative assets (liabilities)	31	Discounted cash flows	Swap rates	1%	1%

	Quantitative Information about Level 3 Fair Value Measurements				
(Dollars in millions)	Fair Value at December 31, 2019	Significant Valuation Techniques	Significant Unobservable Inputs	Range	Weighted Average[1]
Securities available for sale:					
RMBS	$ 429	Discounted cash flows (vendor pricing)	Yield Voluntary prepayment rate Default rate Loss severity	2-18% 0-18% 1-6% 30-95%	5% 10% 2% 67%
CMBS	13	Discounted cash flows (vendor pricing)	Yield	2-3%	2%
Other assets:					
Retained interests in securitizations[2]	66	Discounted cash flows	Life of receivables (months) Voluntary prepayment rate Discount rate Default rate Loss severity	35-51 4-14% 3-10% 2-3% 74-88%	N/A
Net derivative assets (liabilities)	26	Discounted cash flows	Swap rates	2%	2%

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

(2) 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 describes the valuation techniques used in estimating the fair value of our financial assets and liabilities recorded at fair value on a nonrecurring basis.

Net Loans Held for Investment

For loans held for investment that are recorded at fair value on our consolidated balance sheets and measured on a nonrecurring basis, the fair value is determined using appraisal values that are obtained from independent appraisers, broker pricing opinions or other available market information, adjusted for the estimated cost to sell. Due to the use of significant unobservable inputs, these loans are classified as Level 3 under the fair value hierarchy. Fair value adjustments for individually impaired collateralized loans held for investment are recorded in provision for credit losses in the consolidated statements of income.

Loans Held for Sale

Loans held for sale for which we have not elected the fair value option are carried at the lower of aggregate cost, net of deferred fees and deferred origination costs, or fair value. These loans held for sale are valued based on market observable inputs and are therefore classified as Level 2. Fair value adjustments to these loans are recorded in other non-interest income in our consolidated statements of income.

Other Assets

Other assets subject to nonrecurring fair value measurements include equity investments accounted for under the measurement alternative, other repossessed assets and long-lived assets held for sale. These assets held for sale are carried at the lower of the carrying amount or fair value less costs to sell. The fair value is determined based on the appraisal value, listing price of the property or collateral provided by independent appraisers, and is adjusted for the estimated costs to sell. Due to the use of significant unobservable inputs, these assets are classified as Level 3 under the fair value hierarchy. Fair value adjustments for these assets are recorded in other non-interest expense in the consolidated statements of income.

The following table presents the carrying value of the assets measured at fair value on a nonrecurring basis and still held as of December 31, 2020 and 2019, and for which a nonrecurring fair value measurement was recorded during the year then ended.

Table 16.4: Nonrecurring Fair Value Measurements

	December 31, 2020		
	Estimated Fair Value Hierarchy		
(Dollars in millions)	Level 2	Level 3	Total
Loans held for investment	**$ 0**	**$ 305**	**$ 305**
Other assets[(1)]	**0**	**175**	**175**
Total	**$ 0**	**$ 480**	**$ 480**

	December 31, 2019		
	Estimated Fair Value Hierarchy		
(Dollars in millions)	Level 2	Level 3	Total
Loans held for investment	$ 0	$ 294	$ 294
Other assets[(1)]	0	103	103
Total	$ 0	$ 397	$ 397

(1) 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. As of December 31, 2019, other assets included equity investments accounted for under the measurement alternative of $5 million, repossessed assets of $61 million and long-lived assets held for sale of $37 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 89%, with a weighted average of 14%, and from 0% to 50%, with a weighted average of 6%, as of December 31, 2020 and 2019, 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 December 31, 2020 and 2019.

Table 16.5: Nonrecurring Fair Value Measurements Included in Earnings

	Total Gains (Losses)	
	Year Ended December 31,	
(Dollars in millions)	2020	2019
Loans held for investment	$ 198	$ (268)
Other assets[1]	(85)	(76)
Total	$ 113	$ (344)

[1] 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 December 31, 2020 and 2019.

Table 16.6: Fair Value of Financial Instruments

	December 31, 2020				
			Estimated Fair Value Hierarchy		
(Dollars in millions)	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
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[1]	1,341	1,341	0	1,341	0
Financial liabilities:					
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

	December 31, 2019				
			Estimated Fair Value Hierarchy		
(Dollars in millions)	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 13,407	$ 13,407	$ 4,129	$ 9,278	$ 0
Restricted cash for securitization investors	342	342	342	0	0
Net loans held for investment	258,601	258,696	0	0	258,696
Loans held for sale	149	149	0	149	0
Interest receivable	1,758	1,758	0	1,758	0
Other investments[(1)]	1,638	1,638	0	1,638	0
Financial liabilities:					
Deposits with defined maturities	44,958	45,225	0	45,225	0
Securitized debt obligations	17,808	17,941	0	17,941	0
Senior and subordinated notes	30,472	31,233	0	31,233	0
Federal funds purchased and securities loaned or sold under agreements to repurchase	314	314	0	314	0
Other borrowings[(2)]	7,000	7,001	0	7,001	0
Interest payable	439	439	0	439	0

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

(2) Other borrowings excludes finance lease liabilities.

NOTE 17—BUSINESS SEGMENTS AND REVENUE FROM CONTRACTS WITH CUSTOMERS

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.

- *Credit Card:* Consists of our domestic consumer and small business card lending, and international card businesses in Canada and the United Kingdom.
- *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.
- *Other category:* Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments. Accordingly, net gains and losses on our investment securities portfolio and certain trading activities are included in the Other category. Other category also includes foreign exchange-rate fluctuations on foreign currency-denominated transactions; unallocated corporate 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; certain material items that are non-recurring in nature; offsets related to certain line-item reclassifications; and residual tax expense or benefit to arrive at the consolidated effective tax rate that is not assessed to our primary business segments.

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.

The following is additional information on the principles and methodologies used in preparing our business segment results.

- *Net interest income:* Interest income from loans held for investment and interest expense from deposits and other interest-bearing liabilities are reflected within each applicable business segment. Because funding and asset/liability management are managed centrally by our Corporate Treasury group, net interest income for our business segments also includes the results of a funds transfer pricing process that is intended to allocate a cost of funds used or credit for funds provided to all business segment assets and liabilities, respectively, using a matched funding concept. The taxable-equivalent benefit of tax-exempt products is also allocated to each business unit with a corresponding increase in income tax expense.

- *Non-interest income:* Non-interest fees and other revenue associated with loans or customers managed by each business segment and other direct revenues are accounted for within each business segment.
- *Provision for credit losses:* The provision for credit losses is directly attributable to the business segment in accordance with the loans each business segment manages.
- *Non-interest expense:* Non-interest expenses directly managed and incurred by a business segment are accounted for within each business segment. We allocate certain non-interest expenses indirectly incurred by business segments, such as corporate support functions, to each business segment based on various factors, including the actual cost of the services from the service providers, the utilization of the services, the number of employees or other relevant factors.
- *Goodwill and intangible assets:* Goodwill and intangible assets that are not directly attributable to business segments are assigned to business segments based on the relative fair value of each segment. Intangible amortization is included in the results of the applicable segment.
- *Income taxes:* Income taxes are assessed for each business segment based on a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in the Other category.
- *Loans held for investment:* Loans are reported within each business segment based on product or customer type served by that business segment.
- *Deposits:* Deposits are reported within each business segment based on product or customer type served by that business segment.

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. In the first quarter of 2019, we made a change in how revenue is measured in our Commercial Banking business by revising the allocation of tax benefits on certain tax-advantaged investments. As such, 2018 results have been recast to conform with the current period presentation. The result of this measurement change reduced the previously reported total net revenue in our Commercial Banking business by $108 million for the year ended December 31, 2018, with an offsetting increase in the Other category. This change in measurement of our Commercial Banking revenue did not have any impact to the consolidated financial statements.

The following table presents our business segment results for the years ended December 31, 2020, 2019 and 2018, selected balance sheet data as of December 31, 2020, 2019 and 2018, and a reconciliation of our total business segment results to our reported consolidated income from continuing operations, loans held for investment and deposits.

Table 17.1: Segment Results and Reconciliation

	Year Ended December 31, 2020				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking[1]	Other[1]	Consolidated Total
Net interest income (loss)	**$ 13,776**	**$ 7,238**	**$ 2,048**	**$ (149)**	**$ 22,913**
Non-interest income	**3,823**	**466**	**923**	**398**	**5,610**
Total net revenue[2]	**17,599**	**7,704**	**2,971**	**249**	**28,523**
Provision for credit losses	**7,327**	**1,753**	**1,181**	**3**	**10,264**
Non-interest expense	**8,491**	**4,159**	**1,706**	**700**	**15,056**
Income (loss) from continuing operations before income taxes	**1,781**	**1,792**	**84**	**(454)**	**3,203**
Income tax provision (benefit)	**420**	**425**	**19**	**(378)**	**486**
Income (loss) from continuing operations, net of tax	**$ 1,361**	**$ 1,367**	**$ 65**	**$ (76)**	**$ 2,717**
Loans held for investment	**$ 106,956**	**$ 68,888**	**$ 75,780**	**$ 0**	**$ 251,624**
Deposits	**0**	**249,815**	**39,590**	**16,037**	**305,442**

	Year Ended December 31, 2019				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking[1]	Other[1]	Consolidated Total
Net interest income	$ 14,461	$ 6,732	$ 1,983	$ 164	$ 23,340
Non-interest income (loss)	3,888	643	831	(109)	5,253
Total net revenue	18,349	7,375	2,814	55	28,593
Provision for credit losses	4,992	938	306	0	6,236
Non-interest expense	9,271	4,091	1,699	422	15,483
Income (loss) from continuing operations before income taxes	4,086	2,346	809	(367)	6,874
Income tax provision (benefit)	959	547	188	(353)	1,341
Income (loss) from continuing operations, net of tax	$ 3,127	$ 1,799	$ 621	$ (14)	$ 5,533
Loans held for investment	$ 128,236	$ 63,065	$ 74,508	$ 0	$ 265,809
Deposits	0	213,099	32,134	17,464	262,697

	Year Ended December 31, 2018				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking[1][3]	Other[1][3]	Consolidated Total
Net interest income	$ 14,167	$ 6,549	$ 2,044	$ 115	$ 22,875
Non-interest income	3,520	663	744	274	5,201
Total net revenue	17,687	7,212	2,788	389	28,076
Provision (benefit) for credit losses	4,984	838	83	(49)	5,856
Non-interest expense	8,542	4,027	1,654	679	14,902
Income (loss) from continuing operations before income taxes	4,161	2,347	1,051	(241)	7,318
Income tax provision (benefit)	970	547	245	(469)	1,293
Income from continuing operations, net of tax	$ 3,191	$ 1,800	$ 806	$ 228	$ 6,025
Loans held for investment	$ 116,361	$ 59,205	$ 70,333	$ 0	$ 245,899
Deposits	0	198,607	29,480	21,677	249,764

(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% for all periods presented) and state taxes where applicable, with offsetting reductions to the Other category.

(2) Total net revenue was reduced by $1.1 billion for the year ended December 31, 2020, for finance charges and fees charged off as uncollectible.

(3) In the first quarter of 2019, we made a change in how revenue is measured in our Commercial Banking business by revising the allocation of tax benefits on certain tax-advantaged investments. As such, 2018 results have been recast to conform with the current period presentation. The result of this measurement change reduced the previously reported total net revenue in our Commercial Banking business by $108 million for the year ended December 31, 2018, with an offsetting increase in the Other category.

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 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 years ended December 31, 2020, 2019 and 2018.

Table 17.2: Revenue from Contracts with Customers and Reconciliation to Segment Results

	Year Ended December 31, 2020				
(Dollars in millions)	**Credit Card**	**Consumer Banking**	**Commercial Banking[1]**	**Other[1]**	**Consolidated Total**
Contract revenue:					
Interchange fees, net[2]	**$ 2,747**	**$ 209**	**$ 63**	**$ (2)**	**$ 3,017**
Service charges and other customer-related fees	**0**	**188**	**175**	**(1)**	**362**
Other	**315**	**39**	**4**	**0**	**358**
Total contract revenue	**3,062**	**436**	**242**	**(3)**	**3,737**
Revenue from other sources	**761**	**30**	**681**	**401**	**1,873**
Total non-interest income	**$ 3,823**	**$ 466**	**$ 923**	**$ 398**	**$ 5,610**

	Year Ended December 31, 2019				
(Dollars in millions)	**Credit Card**	**Consumer Banking**	**Commercial Banking[1]**	**Other[1]**	**Consolidated Total**
Contract revenue:					
Interchange fees, net[2]	$ 2,925	$ 205	$ 55	$ (6)	$ 3,179
Service charges and other customer-related fees	0	298	120	(1)	417
Other	120	101	3	0	224
Total contract revenue	3,045	604	178	(7)	3,820
Revenue from other sources	843	39	653	(102)	1,433
Total non-interest income	$ 3,888	$ 643	$ 831	$ (109)	$ 5,253

	Year Ended December 31, 2018				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking[1]	Other[1]	Consolidated Total
Contract revenue:					
Interchange fees, net[2]	$ 2,609	$ 185	$ 33	$ (4)	$ 2,823
Service charges and other customer-related fees	0	367	123	(1)	489
Other	8	109	2	0	119
Total contract revenue	2,617	661	158	(5)	3,431
Revenue from other sources	903	2	586	279	1,770
Total non-interest income	$ 3,520	$ 663	$ 744	$ 274	$ 5,201

(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% for all periods presented) and state taxes where applicable, with offsetting reductions to the Other category.

(2) Interchange fees are presented net of customer reward expenses of $4.9 billion for the years ended December 31, 2020 and 2019 and $4.4 billion for the year ended December 31, 2018.

NOTE 18—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 December 31, 2020 and 2019. The carrying value represents our reserve and deferred revenue on legally binding commitments.

Table 18.1: Unfunded Lending Commitments

	Contractual Amount		Carrying Value	
(Dollars in millions)	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Credit card lines	**$ 349,594**	$ 363,446	**N/A**	N/A
Other loan commitments[(1)]	**35,836**	36,454	**$ 144**	$ 110
Standby letters of credit and commercial letters of credit[(2)]	**1,302**	1,574	**32**	27
Total unfunded lending commitments	**$ 386,732**	$ 401,474	**$ 176**	$ 137

(1) Includes $1.8 billion and $1.6 billion of advised lines of credit as of December 31, 2020 and 2019, respectively.

(2) These financial guarantees have expiration dates ranging from 2021 to 2023 as of December 31, 2020.

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 $97 million and $75 million as of December 31, 2020 and 2019, 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.

U.K. Payment Protection Insurance

In the U.K., we previously sold payment protection insurance ("PPI"). In response to an elevated level of customer complaints across the industry, heightened media coverage and pressure from consumer advocacy groups, the U.K. Financial Conduct Authority ("FCA"), formerly the Financial Services Authority, investigated and raised concerns about the way the industry has handled complaints related to the sale of these insurance policies. For the past several years, the U.K.'s Financial Ombudsman Service ("FOS") has been adjudicating customer complaints relating to PPI, escalated to it by consumers who disagree with the rejection of their complaint by firms, leading to customer remediation payments by us and others within the industry. In August 2017, the FCA issued final rules and guidance on the PPI complaints. This set the deadline for complaints as August 29, 2019. It also provided clarity on how to handle PPI complaints under s.140A of the Consumer Credit Act, including guidance on how redress for such complaints should be calculated.

COEP has now materially completed the handling of PPI complaints that were received prior to the deadline set by the FCA. Escalations to the FOS (by customers or their representatives) may still take place until the first quarter of 2021. Throughout this time, the FCA will continue to supervise firms that handle PPI complaints and the supporting processes, people and systems.

Our U.K. PPI reserve declined to an immaterial amount as of December 31, 2020 from $188 million as of December 31, 2019.

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 December 31, 2020 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.

Anti-Money Laundering

In October 2018, we paid a civil monetary penalty of $100 million to resolve the monetary component of a July 2015 OCC consent order relating to our anti-money laundering ("AML") program. The OCC lifted the AML consent order in November 2019.

In June 2019, the Department of Justice and the New York District Attorney's Office closed their investigations into certain former check cashing clients of the Commercial Banking business and our AML program. In January 2021, the Financial Crimes Enforcement Network ("FinCEN") of the U.S. Department of Treasury assessed a civil monetary penalty of $390 million to conclude its investigation into AML compliance regarding certain former check cashing clients. We paid $290 million from existing reserves to satisfy the assessment, after receiving a credit for the related $100 million civil monetary penalty we paid to the OCC in October 2018. The resolution with FinCEN concludes the last government inquiry relating to the former check cashing line of business we exited in 2014.

Cybersecurity Incident

As a result of the Cybersecurity Incident announced on July 29, 2019, 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 73 putative consumer class action cases (61 in U.S. federal courts and 12 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 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

Some of the claimants in the U.K. PPI regulatory claims process have initiated legal proceedings. The significant increase in PPI regulatory claim volumes shortly before the August 29, 2019 claims submission deadline increases the potential exposure for PPI-related litigation, which is not subject to the August 29, 2019 deadline.

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.

NOTE 19—CAPITAL ONE FINANCIAL CORPORATION (PARENT COMPANY ONLY)

Financial Information

The following parent company only financial statements are prepared in accordance with Regulation S-X of the U.S. Securities and Exchange Commission ("SEC").

Table 19.1: Parent Company Statements of Income

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Interest income	**$ 186**	$ 442	$ 313
Interest expense	**510**	798	720
Dividends from subsidiaries	**3,003**	3,276	2,750
Non-interest income (loss)	**(127)**	(21)	19
Non-interest expense	**33**	60	29
Income before income taxes and equity in undistributed earnings of subsidiaries	**2,519**	2,839	2,333
Income tax benefit	**(93)**	(138)	(128)
Equity in undistributed earnings of subsidiaries	**102**	2,569	3,554
Net income	**2,714**	5,546	6,015
Other comprehensive income (loss), net of tax	**2,346**	1,531	(136)
Comprehensive income	**$ 5,060**	$ 7,077	$ 5,879

Table 19.2: Parent Company Balance Sheets

(Dollars in millions)	**December 31, 2020**	**December 31, 2019**
Assets:		
Cash and cash equivalents	**$ 12,976**	$ 13,050
Investments in subsidiaries	**62,066**	61,626
Loans to subsidiaries	**5,924**	3,905
Securities available for sale	**622**	738
Other assets	**1,473**	1,017
Total assets	**$ 83,061**	$ 80,336
Liabilities:		
Senior and subordinated notes	**$ 22,037**	$ 22,080
Accrued expenses and other liabilities	**820**	245
Total liabilities	**22,857**	22,325
Total stockholders' equity	**60,204**	58,011
Total liabilities and stockholders' equity	**$ 83,061**	$ 80,336

Table 19.3: Parent Company Statements of Cash Flows

	Year Ended December 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Operating activities:			
Net income	**$ 2,714**	$ 5,546	$ 6,015
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed earnings of subsidiaries	**(102)**	(2,569)	(3,554)
Other operating activities	**1,217**	216	(35)
Net cash from operating activities	**3,829**	3,193	2,426
Investing activities:			
Changes in investments in subsidiaries	**(217)**	704	(577)
Proceeds from paydowns and maturities of securities available for sale	**117**	111	140
Changes in loans to subsidiaries	**(2,019)**	(1,302)	(2,055)
Net cash from investing activities	**(2,119)**	(487)	(2,492)
Financing activities:			
Borrowings:			
Changes in borrowings from subsidiaries	**0**	0	38
Issuance of senior and subordinated notes	**1,991**	2,646	5,227
Maturities and paydowns of senior and subordinated notes	**(2,900)**	(750)	0
Common stock:			
Net proceeds from issuances	**241**	199	175
Dividends paid	**(460)**	(753)	(773)
Preferred stock:			
Net proceeds from issuances	**1,330**	1,462	0
Dividends paid	**(280)**	(282)	(265)
Redemptions	**(1,375)**	(1,000)	0
Purchases of treasury stock	**(393)**	(1,481)	(2,284)
Proceeds from share-based payment activities	**62**	17	38
Net cash from financing activities	**(1,784)**	58	2,156
Changes in cash and cash equivalents	**(74)**	2,764	2,090
Cash and cash equivalents, beginning of the period	**13,050**	10,286	8,196
Cash and cash equivalents, end of the period	**$ 12,976**	$ 13,050	$ 10,286
Supplemental information:			
Non-cash impact from the dissolution of wholly-owned subsidiary			
Decrease in investment in subsidiaries	**$ 0**	$ 1,508	$ 0
Decrease in borrowings from subsidiaries	**0**	1,671	0

NOTE 20—RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may have loans issued to our executive officers, directors and principal stockholders. Pursuant to our policy, such loans are issued on the same terms as those prevailing at the time for comparable loans to unrelated persons and do not involve more than the normal risk of collectability.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 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 December 31, 2020, the end of the period covered by this Report on Form 10-K. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020, 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 have been no changes in internal control over financial reporting that occurred during the fourth quarter of 2020 which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

(c) Management's Report on Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting is included in "Part II—Item 8. Financial Statements and Supplementary Data" and is incorporated herein by reference. The Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting also is included in "Part II—Item 8. Financial Statements and Supplementary Data" and incorporated herein by reference.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 will be included in our Proxy Statement for the 2021 Annual Stockholder Meeting ("Proxy Statement") under the heading "Corporate Governance at Capital One," and is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the end of our 2020 fiscal year.

Item 11. Executive Compensation

The information required by Item 11 will be included in the Proxy Statement under the headings "Director Compensation," "Compensation Discussion and Analysis," "Named Executive Officer Compensation" and "Compensation Committee Report," and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 will be included in the Proxy Statement under the headings "Security Ownership" and "Equity Compensation Plans," and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 will be included in the Proxy Statement under the headings "Related Person Transactions" and "Director Independence," and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 will be included in the Proxy Statement under the heading "Ratification of Selection of Independent Registered Public Accounting Firm," and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statement Schedules

The following documents are filed as part of this Annual Report in Part II, Item 8 and are incorporated herein by reference.

(1) Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements

Consolidated Financial Statements:

Consolidated Statements of Income for the years ended December 31, 2020, 2019 and 2018

Consolidated Statements of Comprehensive Income for the years ended December 31, 2020, 2019 and 2018

Consolidated Balance Sheets as of December 31, 2020 and 2019

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2020, 2019 and 2018

Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018

Notes to Consolidated Financial Statements

(2) Schedules

None.

(b) Exhibits

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

Item 16. Form 10-K Summary

Not applicable.

CAPITAL ONE FINANCIAL CORPORATION

ANNUAL REPORT ON FORM 10-K
DATED DECEMBER 31, 2020
Commission File No. 001-13300

The following exhibits are incorporated by reference or filed herewith. References to (i) the "2002 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed on March 17, 2003; (ii) the "2003 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 5, 2004; (iii) the "2010 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed on March 1, 2011, as amended on March 7, 2011; (iv) the "2011 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 28, 2012; (v) the "2012 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed on February 28, 2013; (vi) the "2013 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on February 27, 2014; (vii) the "2014 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed on February 24, 2015; (viii) the "2015 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 25, 2016; (ix) the "2016 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed on February 23, 2017; (x) the "2017 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed on February 21, 2018; (xi) the "2018 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed on February 20, 2019; and (xii) the "2019 Form 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed on February 20, 2020.

Exhibit No.	Description
3.1	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).
3.2	Amended and Restated Bylaws of Capital One Financial Corporation, dated May 1, 2020 (incorporated by reference to Exhibit 3.3 of the Current Report on Form 8-K, filed on May 4, 2020).
3.3.1	Certificate of Designations of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, dated May 12, 2015 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on May 14, 2015).
3.3.2	Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series G, dated July 28, 2016 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on July 29, 2016).
3.3.3	Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series H, dated November 28, 2016 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on November 29, 2016).
3.3.4	Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series I, dated September 10, 2019 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on September 11, 2019).
3.3.5	Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series J, dated January 30, 2020 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on January 31, 2020).
3.3.6	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).
4.1.1	Specimen certificate representing the common stock of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the 2003 Form 10-K).
4.1.2	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).
4.1.3	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).
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.
4.3*	Description of Securities Registered Under Section 12 of the Exchange Act.
10.1.1+	Second Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to the Proxy Statement on Definitive Schedule 14A, filed on March 13, 2009).
10.1.2+	Third Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to the Proxy Statement on Definitive Schedule 14A, filed on March 18, 2014).
10.1.3+	Fourth Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.1.4 of the 2017 Form 10-K).
10.1.4+	Fifth Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed on May 3, 2019).

Exhibit No.	Description
10.2.1+	Form of Nonstatutory Stock Option Award Agreement granted to our executive officers, including the Chief Executive Officer, under the Second Amended and Restated 2004 Stock Incentive Plan on January 26, 2011 (incorporated by reference to Exhibit 10.18 of the 2010 Form 10-K).
10.2.2+	Form of Nonstatutory Stock Option Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Second Amended and Restated 2004 Stock Incentive Plan on January 31, 2012 (incorporated by reference to Exhibit 10.2.10 of the 2011 Form 10-K).
10.2.3+	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Second Amended and Restated 2004 Stock Incentive Plan on January 31, 2012 (incorporated by reference to Exhibit 10.2.11 of the 2011 Form 10-K).
10.2.4+	Form of Nonstatutory Stock Option Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Second Amended and Restated 2004 Stock Incentive Plan on January 31, 2013 (incorporated by reference to Exhibit 10.2.14 of the 2012 Form 10-K).
10.2.5+	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Second Amended and Restated 2004 Stock Incentive Plan on January 31, 2013 (incorporated by reference to Exhibit 10.2.15 of the 2012 Form 10-K).
10.2.6+	Form of Nonstatutory Stock Option Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Second Amended and Restated 2004 Stock Incentive Plan on January 30, 2014 (incorporated by reference to Exhibit 10.2.15 of the 2013 Form 10-K).
10.2.7+	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Second Amended and Restated 2004 Stock Incentive Plan on January 30, 2014 (incorporated by reference to Exhibit 10.2.16 of the 2013 Form 10-K).
10.2.8+	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Second Amended and Restated 2004 Stock Incentive Plan on January 30, 2014 (incorporated by reference to Exhibit 10.2.17 of the 2013 Form 10-K).
10.2.9+	Form of Nonstatutory Stock Option Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Third Amended and Restated 2004 Stock Incentive Plan on January 29, 2015 (incorporated by reference to Exhibit 10.2.14 of the 2014 Form 10-K).
10.2.10+	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Third Amended and Restated 2004 Stock Incentive Plan on January 29, 2015 (incorporated by reference to Exhibit 10.2.15 of the 2014 Form 10-K).
10.2.11+	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Third Amended and Restated 2004 Stock Incentive Plan on January 29, 2015 (incorporated by reference to Exhibit 10.2.16 of the 2014 Form 10-K).
10.2.12+	Form of Nonstatutory Stock Option Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Third Amended and Restated 2004 Stock Incentive Plan on February 4, 2016 (incorporated by reference to Exhibit 10.2.17 of the 2015 Form 10-K).
10.2.13+	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Third Amended and Restated 2004 Stock Incentive Plan on February 4, 2016 (incorporated by reference to Exhibit 10.2.18 of the 2015 Form 10-K).
10.2.14+	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Third Amended and Restated 2004 Stock Incentive Plan on February 4, 2016 (incorporated by reference to Exhibit 10.2.19 of the 2015 Form 10-K).
10.2.15+	Restricted Stock Unit Award Agreement granted to R. Scott Blackley under the Third Amended and Restated 2004 Stock Incentive Plan, dated May 9, 2016 (incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q for the period ended June 30, 2016).
10.2.16+	Form of Nonstatutory Stock Option Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Third Amended and Restated 2004 Stock Incentive Plan on February 2, 2017 (incorporated by reference to Exhibit 10.2.19 of the 2016 Form 10-K).
10.2.17+	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Third Amended and Restated 2004 Stock Incentive Plan on February 2, 2017 (incorporated by reference to Exhibit 10.2.20 of the 2016 Form 10-K).
10.2.18+	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Third Amended and Restated 2004 Stock Incentive Plan on February 2, 2017 (incorporated by reference to Exhibit 10.2.21 of the 2016 Form 10-K).
10.2.19+	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Fourth Amended and Restated 2004 Stock Incentive Plan on February 1, 2018 (incorporated by reference to Exhibit 10.2.22 of the 2017 Form 10-K).
10.2.20+	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Fourth Amended and Restated 2004 Stock Incentive Plan on February 1, 2018 (incorporated by reference to Exhibit 10.2.23 of the 2017 Form 10-K).

Exhibit No.	Description
10.2.21+	Form of Performance Unit Award Agreements granted to our executive officers under the Fourth Amended and Restated 2004 Stock Incentive Plan on January 31, 2019 (incorporated by reference to Exhibit 10.2.21 of the 2018 Form 10-K).
10.2.22+	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Fourth Amended and Restated 2004 Stock Incentive Plan on January 31, 2019 (incorporated by reference to Exhibit 10.2.22 of the 2018 Form 10-K).
10.2.23+	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Fifth Amended and Restated 2004 Stock Incentive Plan on January 30, 2020 (incorporated by reference to Exhibit 10.2.23 of the 2019 Form 10-K).
10.2.24+	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Fifth Amended and Restated 2004 Stock Incentive Plan on January 30, 2020 (incorporated by reference to Exhibit 10.2.24 of the 2019 Form 10-K).
10.2.25+*	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Fifth Amended and Restated 2004 Stock Incentive Plan on February 4, 2021.
10.2.26+*	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the Fifth Amended and Restated 2004 Stock Incentive Plan on February 4, 2021.
10.2.27+*	Form of Total Shareholder Return Performance Unit Award Agreement granted to our Chief Executive Officer under the Fifth Amended and Restated 2004 Stock Incentive Plan on February 4, 2021.
10.3.1+	Capital One Financial Corporation 1999 Non-Employee Directors Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.4 of the 2002 Form 10-K).
10.3.2+	Form of 1999 Non-Employee Directors Stock Incentive Plan Deferred Share Units Award Agreement between Capital One Financial Corporation and certain of its Directors (incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q for the period ended September 30, 2004).
10.3.3+	Form of Restricted Stock Unit Award Agreement granted to our directors under the Second Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.3.4 of the 2011 Form 10-K).
10.3.4+	Form of Stock Option Award Agreement granted to our directors under the Second Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.3.5 of the 2011 Form 10-K).
10.3.5+	Form of Restricted Stock Unit Award Agreement granted to our directors under the Fourth Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q for the period ended June 30, 2018).
10.3.6+	Form of Restricted Stock Unit Award Agreement granted to our directors under the Fifth Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q for the period ended June 30, 2019).
10.4.1+	Amended and Restated Capital One Financial Corporation Executive Severance Plan (incorporated by reference to Exhibit 10.4 of the 2011 Form 10-K).
10.4.2+	Amended and Restated Capital One Financial Corporation Executive Severance Plan (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q for the period ended September 30, 2015).
10.5+	Capital One Financial Corporation Non-Employee Directors Deferred Compensation Plan (incorporated by reference to Exhibit 10.5 of the 2011 Form 10-K).
10.6.1+	Amended and Restated Capital One Financial Corporation Voluntary Non-Qualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 of the 2011 Form 10-K).
10.6.2+	First Amendment to the Amended and Restated Capital One Financial Corporation Voluntary Non-Qualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.6.2 of the 2012 Form 10-K).
10.7.1+	Form of Change of Control Employment Agreement between Capital One Financial Corporation and each of its named executive officers, other than the Chief Executive Officer (incorporated by reference to Exhibit 10.8.2 of the 2011 Form 10-K).
10.7.2+	Form of 2011 Change of Control Employment Agreement between Capital One Financial Corporation and certain executive officers (incorporated by reference to Exhibit 10.8.3 of the 2012 Form 10-K).
10.7.3+	Change of Control Employment Agreement between Capital One Financial Corporation and Richard D. Fairbank (incorporated by reference to Exhibit 10.7.3 of the 2013 Form 10-K).
10.8.1+	Form of Non-Competition Agreement between Capital One Financial Corporation and certain named executive officers (incorporated by reference to Exhibit 10.9 of the 2012 Form 10-K).
10.8.2+	Non-Competition Agreement between Capital One Financial Corporation and R. Scott Blackley, as amended on July 1, 2017 (incorporated by reference to Exhibit 10.1.1 of the Quarterly Report on Form 10-Q for the period ended March 31, 2017).
10.8.3+	Non-Competition Agreement between Capital One Financial Corporation and Michael J. Wassmer (incorporated by reference to Exhibit 10.1.3 of the Quarterly Report on Form 10-Q for the period ended March 31, 2017).
21*	Subsidiaries of the Company.
23*	Consent of Ernst & Young LLP.
31.1*	Certification of Richard D. Fairbank.

Exhibit No.	Description
31.2*	Certification of R. Scott Blackley.
32.1**	Certification of Richard D. Fairbank.
32.2**	Certification of R. Scott Blackley.
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 Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL (included within the Exhibit 101 attachments).

+ Represents a management contract or compensatory plan or arrangement.

* Indicates a document being filed with this Form 10-K.

** Indicates a document being furnished with this Form 10-K. Information in this Form 10-K 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 Section 13 or 15(d) 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.

CAPITAL ONE FINANCIAL CORPORATION

Date: February 25, 2021	By:	/s/ RICHARD D. FAIRBANK
		Richard D. Fairbank
		Chair, Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ RICHARD D. FAIRBANK Richard D. Fairbank	Chair, Chief Executive Officer and President (Principal Executive Officer)	February 25, 2021
/s/ R. SCOTT BLACKLEY R. Scott Blackley	Chief Financial Officer (Principal Financial Officer)	February 25, 2021
/s/ TIMOTHY P. GOLDEN Timothy P. Golden	Controller (Principal Accounting Officer)	February 25, 2021
/s/ APARNA CHENNAPRAGADA Aparna Chennapragada	Director	February 25, 2021
/s/ ANN FRITZ HACKETT Ann Fritz Hackett	Director	February 25, 2021
/s/ PETER THOMAS KILLALEA Peter Thomas Killalea	Director	February 25, 2021
/s/ C.P.A.J. (ELI) LEENAARS C.P.A.J. (Eli) Leenaars	Director	February 25, 2021
/s/ PIERRE E. LEROY Pierre E. Leroy	Director	February 25, 2021
/s/ FRANÇOIS LOCOH-DONOU François Locoh-Donou	Director	February 25, 2021
/s/ PETER E. RASKIND Peter E. Raskind	Director	February 25, 2021
/s/ EILEEN SERRA Eileen Serra	Director	February 25, 2021

/s/ MAYO A. SHATTUCK III	Director	February 25, 2021
Mayo A. Shattuck III		
/s/ BRADFORD H. WARNER	Director	February 25, 2021
Bradford H. Warner		
/s/ CATHERINE G. WEST	Director	February 25, 2021
Catherine G. West		

Exhibit 4.3

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of December 31, 2020, Capital One Financial Corporation ("Capital One," the "Company," "we," "us," and "our") had eight classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our Common Stock; our Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series G; our Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series H; our Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series I; our Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series J; our Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series K; our 0.800% Senior Notes due 2024; and our 1.650% Senior Notes due 2029**.** References in this exhibit to "Capital One," the "Company," "we," "us," and "our" are solely to Capital One Financial Corporation and not to any of its subsidiaries, unless the context requires otherwise.

DESCRIPTION OF COMMON STOCK

The following description of our Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Restated Certificate of Incorporation, dated May 1, 2020 (the "Restated Certificate of Incorporation"), and Amended and Restated Bylaws, dated May 1, 2020 (our "Amended and Restated Bylaws"), each of which has been incorporated by reference as an exhibit to the Annual Report on Form 10-K for which this Exhibit 4.3 is a part. We encourage you to read our Restated Certificate of Incorporation and Amended and Restated Bylaws for additional information.

The Company is authorized to issue 1,000,000,000 shares of common stock, par value $.01 per share (the "Common Stock"). The Common Stock is listed on the New York Stock Exchange under the symbol "COF." All outstanding shares of Common Stock are and will be fully paid and nonassessable.

Voting and Other Rights

Each share of Common Stock is entitled to one vote on all matters submitted to a vote of stockholders. Except as otherwise provided by law, the Restated Certificate of Incorporation or the Amended and Restated Bylaws, a majority of the votes cast is required for all actions to be taken by stockholders. Directors in uncontested elections shall be elected by a majority of votes cast; however, in contested elections, a plurality standard shall apply. Stockholders do not have cumulative voting rights in the election of directors, which means that the holders of a majority of the votes cast in an election of directors can elect all of the directors. Shares of Common Stock also do not have any preemptive, subscription, redemption, sinking fund or conversion rights.

The foregoing rights may be subject to voting and other rights that we may grant from time to time to the holders of other classes of our securities.

Distribution

To the extent outstanding preferred stock provides for a dividend preference, any dividends payable on our Common Stock are subject to such preference. Dividends must be declared by our board of directors (the "Board") out of legally available funds. If we liquidate, dissolve or wind up our affairs, common stockholders are entitled to share proportionately in the assets available for distribution to common stockholders.

Anti-Takeover Provisions of the Restated Certificate of Incorporation and Amended and Restated Bylaws

Certain provisions in our Restated Certificate of Incorporation and Amended and Restated Bylaws could make more difficult or discourage a tender offer, proxy contest or other takeover attempt that is opposed by the Board but which might be favored by the stockholders. Certain provisions are summarized below.

Board of Directors. Our Restated Certificate of Incorporation and Amended and Restated Bylaws provide that, other than directors elected by any series of preferred stock, directors will be elected annually to one-year terms in office.

Number of Directors; Removal; Filling Vacancies. Our Amended and Restated Bylaws provide that our Board must consist of between three and seventeen directors, and vacancies will be filled only by the affirmative vote of a majority of the remaining directors, even if less than a quorum remains in office, unless the Board determines otherwise. Therefore, unless the Amended and Restated Bylaws are further amended (or the Board determines otherwise), the Board could prevent any stockholder from enlarging the Board and filling the new directorships with the stockholder's own nominees.

Under Delaware law and our Restated Certificate of Incorporation, directors may be removed for or without cause. Our Restated Certificate of Incorporation also provides that directors may only be removed, whether for or without cause, upon the affirmative vote of holders of at least a majority of the voting power of the then-outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class.

Blank Check Preferred. Our Board is authorized, without stockholder approval, to create and provide for the issuance of up to an aggregate of 50,000,000 shares of preferred stock in series, to establish from time to time the number of shares to be included in each such series, and to fix the designations, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions on the shares of each such series.

The authority to designate preferred stock may be used to issue a series of preferred stock, or rights to acquire preferred stock, that could dilute the interest of, or impair the voting power of, holders of the Common Stock, or be used as a method of determining, delaying or preventing a change of control.

Stockholder Action by Written Consent; Special Meetings. Stockholder action can be taken only at an annual or special meeting of stockholders or by written consent in accordance with the applicable provisions set forth in our Restated Certificate of Incorporation and Amended and Restated Bylaws. Under circumstances described in our Restated Certificate of Incorporation and Amended and Restated Bylaws, special meetings of stockholders can be called by the Chair of the Board or by the Board pursuant to a resolution adopted by a majority of the authorized number of directors. Under our Restated Certificate of Incorporation, stockholders have the right to request that the Company call a special meeting of stockholders or to request that stockholder action be taken by written consent in lieu of a meeting, provided in each case that the requesting stockholders own 25% or more of the then-outstanding shares of stock entitled to vote on the matters proposed to be brought before the special meeting or the actions proposed to be taken by written consent, as applicable, and satisfy certain requirements set forth in our Restated Certificate of Incorporation and Amended and Restated Bylaws. These requirements include a "net long" definition of stock ownership for purposes of determining whether stockholders requesting a special meeting or action by written consent satisfy the 25% ownership threshold, so that only stockholders with full and continuing economic interest and voting rights in our stock can request a special meeting or action by written consent. In addition, our Amended and Restated Bylaws set forth certain procedural requirements that the Board believes are appropriate to avoid duplicative or unnecessary special meetings or actions by written consent. Moreover, any special meeting of stockholders is limited to the business in the notice of the special meeting sent to the stockholders before the meeting, including any business stated in a valid special meeting request (in the case of a stockholder-requested special meeting).

The ability to take stockholder action by written consent or to request special meetings may be precluded if stockholders fail to satisfy the requirements in our Restated Certificate of Incorporation and Amended and Restated Bylaws. You should refer to these documents for more information about the requirements.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals. Only people who are nominated by, or at the direction of, the Board, or by a stockholder who has given proper written notice prior to a meeting at which directors are to be elected, will be eligible for election as directors. Business conducted at an annual meeting is limited to the business brought before the meeting by, or at the direction of, the Chair of the Board, the Board or a stockholder who has given proper notice. A stockholder's notice to us proposing to nominate a person for election as a director must contain certain information described in the Amended and Restated Bylaws and be submitted in compliance with the time frames specified in the Amended and Restated Bylaws.

You should refer to our Amended and Restated Bylaws for more information, including the process and timing requirements for a stockholder notice.

Some of the effects of the provisions described above and in the Amended and Restated Bylaws include:

- the Board will have a longer period to consider the qualifications of the proposed nominees or the substance of other business proposed to be brought before an annual meeting and, if deemed necessary or desirable, to inform stockholders about the Board's views on these matters;

- there will be an orderly procedure for conducting annual meetings of stockholders and informing stockholders, prior to the meetings, of any nominations or other business proposed to be conducted at the meetings, including any Board recommendations; and
- contests for the election of directors or the consideration of stockholder proposals will be precluded if the procedures are not followed. Third parties may therefore be discouraged from conducting a solicitation of proxies to elect their own slate of directors or to approve their own proposal.

Business Combinations. Under our Restated Certificate of Incorporation, certain mergers, share exchanges or sales of our assets with or to interested stockholders, as defined below, must be approved by the affirmative vote of the holders of at least 75% of the then-outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class, including 75% of such stock not owned directly or indirectly by any interested stockholder or any affiliate of any interested stockholder. Our Restated Certificate of Incorporation requires this affirmative vote even if no vote is required, or a lesser percentage is specified, by law or any national securities exchange or otherwise. This 75% affirmative vote is not required in two situations (and a business combination shall require only the vote required by law or any other applicable provision of our Restated Certificate of Incorporation). First, it is not required if the business combination has been approved by a majority of uninterested, continuing directors. Second, it is not required if certain price and procedure requirements designed to ensure that our stockholders receive a "fair price" for their Common Stock are satisfied. Our Restated Certificate of Incorporation defines an interested stockholder as any person, other than us or any of our subsidiaries, who or which:

- itself or along with its affiliates beneficially owns, directly or indirectly, more than 5% of the then-outstanding shares of stock entitled to vote generally in the election of directors;
- is an affiliate of us and at any time within the two-year period immediately prior to the date in question itself or along with its affiliates beneficially owned, directly or indirectly, 5% or more of the then-outstanding shares of stock entitled to vote generally in the election of directors; or
- owns any shares of the then-outstanding shares of stock entitled to vote generally in the election of directors which were at any time within the two-year period immediately prior to the date in question beneficially owned by any interested stockholder, if the transfer of ownership occurred in the course of a non-public transaction or series of non-public transactions.

Liability of Directors; Indemnification. A director generally will not be personally liable for monetary damages to us or our stockholders for breach of fiduciary duty as a director. A director may be held liable, however, for the following:

- any breach of the director's duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- paying a dividend or approving a stock repurchase in violation of Delaware law; or
- any transaction from which the director derived an improper personal benefit.

We indemnify and advance expenses to our officers and directors in connection with legal proceedings to the fullest extent of the law. We may agree with any person to provide an indemnification greater than or different from the indemnification provided by the Restated Certificate of Incorporation or the Amended and Restated Bylaws.

Amendments. The Restated Certificate of Incorporation may be amended with a majority vote of the stockholders, except for the business combination provisions discussed above. The Restated Certificate of Incorporation provides that amendments to the Restated Certificate of Incorporation and the Amended and Restated Bylaws can be approved by a majority vote of the then-outstanding shares of stock entitled to vote generally in the election of directors. The Restated Certificate of Incorporation includes a supermajority voting provision that applies to the amendment or repeal of, or the adoption of any provision inconsistent with, the provisions of the Restated Certificate of Incorporation related to business combinations, which can only be amended with an affirmative vote of the holders of at least 80% of the then-outstanding shares of stock entitled to vote generally in the election of directors, including the affirmative vote of the holders of 80% of the then-outstanding shares of such stock not owned directly or indirectly by any interested stockholder or any affiliate of any interested stockholder. The Amended and Restated Bylaws generally may be amended by the Board or by the stockholders; provided that in the case of amendments by the stockholders the affirmative vote of at least a majority of the then-outstanding shares of stock entitled to vote generally in the election of directors is required. These vote requirements may have the effect of preventing a stockholder with less than a majority of the Common Stock from circumventing the requirements of the Amended and Restated Bylaws or a stockholder with only a majority of the Common Stock from circumventing certain provisions of the Restated Certificate of Incorporation by simply amending or repealing them.

Anti-Takeover Legislation

We are a Delaware corporation and are governed by Section 203 of the Delaware General Corporation Law. This provision generally states that, subject to some exceptions, a corporation cannot engage in any business combination with any "interested stockholder" for three years after the time that the stockholder became an interested stockholder unless the business combination is approved by the board of directors and authorized by the affirmative vote of at least 66-2/3% of the outstanding voting stock of the corporation which is not owned by the interested stockholder. Delaware law defines an interested stockholder to include any person, and its affiliates and associates, that owns 15% or more of the outstanding voting stock of the corporation, or that is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the relevant date.

Although stockholders may elect to exclude a corporation from Section 203's restrictions, our Restated Certificate of Incorporation and Amended and Restated Bylaws do not exclude us from Section 203's restrictions. The provisions of Section 203 may encourage companies interested in acquiring us to negotiate in advance with the Board, since Section 203 does not require stockholder approval for a corporation to engage in any business combination with any interested stockholder, if the board of directors prior to the time that such stockholder became an interested stockholder approved either the business combination or the transaction in which the stockholder became an interested stockholder. Business combinations are discussed more fully above.

Exclusive Forum

Our Amended and Restated Bylaws provide that, unless the Company consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, and subject to applicable jurisdictional requirements, the sole and exclusive forum for any stockholder (including any beneficial owner) to bring internal corporate claims (as defined below) shall be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware). For purposes of this provision, "internal corporate claims" means claims, including claims in the right of the Company: (a) that are based upon a violation of a duty by a current or former director, officer, employee or stockholder in such capacity, or (b) as to which the Delaware General Corporation Law confers jurisdiction upon the Delaware Court of Chancery.

DESCRIPTION OF PREFERRED STOCK AND DEPOSITARY SHARES

The following is a description of the particular terms of our Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series G (the "Series G Preferred Stock"); our Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series H (the "Series H Preferred Stock"); our Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series I (the "Series I Preferred Stock"); our Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series J (the "Series J Preferred Stock"); and our Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series K (the "Series K Preferred Stock" and, together with the Series G Preferred Stock, the Series H Preferred Stock, the Series I Preferred Stock and the Series J Preferred Stock, the "Preferred Stock"). Additionally, we have issued Depositary Shares, each representing a 1/40th Interest in a Share of Series G Preferred Stock (the "Series G Depositary Shares"); Depositary Shares, each representing a 1/40th Interest in a Share of Series H Preferred Stock (the "Series H Depositary Shares"); Depositary Shares, each representing a 1/40th Interest in a Share of Series I Preferred Stock (the "Series I Depositary Shares"); Depositary Shares, each representing a 1/40th Interest in a Share of Series J Preferred Stock (the "Series J Depositary Shares"); and Depositary Shares, each representing a 1/40th Interest in a Share of Series K Preferred Stock (the "Series K Depositary Shares" and, together with the Series G Depositary Shares, the Series H Depositary Shares, the Series I Depositary Shares and the Series J Depositary Shares, the "Depositary Shares").

The following description is subject to and qualified in its entirety by reference to the Certificate of Designations relating to each series of Preferred Stock (each a "Certificate of Designations" and collectively the "Certificates of Designations") and each deposit agreement among us, Computershare Trust Company, N.A., acting as depositary (the "depositary"), Computershare Inc. and the holders from time to time of the depositary receipts evidencing the Depositary Shares (each a "Deposit Agreement" and collectively the "Deposit Agreements") and where this description is inconsistent with the description of the Preferred Stock contained in the applicable Certificate of Designations or the description of the Depositary Shares contained in the applicable Deposit Agreement, the applicable Certificate of Designations or Deposit Agreement will control. A copy of our Restated Certificate of Incorporation and each Certificate of Designations are incorporated by reference as exhibits to the Annual Report on Form 10-K for which this Exhibit 4.3 is a part. The Deposit Agreement relating to the Series G Depositary Shares has been filed with the Securities and Exchange Commission (the "SEC") as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on July 29, 2016; the Deposit Agreement relating to the Series H Depositary Shares has been filed with the SEC as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on November 29, 2016; the Deposit Agreement relating to the Series I Depositary Shares has been filed with the SEC as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on September 11, 2019; the Deposit Agreement relating to the Series J Depositary Shares has been filed with the SEC as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on January 31, 2020; and the Deposit Agreement relating to the Series K Depositary Shares has been filed with the SEC as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on September 17, 2020. We encourage you to read such documents for additional information.

The Company is authorized to issue 50,000,000 shares of preferred stock, par value $.01 per share. As of December 31, 2020, 24,000,000 Series G Depositary Shares were issued and outstanding, representing 600,000 shares of Series G Preferred Stock; 20,000,000 Series H Depositary Shares were issued and outstanding, representing 500,000 shares of Series H Preferred Stock; 60,000,000 Series I Depositary Shares were issued and outstanding, representing 1,500,000 shares of Series I Preferred Stock; 50,000,000 Series J Depositary Shares were issued and outstanding, representing 1,250,000 shares of Series J Preferred Stock; and 5,000,000 Series K Depositary Shares were issued and outstanding, representing 125,000 shares of Series K Preferred Stock.

Preferred Stock

General

Each series of the Preferred Stock is a single series of our authorized preferred stock. Shares of the Preferred Stock are fully paid and nonassessable. The depositary is the sole holder of shares of the Preferred Stock. The holders of Depositary Shares are required to exercise their proportional rights in the Preferred Stock through the depositary, as described herein.

Shares of a series of Preferred Stock rank senior to our Common Stock, equally with each other series of Preferred Stock, and at least equally with each other series of preferred stock we may issue if provided for in the certificate of designations relating to such preferred stock or otherwise (except for any senior stock that may be issued with the requisite consent of the holders of the Preferred Stock and all other parity stock, if any), with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding up. See "Other Preferred Stock" below. In addition, we will generally be able to pay dividends and distributions upon liquidation, dissolution or winding up only out of lawfully available assets for such payment (after satisfaction of all claims for indebtedness and other non-equity claims). Further, the Preferred Stock may be fully subordinated to interests held by the U.S. government in the event that we enter into a receivership, insolvency, liquidation, or similar proceeding, including a proceeding under the Orderly Liquidation Authority of the Dodd-Frank Act.

The Preferred Stock is not convertible into, or exchangeable for, shares of any other class or series of stock or other securities of Capital One. The Preferred Stock has no stated maturity and will not be subject to any sinking fund or other obligation of Capital One to redeem or repurchase the Preferred Stock.

We reserve the right to re-open any series of Preferred Stock and issue additional shares of such series of Preferred Stock either through public or private sales at any time and from time to time. The additional shares would form a single series with the Preferred Stock of such series already outstanding. In addition, we may from time to time, without notice to or consent of holders of the Preferred Stock or the Depositary Shares, issue additional shares of preferred stock that rank equally with or junior to the Preferred Stock.

Dividends

General

Dividends on the Preferred Stock are not cumulative. If our Board or a duly authorized committee of the Board does not declare a dividend on a series of Preferred Stock in respect of a dividend period, then no dividend shall be deemed to have accrued for such dividend period, be payable on the applicable dividend payment date, or be cumulative, and we will have no obligation to pay any dividend for that dividend period, whether or not our Board or a duly authorized committee of our Board declares a dividend on the Preferred Stock for any future dividend period. A dividend period is the period from and including a dividend payment date to but excluding the next dividend payment date.

Holders of Preferred Stock of a series are entitled to receive, when, as, and if declared by our Board or a duly authorized committee of the Board, out of assets legally available for the payment of dividends under Delaware law, non-cumulative cash dividends based on the liquidation preference of such Preferred Stock at a rate equal to the applicable percentage per annum set forth herein for each quarterly dividend period from the original issue date of the related Depositary Shares through the redemption date of such Preferred Stock, if any. In the event that we issue additional shares of a series of Preferred Stock after the original issue date, dividends on such shares will accrue from the original issue date of such additional shares.

If declared by our Board or a duly authorized committee of our Board, we will pay dividends (i) on the outstanding Series G Preferred Stock, when, as, and if declared by the Board at a rate of 5.200% per annum; (ii) on the outstanding Series H Preferred Stock, when, as, and if declared by the Board at a rate of 6.000% per annum; (iii) on the outstanding Series I Preferred Stock, when, as, and if declared by the Board at a rate of 5.000% per annum (iv) on the outstanding Series J Preferred Stock, when, as, and if declared by the Board at a rate of 4.800% per annum; and (v) on the outstanding Series K Preferred Stock, when, as, and if declared by the Board at a rate of 4.625% per annum. Dividends on the Preferred Stock are payable quarterly in arrears, on March 1, June 1, September 1 and December 1 of each year (each such date, a "dividend payment date"). If any date on which dividends would otherwise be payable is not a business day, then the dividend payment date will be the next business day without any adjustment to the amount of dividends paid. A business day means any weekday that is not a legal holiday in New York, New York, and is not a day on which banking institutions in New York, New York, are closed.

Dividends are payable to holders of record of Preferred Stock as they appear on our stock register on the applicable record date, which shall be the 15th calendar day before the applicable dividend payment date, or such other record date, not exceeding 30 days before the applicable payment date, as shall be fixed by our Board or a duly authorized committee of our Board. The corresponding record dates for the Depositary Shares are the same as the record dates for the Preferred Stock.

A dividend period is the period from and including a dividend payment date to but excluding the next dividend payment date. Dividends payable on each series of Preferred Stock will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dollar amounts resulting from that calculation are rounded to the nearest cent, with one-half cent being rounded upward. Dividends on a series of Preferred Stock will cease to accrue on the redemption date, if any, as described below under "Redemption," unless we default in the payment of the redemption price of the shares of the Preferred Stock called for redemption.

The Company's ability to pay dividends on the Preferred Stock depends on the ability of our subsidiaries, including Capital One Bank (USA), N.A. ("COBNA") and Capital One, N.A. ("CONA"), to pay dividends to the Company. The ability of the Company, COBNA and CONA to pay dividends in the future is subject to bank regulatory requirements and capital guidelines and policies established by the Federal Reserve Board and the Office of the Comptroller of the Currency.

So long as any share of Preferred Stock of a series remains outstanding, (1) no dividend shall be declared or paid or set aside for payment and no distribution shall be declared or made or set aside for payment on any junior stock (other than (i) a dividend payable solely in junior stock or (ii) any dividend in connection with the implementation of a shareholders' rights plan, or the redemption or repurchase of any rights under any such plan), (2) no shares of junior stock shall be repurchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (other than (i) as a result of a reclassification of junior stock for or into other junior stock, (ii) the exchange or conversion of one share of junior stock for or into another share of junior stock, (iii) through the use of the proceeds of a substantially contemporaneous sale of other shares of junior stock, (iv) purchases, redemptions or other acquisitions of shares of the junior stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or consultants, (v) purchases of shares of junior stock pursuant to a contractually binding requirement to buy junior stock existing prior to the preceding dividend period, including under a contractually binding stock repurchase plan, (vi) the purchase of fractional interests in shares of junior stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged, (vii) purchases or other acquisitions by any of our broker-dealer subsidiaries solely for the purpose of market making, stabilization or customer facilitation transactions in junior stock in the ordinary course of business, (viii) purchases by any of our broker-dealer subsidiaries of our capital stock for resale pursuant to an offering by us of such capital stock underwritten by such broker-dealer subsidiary, or (ix) the acquisition by us or any of our subsidiaries of record ownership in junior stock for the beneficial ownership of any other persons (other than for the beneficial ownership by us or any of our subsidiaries), including as trustees or custodians, nor shall any monies be paid to or made available for a sinking fund for the redemption of any such securities by us) and (3) no shares of parity stock, if any, shall be repurchased, redeemed or otherwise acquired for consideration by us, directly or indirectly, during a dividend period (other than (i) pursuant to pro rata offers to purchase all, or a pro rata portion, of the Preferred Stock of such series and such parity stock, if any, (ii) as a result of a reclassification of parity stock for or into other parity stock, (iii) the exchange or conversion of parity stock for or into other parity stock or junior stock, (iv) through the use of the proceeds of a substantially contemporaneous sale of other shares of parity stock, (v) purchases of shares of parity stock pursuant to a contractually binding requirement to buy parity stock existing prior to the preceding dividend period, including under a contractually binding stock repurchase plan, (vi) the purchase of fractional interests in shares of parity stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged, (vii) purchases or other acquisitions by any of our broker-dealer subsidiaries solely for the purpose of market making, stabilization or customer facilitation transactions in parity stock in the ordinary course of business, (viii) purchases by any of our broker-dealer subsidiaries of our capital stock for resale pursuant to an offering by us of such capital stock underwritten by such broker-dealer subsidiary, or (ix) the acquisition by us or any of our subsidiaries of record ownership in parity stock for the beneficial ownership of any other persons (other than for the beneficial ownership by us or any of our subsidiaries), including as trustees or custodians, nor shall any monies be paid to or made available for a sinking fund for the redemption of any such securities by us) unless, in each case, the full dividends for the preceding dividend period on all outstanding shares of Preferred Stock of such series have been paid in full or declared and a sum sufficient for the payment thereof has been set aside for payment.

We will not declare or pay or set apart funds for the payment of dividends on any securities which rank equally with the Preferred Stock of a series, if any, unless we have paid or set apart funds for the payment of dividends on such Preferred Stock. When dividends are not paid in full upon the shares of such Preferred Stock and parity stock, if any, all dividends declared upon shares of such Preferred Stock and parity stock, if any, will be declared on a proportional basis so that the amount of dividends declared per share will bear to each other the same ratio that accrued dividends for the then-current dividend period per share on such Preferred Stock, and accrued dividends, including any accumulations, if any, on parity stock, if any, bear to each other.

As used in this exhibit, "junior stock" means our Common Stock and any other class or series of stock of Capital One hereafter authorized over which Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of Capital One.

As used in this exhibit, "parity stock" means any other class or series of stock of Capital One that ranks on a parity with the Preferred Stock in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of Capital One. Each series of Preferred Stock ranks on a parity with each other series of Preferred Stock.

As used in this exhibit, "senior stock" means any other class or series of stock of Capital One ranking senior to the Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up of Capital One.

Subject to the considerations described above, and not otherwise, dividends (payable in cash, stock or otherwise), as may be determined by our Board or a duly authorized committee of the Board, may be declared and paid on our Common Stock and any other stock ranking equally with or junior to the Preferred Stock from time to time out of any assets legally available for such payment, and the holders of Preferred Stock shall not be entitled to participate in any such dividend.

Dividends on the Preferred Stock will not be declared, paid or set aside for payment to the extent such act would cause us to fail to comply with applicable laws and regulations, including applicable capital adequacy guidelines.

Redemption

Optional Redemption

The Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions. We may redeem each series of Preferred Stock at our option, in whole or in part, from time to time, on any dividend payment date on or after (i) December 1, 2021, with respect to the Series G Preferred Stock, (ii) December 1, 2021, with respect to the Series H Preferred Stock, (iii) December 1, 2024, with respect to the Series I Preferred Stock, (iv) June 1, 2025, with respect to the Series J Preferred Stock, and (v) December 1, 2025, with respect to the Series K Preferred Stock, in each case at a redemption price equal to $1,000 per share (equivalent to $25 per Depositary Share), plus any declared and unpaid dividends. Neither the holders of a series of Preferred Stock nor holders of the related Depositary Shares will have the right to require the redemption or repurchase of such Preferred Stock.

Redemption Following a Regulatory Capital Treatment Event

We may redeem shares of a series of Preferred Stock at any time within 90 days following a regulatory capital treatment event, in whole but not in part, at a redemption price equal to $1,000 per share (equivalent to $25 per Depositary Share), plus any declared and unpaid dividends on the shares of such Preferred Stock called for redemption up to the redemption date. A “regulatory capital treatment event” means the good faith determination by Capital One that, as a result of (i) any amendment to, or change (including any announced prospective change) in, the laws or regulations of the United States or any political subdivision of or in the United States that is enacted or becomes effective after the initial issuance of any share of such Preferred Stock; (ii) any proposed change in those laws or regulations that is announced or becomes effective after the initial issuance of any share of such Preferred Stock; or (iii) any official administrative decision or judicial decision or administrative action or other official pronouncement interpreting or applying those laws or regulations that is announced after the initial issuance of any share of such Preferred Stock, there is more than an insubstantial risk that Capital One will not be entitled to treat the full liquidation value of the shares of such Preferred Stock then outstanding as “Tier 1 Capital” (or its equivalent) for purposes of the capital adequacy guidelines of Federal Reserve Regulation Y (or, as and if applicable, the capital adequacy guidelines or regulations of any successor appropriate federal banking regulator or agency), as then in effect and applicable, for as long as any share of such Preferred Stock is outstanding. Dividends will cease to accrue on those shares on the redemption date. Redemption of a series of Preferred Stock is subject to our receipt of any required prior approvals from the Federal Reserve and to the satisfaction of any conditions set forth in the capital guidelines of the Federal Reserve applicable to the redemption of the Preferred Stock.

Redemption Procedures

If shares of a series of Preferred Stock are to be redeemed, the notice of redemption shall be sent to the holders of record of such Preferred Stock to be redeemed, sent (i) not less than 30 days nor more than 60 days (in the case of the Series G Preferred Stock, and the Series H Preferred Stock) or (ii) not less than 15 days nor more than 60 days (in the case of the Series I Preferred Stock, the Series J Preferred Stock, and the Series K Preferred Stock), prior to the date fixed for redemption thereof (provided that, if the Depositary Shares representing such Preferred Stock are held in book-entry form through DTC, we may give such notice in any manner permitted by DTC). Each notice of redemption will include a statement setting forth:

- the redemption date;
- the number of shares of such Preferred Stock to be redeemed and, if less than all the shares held by the holder are to be redeemed, the number of shares of such Preferred Stock to be redeemed from the holder;
- the redemption price; and
- the place or places where the certificates evidencing shares of such Preferred Stock are to be surrendered for payment of the redemption price.

On and after the redemption date, dividends will cease to accrue on shares of such Preferred Stock, and such shares of Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, including rights described under “Voting Rights”, except the right to receive the redemption price plus any declared and unpaid dividends. See “Description of Depositary Shares” for information about redemption of the Depositary Shares relating to the Preferred Stock.

In case of any redemption of only part of the shares of a series of Preferred Stock at the time outstanding, the shares to be redeemed shall be selected pro rata or by lot. Subject to the provisions hereof, our Board shall have full power and authority to prescribe the terms and conditions upon which shares of such series of Preferred Stock shall be redeemed from time to time.

Under the Federal Reserve's current risk-based capital guidelines applicable to bank holding companies, any redemption of a series of Preferred Stock is subject to prior approval by the Federal Reserve. Any redemption of a series of Preferred Stock is subject to our receipt of any required prior approval by the Federal Reserve and to the satisfaction of any conditions set forth in the capital guidelines or regulations of the Federal Reserve applicable to redemption of such series of Preferred Stock.

Neither the holders of a series of Preferred Stock nor the holders of the related Depositary Shares have the right to require the redemption or repurchase of such Preferred Stock.

Liquidation Rights

In the event we liquidate, dissolve or wind-up our business and affairs, either voluntarily or involuntarily, holders of the Preferred Stock are entitled to receive a liquidating distribution of $1,000 per share (equivalent to $25 per Depositary Share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends before we make any distribution of assets to the holders of our Common Stock or any other class or series of shares ranking junior to the Preferred Stock. Holders of the Preferred Stock will not be entitled to any other amounts from us after they have received their full liquidating distribution.

In any such distribution, if the assets of Capital One are not sufficient to pay the liquidation preferences plus declared and unpaid dividends in full to all holders of the Preferred Stock and all holders of parity stock, if any, as to such distribution with the Preferred Stock, the amounts paid to the holders of Preferred Stock and parity stock, if any, will be paid pro rata in accordance with the respective aggregate liquidating distribution owed to those holders. If the liquidation preference plus declared and unpaid dividends has been paid in full to all holders of Preferred Stock and parity stock, if any, the holders of our junior stock shall be entitled to receive all remaining assets of Capital One according to their respective rights and preferences.

In addition, we will generally be able to pay dividends and distributions upon liquidation, dissolution or winding up only out of lawfully available assets for such payment (after satisfaction of all claims for indebtedness and other non-equity claims). Further, the Preferred Stock may be fully subordinated to interests held by the U.S. government in the event that we enter into a receivership, insolvency, liquidation, or similar proceeding, including a proceeding under the Orderly Liquidation Authority of the Dodd-Frank Act.

For purposes of this section, the merger or consolidation of Capital One with any other entity, including a merger or consolidation in which the holders of Preferred Stock receive cash, securities or property for their shares, or the sale, lease or exchange of all or substantially all of the assets of Capital One for cash, securities or other property, shall not constitute a liquidation, dissolution or winding up of Capital One.

Because we are a holding company, our rights and the rights of our creditors and our shareholders, including the holders of the Preferred Stock, to participate in the assets of any of our subsidiaries, including COBNA and CONA upon that subsidiary's liquidation or recapitalization may be subject to the prior claims of that subsidiary's creditors, except to the extent that we are a creditor with recognized claims against the subsidiary.

Voting Rights

Except as provided below, the holders of the Preferred Stock will have no voting rights.

Right to Elect Two Directors upon Nonpayment

If we fail to pay, or declare and set apart for payment, dividends on outstanding shares of a series of Preferred Stock for six quarterly dividend periods, whether or not consecutive, the number of directors on the Board shall be increased by two at our first annual meeting of the shareholders held thereafter, and at such meeting and at each subsequent annual meeting until continuous noncumulative dividends for at least one year on all outstanding shares of such Preferred Stock entitled thereto shall have been paid, or declared and set apart for payment, in full, the holders of shares of such Preferred Stock shall have the right, voting separately as a class together with holders of any other equally ranked series of preferred stock that have similar voting rights, if any, to elect such two additional members of our Board to hold office for a term of one year; provided that our Board shall at no time include more than two additional directors elected by holders of shares of all series of the Preferred Stock and any other equally ranked series of preferred stock having similar voting rights, if any, voting together as one class. Upon such payment, or such declaration and setting apart for payment, in full, the terms of the two additional directors so elected shall forthwith terminate, and the number of directors shall be reduced by two, and such voting right of the holders of shares of Preferred Stock shall cease, subject to increase in the number of directors as described above and to revesting of such voting right in the event of each and every additional failure in the payment of dividends for six quarterly dividend periods, whether or not consecutive, as described above.

In addition, if and when the rights of holders of Preferred Stock terminate for any reason, including under circumstances described above under "Redemption," such voting rights shall terminate along with the other rights (except, if applicable, the right to receive the redemption price plus any declared and unpaid dividends), and the terms of any additional directors elected by the holders of Preferred Stock and any other equally ranked series of preferred stock having similar voting rights, if any, shall terminate automatically and the number of directors reduced by two, assuming that the rights of holders of such equally ranked series of preferred stock have similarly terminated.

Under regulations adopted by the Federal Reserve, if the holders of any series of preferred stock are or become entitled to vote separately for the election of directors as a class, such series, along with any other holders of stock that are entitled to vote for the election of directors with that series, will be deemed a class of voting securities. A company holding 25% or more of that class, or less if it otherwise exercises a "controlling influence" over us, will be subject to regulation as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). In addition, at the time the series is deemed a class of voting securities, any other bank holding company or systemically significant nonbank financial company will be required to obtain the prior approval of the Federal Reserve under the BHC Act to acquire or retain more than 5% of that class. Any other person (other than a bank holding company or systemically significant nonbank financial company) will be required to obtain the non-objection of the Federal Reserve under the Change in Bank Control Act of 1978, as amended, to acquire or retain 10% or more of that class.

Other Voting Rights

So long as any shares of Preferred Stock of a series remain outstanding, the affirmative vote or consent of the holders of at least two-thirds of all outstanding shares of such Preferred Stock, voting separately as a class, shall be required to:

- authorize or increase the authorized amount of, or issue shares of, any class or series of senior stock, or issue any obligation or security convertible into or evidencing the right to purchase any such shares;
- amend the provisions of our Restated Certificate of Incorporation so as to adversely affect the powers, preferences, privileges or rights of such Preferred Stock, taken as a whole; provided, however, that any increase in the amount of the authorized or issued preferred stock or authorized Common Stock or preferred stock or the creation and issuance, or an increase in the authorized or issued amount, of other series of preferred stock ranking equally with or junior to such Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) or the distribution of assets upon liquidation, dissolution or winding up of Capital One will not be deemed to adversely affect the powers, preferences, privileges or rights of such Preferred Stock; or
- consummate a binding share-exchange or reclassification involving such Preferred Stock, or a merger or our consolidation with or into another entity unless (i) the shares of such Preferred Stock remain outstanding or are converted into or exchanged for preference securities of the new surviving entity and (ii) the shares of the remaining Preferred Stock of such series or new preferred securities have terms that are not materially less favorable than such Preferred Stock.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of such Preferred Stock shall have been redeemed.

Voting Rights under Delaware Law

Delaware law provides that the holders of Preferred Stock will have the right to vote separately as a class on any amendment to our Restated Certificate of Incorporation that would increase or decrease the aggregate number of authorized shares of such class, increase or decrease the par value of the shares of such class, or alter or change the powers, preferences, or special rights of the shares of such class so as to affect them adversely. If any such proposed amendment would alter or change the powers, preferences or special rights of one or more series of Preferred Stock so as to affect them adversely, but would not so affect the entire class of preferred stock, only the shares of the series so affected shall be considered a separate class for purposes of this vote on the amendment. This right is in addition to any voting rights that may be provided for in our Restated Certificate of Incorporation.

Other Preferred Stock

Our Restated Certificate of Incorporation authorizes our Board to create and provide for the issuance of one or more series of preferred stock, par value $.01 per share, without the approval of our stockholders. Our Board can also determine the terms, including the designations, powers, preferences and rights (including conversion, voting and other rights) and the qualifications, limitations or restrictions, of any preferred stock. Currently, 50,000,000 shares of our capital stock are classified as preferred stock under our Restated Certificate of Incorporation. As of December 31, 2021, in addition to the Preferred Stock, we have issued and outstanding 1,000,000 shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, which series ranks on a parity with the Preferred Stock.

Depositary

Computershare Trust Company, N.A is the depositary for the Preferred Stock. We may, in our sole discretion, remove the depositary in accordance with the agreement between us and the depositary; provided that we will appoint a successor depositary who will accept such appointment prior to the effectiveness of its removal.

Preemptive and Conversion Rights

The holders of the Preferred Stock do not have any preemptive or conversion rights.

Depositary Shares

General

The Depositary Shares represent proportional fractional interests in shares of the applicable series of Preferred Stock. Each Depositary Share represents a 1/40th interest in a share of the applicable series of Preferred Stock, and is evidenced by depositary receipts. We have deposited the underlying shares of the Preferred Stock with the depositary pursuant to the Deposit Agreements. Subject to the terms of the Deposit Agreements, each holder of a Depositary Share is entitled, through the depositary, in proportion to the applicable fraction of a share of Preferred Stock represented by such Depositary Share, to all the rights and preferences of the Preferred Stock represented thereby (including dividend, voting, redemption and liquidation rights).

In this exhibit, references to “holders” of Depositary Shares mean those who own Depositary Shares registered in their own names on the books that we or the depositary maintain for this purpose, and not indirect holders who own beneficial interests in Depositary Shares registered in street name or issued in book-entry form through DTC. Please review the special considerations that apply to indirect holders described in the section entitled “Book-Entry Procedures and Settlement” below.

Following the issuance of each series of the Preferred Stock, we deposited the Preferred Stock with the depositary, which then issued the Depositary Shares.

Dividends and Other Distributions

Each dividend payable on a Depositary Share will be in an amount equal to 1/40th of the dividend declared and payable on the related share of the Preferred Stock.

The depositary will distribute any cash dividends or other cash distributions received in respect of the deposited Preferred Stock to the record holders of Depositary Shares relating to the underlying Preferred Stock in proportion to the number of Depositary Shares held by the holders. If Capital One makes a distribution other than in cash, the depositary will distribute any property received by it to the record holders of Depositary Shares entitled to those distributions, unless it determines that the distribution cannot be made proportionally among those holders or that it is not feasible to make a distribution. In that event, the depositary may, with our approval, sell the property and distribute the net proceeds from the sale to the holders of the Depositary Shares.

Record dates for the payment of dividends and other matters relating to the Depositary Shares will be the same as the corresponding record dates for each series of Preferred Stock.

The amounts distributed to holders of Depositary Shares will be reduced by any amounts required to be withheld by the depositary or by us on account of taxes or other governmental charges. The depositary may refuse to make any payment or distribution, or any transfer, exchange, or withdrawal of any Depositary Shares or the shares of the Preferred Stock until such taxes or other governmental charges are paid.

Redemption of Depositary Shares

If we redeem a series of Preferred Stock represented by Depositary Shares, the related Depositary Share will be redeemed from the proceeds received by the depositary resulting from the redemption of such Preferred Stock held by the depositary. The redemption price per Depositary Share is expected to be equal to 1/40th of the redemption price per share payable with respect to such Preferred Stock (or $25 per Depositary Share), plus any declared and unpaid dividends.

Whenever we redeem shares of a series of Preferred Stock held by the depositary, the depositary will redeem, as of the same redemption date, the number of Depositary Shares representing shares of Preferred Stock so redeemed. If fewer than all of the outstanding Depositary Shares of a series are redeemed, the depositary will select the Depositary Shares of such series to be redeemed *pro rata* or by lot. The depositary will send notice of redemption to record holders of such Depositary Shares (i) not less than 30 days nor more than 60 days (in the case of the Series G Depositary Shares, and the Series H Depositary Shares) or (ii) not less than 15 days nor more than 60 days (in the case of the Series I Depositary Shares, the Series J Depositary Shares, and the Series K Depositary Shares), prior to the date fixed for redemption of such Preferred Stock and the related Depositary Shares.

Voting the Preferred Stock

Because each Depositary Share represents a 1/40th interest in a share of the applicable series of Preferred Stock, holders of depositary receipts will be entitled to 1/40th of a vote per Depositary Share under those limited circumstances in which holders of the Preferred Stock are entitled to a vote.

When the depositary receives notice of any meeting at which the holders of the Preferred Stock are entitled to vote, the depositary will send the information contained in the notice to the record holders of the Depositary Shares relating to the Preferred Stock. Each record holder of the Depositary Shares on the record date, which will be the same date as the record date for the Preferred Stock, may instruct the depositary to vote the amount of the Preferred Stock represented by the holder’s Depositary Shares. To the extent possible, the depositary will vote the amount of the Preferred Stock represented by Depositary Shares in accordance with the instructions it receives. We have agreed to take all reasonable actions that the depositary determines are necessary to enable the depositary to vote as instructed. If the depositary does not receive specific instructions from the holders of any Depositary Shares representing Preferred Stock, it will not vote the amount of Preferred Stock represented by such Depositary Shares.

Depositary

Computershare Trust Company, N.A is the depositary for the Depositary Shares. We may, in our sole discretion, remove the depositary in accordance with the agreement between us and the depositary; provided that we will appoint a successor depositary who will accept such appointment prior to the effectiveness of its removal.

Form of Preferred Stock and Depositary Shares

The Depositary Shares have been issued in book-entry form through DTC, as described in “Book-Entry Procedures and Settlement” below. The Preferred Stock has been issued in registered form to the depositary.

Listing of Depositary Shares

The Depositary Shares are listed on the NYSE under the following symbols:

Series G Depositary Shares: “COFPRG”

Series H Depositary Shares: “COFPRH”

Series I Depositary Shares: “COFPRI”

Series J Depositary Shares: “COFPRJ”

Series K Depositary Shares: “COFPRK”

Book-Entry Procedures and Settlement

We have issued the Depositary Shares under a book-entry system in the form of global depositary receipts. We have registered the global depositary receipts in the name of a nominee for The Depository Trust Company ("DTC"). The global depositary receipts have been deposited with the depositary.

DTC is the only registered holder of the depositary receipts representing the Depositary Shares and is considered the sole owner of the depositary receipts for purposes of the applicable Deposit Agreement.

Global depositary receipts may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the global depositary receipts may be held through Euroclear and Clearstream, each as indirect participants in DTC. Transfers of beneficial interests in the global depositary receipts are subject to the applicable rules and procedures of DTC and its direct and indirect participants, including, if applicable, those of Euroclear and Clearstream, which may change from time to time.

Direct participants in DTC's system include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to DTC's system also is available to others such as both U.S. and non- U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly, which we collectively call indirect participants. Persons that are not participants may beneficially own securities held by or on behalf of DTC only through the participants or the indirect participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the participants and the indirect participants. The rules applicable to DTC and its participants are on file with the SEC.

Ownership of beneficial interests in the global depositary receipts are limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in the global depositary receipts will be shown on, and the transfer of those ownership interests may be effected only through, records maintained by DTC or its nominee (with respect to participants) and the records of participants and indirect participants (with respect to other owners of beneficial interests in the global depositary receipts).

All interests in a global depositary receipt, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

The laws of some states require that certain purchasers of securities take physical delivery of those securities in definitive form. These laws may impair the ability of holders to transfer beneficial interests in depositary receipts to certain purchasers. Because DTC can act only on behalf of the participants, which in turn act on behalf of the indirect participants, the ability of a person having beneficial interests in a global depositary receipt to pledge such interests to persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

So long as DTC or any successor depositary for a depositary receipt, or any nominee, is the registered holder of such depositary receipt, DTC or such successor depositary or nominee will be considered the sole owner or holder of the Depositary Shares represented by such depositary receipts for all purposes under the applicable indenture. Except as set forth below, owners of beneficial interests in a depositary receipt will not be entitled to have Depositary Shares represented by such depositary receipt registered in their names, will not receive or be entitled to receive physical delivery of Depositary Shares or depositary receipts in definitive form, and will not be considered the owners or holders thereof for any purpose under the applicable Deposit Agreement. Accordingly, each person owning a beneficial interest in a depositary receipt must rely on the procedures of DTC and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the applicable Deposit Agreement. We understand that, under existing industry practices, in the event that we request any action of holders or that an owner of a beneficial interest in the depositary receipts desires to give any consent or take any action under the applicable Deposit Agreement, DTC or any successor depositary would authorize the participants holding the relevant beneficial interests to give or take such action or consent, and such participants would authorize beneficial owners owning through such participants to give or take such action or consent or would otherwise act upon the instructions of beneficial owners owning through them.

Payment of dividends, if any, distributions upon liquidation or other distributions with respect to the Depositary Shares that are registered in the name of or held by DTC or any successor depositary or nominee will be payable to DTC or such successor depositary or nominee, as the case may be, in its capacity as registered holder of the global depositary receipts representing the

Depositary Shares. Under the terms of each Deposit Agreement, the depositary will treat the persons in whose names the Depositary Shares, including the depositary receipts, are registered as the owners of such securities for the purpose of receiving payments and for all other purposes. Consequently, neither we, nor any depositary, nor any agent of us or any such depositary will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the depositary receipts, for maintaining, supervising or reviewing any records relating to such beneficial ownership interests, or for any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

We have been advised by DTC that its current practice, upon receipt of any payment of dividends, distributions upon liquidation or other distributions with respect to the depositary receipts, is to credit participants' accounts with payments on the payment date, unless DTC has reason to believe it will not receive payments on such payment date. Each relevant participant is credited with an amount proportionate to its beneficial ownership of an interest in the relevant security as shown on the records of DTC. Payments by participants and indirect participants to owners of beneficial interests in the global depositary receipts held through such participants and indirect participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participants or indirect participants, and will not be the responsibility of us, any depositary, nor any agent of us or of any such depositary. Neither we nor any such depositary or agent will be liable for any delay by DTC or by any participant or indirect participant in identifying the beneficial owners of the Depositary Shares, and we and any such depositary or agent may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the global securities among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither we, nor any depositary, nor any agent of us or of any such depositary will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DESCRIPTION OF THE NOTES

The following description of our 0.800% Senior Notes due 2024 (the "2024 Notes") and our 1.650% Senior Notes due 2029 (the "2029 Notes," and together with the 2024 Notes, the "Notes") is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the senior indenture between us and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. (as successor to Harris Trust and Savings Bank), as trustee (the "trustee"), dated as of November 1, 1996 (the "base indenture"), as supplemented and amended from time to time, and the Officers' Certificate thereunder relating to the Notes, dated as of June 12, 2019 (collectively, the "indenture"). A copy of the base indenture has been filed with the SEC as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on November 13, 1996, the Form of 2024 Note has been filed with the SEC as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on June 12, 2019, and the Form of 2029 Note has been filed with the SEC as Exhibit 4.3 to the Company's Current Report on Form 8-K, filed on June 12, 2019. We encourage you to read such documents for additional information.

General

The 2024 Notes and the 2029 Notes constitute separate series of senior debt securities issued under the indenture.

As of December 31, 2020, €750,000,000 in aggregate principal amount of the 2024 Notes was issued and outstanding and €500,000,000 in aggregate principal amount of the 2029 Notes was issued and outstanding. We may, without the consent of existing holders, increase the principal amount of either series of Notes by issuing more Notes in the future, on the same terms and conditions (other than any differences in the issue date, the price to the public and the first interest payment date) and with the same CUSIP, ISIN and/or any other identifying number (if appropriate), as the Notes described herein. We do not plan to inform existing holders if we reopen a series of Notes to issue and sell additional Notes in the future.

The 2024 Notes will mature on June 12, 2024. The 2024 Notes bear interest from June 12, 2019 at the annual rate of 0.800%. We will pay interest on the 2024 notes annually in arrears on each June 12. We made the first interest payment on the 2024 Notes on June 12, 2020.

The 2029 Notes will mature on June 12, 2029. The 2029 Notes bear interest from June 12, 2019 at the annual rate of 1.650%. We will pay interest on the 2029 notes annually in arrears on each June 12. We made the first interest payment on the 2029 Notes on June 12, 2020.

We will pay interest to the person in whose name the Note is registered at the close of business on the fifteenth calendar day (whether or not a business day) immediately preceding the relevant interest payment date, except that we will pay interest payable at the maturity date of the Notes to the person or persons to whom principal is payable.

Interest on each series of Notes will be computed on the basis of the actual number of days in the period for which interest is being calculated and the actual number of days from and including the last date on which interest was paid on such notes to, but excluding the next scheduled interest payment date. This payment convention is referred to as ACTUAL/ACTUAL (ICMA) as defined in the rulebook of the International Capital Market Association. If any date on which interest is payable on a series of Notes is not a business day, the payment of the interest payable on that date will be made on the next day that is a business day, without any interest or other payment in respect of the delay, with the same force and effect as if made on the scheduled payment date. If the maturity date of a series of Notes falls on a day that is not a business day, the payment of interest and principal shall be made on the next succeeding business day, and no interest will accrue after such maturity date.

The Notes do not have the benefit of a sinking fund-that is, we will not deposit money on a regular basis into any separate custodial account to repay the notes.

As used herein, the term "business day" means, any day that is not a Saturday or Sunday (i) that is not a day on which banking institutions in New York, New York, Chicago, Illinois, McLean, Virginia or London, England are authorized or obligated by law to close and (ii) on which the Trans-European Automated Real-time Gross Settlement Express Transfer system, or the TARGET2 system, or any successor thereto, operates.

Payment of Additional Amounts

We will, subject to the exceptions and limitations set forth below, pay to or on account of a beneficial owner of a Note who is a Non-U.S. Holder (as defined below) such additional amounts as are necessary to ensure that the net payment by us of the principal of and interest on such Note, after deduction or withholding for any present or future tax, assessment or other governmental charge imposed by or on behalf of the United States (or any political subdivision or taxing authority of the United

States) on such payment, will not be less than the amount that would have been payable had no such deduction or withholding been required. However, we will not pay additional amounts for or on account of:

a) any such tax, assessment or other governmental charge which would not have been so imposed but for the existence of any present or former connection between the holder or beneficial owner of a Note (or between a fiduciary, settlor, person holding power over an estate or trust administered by a fiduciary holder, beneficiary, member, partner or shareholder of such person, if such person is an estate, a trust, a limited liability company, a partnership or a corporation) and the United States, including, without limitation, such person (or such fiduciary, settlor, person holding power over an estate or trust administered by a fiduciary holder, beneficiary, member, partner or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein or any other connection or relationship with the United States (other than a connection arising solely as a result of the ownership of the Notes or the exercise or enforcement of rights under the Notes); or (ii) the presentation of any such Note for payment on a date more than 15 calendar days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

b) any estate, inheritance, gift, sales, excise, transfer, wealth, capital gains or personal property tax or any similar tax, assessment or governmental charge;

c) any tax, assessment or other governmental charge imposed by reason of the holder or beneficial owner's past or present status as a personal holding company, controlled foreign corporation, passive foreign investment company for U.S. federal income tax purposes or as a corporation which accumulates earnings to avoid United States federal income tax or as a private foundation or other tax-exempt organization;

d) any tax, assessment or other governmental charge which is payable otherwise than by withholding by us or a paying agent from payments on or in respect of any Note;

e) any tax, assessment or other governmental charge which would not have been imposed but for the failure to comply with certification, information or other reporting requirements concerning the nationality, residence or identity, or the connections with the United States, of the holder or beneficial owner of such Note, if such compliance is required by statute or by regulation of the United States or of any political subdivision or taxing authority thereof or therein as a precondition to relief or exemption from such tax, assessment or other governmental charge;

f) any tax, assessment or other governmental charge imposed pursuant to sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (the "Code"), or any amended or successor version of such sections, ("FATCA"), any regulations or other guidance thereunder, or any agreement (including any intergovernmental agreement) entered into in connection therewith or any law, regulation, rules, practices or other official guidance adopted in any jurisdiction implementing FATCA or an intergovernmental agreement in respect of FATCA;

g) any tax, assessment or other governmental charge imposed by reason of (i) being or having been a "10-percent shareholder" of the Company as defined in section 871(h)(3)(B) of the Code, (ii) a bank receiving interest described in section 881(c)(3)(A) of the Code or (iii) being or having been a controlled foreign corporation that is related to the Company within the meaning of section 864(d) of the Code;

h) any tax, assessment or other governmental charge required to be deducted or withheld by any paying agent if such payment can be made without such deduction or withholding by at least one other paying agent;

i) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of a change in law, regulation or administrative or judicial interpretation that becomes effective more than 15 days after the payment becomes due or is duly provided for, whichever occurs later;

or any combination of two or more of items (a), (b), (c), (d), (e), (f), (g), (h) and (i),

nor shall additional amounts be paid with respect to any payment on a Note to any holder or Non-U.S. Holder who is a fiduciary, limited liability company or partnership or other than the sole beneficial owner of such payment to the extent the beneficiary or settlor with respect to such fiduciary, member of such limited liability company, partner of such partnership or beneficial owner with respect to such holder would not have been entitled to the additional amounts had such beneficiary, settlor, member, partner or beneficial owner been the holder of the Note.

The term “Non-U.S. Holder” in this section means any beneficial owner of a Note that is not, for United States federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate whose income is subject to United States federal income tax regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or if such trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

The Notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation applicable to the Notes. Except as specifically provided under this heading “Payment of Additional Amounts,” we will not be required to make any payment for any tax, assessment or other governmental charge imposed by any government or a political subdivision or taxing authority of or in any government or political subdivision.

Redemption for Tax Reasons

We may redeem either series of Notes prior to maturity in whole, but not in part, on not more than 60 days’ notice and not less than 10 days’ notice, at a redemption price equal to 100% of their principal amount plus any accrued interest and additional amounts to, but not including, the date fixed for redemption if we determine that, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of the United States or of any political subdivision or taxing authority thereof or therein, or any income tax treaty, or any change in, or amendment to, an official position regarding the application or interpretation of such laws, regulations or rulings, or treaties, which change or amendment becomes effective on or after the date of issuance of such notes, we have or will become obligated to pay additional amounts with respect to such notes as described above under “Payment of Additional Amounts.”

If we exercise our option to redeem a series of Notes, we will deliver to the trustee a certificate signed by an authorized officer stating that we are entitled to redeem such Notes.

Other than as set forth above, the Notes are not subject to redemption prior to maturity. The Notes are not subject to repayment at the option of the holders at any time prior to maturity.

Issuance in Euros

All payments of interest and principal, including payments made upon any redemption of the Notes, will be payable in euros. If, on or after the date of issuance, the euro is unavailable to us due to the imposition of exchange controls or other circumstances beyond our control or if the euro is no longer being used by the then member states of the European Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, then all payments in respect of the Notes will be made in U.S. dollars until the euro is again available to us or so used. The amount payable on any date in euros will be converted into U.S. dollars on the basis of the most recently available market exchange rate for the euro. Any payment in respect of the Notes so made in U.S. dollars will not constitute an event of default under the Notes or the indenture. Neither the trustee nor the paying agent shall have any responsibility for any calculation or conversion in connection with the foregoing.

As used in this section, “market exchange rate” means the noon buying rate in The City of New York for cable transfers of euros as certified for customs purposes (or, if not so certified, as otherwise determined) by the United States Federal Reserve Board. Investors will be subject to foreign exchange risks as to payments of principal and interest that may have important economic and tax consequences to them.

Denominations

The Notes were issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

Ranking

The indenture does not limit the amount of additional senior indebtedness that we or any of our subsidiaries may incur, including the issuance of additional debt securities under the base indenture ranking equally with the Notes, or significantly limit our operations. In particular, it does not:

- limit the amount of debt securities that we can issue under the base indenture;
- limit the number of series of debt securities that we can issue from time to time;
- limit or otherwise restrict the total amount of debt that we or our subsidiaries may incur or the amount of other securities that we may issue;
- require us or an acquiror to repurchase debt securities in the event of a "change in control;" or
- contain any covenant or other provision that is specifically intended to afford any holder of the debt securities any protection in the event of highly leveraged transactions or similar transactions involving us or our subsidiaries.

The Notes are our direct unsecured obligations and rank equally with all of our other unsecured unsubordinated indebtedness. Payments of the principal and interest on the Notes will rank equally with all of Capital One's other unsecured and unsubordinated debt. Capital One's senior indebtedness ranks pari passu with the Notes. The Notes are our exclusive obligations and not those of our subsidiaries. Since we are a holding company and substantially all of our operations are conducted through subsidiaries, our cash flow and consequently our ability to service debt, including the Notes, depend upon the earnings of our subsidiaries and the distribution of those earnings to us or upon other payments of funds by those subsidiaries to us. The subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due on the notes or to provide us with funds for payments on the Notes, whether by dividends, distributions, loans or other payments. Our subsidiaries engaged in the banking or credit card business can only pay dividends if they are in compliance with applicable United States federal and state regulatory requirements. Our right to participate in any asset distribution of any of our subsidiaries, including COBNA and CONA, on liquidation, reorganization or otherwise, will rank junior to the rights of all creditors of that subsidiary (except to the extent that we may ourselves be an unsubordinated creditor of that subsidiary). As a result, the rights of holders of the Notes to benefit from those distributions will also be junior to the rights of all creditors of our subsidiaries. Consequently, the Notes will be effectively subordinated to all liabilities of our subsidiaries. COBNA and CONA are subject to claims by creditors for long-term and short-term debt obligations, including deposit liabilities, obligations for federal funds purchased and securities sold under repurchase agreements. There are also various legal limitations on the extent to which COBNA and CONA may pay dividends or otherwise supply funds to us or our other affiliates.

Global Securities; Book-Entry Issue

Global Clearance and Settlement

The Notes are issued in the form of one or more global notes (each a "global note") in fully registered form, without coupons, and were deposited on the closing date with, or on behalf of, a common depositary for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to a common depositary for Euroclear or Clearstream or its nominee. Beneficial interests in the global notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct or indirect participants in Euroclear or Clearstream. Those beneficial interests will be in denominations of €100,000 and integral multiples of €1,000 in excess thereof. Investors may hold Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Owners of beneficial interests in the global notes will not be entitled to have Notes registered in their names, and will not receive or be entitled to receive physical delivery of Notes in definitive form. Except as provided below, beneficial owners will not be considered the owners or holders of the Notes under the indenture, including for purposes of receiving any reports delivered by us or the trustee pursuant to the indenture. Accordingly, each beneficial owner must rely on the procedures of the clearing systems and, if such person is not a participant of the clearing systems, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the indenture. Under existing industry practices, if we request any action of holders or a beneficial owner desires to give or take any action which a holder is entitled to give or take under the indenture, the clearing systems would authorize their participants holding the relevant beneficial interests to give or take action and the participants would authorize beneficial owners owning through the participants to give or take such action or would otherwise act upon the instructions of beneficial owners. Conveyance of notices and other communications by the clearing systems to their participants, by the participants to indirect participants and by the participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in certificated form. These limits and laws may impair the ability to transfer beneficial interests in global notes.

Persons who are not Euroclear or Clearstream participants may beneficially own Notes held by the common depositary for Euroclear and Clearstream only through direct or indirect participants in Euroclear and Clearstream. So long as the common depositary for Euroclear and Clearstream is the registered owner of the global note, the common depositary for all purposes will be considered the sole holder of the Notes represented by the global note under the indenture and the global notes.

Euroclear and Clearstream may discontinue providing services with respect to the Notes at any time by giving reasonable notice to the issuer or its agent. Under these circumstances, in the event that a successor securities depositary is not obtained, certificates for the Notes are required to be printed and delivered. We may decide to discontinue the use of the system of book-entry-only transfers through Euroclear and Clearstream (or any successor securities depository). In that event, certificates for the Notes will be printed and delivered to Euroclear and Clearstream.

So long as Euroclear or Clearstream or their nominee or their common depositary is the registered holder of the global notes, Euroclear, Clearstream or such nominee or common depositary, as the case may be, will be considered the sole owner or holder of the Notes represented by such Notes for all purposes under the indenture and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the global notes will be made to Euroclear, Clearstream or such nominee or common depositary, as the case may be, as registered holder thereof. None of us, the trustee, any underwriter and any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act) will have any responsibility or liability for any records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distribution of principal and interest with respect to the global note will be credited in euros to the extent received by Euroclear or Clearstream from the trustee or the paying agent, as applicable, to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the global notes through Euroclear and Clearstream will be reflected in the book-entry accounts of each such institution. As necessary, the registrar will adjust the amounts of the global notes on the register for the accounts of the common depositary to reflect the amounts of Notes held through Euroclear and Clearstream, respectively.

The Trustee and Paying Agent

The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. (as successor to Harris Trust and Savings Bank) is the trustee with respect to the Notes. The trustee is one of a number of banks with which we and our subsidiaries maintain banking and trust relationships in the ordinary course of business. The Bank of New York Mellon, London Branch, is acting as paying agent with respect to the Notes.

Principal of, premium, if any, and interest on the Notes will be payable at the office of the paying agent or, at our option, payment of interest may be made by check mailed to the holders of the Notes at their respective addresses set forth in the register of holders; provided that all payments of principal, premium, if any, and interest with respect to the Notes represented by one or more global notes deposited with, or on behalf of, a common depositary, and registered in the name of the nominee of the common depositary for the accounts of Clearstream and Euroclear will be made in immediately available funds through the facilities of the common depositary. We may change the paying agent without prior notice to the holders, and we or any of our subsidiaries may act as paying agent.

Covenants

Under the base indenture, we agree to the following:

- Except as permitted as described in the section “Consolidation, Merger and Sale of Assets,” we will preserve and keep in full force and effect our corporate existence and the corporate existence of each of our significant subsidiaries (as defined below) and our rights (charter and statutory) and franchises and those of each of our significant subsidiaries. However, neither we nor any of our significant subsidiaries will be required to preserve any of these rights or franchises if we or the significant subsidiary, as the case may be, determine that the preservation of these rights or franchises is no longer desirable in the conduct of our or its business, as applicable, and that the loss of these rights or franchises is not disadvantageous in any material respect to the holders of our debt securities issued thereunder.
- The base indenture contains a covenant by us limiting our ability to dispose of the voting stock of a significant subsidiary. A “significant subsidiary” is any of our majority-owned subsidiaries the consolidated assets of which (as reflected on our consolidated balance sheet) constitute 20% or more of our consolidated assets. This covenant generally provides that, except as permitted as described under the section “Consolidation, Merger and Sale of Assets,” as long as any of the debt securities issued thereunder are outstanding:
- neither we nor any of our significant subsidiaries will sell, assign, transfer or otherwise dispose of the voting stock of a significant subsidiary or securities convertible into or options, warrants or rights to subscribe for or purchase such voting stock, and we will not permit a significant subsidiary to issue voting stock, or securities convertible into or options, warrants or rights to subscribe for or purchase such voting stock, in each case if, after giving effect to such transaction and to the issuance of the maximum number of shares of voting stock of the significant subsidiary issuable upon the exercise of all such convertibles securities, options, warrants or rights, such significant subsidiary would cease to be a controlled subsidiary (as defined below); and
- we will not permit a significant subsidiary to merge or consolidate with or into any corporation unless the survivor is us or is, or upon consummation of the merger or consolidation will become, a controlled subsidiary, or to lease, sell or transfer all or substantially all of its properties and assets except to us or a controlled subsidiary or a person that upon such lease, sale or transfer will become a controlled subsidiary.

A “controlled subsidiary” is a significant subsidiary at least 80% of the voting stock of which is owned by us and/or one or more of our controlled subsidiaries.

The limitations described above do not apply to certain transactions required by law, rule, regulation or governmental order (including as a condition to an acquisition of another entity by us) or to any sale or transfer of assets in a securitization transaction.

In addition, the base indenture contains a covenant by us limiting our ability to create liens on the voting stock of a significant subsidiary. This covenant generally provides that, as long as any of the debt securities issued thereunder are outstanding, neither we nor any of our subsidiaries will create, assume or incur any pledge, encumbrance or lien upon a significant subsidiary’s voting stock, or upon securities convertible into or options, warrants or rights to subscribe for or purchase, a significant subsidiary’s voting stock, directly or indirectly, to secure indebtedness for borrowed money, if, treating such pledge, encumbrance or lien as a transfer of the significant subsidiary’s voting stock or securities convertible into or options, warrants or rights to subscribe for or purchase the significant subsidiary’s voting stock to the secured party (in each case after giving effect to such transaction and to the issuance of the maximum number of shares of voting stock of the significant subsidiary issuable upon the exercise of all such convertible securities, options, warrants or rights), the significant subsidiary would not continue to be a controlled subsidiary, unless the debt securities issued thereunder are equally and ratably secured with any and all such indebtedness by this pledge, encumbrance or lien.

Consolidation, Merger and Sale of Assets

The base indenture generally permits a consolidation or merger between us and another corporation and the conveyance, transfer or lease by us of all or substantially all of our property or assets, in each case without the consent of the holders of any outstanding debt securities. However, the base indenture requires that:

- the successor or purchaser is a corporation organized under the laws of the United States of America, any state thereof or the District of Columbia and expressly assumes our obligations on the debt securities under the base indenture;
- immediately after giving effect to the transaction, no event which, after notice or lapse of time, would become an event of default, will have occurred and be continuing pursuant to the base indenture; and

- either we or the successor person has delivered to the trustee an officer's certificate and an opinion of counsel stating the consolidation, merger, transfer or lease, as applicable, complied with these provisions and all conditions precedent of the base indenture.

The successor shall be substituted for us as if it had been an original party to the base indenture and the debt securities issued thereunder. Thereafter, the successor may exercise our rights and powers under the base indenture and the debt securities issued thereunder and, except in the case of a lease, we will be released from all of our obligations and covenants under those documents.

Events of Default

Events of default under the indenture with respect to the Notes of a series are:

(1) failure to pay interest on the Notes of such series when due and continuance of that default for 30 days;

(2) failure to pay the principal of the Notes of such series when due and payable;

(3) failure to perform or the breach of any covenant or warranty in the indenture or the Notes of such series (other than a covenant or warranty included solely for the benefit of a series of debt securities other than the Notes of such series) that continues for 60 days after we are given written notice by the trustee or we and the trustee are given written notice by the holders of at least 25% in principal amount of the outstanding Notes of such series;

(4) any event of default under any mortgage, indenture or other instrument securing or evidencing any indebtedness of us or any significant subsidiary for money borrowed, resulting in such indebtedness in principal amount exceeding $10,000,000 becoming or being declared due and payable prior to the date on which it would otherwise become due and payable, if the acceleration is not rescinded or annulled within 30 days after written notice; or

(5) certain events of bankruptcy, insolvency or reorganization of us or any of our significant subsidiaries.

If a default occurs with respect to any series of Notes, the trustee will give the holders of those Notes notice of the default as and to the extent provided by the Trust Indenture Act.

If an event of default with respect to any series of Notes occurs and continues, either the trustee or the holders of not less than 25% of the aggregate principal amount of the outstanding Notes of that series may declare the principal amount (or such lesser amount as may be provided for the Notes of such series) of all the Notes of that series to be due and payable immediately.

Any time after a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained the majority holders may, under certain circumstances, void the declaration. "Majority holders" are the holders of a majority of the aggregate principal amount of outstanding the Notes of that series.

The majority holders may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, for the Notes of that series. The trustee generally is not obligated to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless those holders offer the trustee reasonable indemnity.

A holder does not have the right to institute a proceeding with respect to the indenture, for the appointment of a receiver or a trustee, or for any other remedy, unless:

- the holder has previously given written notice to the trustee of a continuing event of default;
- the holders of not less than 25% of the aggregate principal amount of the outstanding Notes of the applicable series have made a written request to the trustee to institute proceedings in respect of such event of default in its own name as trustee under the indenture, and such holders have offered to the trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
- the trustee has failed to institute a proceeding within 60 days after receipt of such notice, request and offer of indemnity; and
- the trustee has not received an inconsistent direction from the majority holders within such 60-day period.

However, these limitations do not apply to a suit for the enforcement of payment or conversion rights instituted on or after the respective due dates of the Notes of the applicable series.

Waivers of Certain Covenants and Past Defaults

The holders of not less than a majority of the aggregate principal amount of the outstanding Notes of each series may, on behalf of all holders of that series, waive our compliance with certain restrictive provisions of the indenture. They also may waive any past default with respect to that series under the indenture, except (1) a default in the payment of principal of, premium, if any, interest on or any additional amount, or (2) a default in the performance of certain covenants which cannot be modified without the consent of all of the holders of the applicable series.

Amendments to the Indenture

Supplemental Indentures with Consent of Holders

We and the trustee may modify or amend the indenture with the consent of the holders of at least 66-2/3% in principal amount of each series of the debt securities affected by the modification or amendment. However, no modification or amendment may, without the consent of each holder affected by the modification or amendment:

- change the due date of the principal of, or any premium or installment of interest on, or any additional amounts with respect to any debt securities issued thereunder;
- reduce the principal amount of, or the rate of interest on, or any additional amounts or premium, if any, payable with respect to any debt security issued thereunder, or, except as otherwise permitted, change an obligation to pay additional amounts with respect to any debt security issued thereunder, or adversely affect the right of repayment at the option of any holder, if any;
- change the place of payment, the currency in which the principal of, any premium, if any, or interest on, or any additional amounts with respect to any debt security issued thereunder that are payable or impair the right to institute suit for the enforcement of any such payment on or after the due date thereof (or, in the case of redemption, on or after the redemption date or, in the case of repayment at the option of the holder, on or after the date for repayment);
- reduce the percentage in principal amount of outstanding debt securities of any series issued thereunder the consent of whose holders is required for any supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the indenture or certain defaults thereunder and their consequences) under the indenture or reduce requirements for quorum or voting; or
- modify any of the provisions in the indenture provisions described above under “Waivers of Certain Covenants and Past Defaults” and in this section “Amendments to the Indentures-Supplemental Indentures with Consent of Holders,” except to increase any percentage in principal amount of outstanding debt securities of any series issued thereunder the consent of whose holders is required for a supplemental indenture or waiver, or to provide that certain other provisions of the indenture cannot be modified or waived without the consent of the holders of each outstanding Note affected thereby.

Supplemental Indentures without Consent of Holders

We and the trustee may modify and amend the indenture without the consent of any holder for any of the following purposes:

- to evidence the succession of another person to us, and the assumption by the successor of our covenants in the indenture and in the debt securities issued thereunder;
- to add to our covenants for the benefit of the holders of all or any series of debt securities issued thereunder or to surrender any right or power conferred upon us in the indenture;
- to evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any provisions of the indenture as necessary to provide for or facilitate the administration of the trusts under the indenture by the trustee;
- to cure any ambiguity or to correct or supplement any provision in the indenture that may be defective or inconsistent with any other provision of the indenture, or to make any other provisions with respect to matters or questions arising under the indenture which do not adversely affect the interests of the holders of any debt security issued thereunder or related coupons in any material respect;
- to modify the conditions, limitations and restrictions on the authorized amount, terms or purposes of issue, authentication and delivery of debt securities issued thereunder;
- to add additional events of default with respect to all or any series of debt securities issued thereunder;
- to supplement any of the provisions of the indenture to the extent necessary to permit or facilitate the defeasance and discharge of any series of debt securities issued thereunder, provided the action does not adversely affect the

interests of the holders of any debt securities of that series or related coupons or any other debt securities issued thereunder or related coupons in any material respect;

- to secure the debt securities issued thereunder; and
- to amend or supplement any provision of the indenture or any supplemental indenture, provided that the amendment or supplement does not materially adversely affect the interests of the holders of outstanding debt securities issued thereunder.

Legal Defeasance and Covenant Defeasance

We may at any time elect to defease and will be deemed to have paid and discharged our obligations on the Notes if:

- no event of default has occurred and is continuing, or would occur upon the giving of notice or lapse of time, at the time of the satisfaction and discharge;
- either (1) we have irrevocably deposited with the trustee sufficient cash or government securities to pay when due all the principal of, premium, if any, interest on and additional amounts, if any, with respect to the applicable Notes, through the stated maturity or redemption date of the applicable Notes (or, in the case of Notes which have become due and payable, through the date of such deposit), or (2) we have properly fulfilled such other means of satisfaction and discharge as is provided in or pursuant to the indenture;
- we have paid all other sums payable under the indenture with respect to the applicable Notes and any related coupons;
- we have delivered to the trustee a certificate of our independent public accountants certifying as to the sufficiency of the amounts deposited by us, and an officers' certificate and opinion of counsel as required by the indenture; and
- we have delivered to the trustee an opinion of counsel to the effect that the holders will have no federal income tax consequences as a result of the deposit or termination and an opinion of counsel that the applicable debt securities will not be delisted from the New York Stock Exchange.

In the case of a defeasance, the holders of the applicable Notes of the series will not be entitled to the benefits of the indenture, except for the registration of transfer or exchange and the replacement of stolen, lost or mutilated applicable Notes and the requirements regarding the maintenance of an office or agency where the applicable Notes can be surrendered for payment or registration of transfer or exchange and the right of the holders of the applicable Notes to receive from the deposited funds payment of the principal of, premium, if any, interest on, and any additional amounts, if any, with respect to the applicable Notes when due.

Determining the Outstanding Debt Securities

Unless otherwise provided in or pursuant to the indenture, we will consider the following factors in determining whether the holders of the requisite principal amount of outstanding debt securities have given any request, demand, authorization, direction, notice, consent or waiver under the indenture or are present at a meeting of holders of debt securities for quorum purposes:

- in the case of any debt security that by its terms provides for declaration of a principal amount less than the principal face amount of the debt security to be due and payable upon acceleration, the principal amount that will be deemed to be outstanding will be the principal amount that would be declared to be due and payable upon a declaration of acceleration thereof at the time of such determination;
- in the case of any indexed security, the principal amount that will be deemed to be outstanding will be the principal face amount of the indexed security at original issuance;
- in the case of any debt security denominated in one or more foreign currency units, the principal amount that will be deemed to be outstanding will be the U.S. dollar equivalent based on the applicable exchange rate or rates at the time of sale; and
- any debt securities owned by us or any other obligor upon the debt securities or any of our or such other obligor's affiliates, will be disregarded and deemed not to be outstanding.

Listing of the Notes

The Notes are listed on the NYSE under the following symbols:

2024 Notes: "COF24"

2029 Notes: “COF29”

Governing Law

The indenture is governed by, and construed in accordance with, the laws of the State of New York.

Exhibit 10.2.25

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Performance Unit Award Agreement

No. of Performance Units at Target: [# of Units]

THIS PERFORMANCE UNIT AWARD AGREEMENT (this "Agreement"), dated February 4, 2021 (the "Date of Grant"), between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation ("Capital One" or the "Company"), and **Richard D. Fairbank** ("you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan") and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless they are otherwise defined herein. For purposes of this Agreement, "Employer" means the entity (i.e., Capital One, Subsidiary or Affiliate) that employs you.

WHEREAS, Article 9 of the Plan provides for the award from time to time in the discretion of the Committee of performance units, the vesting and issuance of which are subject to certain service, performance or other conditions;

W I T N E S S E T H :

1. Grant of Performance Units. Capital One hereby grants to you an award of performance units (the "Units") with a target award of [# of Units] Units (the "Target Award"). The maximum payout for this award is 150% of the Target Award plus accrued dividends pursuant to Section 6. The Units shall vest and the underlying shares of common stock of Capital One, $.01 par value per share (such underlying shares, the "Shares"), shall be issuable only in accordance with the provisions of this Agreement and of the Plan. The Units will not have voting rights.

2. Non-Transferability. Subject to the provisions of Section 3 and 13 hereof, the right to receive some or all of the Units and the Shares related thereto shall not be assignable or transferable, or otherwise alienated, pledged or hypothecated or otherwise encumbered under any circumstances. Any purported or attempted assignment, transfer, alienation, pledge, hypothecation or encumbrance of such rights or of the Units or the Shares related thereto prior to their issuance to you shall be null and void and shall result in the immediate forfeiture of such rights or Units, including the Shares related thereto, and cancellation of this Agreement.

3. Lapse of Restrictions.

(a) Vesting. Except as provided in Sections 3(b) and 3(c) below and to the extent not previously vested or forfeited as provided herein, the Units shall vest on a date as determined by the Committee after termination of the Performance Period (as defined below) and certification of performance by the Committee, but no later than March 15, 2024 (the "Date of Issuance"). On the Date of Issuance, the Units shall vest, and the Shares shall become issuable as determined based on the Company's Adjusted ROTCE and Growth of Tangible Book Value Per Share Plus Common Dividends, each as defined on Appendix A, relative to the Peer Group, as defined on Appendix B, over a three-year performance period beginning on January 1, 2021 and ending on December 31, 2023 (the "Performance Period") as certified by the Committee following the end of the Performance Period. The number of Units that shall vest and the number of Shares that shall become issuable on the Date of Issuance shall be determined as set forth on Appendix A. The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall be reduced in the event that Adjusted ROTCE for one or more fiscal years in the Performance Period is less than or equal to zero, as provided on Appendix A. The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall also be subject to reduction in accordance with section 12(b) below.

With respect to any Units that have vested on the Date of Issuance, the Shares related thereto shall be issued to you, in settlement of such vested Units, on such Date of Issuance. Dividends will be accrued and paid out as additional shares at the time of the award as provided in Section 6 below. All Units, including your rights thereto and to the underlying Shares, which do not vest on or before the Date of Issuance, as provided in this Section 3, shall immediately be forfeited as of such Date of Issuance (to the extent not previously forfeited as provided herein).

(b) Effect of Termination of Employment.

(i) Upon termination of your employment with Capital One for any reason other than death, Disability or Retirement, as defined below, prior to the Date of Issuance, all Units shall immediately be forfeited (to the extent not previously vested or forfeited as provided herein).

(ii) Upon termination of your employment as a result of your death or Disability on or prior to December 31, 2023, a number of the Units equal to (1) the Target Award amount as specified above, or (2) following a Change of Control, the Time-Based Units as calculated in Section 3(c) below, shall immediately vest and the Shares shall be immediately issuable to you as soon as practicable following your death or Disability and in all events on or before the later of December 31 of the year of termination or 2.5 months following such termination. Upon your termination of employment as a result of your death or Disability on or after January 1, 2024, but prior to the Date of Issuance, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) above.

(iii) Notwithstanding any other provision in this Agreement, upon your Retirement , the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) and 3(c).

(iv) Upon termination of your employment with Capital One for Cause, as defined herein, prior to the Date of Issuance, all Units shall be immediately forfeited (to the extent not previously vested or forfeited as provided herein).

(c) Effect of Change of Control. Upon a Change of Control, a number of Units shall, upon certification of performance by the Committee, convert into time-based restricted stock units (the "Time-Based Units") calculated based on a performance period from January 1, 2021 through the end of the fiscal quarter immediately preceding the closing date of the transaction giving rise to the Change of Control; and provided further that the Date of Issuance in such case shall be December 31, 2023 subject to either (1) your continued employment through such date or (2) your Retirement, pursuant to Section 3(b)(iii). Upon your termination of employment by Capital One without Cause or for Good Reason (each as defined below), in either case on or prior to the second anniversary of the occurrence of a Change of Control of Capital One and prior to the Date of Issuance with respect to the Time-Based Units, then notwithstanding anything herein to the contrary, all of the Time-Based Units shall vest and the Shares shall be issuable in full without restrictions on transferability immediately upon the occurrence of your termination of employment following such Change of Control (to the extent not previously vested or forfeited as provided herein) and such date shall be the Date of Issuance; provided, however, that if the Time-Based Units are considered deferred compensation under Section 409A of the Code and not exempt from Section 409A of the Code as a short-term deferral or otherwise, and you are a "specified employee," as defined in and pursuant to Reg. Section 1.409A 1(i) or any successor regulation, on the date of any such termination of employment without Cause or for Good Reason, you will not be entitled to such vesting earlier than the earlier of (i) the date which is six months from the date of your "separation from service" (as defined in Reg. Section 1.409A 1(h) or any successor regulation) as a result of such termination and (ii) your death.

With respect to any Time-Based Units that have vested, the Shares related thereto shall be issued to you, in settlement of such vested Time-Based Units, on the Date of Issuance. Dividends will be accrued and paid out as additional shares at the time of the award, as provided in Section 6 below. All Time-Based Units, including your rights thereto and to the underlying Shares, which do not vest on or before the Date of Issuance, as provided in this Section 3, shall immediately be forfeited as of such Date of Issuance (to the extent not previously forfeited as provided herein).

(d) Definitions.

(i) For purposes of this Agreement, "Cause" shall mean (1) the willful and continued failure to perform substantially your duties with the Company or any Affiliate (other than any such failure resulting from incapacity due to physical or mental illness or following your delivery of a Notice of Termination for Good Reason), after a written demand for substantial performance is delivered to you by the Board or the Committee that specifically identifies the manner in which the Board or the Committee believes that you have not substantially performed your duties, or (2) the willful engaging by you in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company. No act, or failure to act, on the part of you shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the Employer and is not publicly-traded, the board of directors (or equivalent management body) of the ultimate parent of the Employer (the "Applicable Board") or (B) the advice of counsel for the

Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3(d)(i), and specifying the particulars thereof in detail.

(ii) For purposes of this Agreement, "Good Reason" shall mean (1) the assignment to you of any duties inconsistent in any respect with your position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any action by the Company that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (2) any failure by the Company to pay your compensation owed other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (3) the Company's requiring you (I) to be based at any office or location more than 35 miles from the office or location at which you were required to work as of the date of this Agreement or (II) to travel on Company business to a substantially greater extent than required during the 120-day period immediately prior to the date the Change of Control occurs; or (4) any other action or inaction that constitutes a material breach by the Company of this Agreement or any employment agreement. For purposes of this Section 3(d)(ii) of this Agreement, any good faith determination of Good Reason made by you shall be conclusive. Your mental or physical incapacity following the occurrence of an event described above in clauses (1) through (4) shall not affect your ability to terminate employment for Good Reason.

(iii) Any termination by the Company for Cause, or by you for Good Reason, shall be communicated by Notice of Termination to the other party. "Notice of Termination" means a written notice that (1) indicates the specific termination provision in this Agreement relied upon, (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated, and (3) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by you or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of you or the Company, respectively, hereunder or preclude you or the Company, respectively, from asserting such fact or circumstance in enforcing your or the Company's respective rights hereunder.

(iv) "Date of Termination" means, if your employment is terminated by the Company for Cause, or by you for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be. You and the Company shall take all steps necessary to ensure that any termination described in this Section 3(d) constitutes a "separation from service" within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the "Date of Termination."

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board or the Committee and subject to the Committee's right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided, that changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(a) Capital One will automatically withhold the number of Shares having a Fair Market Value on the date the tax withholding obligation is to be determined equal to the amount required to be withheld (as determined pursuant to the Plan), rounded up to the nearest whole Share; or

(b) by such other methods as Capital One may make available from time to time.

6. Dividends. Dividends with respect to the Shares shall accrue beginning on January 1, 2021, through the applicable Date of Issuance when the Shares underlying the Units or Time-Based Units are delivered, at which time such accrued dividends shall be paid out in the form of additional shares of common stock of the Corporation based on the Fair Market Value of a share of the Company's common stock on the business day prior to the Date of Issuance. The accrued dividends that shall be paid out to you shall be only such amount that has accrued with respect to the Shares underlying the Units or Time-Based Units that vest on the Date of Issuance.

7. Governing Law. This Agreement shall be governed by United States federal law and, to the extent not preempted thereby, by the laws of the State of Delaware. Capital One and you hereby consent and submit to the personal jurisdiction and venue of any state or federal court located in any city or county of Delaware for resolution of any and all claims, causes of action or disputes arising out of this Agreement. You and Capital One agree that the court shall not set aside the Committee's determinations unless there is clear and convincing evidence of bad faith or fraud.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of this Agreement shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Units and the Shares, you agree that you will comply with such conditions as the Committee may impose on the Units and the Shares and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

11. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

12. Clawbacks and Other Forfeiture Events.

(a) If, prior to the third anniversary of the Date of Issuance a Restatement Date occurs, you shall deliver to the Company on the Restatement Delivery Date the Clawback Shares (each as defined below), if any, as determined under this Section 12(a).
For purposes of this Section 12(a):

(i) "Amended Adjusted ROTCE" means the Adjusted ROTCE over the Performance Period and taking into account the financial results of the Company as reflected in the Restatement.

(ii) "Amended Growth of Tangible Book Value Per Share Plus Common Dividends" means the Growth of Tangible Book Value Per Share Plus Common Dividends over the Performance Period and taking into account the financial results of the Company as reflected in the Restatement.

(iii) "Held Shares" means the Shares held by you as of the Restatement Delivery Date in the event that such number of Shares is less than the Clawback Shares.

(iv) "Clawback Shares" means the number of Shares equal to (A) the number of Shares that were issued to you under this Agreement on the Date of Issuance minus (B) the number of shares of common stock of the Company that would have been issuable to you on the Date of Issuance as determined based on the Amended Adjusted ROTCE and the Amended Growth of Tangible Book Value Per Share Plus Common Dividends and certified by the Committee following the Restatement Date. If any member of the Peer Group restates its financial results for all or any portion of the Performance Period prior to the date that the number of Clawback Shares is certified by the Committee, then the Adjusted ROTCE and Growth of Tangible Book Value Per Share Plus Common Dividends for such member of the Peer Group used for purposes of calculating the Clawback Shares shall take into account such restatement. For the avoidance of doubt, neither you nor the Company shall have any obligation with respect to the Clawback Shares in the event that the number of Shares in clause (B) of the preceding sentence exceeds the number of Shares in clause (A) of the preceding sentence. The Clawback Shares shall be delivered to the Company in Shares; provided, however, that in the event that on the Restatement Delivery Date you do not hold a number of Shares equal to or greater than the Clawback Shares, you shall deliver to the Company (x) all Held Shares plus (y) the pre-tax proceeds from sales or other transfers of all Recovery Shares. Such pre-tax proceeds shall be calculated starting with the most recent sale or other transfer of Recovery Shares prior to the Restatement Delivery Date and continuing in reverse chronological order with any prior sales or transfers of Recovery Shares until the pre-tax proceeds of all Recovery Shares are determined. The "pre-tax proceeds" for any Recovery Shares that were transferred by you in a transaction other than a sale on the New York Stock Exchange shall be the Fair Market Value of such Recovery Shares as of the date of such transaction. The "pre-tax proceeds" for any Recovery Shares that were withheld pursuant to Section 5 shall be the Fair Market Value of such Recovery Shares as of the date they were withheld.

(v) "Recovery Shares" means the number of Shares equal to the difference between the Clawback Shares and your Held Shares.

(vi) "Restatement" means an accounting restatement of the Company's financial statements, covering all or any portion of the Performance Period, due to the noncompliance of the Company with any financial reporting requirement under the securities laws. For the avoidance of doubt, in the event that the Company makes any accounting restatement solely due to (A) any change after the Date of Issuance in U.S. generally accepted accounting principles or (B) any change after the Date of Issuance in financial reporting requirements under the securities laws, such restatement shall not constitute a "Restatement" under this Section 12(a).

(vii) "Restatement Date" means the date after the Date of Issuance upon which the Company first files (A) a Restatement or (B) a Current Report on Form 8-K with the Securities and Exchange Commission (or otherwise publicly announces) that the Company expects to issue a Restatement.

(viii) "Restatement Delivery Date" means the date that is 30 days after the number of Clawback Shares is certified by the Committee in accordance with this Section 12(a), or such earlier date upon which you deliver the Clawback Shares to the Company.

(b) The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall be subject to reduction in an amount as determined by the Committee in its sole discretion in the event that, prior to the Date of Issuance, the Committee in its sole discretion determines that (i) there has been misconduct resulting in either a violation of law or of Capital One policy or procedures, including but not limited to the Capital One Code of Conduct, that in either case causes significant financial or reputational harm to Capital One and (ii) either you committed the misconduct or failed in your responsibility to manage or monitor the applicable conduct or risks.

(c) You agree to reimburse the Company with respect to the Units and the Shares to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

13. Mandatory Holding Requirement.

(a) You agree that with respect to the Applicable Holding Shares you may not transfer, sell, pledge, hypothecate or otherwise dispose of such Applicable Holding Shares until the Holding Date; provided that the requirements set forth in this Section 13 shall immediately lapse and be of no further force and effect upon your death, Disability or termination of employment by Capital One without Cause or for Good Reason following a Change of Control, pursuant to Section 3(c).

(b) For purposes of this Section 13:

(i) "Applicable Holding Shares" means 50% of the Shares acquired hereunder (not including any Shares sold or retained by the Company or its designated agent to fund the payment of any tax withholding obligation, brokerage commission or fees payable in connection with the Shares) during your term of employment with the Company and during the one-year period after termination of your employment for any reason; and

(ii) "Holding Date" means the later of: (1) the first anniversary of the date of acquisition of any Applicable Holding Shares; or (2) until your stock ownership requirement is met, as determined by the Committee.

14. Data Protection. You consent to the collection, processing and transfer (including international transfer) of your personally identifiable data in connection with the grant of the Units and participation in the Plan.

15. Severability. This Agreement shall be enforceable to the fullest extent allowed by law. In the event that any provision of this Agreement is determined to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, then that provision shall be reduced, modified or otherwise conformed to the relevant law, judgment or determination to the degree necessary to render it valid and enforceable without affecting the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be deemed severable from the remainder of this Agreement, and the remaining provisions contained in this Agreement shall be construed to preserve to the maximum permissible extent the intent and purposes of this Agreement.

16. Miscellaneous. In accepting the grant, you acknowledge and agree that:

(a) this Agreement is intended to comply with the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in a manner so as to comply therewith;

(b) your obligations under this Agreement shall survive any termination of your employment with the Company for any reason;

(c) any of the Company's rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity;

(d) any recovery by the Company under this Agreement will be a recovery of Shares to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty;

(e) the Company may, to the maximum extent permitted by applicable law and Section 409A of the Code, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe to the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement;

(f) the Company reserves the right to impose other requirements on the Units, any Shares acquired pursuant to the Units, and your participation in the Plan, to the extent Capital One determines, in its sole discretion, that such other requirements are necessary or advisable in order to comply with local laws, rules and regulations, or to facilitate the administration of the Units and the Plan. Such requirements may include (but are not limited to) requiring you to sign any agreements or undertakings that may be necessary to accomplish the foregoing; and

(g) Capital One from time to time distributes and makes available to associates disclosure documents, including a prospectus, relating to the Plan. You may also contact the HR Help Center to obtain copies of the Plan disclosure documents and the Plan. You should carefully read the Plan disclosure documents and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure documents and agree to be bound by the terms of this Agreement and the Plan. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Capital One or a third-party designated by Capital One.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed on their behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

____
Mayo A. Shattuck III
Chair, Compensation Committee

PARTICIPANT

By: ___________________________________
Richard D. Fairbank

APPENDIX A

PERFORMANCE SHARE METRICS AND PAYOUT

1. Company Performance Relative to Peer Group

The number of Units that shall vest and the number of Shares that shall become issuable on the Date of Issuance pursuant to Section 3(a) shall be based on the Company's performance over the Performance Period, measured by two metrics weighted as follows:

(a) **One-Third** of the Units (the "Adjusted ROTCE Tranche") shall become issuable as Shares based on the Adjusted ROTCE achieved by the Company over the Performance Period, relative to the Adjusted ROTCE achieved by each member of the Peer Group over the Performance Period, expressed as a percentile (the "Adjusted ROTCE Percentile"), such that:

(i) If the Company's Adjusted ROTCE Percentile is 80th or higher, then 150% of the Adjusted ROTCE Tranche shall be issuable as Shares.

(ii) If the Company's Adjusted ROTCE Percentile is 25th, then 40% of the Adjusted ROTCE Tranche shall be issuable as Shares.

(iii) If the Company's Adjusted ROTCE Percentile below 25th, then 0% of the Adjusted ROTCE Tranche shall be issuable as Shares.

(iv) If the Company's Adjusted ROTCE Percentile is above 25th but below 80th, then the number of issuable Shares shall be calculated by interpolation between the points listed above.

"Adjusted ROTCE" means the ratio, expressed as a percentage, of (a) the Company's net income available to common stockholders, excluding, on a tax adjusted basis, the impact of impairment, amortization and re-measurement of intangible assets, to (b) the Company's average tangible common equity; and shall exclude the initial effects of changes in tax laws, accounting principles or regulations, or other laws or provisions affecting the reported results if the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or necessary or appropriate to comply with applicable laws, rules or regulations.

(b) **Two-Thirds** of the Units (the "Growth of Tangible Book Value Per Share Plus Common Dividends Tranche") shall become issuable as Shares based on the Growth of Tangible Book Value Per Share Plus Common Dividends achieved by the Company over the Performance Period, relative to the Growth of Tangible Book Value Per Share Plus Common Dividends achieved by each member of the Peer Group over the Performance Period, expressed as a percentile (the "Growth of Tangible Book Value Per Share Plus Common Dividends Percentile"), such that:

(i) If the Company's Growth of Tangible Book Value Per Share Plus Common Dividends Percentile is 80th or higher, then 150% of the Growth of Tangible Book Value Per Share Plus Common Dividends Tranche shall be issuable as Shares.

(ii) If the Company's Growth of Tangible Book Value Per Share Plus Common Dividends Percentile is 25th, then 40% of the Growth of Tangible Book Value Per Share Plus Common Dividends Tranche shall be issuable as Shares.

(iii) If the Company's Growth of Tangible Book Value Per Share Plus Common Dividends Percentile below 25th, then 0% of the Growth of Tangible Book Value Per Share Plus Common Dividends Tranche shall be issuable as Shares.

(iv) If the Company's Growth of Tangible Book Value Per Share Plus Common Dividends Percentile is above 25th but below 80th, then the number of issuable Shares shall be calculated by interpolation between the points listed above.

"Growth of Tangible Book Value Per Share Plus Common Dividends" means the three year average of the ratios, expressed as a percentage, of (a) the Company's tangible book value per share at the end of each year within the Performance Period, plus total common dividends per share paid during such year, to (b) the Company's tangible book value per share at the beginning of each corresponding year within the Performance Period; and shall exclude the initial effects of changes in tax laws, accounting principles or regulations, or other laws or provisions affecting the reported results if the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or necessary or appropriate to comply with applicable laws, rules or regulations.

Subject to section 2 below, the total Shares issuable pursuant to this Agreement (the "Total Shares Earned") shall be equal to the sum of the Shares issuable pursuant to paragraphs (a) and (b) above.

2. Absolute Performance Modifier

In the event that the Company's Adjusted ROTCE for one or more fiscal years in the Performance Period is less than or equal to zero, the Total Shares Earned shall be reduced as provided below:

(a) If the Company's Adjusted ROTCE is less than or equal to zero for one fiscal year within the Performance Period, the Total Shares Earned shall be reduced by one-sixth;

(b) If the Company's Adjusted ROTCE is less than or equal to zero for any two fiscal years within the Performance Period, the Total Shares Earned shall be reduced by one-third; and

(c) If the Company's Adjusted ROTCE is less than or equal to zero for all three fiscal years within the Performance Period, the Total Shares Earned shall be forfeited in full.

APPENDIX B

PEER GROUP

The “Peer Group” shall consist of the companies in the KBW Bank Index as of January 1, 2021, excluding custody banks, as shown below. For members of the Peer Group who fail, are acquired, or cease to have publicly-traded shares before the conclusion of the Performance Period, their Adjusted ROTCE and Growth of Tangible Book Value Per Share Plus Common Dividends (“Adj ROTCE and GTBVPS+D”) through the time the independent company stops reporting GAAP financials will be frozen and this Adj ROTCE and GTBVPS+D measurement will serve as their final Adj ROTCE and GTBVPS+D measurement for the Performance Period. Members of the Peer Group that continue to operate as independent companies, but that are not a member of the KBW Bank Index at the conclusion of the Performance Period, will continue to be used in the Peer Group for purposes of the award determination or calculation through the full three-year Performance Period. Any new entrants to the KBW Bank Index after January 1, 2021 will not be considered members of the Peer Group for any award determination or calculation related to this Agreement.

Bank of America
CIT Group
Citigroup
Citizens Financial Group
Comerica
Fifth Third Bancorp
First Horizon National Corporation
First Republic
Huntington Bancshares
JP Morgan Chase
KeyCorp
M&T
People’s United
PNC
Regions
SVB Financial
Truist
US Bancorp
Wells Fargo
Zions

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Performance Unit Award Agreement

No. of Performance Units at Target: [# of Units]

THIS PERFORMANCE UNIT AWARD AGREEMENT (this "Agreement"), dated [Month] [Day], 2020 (the "Date of Grant"), between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation ("Capital One" or the "Company"), and [Full Name] ("you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan") and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless they are otherwise defined herein. For purposes of this Agreement, "Employer" means the entity (i.e., Capital One, Subsidiary or Affiliate) that employs you.

WHEREAS, Article 9 of the Plan provides for the award from time to time in the discretion of the Committee of performance units, the vesting and issuance of which are subject to certain service, performance or other conditions;

W I T N E S S E T H :

1. Grant of Performance Units. Capital One hereby grants to you an award of performance units (the "Units") with a target award of [# of Units], (the "Target Award"). The maximum payout for this award is 150% of the Target Award plus accrued dividends pursuant to Section 6. The Units shall vest and the underlying shares of common stock of Capital One, $.01 par value per share (such underlying shares, the "Shares"), shall be issuable only in accordance with the provisions of this Agreement and of the Plan. The Units will not have voting rights.

2. Non-Transferability. Subject to the provisions of Section 3 and 13 hereof, the right to receive some or all of the Units and the Shares related thereto shall not be assignable or transferable, or otherwise alienated, pledged or hypothecated or otherwise encumbered under any circumstances. Any purported or attempted assignment, transfer, alienation, pledge, hypothecation or encumbrance of such rights or of the Units or the Shares related thereto prior to their issuance to you shall be null and void and shall result in the immediate forfeiture of such rights or Units, including the Shares related thereto, and cancellation of this Agreement.

3. Lapse of Restrictions.

(a) Vesting. Except as provided in Sections 3(b) and 3(c) below and to the extent not previously vested or forfeited as provided herein, the Units shall vest on a date as determined by the Committee after termination of the Performance Period (as defined below) and certification of performance by the Committee, but no later than March 15, 2024 (the "Date of Issuance"). On the Date of Issuance, the Units shall vest, and the Shares shall become issuable as determined based on the Company's Adjusted ROTCE and Growth of Tangible Book Value Per Share Plus Common Dividends, each as defined on Appendix A, relative to the Peer Group, as defined on

Appendix B, over a three-year performance period beginning on January 1, 2021 and ending on December 31, 2023 (the "Performance Period") as certified by the Committee following the end of the Performance Period. The number of Units that shall vest and the number of Shares that shall become issuable on the Date of Issuance shall be determined as set forth on Appendix A. The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall be reduced in the event that Adjusted ROTCE for one or more fiscal years in the Performance Period is less than or equal to zero, as provided on Appendix A. The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall also be subject to reduction in accordance with section 12(b) below.

With respect to any Units that have vested on the Date of Issuance, the Shares related thereto shall be issued to you, in settlement of such vested Units, on such Date of Issuance. Dividends will be accrued and paid out as additional shares at the time of the award, as provided in Section 6 below. All Units, including your rights thereto and to the underlying Shares, which do not vest on or before the Date of Issuance, as provided in this Section 3, shall immediately be forfeited as of such Date of Issuance (to the extent not previously forfeited as provided herein).

(b) Effect of Termination of Employment.

(i) Except as provided in Sections 3(b)(ii), 3(b)(iii), and 3(b)(iv), upon termination of your employment with Capital One for any reason prior to the Date of Issuance, all Units shall immediately be forfeited (to the extent not previously vested or forfeited as provided herein).

(ii) Upon termination of your employment as a result of your death or Disability on or prior to December 31, 2023, a number of the Units equal to (1) the Target Award amount as specified above, or (2) following a Change of Control, the Time-Based Units as calculated in Section 3(c) below, shall immediately vest and the Shares shall be immediately issuable to you as soon as practicable following your death or Disability and in all events on or before the later of December 31 of the year of termination or 2.5 months following such termination. Upon your termination of employment as a result of your death or Disability on or after January 1, 2024, but prior to the Date of Issuance, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) above.

(iii) Upon your Retirement, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) and 3(c).

(iv) Subject to Section 3(b)(v), upon termination of your employment by Capital One not for Cause on or before the Date of Issuance and prior to the occurrence of a Change of Control, the number of Units that will vest and the number of underlying Shares that will become issuable to you shall be as calculated in Section 3(a) as if a termination of employment had not occurred, subject to (A) your execution of a separation agreement and/or general release of claims within a period of time as required by Capital One (in a form as prescribed by Capital One, a "Release"), (B) such Release becoming effective and irrevocable in accordance with its terms and (C) your continued compliance with the terms of such Release through the Date of Issuance. If the Date of Issuance occurs prior to the expiration of the period of time Capital One provides you to sign the Release, you shall be entitled to vesting of the Units even if you have not yet executed the Release. For avoidance of doubt, such continued vesting shall immediately cease (and any Units shall be immediately forfeited) in the event that you violate the terms and conditions of the Release.

(v) Your right to continued vesting pursuant to Section 3(b)(iv) is expressly conditioned on your compliance with any and all restrictive covenant agreements or provisions to which you are a party with Capital One including, but not limited to, those with respect to non-competition, confidentiality and work product, non-solicitation of employees/no hire of employees, non-solicitation of customers, and garden transition period or leave (collectively, "Restrictive Covenant Agreements"). You understand and agree that any actual or threatened action by you in violation of any Restrictive Covenant Agreements shall forfeit your right to continued post-employment vesting as of the date of such actual or threatened action by you in violation of such Restrictive Covenant Agreement. You further understand and agree that any forfeiture of continued vesting rights under this Agreement, or waiver thereof, shall not limit Capital One's rights to pursue any and all legal and equitable remedies and damages available for your breach of the Restrictive Covenant Agreements under the terms of such agreements and applicable law, including but not limited to, injunctive relief, monetary damages, costs and fees.

(c) <u>Effect of Change of Control</u>. Upon a Change of Control, a number of Units shall, upon certification of performance by the Committee, convert into time-based restricted stock units (the "Time-Based Units") calculated based on a performance period from January 1, 2021 through the end of the fiscal quarter immediately preceding the closing date of the transaction giving rise to the Change of Control; and provided further that the Date of Issuance in such case shall be December 31, 2023 subject to either (1) your continued employment through such date or (2) your Retirement, pursuant to Section 3(b)(iii). Upon termination of your employment by Capital One without Cause or by you for Good Reason (each as defined below), in either case on or prior to the second anniversary of the occurrence of a Change of Control of Capital One and prior to the Date of Issuance with respect to the Time-Based Units, then notwithstanding anything herein to the contrary, all of the Time-Based Units shall vest and the Shares shall be issuable in full without restrictions on transferability immediately upon the occurrence of your termination of employment following such Change of Control (to the extent not previously vested or forfeited as provided herein) and such date shall be the Date of Issuance; provided, however, that if the Time-Based Units are considered deferred compensation under Section 409A of the Code and not exempt from Section 409A of the Code as a short-term deferral or otherwise, and you are a "specified employee," as defined in and pursuant to Reg. Section 1.409A 1(i) or any successor regulation, on the date of any such termination of employment without Cause or for Good Reason, you will not be entitled to such vesting earlier than the earlier of (i) the date which is six months from the date of your "separation from service" (as defined in Reg. Section 1.409A 1(h) or any successor regulation) as a result of such termination and (ii) your death.

With respect to any Time-Based Units that have vested, the Shares related thereto shall be issued to you, in settlement of such vested Time-Based Units, on the Date of Issuance. Dividends will be accrued and paid out as additional shares at the time of the award, as provided in Section 6 below. All Time-Based Units, including your rights thereto and to the underlying Shares, which do not vest on or before the Date of Issuance, as provided in this Section 3, shall immediately be forfeited as of such Date of Issuance (to the extent not previously forfeited as provided herein).

(d) Definitions.

(i) For purposes of this Agreement, "Cause" shall mean (1) the willful and continued failure to perform substantially your duties with the Company or any Affiliate (other than any such failure resulting from incapacity due to physical or mental illness or following your delivery of a Notice of Termination for Good Reason), after a written demand for substantial performance is delivered to you by the Board or the Chief Executive Officer of the Company that specifically identifies the manner in which the Board or the Chief Executive Officer of the Company believes that you have not substantially performed your duties, or (2) the willful engaging by you in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company. No act, or failure to act, on the part of you shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the Employer and is not publicly-traded, the board of directors (or equivalent management body) of the ultimate parent of the Employer (the "Applicable Board"), (B) the instructions of the Chief Executive Officer of the Company (unless you are the Chief Executive Officer at the time of any such instruction) or (C) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3(d)(i), and specifying the particulars thereof in detail.

(ii) For purposes of this Agreement, “Good Reason” shall mean (1) the assignment to you of any duties inconsistent in any respect with your position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any action by the Company that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (2) any failure by the Company to pay your compensation owed other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (3) the Company’s requiring you (I) to be based at any office or location more than 35 miles from the office or location at which you were required to work as of the date of this Agreement or (II) to travel on Company business to a substantially greater extent than required during the 120-day period immediately prior to the date the Change of Control occurs; or (4) any other action or inaction that constitutes a material breach by the Company of this Agreement or any employment agreement. For purposes of this Section 3(d)(ii) of this Agreement, any good faith determination of Good Reason made by you shall be conclusive. Your mental or physical incapacity following the occurrence of an event described above in clauses (1) through (4) shall not affect your ability to terminate employment for Good Reason.

(iii) Any termination by the Company for Cause, or by you for Good Reason, shall be communicated by Notice of Termination to the other party. “Notice of Termination” means a written notice that (1) indicates the specific termination provision in this Agreement relied upon, (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated, and (3) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by you or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of you or the Company, respectively, hereunder or preclude you or the Company, respectively, from asserting such fact or circumstance in enforcing your or the Company’s respective rights hereunder.

(iv) “Date of Termination” means, if your employment is terminated by the Company for Cause, or by you for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be. You and the Company shall take all steps necessary to ensure that any termination described in this Section 3(d) constitutes a “separation from service” within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the “Date of Termination.”

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board or the Committee and subject to the Committee's right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided, that changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(a) Capital One will automatically withhold the number of Shares having a Fair Market Value on the date the tax withholding obligation is to be determined equal to the amount required to be withheld (as determined pursuant to the Plan), rounded up to the nearest whole Share; or

(b) by such other methods as Capital One may make available from time to time.

6. Dividends. Dividends with respect to the Shares shall accrue beginning on January 1, 2021, through the applicable Date of Issuance when the Shares underlying the Units or Time-Based Units are delivered, at which time such accrued dividends shall be paid out in the form of additional shares of common stock of the Corporation based on the Fair Market Value of a share of the Company's common stock on the business day prior to the Date of Issuance. The accrued dividends that shall be paid out to you shall be only such amount that has accrued with respect to the Shares underlying the Units or Time-Based Units that vest on the Date of Issuance.

7. Governing Law. This Agreement shall be governed by United States federal law and, to the extent not preempted thereby, by the laws of the State of Delaware. Capital One and you hereby consent and submit to the personal jurisdiction and venue of any state or federal court located in any city or county of Delaware for resolution of any and all claims, causes of action or disputes arising out of this Agreement. You and Capital One agree that the court shall not set aside the Committee's determinations unless there is clear and convincing evidence of bad faith or fraud.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of this Agreement shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Units and the Shares, you agree that you will comply with such conditions as the Committee may impose on the Units and the Shares and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

11. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

12. Clawbacks and Other Forfeiture Events.

(a) If, prior to the third anniversary of the Date of Issuance, a Restatement Date occurs, you shall deliver to the Company on the Restatement Delivery Date the Clawback Shares (each as defined below), if any, as determined under this Section 12(a).

For purposes of this Section 12(a):

(i) "Amended Adjusted ROTCE" means the Adjusted ROTCE over the Performance Period and taking into account the financial results of the Company as reflected in the Restatement.

(ii) "Amended Growth of Tangible Book Value Per Share Plus Common Dividends" means the Growth of Tangible Book Value Per Share Plus Common Dividends over the Performance Period and taking into account the financial results of the Company as reflected in the Restatement.

(iii) "Held Shares" means the Shares held by you as of the Restatement Delivery Date in the event that such number of Shares is less than the Clawback Shares.

(iv) "Clawback Shares" means the number of Shares equal to (A) the number of Shares that were issued to you under this Agreement on the Date of Issuance minus (B) the number of shares of common stock of the Company that would have been issuable to you on the Date of Issuance as determined based on the Amended Adjusted ROTCE and the Amended Growth of Tangible Book Value Per Share Plus Common Dividends and certified by the Committee following the Restatement Date. If any member of the Peer Group restates its financial results for all or any portion of the Performance Period prior to the date that the number of Clawback Shares is certified by the Committee, then the Adjusted ROTCE and Growth of Tangible Book Value Per Share Plus Common Dividends for such member of the Peer Group used for purposes of calculating the Clawback Shares shall take into account such restatement. For the avoidance of doubt, neither you nor the Company shall have any obligation with respect to the Clawback Shares in the event that the number of Shares in clause (B) of the preceding sentence exceeds the number of Shares in clause (A) of the preceding sentence. The Clawback Shares shall be delivered to the Company in Shares; provided, however, that in the event that on the Restatement Delivery Date you do not hold a number of Shares equal to or greater than the Clawback Shares, you shall deliver to the Company (x) all Held Shares plus (y) the pre-tax proceeds from sales or other transfers of all Recovery Shares. Such pre-tax proceeds shall be calculated starting with the most recent sale or other transfer of Recovery Shares prior to the Restatement Delivery Date and continuing in reverse chronological order with any prior sales or transfers of Recovery Shares until the pre-tax proceeds of all Recovery Shares are determined. The "pre-tax proceeds" for any Recovery Shares that were transferred by you in a transaction other than a sale on the New York Stock Exchange shall be the Fair Market Value of such Recovery Shares as of the date of such transaction. The "pre-tax proceeds" for any

Recovery Shares that were withheld pursuant to Section 5 shall be the Fair Market Value of such Recovery Shares as of the date they were withheld.

(v) "Recovery Shares" means the number of Shares equal to the difference between the Clawback Shares and your Held Shares.

(vi) "Restatement" means an accounting restatement of the Company's financial statements, covering all or any portion of the Performance Period, due to the noncompliance of the Company with any financial reporting requirement under the securities laws. For the avoidance of doubt, in the event that the Company makes any accounting restatement solely due to (A) any change after the Date of Issuance in U.S. generally accepted accounting principles or (B) any change after the Date of Issuance in financial reporting requirements under the securities laws, such restatement shall not constitute a "Restatement" under this Section 12(a).

(vii) "Restatement Date" means the date after the Date of Issuance upon which the Company first files (A) a Restatement or (B) a Current Report on Form 8-K with the Securities and Exchange Commission (or otherwise publicly announces) that the Company expects to issue a Restatement.

(viii) "Restatement Delivery Date" means the date that is 30 days after the number of Clawback Shares is certified by the Committee in accordance with this Section 12(a), or such earlier date upon which you deliver the Clawback Shares to the Company.

(b) The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall be subject to reduction in an amount as determined by the Committee in its sole discretion in the event that, prior to the Date of Issuance, the Committee in its sole discretion determines that (i) there has been misconduct resulting in either a violation of law or of Capital One policy or procedures, including but not limited to the Capital One Code of Conduct, that in either case causes significant financial or reputational harm to Capital One and (ii) either you committed the misconduct or failed in your responsibility to manage or monitor the applicable conduct or risks.

(c) You agree to reimburse the Company with respect to the Units and the Shares to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

13. <u>Mandatory Holding Requirement</u>.

(a) You agree that with respect to the Applicable Holding Shares you may not transfer, sell, pledge, hypothecate or otherwise dispose of such Applicable Holding Shares until the Holding Date; provided that the requirements set forth in this Section 13 shall immediately lapse and be of no further force and effect upon your death, Disability or termination of employment by Capital One without Cause or by you for Good Reason following a Change of Control, pursuant to Section 3(c).

(b) For purposes of this Section 13:

(i) “Applicable Holding Shares” means 50% of the Shares acquired hereunder (not including any Shares sold or retained by the Company or its designated agent to fund the payment of any tax withholding obligation, brokerage commission or fees payable in connection with the Shares) during your term of employment with the Company and during the one-year period after termination of your employment for any reason; and

(ii) “Holding Date” means the later of: (1) the first anniversary of the date of acquisition of any Applicable Holding Shares; or (2) until your stock ownership requirement is met, as determined by the Committee.

14. Data Protection. You consent to the collection, processing and transfer (including international transfer) of your personally identifiable data in connection with the grant of the Units and participation in the Plan.

15. Severability. This Agreement shall be enforceable to the fullest extent allowed by law. In the event that any provision of this Agreement is determined to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, then that provision shall be reduced, modified or otherwise conformed to the relevant law, judgment or determination to the degree necessary to render it valid and enforceable without affecting the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be deemed severable from the remainder of this Agreement, and the remaining provisions contained in this Agreement shall be construed to preserve to the maximum permissible extent the intent and purposes of this Agreement.

16. Miscellaneous. In accepting the grant, you acknowledge and agree that:

(a) this Agreement is intended to comply with the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in a manner so as to comply therewith;

(b) your obligations under this Agreement shall survive any termination of your employment with the Company for any reason;

(c) any of the Company’s rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity;

(d) any recovery by the Company under this Agreement will be a recovery of Shares to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty;

(e) the Company may, to the maximum extent permitted by applicable law and Section 409A of the Code, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe to the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement;

(f) the Company reserves the right to impose other requirements on the Units, any Shares acquired pursuant to the Units, and your participation in the Plan, to the extent Capital One determines, in its sole discretion, that such other requirements are necessary or advisable in order to comply with local laws, rules and regulations, or to facilitate the administration of the Units and the Plan. Such requirements may include (but are not limited to) requiring you to sign any agreements or undertakings that may be necessary to accomplish the foregoing; and

(g) Capital One from time to time distributes and makes available to associates disclosure documents, including a prospectus, relating to the Plan. You may also contact the HR Help Center to obtain copies of the Plan disclosure documents and the Plan. You should carefully read the Plan disclosure documents and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure documents and agree to be bound by the terms of this Agreement and the Plan. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Capital One or a third-party designated by Capital One.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed on their behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

/s/ Jory Benson
Jory Berson
Chief Human Resources Officer

PARTICIPANT

By: SIGNED BY ELECTRONIC SIGNATURE
FIRST NAME, LAST NAME

BY ELECTRONICALLY ACCEPTING THE AWARD, YOU AGREE THAT (i) SUCH ACCEPTANCE CONSTITUTES YOUR ELECTRONIC SIGNATURE IN EXECUTION OF THIS AGREEMENT; (ii) YOU AGREE TO BE BOUND BY THE PROVISIONS OF THE PLAN AND THE AGREEMENT; (iii) YOU HAVE REVIEWED THE PLAN AND THE AGREEMENT IN THEIR ENTIRETY, HAVE HAD AN OPPORTUNITY TO OBTAIN THE ADVICE OF COUNSEL PRIOR TO ACCEPTING THE AWARD AND FULLY UNDERSTAND ALL OF THE PROVISIONS OF THE PLAN AND THE AGREEMENT; (iv) YOU HAVE BEEN PROVIDED WITH A COPY OR ELECTRONIC ACCESS TO A COPY OF THE U.S. PROSPECTUS FOR THE PLAN; AND (v) YOU HEREBY AGREE TO ACCEPT AS BINDING, CONCLUSIVE AND FINAL ALL DECISIONS OR INTERPRETATIONS OF THE COMMITTEE UPON ANY QUESTIONS ARISING UNDER THE PLAN AND THE AGREEMENT.

* * * * *

APPENDIX A

PERFORMANCE SHARE METRICS AND PAYOUT

1. Company Performance Relative to Peer Group

The number of Units that shall vest and the number of Shares that shall become issuable on the Date of Issuance pursuant to Section 3(a) shall be based on the Company's performance over the Performance Period, measured by two metrics weighted as follows:

(a) **One-Third** of the Units (the "Adjusted ROTCE Tranche") shall become issuable as Shares based on the Adjusted ROTCE achieved by the Company over the Performance Period, relative to the Adjusted ROTCE achieved by each member of the Peer Group over the Performance Period, expressed as a percentile (the "Adjusted ROTCE Percentile"), such that:

(i) If the Company's Adjusted ROTCE Percentile is 80th or higher, then 150% of the Adjusted ROTCE Tranche shall be issuable as Shares.

(ii) If the Company's Adjusted ROTCE Percentile is 25th, then 40% of the Adjusted ROTCE Tranche shall be issuable as Shares.

(iii) If the Company's Adjusted ROTCE Percentile below 25th, then 0% of the Adjusted ROTCE Tranche shall be issuable as Shares.

(iv) If the Company's Adjusted ROTCE Percentile is above 25th but below 80th, then the number of issuable Shares shall be calculated by interpolation between the points listed above.

"Adjusted ROTCE" means the ratio, expressed as a percentage, of (a) the Company's net income available to common stockholders, excluding, on a tax adjusted basis, the impact of impairment, amortization and re-measurement of intangible assets, to (b) the Company's average tangible common equity; and shall exclude the initial effects of changes in tax laws, accounting principles or regulations, or other laws or provisions affecting the reported results if the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or necessary or appropriate to comply with applicable laws, rules or regulations.

(b) **Two-Thirds** of the Units (the "Growth of Tangible Book Value Per Share Plus Common Dividends Tranche") shall become issuable as Shares based on the Growth of Tangible Book Value Per Share Plus Common Dividends achieved by the Company over the Performance Period, relative to the Growth of Tangible Book Value Per Share Plus Common Dividends achieved by each member of the Peer Group over the Performance Period, expressed as a percentile (the "Growth of Tangible Book Value Per Share Plus Common Dividends Percentile"), such that:

(i) If the Company's Growth of Tangible Book Value Per Share Plus Common Dividends Percentile is 80th or higher, then 150% of the Growth of Tangible Book Value Per Share Plus Common Dividends Tranche shall be issuable as Shares.

(ii) If the Company's Growth of Tangible Book Value Per Share Plus Common Dividends Percentile is 25th, then 40% of the Growth of Tangible Book Value Per Share Plus Common Dividends Tranche shall be issuable as Shares.

(iii) If the Company's Growth of Tangible Book Value Per Share Plus Common Dividends Percentile below 25th, then 0% of the Growth of Tangible Book Value Per Share Plus Common Dividends Tranche shall be issuable as Shares.

(iv) If the Company's Growth of Tangible Book Value Per Share Plus Common Dividends Percentile is above 25th but below 80th, then the number of issuable Shares shall be calculated by interpolation between the points listed above.

"Growth of Tangible Book Value Per Share Plus Common Dividends" means the three year average of the ratios, expressed as a percentage, of (a) the Company's tangible book value per share at the end of each year within the Performance Period, plus total common dividends per share paid during such year, to (b) the Company's tangible book value per share at the beginning of each corresponding year within the Performance Period; and shall exclude the initial effects of changes in tax laws, accounting principles or regulations, or other laws or provisions affecting the reported results if the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or necessary or appropriate to comply with applicable laws, rules or regulations..

Subject to section 2 below, the total Shares issuable pursuant to this Agreement (the "Total Shares Earned") shall be equal to the sum of the Shares issuable pursuant to paragraphs (a) and (b) above.

2. Absolute Performance Modifier

In the event that the Company's Adjusted ROTCE for one or more fiscal years in the Performance Period is less than or equal to zero, the Total Shares Earned shall be reduced as provided below:

(a) If the Company's Adjusted ROTCE is less than or equal to zero for one fiscal year within the Performance Period, the Total Shares Earned shall be reduced by one-sixth;

(b) If the Company's Adjusted ROTCE is less than or equal to zero for any two fiscal years within the Performance Period, the Total Shares Earned shall be reduced by one-third; and

(c) If the Company's Adjusted ROTCE is less than or equal to zero for all three fiscal years within the Performance Period, the Total Shares Earned shall be forfeited in full.

APPENDIX B

PEER GROUP

The “Peer Group” shall consist of the companies in the KBW Bank Index as of January 1, 2021, excluding custody banks, as shown below. For members of the Peer Group who fail, are acquired, or cease to have publicly-traded shares before the conclusion of the Performance Period, their Adjusted ROTCE and Growth of Tangible Book Value Per Share Plus Common Dividends (“Adj ROTCE and GTBVPS+D”) through the time the independent company stops reporting GAAP financials will be frozen and this Adj ROTCE and GTBVPS+D measurement will serve as their final Adj ROTCE and GTBVPS+D measurement for the Performance Period. Members of the Peer Group that continue to operate as independent companies, but that are not a member of the KBW Bank Index at the conclusion of the Performance Period, will continue to be used in the Peer Group for purposes of the award determination or calculation through the full three-year Performance Period. Any new entrants to the KBW Bank Index after January 1, 2021 will not be considered members of the Peer Group for any award determination or calculation related to this Agreement.

Bank of America
CIT Group
Citigroup
Citizens Financial Group
Comerica
Fifth Third Bancorp
First Horizon National Corporation
First Republic
Huntington Bancshares
JP Morgan Chase
KeyCorp
M&T
People’s United
PNC
Regions
SVB Financial
Truist
US Bancorp
Wells Fargo
Zions

Exhibit 10.2.26

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Restricted Stock Unit Award Agreement

No. of Units: [# of Units]

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated February 4, 2021 (the "Date of Grant"), between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation ("Capital One" or the "Company"), and **Richard D. Fairbank** ("you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan"). All capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless otherwise defined herein. For purposes of this Agreement, "Employer" means the entity (i.e., Capital One, Subsidiary or Affiliate) that employs you.

WHEREAS, Article 8 of the Plan provides for the award from time to time in the discretion of the Committee of Restricted Stock Units, representing shares of common stock of Capital One, $.01 par value per share ("Common Stock"), the vesting and issuance of which are subject to continued employment with Capital One or other conditions;

W I T N E S S E T H :

1. Grant of Restricted Stock Units. Capital One hereby grants to you [# of Units] Restricted Stock Units (the "Restricted Stock Units"). The Restricted Stock Units shall vest only in accordance with the provisions of this Agreement and of the Plan. The Restricted Stock Units will not have voting rights.

2. Non-Transferability. Subject to the provisions of Section 3 hereof, the rights represented by the Restricted Stock Units shall not be assignable or transferable, or otherwise alienated or hypothecated, under any circumstances. Any purported or attempted transfer of such units or such rights shall be null and void and shall result in the immediate forfeiture and cancellation of the Restricted Stock Units.

3. Payment of Restricted Stock Units.

(a) Vesting. Except as provided in Sections 3(b), 3(c), 3(d), 12(a) and 12(b) below, and to the extent not previously vested or forfeited as provided herein, the Restricted Stock Units shall vest in full on February 15, 2024 (the "Vesting Date"). The period between beginning on January 1, 2021, and ending on December 31, 2023 shall be the "Performance Period."

Upon vesting, the Restricted Stock Units shall become payable in cash in an amount equal to the product of (i) the average Fair Market Value of the Common Stock for the 15 trading days preceding the Vesting Date and (ii) the number of Restricted Stock Units vesting on the Vesting Date (subject to Section 5 below).

(b) Effect of Termination of Employment.

(i) Except as provided in Section 3(b)(ii), 3(b)(iii) and 3(d), upon your termination of employment with Capital One for any reason all Restricted Stock Units shall immediately be forfeited (to the extent not previously vested or forfeited as provided herein).

(ii) Upon your termination of employment with Capital One as a result of your death or Disability, the Restricted Stock Units shall immediately vest, the date of such death or Disability shall be the Vesting Date and the cash shall become payable in full as described in Section 3(a) (to the extent not previously vested or forfeited as provided herein).

(iii) Upon your termination of employment with Capital One as a result of Retirement, the Restricted Stock Units shall continue to vest on the Vesting Date (to the extent not previously vested or forfeited as provided herein) and remain subject to reduction pursuant to Sections 12(a) and 12(b).

(c) Vesting Schedule Upon Becoming Subject to Withholding.

(i) Unless otherwise determined by the Committee or the independent members of the Board of Directors, as applicable, and to the extent permitted or required by law, Capital One may determine, in its sole discretion, (A) that you have become subject to withholding under applicable tax laws at a time when Restricted Stock Units are not otherwise vesting pursuant to this Section 3, and (B) that a portion of the Restricted Stock Units shall vest and become payable, only and to the extent sufficient on the date of such determination (the "Determination Date"), to provide for the payment of any tax liability in accordance with applicable tax laws, in an amount equal to the product of (i) the Fair Market Value of the Common Stock for the Determination Date and (ii) the number of Restricted Stock Units vesting on the Determination Date. The number of Restricted Stock Units vesting pursuant to the preceding sentence shall be rounded up to the nearest whole Restricted Stock Unit. It is understood that the remaining portion of the Restricted Stock Units shall continue to vest on the Vesting Date as provided herein (to the extent not previously vested or forfeited as provided herein).

(ii) Notwithstanding any other provision of this Agreement to the contrary, Capital One will take all necessary steps to withhold the amount determined in accordance with the immediately foregoing paragraph in satisfaction of any applicable tax withholding liability, unless Capital One makes another method of payment available to you.

(d) Effect of Change of Control. Upon your termination of employment by Capital One without Cause or by you for Good Reason (each as defined below), in either case on or prior to the second anniversary of the occurrence of a Change of Control of Capital One, then, notwithstanding anything herein to the contrary, the Restricted Stock Units shall vest, the date of such termination shall be the Vesting Date and the Restricted Stock Units shall become payable in cash as described in Section 3(a) immediately following the occurrence of your termination of employment following such Change of Control (to the extent not previously vested or forfeited as provided herein); provided, however, that if the Restricted Stock Units are considered deferred compensation under Section 409A of the Code and not exempt from Section 409A of the Code as a short-term deferral or otherwise, and you are a "specified employee," as defined in and pursuant to Reg. Section 1.409A 1(i) or any successor regulation, on the date of any such termination of employment without Cause or for Good Reason, you will not be entitled to such vesting earlier than the earlier of (i) the date which is six months from the date of your "separation from service" (as defined in Reg. Section 1.409A 1(h) or any successor regulation) as a result of such termination and (ii) your death.

(e) Definitions.

(i) For purposes of this Agreement, "Cause" shall mean (1) the willful and continued failure to perform substantially your duties with the Company or any Affiliate (other than any such failure resulting from incapacity due to physical or mental illness or following your delivery of a Notice of Termination for Good Reason), after a written demand for substantial performance is delivered to you by the Board or the Committee that specifically identifies the manner in which the Board or Committee believes that you have not substantially performed your duties, or (2) the willful engaging by you in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company. No act, or failure to act, on the part of you shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the Employer and is not publicly-traded, the board of directors (or equivalent management body) of the ultimate parent of the Employer (the "Applicable Board") or (B) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3(e)(i), and specifying the particulars thereof in detail.

(ii) For purposes of this Agreement, "Good Reason" shall mean (1) the assignment to you of any duties inconsistent in any respect with your position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any action by the Company that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (2) any failure by the Company to pay your compensation owed other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (3) the Company's requiring you (I) to be based at any office or location more than 35 miles from the office or location at which you were required to work as of the date of this Agreement or (II) to travel on Company business to a substantially greater extent than required during the 120-day period immediately prior to the date the Change of Control occurs; or (4) any other action or inaction that constitutes a material breach by the Company of this Agreement or any employment agreement. For purposes of this Section 3(e)(ii) of this Agreement, any good faith determination of Good Reason made by you shall be conclusive. Your mental or physical incapacity following the occurrence of an event described above in clauses (1) through (4) shall not affect your ability to terminate employment for Good Reason.

(iii) Any termination by the Company for Cause, or by you for Good Reason, shall be communicated by Notice of Termination to the other party. "Notice of Termination" means a written notice that (1) indicates the specific termination provision in this Agreement relied upon, (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated, and (3) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by you or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of you or the Company, respectively, hereunder or preclude you or the Company, respectively, from asserting such fact or circumstance in enforcing your or the Company's respective rights hereunder.

(iv) "Date of Termination" means, if your employment is terminated by the Company for Cause, or by you for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be. You and the Company shall take all steps necessary to ensure that any termination described in this Section 3(e) constitutes a "separation from service" within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the "Date of Termination."

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board or the Committee and subject to the Committee's right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided that, changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Withholding. If you become subject to withholding under applicable tax laws other than as described in Section 3(c), you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(a) automatically through payroll withholding; or

(b) by such other methods as Capital One may make available from time to time.

6. Dividend Equivalents. With respect to the Restricted Stock Units, you shall be credited with dividend equivalents as and when dividends are paid to the Company's other stockholders. By accepting this Award, you agree that such dividend equivalents shall accumulate and be paid to you in cash (without interest) as and when you receive payment under Section 3 with respect to the Restricted Stock Units from which such dividend equivalents are derived. You further agree that all such dividend equivalents shall be subject to the same vesting requirements that apply to the Restricted Stock Units from which such dividend equivalents are derived.

7. Governing Law. This Agreement shall be governed by United States federal law and, to the extent not preempted thereby, by the laws of the State of Delaware. Capital One and you hereby consent and submit to the personal jurisdiction and venue of any state or federal court located in any city or county of Delaware for resolution of any and all claims, causes of action or disputes arising out of this Agreement. You and Capital One agree that the court shall not set aside the Committee's determinations unless there is clear and convincing evidence of bad faith or fraud.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Restricted Stock Units, you agree that you will comply with such conditions as the Committee may impose on the Restricted Stock Units and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

11. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

12. Performance-Based Adjustments, Clawbacks and Other Forfeiture Events.

(a) Performance-Based Adjustment. The number of Restricted Stock Units vesting on the Vesting Date shall be subject to reduction as follows:

(i) For each fiscal year of the Company ending during the Performance Period, if any, that the Core Earnings for the Company for such fiscal year, as certified by the Committee, are not positive (i.e., Core Earnings are not greater than zero):

(A) The number of Restricted Stock Units scheduled to vest on the Vesting Date shall be reduced by ______;

(B) The Committee shall determine the extent, if any, to which you are accountable for such outcome, and, based on such determination, the Committee shall determine (I) whether the number of Restricted Stock Units scheduled to vest on the Vesting Date shall be reduced by up to an additional _____ and (II) whether the Vesting Date shall be delayed for all or any portion of such Restricted Stock Units that are not so reduced.

The Committee shall make the determinations referenced in Section 12(a)(i)(B) in its sole discretion, taking into account the factors set forth on Appendix A hereto.

(ii) For purposes of this Section 12(a), "Core Earnings" means the Company's net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of (A) impairment or amortization of intangible assets, (B) the build or release of the allowance for loan and lease losses, calculated as the difference between the provision for loan and lease losses and charge-offs, net of recoveries, and (C) the change in the combined uncollectible finance charge and fee reserve.

(iii) In the event of any change to U.S. generally accepted accounting principles affecting the treatment or classification of any component of Core Earnings, such metric shall be calculated in a manner consistent with the definitions herein to the extent practicable.

Notwithstanding anything to the contrary in this Agreement and for the avoidance of doubt, in the event of a Change of Control of Capital One, there shall be no reduction pursuant to this Section 12(a) for any fiscal year ending after the date of such Change of Control.

(b) Clawback. The number of Restricted Stock Units vesting on the Vesting Date shall be subject to reduction in an amount as determined by the Committee in its sole discretion in the event that prior to the Vesting Date the Committee in its sole discretion determines that (i) there has been misconduct resulting in either a violation of law or of Capital One policy or procedures, including but not limited to the Capital One Code of Conduct, that in either case causes significant financial or reputational harm to Capital One and (ii) either you committed the misconduct or failed in your responsibility to manage or monitor the applicable conduct or risks.

(c) Forfeiture Event. You agree to reimburse the Company with respect to the Restricted Stock Units to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

13. Data Protection. You consent to the collection, processing and transfer (including international transfer) of your personally identifiable data in connection with the grant of the Restricted Stock Units and participation in the Plan.

14. Severability. This Agreement shall be enforceable to the fullest extent allowed by law. In the event that any provision of this Agreement is determined to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, then that provision shall be reduced, modified or otherwise conformed to the relevant law, judgment or determination to the degree necessary to render it valid and enforceable without affecting the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be deemed severable from the remainder of this Agreement, and the remaining provisions contained in this Agreement shall be construed to preserve to the maximum permissible extent the intent and purposes of this Agreement.

15. Miscellaneous. In accepting the grant, you acknowledge and agree that:

(a) this Agreement is intended to comply with the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in a manner so as to comply therewith;

(b) your obligations under this Agreement shall survive any termination of your employment with the Company for any reason;

(c) any of the Company's rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity;

(d) any recovery by the Company under this Agreement will be a recovery of Restricted Stock Units to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty;

(e) the Company may, to the maximum extent permitted by applicable law and Section 409A of the Code, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement;

(f) the Company reserves the right to impose other requirements on the Restricted Stock Units, any Shares acquired pursuant to the Restricted Stock Units, and your participation in the Plan, to the extent Capital One determines, in its sole discretion, that such other requirements are necessary or advisable in order to comply with local laws, rules and regulations, or to facilitate the administration of the Restricted Stock Units and the Plan. Such requirements may include (but are not limited to) requiring you to sign any agreements or undertakings that may be necessary to accomplish the foregoing; and

(g) Capital One from time to time distributes and makes available to associates disclosure documents, including a prospectus, relating to the Plan. You may also contact the HR Help Center to obtain copies of the Plan disclosure documents and the Plan. You should carefully read the Plan disclosure documents and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure documents and agree to be bound by the terms of this Agreement and the Plan. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Capital One or a third-party designated by Capital One.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed on their behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

____
Mayo A. Shattuck III
Chair, Compensation Committee

PARTICIPANT

By: ______________________________________
Richard D. Fairbank

APPENDIX A

PERFORMANCE-BASED ADJUSTMENT DETERMINATION FACTORS

The Committee shall take into account the following factors for purposes of making any determinations referenced in Section 12(a)(i)(B) of the Agreement in its sole discretion:

- The extent to which Core Earnings were negative;
- Whether the outcome was the result of the performance of a line of business, control function or staff group for which you exercised direct or indirect responsibility;
- The extent to which your performance contributed to the outcome, including your performance with respect to risk management and oversight; and
- Such other factors as the Committee deems appropriate.

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Restricted Stock Unit Award Agreement

No. of Units: [# of Units]

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated [Month] [Day], 2020 (the "Date of Grant"), between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation ("Capital One" or the "Company"), and [Full Name] ("you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan"), and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless otherwise defined herein. For purposes of this Agreement, "Employer" means the entity (i.e., Capital One, Subsidiary or Affiliate) that employs you.

WHEREAS, Article 8 of the Plan provides for the award from time to time in the discretion of the Committee of Restricted Stock Units, representing shares of common stock of Capital One, $.01 par value per share ("Common Stock"), the vesting and issuance of which is subject to continued employment with Capital One or other conditions;

W I T N E S S E T H :

1. Grant of Restricted Stock Units. Capital One hereby grants to you [# of Units] Restricted Stock Units (the "Restricted Stock Units"). The Restricted Stock Units shall vest, and the underlying shares of Common Stock (such underlying shares, the "Shares") shall be issuable, only in accordance with the provisions of this Agreement and of the Plan. The Restricted Stock Units will not have voting rights.

2. Non-Transferability. Subject to the provisions of Sections 3 and 12 hereof, the rights represented by the Restricted Stock Units shall not be assignable or transferable, or otherwise alienated or hypothecated, under any circumstances. Any purported or attempted transfer of such Restricted Stock Units or such rights shall be null and void and shall result in the immediate forfeiture and cancellation of the Restricted Stock Units.

3. Issuance of Common Stock.

(a) Vesting. Except as provided in Sections 3(b), 3(c), 3(d), 13(a) and 13(b) below and to the extent not previously vested or forfeited as provided herein, the Restricted Stock Units shall vest, and the Shares shall be issuable in full without restrictions on transferability, other than the restrictions contained in Section 12 below, according to the following schedule:

One-third of the Restricted Stock Units on February 15, 2022
One-third of the Restricted Stock Units on February 15, 2023
One-third of the Restricted Stock Units on February 15, 2024

Each of the immediately above dates shall be a “Scheduled Vesting Date.”

(b) Effect of Termination of Employment.

(i) Except as provided in Section 3(b)(ii), 3(b)(iii), 3(b)(iv) and 3(d), upon your termination of employment with Capital One for any reason all Restricted Stock Units shall immediately be forfeited (to the extent not previously vested or forfeited as provided herein).

(ii) Upon your termination of employment with Capital One as a result of your death or Disability, the Restricted Stock Units shall immediately vest, and the Shares shall be issuable in full without restrictions on transferability upon such termination of employment (to the extent not previously vested or forfeited as provided herein).

(iii) Upon your termination of employment with Capital One as a result of Retirement, the Restricted Stock Units shall continue to vest on the Scheduled Vesting Dates (to the extent not previously vested or forfeited as provided herein) and remain subject to reduction pursuant to Section 13(a) and 13(b).

(iv) Subject to Section 3(b)(v), upon termination of your employment by Capital One not for Cause, you will receive continued vesting of the Restricted Stock Units scheduled to vest on each of the Scheduled Vesting Dates as if a termination of employment had not occurred subject to (A) your execution of a separation agreement and/or general release of claims within a period of time as required by Capital One (in a form as prescribed by Capital One, a “Release”), (B) such Release becoming effective and irrevocable in accordance with its terms and (C) your continued compliance with the terms of such Release through each Scheduled Vesting Date. To the extent a Scheduled Vesting Date occurs prior to the expiration of the period of time Capital One provides you to sign the Release, you shall be entitled to vesting of the applicable portion of your Restricted Stock Units on such Scheduled Vesting Date even if you have not yet executed the Release. For avoidance of doubt, such continued vesting shall remain subject to reduction pursuant to Section 13(a) and 13(b) and shall immediately cease (and any then-unvested Restricted Stock Units shall be immediately forfeited) in the event that you violate the terms and conditions of the Release.

(v) Your right to continued vesting pursuant to Section 3(b)(iv) is expressly conditioned on your compliance with any and all restrictive covenant agreements or provisions to which you are a party with Capital One including, but not limited to, those with respect to non-competition, confidentiality and work product, non-solicitation of employees/no hire of employees, non-solicitation of customers, and garden transition period or leave (collectively, “Restrictive Covenant Agreements”). You understand and agree that any actual or threatened action by you in violation of any Restrictive Covenant Agreements shall forfeit your right to continued post-employment vesting as of the date of such actual or threatened action by you in violation of such Restrictive Covenant Agreement. You further understand and agree that any forfeiture of continued vesting rights under this Agreement, or waiver thereof, shall not limit Capital One’s rights to pursue any and all legal and equitable remedies and damages available for your breach of the Restrictive Covenant Agreements under the terms of such agreements and applicable law, including but not limited to, injunctive relief, monetary damages, costs and fees.

(c) Vesting Schedule Upon Becoming Subject to Withholding.

(i) Unless otherwise determined by the Committee or the independent members of the Board of Directors, as applicable, and to the extent permitted or required by law, Capital One may determine, in its sole discretion, (A) that you have become subject to withholding under applicable tax laws at a time when Restricted Stock Units are not otherwise vesting pursuant to Section 3, and (B) that a portion of the Restricted Stock Units shall vest, and the Shares shall be issuable in full without restrictions on transferability, only and to the extent sufficient, if sold at Fair Market Value, on the date of such determination, to provide for the payment of any tax liability in accordance with applicable tax laws. The number of Restricted Stock Units vesting pursuant to the preceding sentence shall be rounded up to the nearest whole Restricted Stock Unit. It is understood that the remaining portion of the Restricted Stock Units shall continue to vest on the Scheduled Vesting Dates as provided herein (to the extent not previously vested or forfeited as provided herein).

(ii) Notwithstanding any other provision of this Agreement to the contrary, Capital One will take all necessary steps to withhold the amount determined pursuant to the immediately foregoing paragraph in satisfaction of any applicable tax withholding liability.

(d) Effect of Change of Control. Upon termination of your employment by Capital One without Cause or by you for Good Reason (each as defined below), in either case on or prior to the second anniversary of the occurrence of a Change of Control of Capital One, then, notwithstanding anything herein to the contrary, the Restricted Stock Units shall vest and the Shares shall be issuable in full without restrictions on transferability immediately upon the occurrence of your termination of employment following such Change of Control (to the extent not previously vested or forfeited as provided herein); provided, however, that if the Restricted Stock Units are considered deferred compensation under Section 409A of the Code and not exempt from Section 409A of the Code as a short-term deferral or otherwise, and you are a "specified employee," as defined in and pursuant to Reg. Section 1.409A 1(i) or any successor regulation, on the date of any such termination of employment without Cause or for Good Reason, you will not be entitled to such vesting earlier than the earlier of (i) the date which is six months from the date of your "separation from service" (as defined in Reg. Section 1.409A 1(h) or any successor regulation) as a result of such termination and (ii) your death.

(e) Definitions.

(i) For purposes of this Agreement, "Cause" shall mean (1) the willful and continued failure to perform substantially your duties with the Company or any Affiliate (other than any such failure resulting from incapacity due to physical or mental illness or following your delivery of a Notice of Termination for Good Reason), after a written demand for substantial performance is delivered to you by the Board or the Chief Executive Officer of the Company that specifically identifies the manner in which the

Board or the Chief Executive Officer of the Company believes that you have not substantially performed your duties, or (2) the willful engaging by you in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company. No act, or failure to act, on the part of you shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the Employer and is not publicly-traded, the board of directors (or equivalent management body) of the ultimate parent of the Employer (the "Applicable Board"), (B) the instructions of the Chief Executive Officer of the Company (unless you are the Chief Executive Officer at the time of any such instruction) or (C) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3(e)(i), and specifying the particulars thereof in detail.

(ii) For purposes of this Agreement, "Good Reason" shall mean (1) the assignment to you of any duties inconsistent in any respect with your position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any action by the Company that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (2) any failure by the Company to pay your compensation owed other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (3) the Company's requiring you (I) to be based at any office or location more than 35 miles from the office or location at which you were required to work as of the date of this Agreement or (II) to travel on Company business to a substantially greater extent than required during the 120-day period immediately prior to the date the Change of Control occurs; or (4) any other action or inaction that constitutes a material breach by the Company of this Agreement or any employment agreement. For purposes of this Section 3(e)(ii) of this Agreement, any good faith determination of Good Reason made by you shall be conclusive. Your mental or physical incapacity following the occurrence of an event described above in clauses (1) through (4) shall not affect your ability to terminate employment for Good Reason.

(iii) Any termination by the Company for Cause, or by you for Good Reason, shall be communicated by Notice of Termination to the other party. "Notice of Termination" means a written notice that (1) indicates the specific termination provision in this Agreement relied upon, (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated, and (3) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by you or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of you or the Company, respectively, hereunder or preclude you or the Company, respectively, from asserting such fact or circumstance in enforcing your or the Company's respective rights hereunder.

(iv) "Date of Termination" means, if your employment is terminated by the Company for Cause, or by you for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be. You and the Company shall take all steps necessary to ensure that any termination described in this Section 3(e) constitutes a "separation from service" within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the "Date of Termination."

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board or the Committee and subject to the Committee's right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided that, changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(a) Capital One will automatically withhold the number of Shares having a Fair Market Value on the date the tax withholding obligation is to be determined equal to the amount required to be withheld (as determined pursuant to the Plan), rounded up to the nearest whole Share; or

(b) by such other methods as Capital One may make available from time to time.

6. Dividend Equivalents. With respect to the Restricted Stock Units, you shall be credited with dividend equivalents as and when dividends are paid to the Company's other stockholders. By accepting this Award, you agree that such dividend equivalents shall accumulate and be paid to you in cash (without interest) as and when the Restricted Stock Units from which such dividend equivalents are derived vest pursuant to Section 3. You further agree that all such dividend equivalents shall be subject to the same vesting requirements that apply to the Restricted Stock Units from which such dividend equivalents are derived.

7. Governing Law. This Agreement shall be governed by United States federal law and, to the extent not preempted thereby, by the laws of the State of Delaware. Capital One and you hereby

consent and submit to the personal jurisdiction and venue of any state or federal court located in any city or county of Delaware for resolution of any and all claims, causes of action or disputes arising out of this Agreement. You and Capital One agree that the court shall not set aside the Committee's determinations unless there is clear and convincing evidence of bad faith or fraud.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Restricted Stock Units, you agree that you will comply with such conditions as the Committee may impose on the Restricted Stock Units and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

11. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

12. Mandatory Holding Requirement.

(a) You agree that with respect to the Applicable Holding Shares you may not transfer, sell, pledge, hypothecate or otherwise dispose of such Applicable Holding Shares until the Holding Date; provided that the requirements set forth in this Section 12 shall immediately lapse and be of no further force and effect upon your death, Disability or termination of employment by Capital One without Cause or for Good Reason following a Change of Control, pursuant to Section 3(d).

(b) For purposes of this Section 12:

(i) "Applicable Holding Shares" means 50% of the Shares acquired hereunder (not including any Shares sold or retained by the Company or its designated agent to fund the payment of any tax withholding obligation, brokerage commission or fees payable in connection with the Shares) during your term of employment with the Company and during the one-year period after termination of your employment for any reason; and

(ii) "Holding Date" means the later of: (1) the first anniversary of the date of acquisition of any Applicable Holding Shares; or (2) until your stock ownership requirement is met, as determined by the Committee.

13. Performance-Based Adjustments, Clawbacks and Other Forfeiture Events.

(a) Performance-Based Adjustment. The number of Restricted Stock Units vesting on the Scheduled Vesting Date shall be subject to reduction as follows:

(i) In the event that the Core Earnings of the Company for the Company's fiscal year ended immediately prior to such Scheduled Vesting Date, as certified by the Committee, are not positive (i.e., Core Earnings are not greater than zero):

(A) The number of Restricted Stock Units scheduled to vest on such Scheduled Vesting Date shall be reduced by 50%, rounding up to the nearest whole share; and

(B) the Committee shall determine the extent, if any, to which you are accountable for such outcome and, based on such determination, the Committee shall determine (I) whether all or any portion of the remaining Restricted Stock Units scheduled to vest on such Scheduled Vesting Date shall be forfeited and (II) whether the Scheduled Vesting Date shall be delayed for all or any portion of such Restricted Stock Units that are not so forfeited.

The Committee shall make the determinations referenced in Section 13(a)(i)(B) in its sole discretion, taking into account the factors set forth on Appendix A hereto.

(ii) For purposes of this Section 13(a), "Core Earnings" means the Company's net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of (A) impairment or amortization of intangible assets, (B) the build or release of the allowance for loan and lease losses, calculated as the difference between the provision for loan and lease losses and charge-offs, net of recoveries, and (C) the change in the combined uncollectible finance charge and fee reserve.

(iii) In the event of any change to U.S. generally accepted accounting principles affecting the treatment or classification of any component of Core Earnings, such metric shall be calculated in a manner consistent with the definitions herein to the extent practicable.

Notwithstanding anything to the contrary in this Agreement and for the avoidance of doubt, in the event of a Change of Control of Capital One, there shall be no reduction pursuant to this Section 13(a) for any fiscal year ending after the date of such Change of Control.

(b) Clawback. All unvested Restricted Stock Units granted hereunder shall be subject to forfeiture in the event that the Committee in its sole discretion determines that (i) there has been misconduct resulting in either a violation of law or of Capital One policy or procedures, including but not limited to the Capital One Code of Conduct, that in either case causes significant financial or reputational harm to Capital One and (ii) either you committed the misconduct or failed in your responsibility to manage or monitor the applicable conduct or risks. In the event that the Committee makes a determination as provided in the preceding sentence, all or any portion of the Restricted Stock Units that have not yet vested under this Agreement as of the date of such determination shall be forfeited in an amount as determined by the Committee in its sole discretion.

(c) Forfeiture Event. You agree to reimburse the Company with respect to the Restricted Stock Units to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

14. Data Protection. You consent to the collection, processing and transfer (including international transfer) of your personally identifiable data in connection with the grant of the Restricted Stock Units and participation in the Plan.

15. Severability. This Agreement shall be enforceable to the fullest extent allowed by law. In the event that any provision of this Agreement is determined to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, then that provision shall be reduced, modified or otherwise conformed to the relevant law, judgment or determination to the degree necessary to render it valid and enforceable without affecting the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be deemed severable from the remainder of this Agreement, and the remaining provisions contained in this Agreement shall be construed to preserve to the maximum permissible extent the intent and purposes of this Agreement.

16. Miscellaneous. In accepting the grant, you acknowledge and agree that:

(a) this Agreement is intended to comply with the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in a manner so as to comply therewith;

(b) your obligations under this Agreement shall survive any termination of your employment with the Company for any reason;

(c) any of the Company's rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity;

(d) any recovery by the Company under this Agreement will be a recovery of Restricted Stock Units to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty;

(e) the Company may, to the maximum extent permitted by applicable law and Section 409A of the Code, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe to the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement;

(f) the Company reserves the right to impose other requirements on the Restricted Stock Units, any Shares acquired pursuant to the Restricted Stock Units, and your participation in the Plan, to the extent Capital One determines, in its sole discretion, that such other requirements are necessary or advisable in order to comply with local laws, rules and regulations, or to facilitate the administration of the Restricted Stock Units and the Plan. Such requirements may include (but are not limited to) requiring you to sign any agreements or undertakings that may be necessary to accomplish the foregoing; and

(g) Capital One from time to time distributes and makes available to associates disclosure documents, including a prospectus, relating to the Plan. You may also contact the HR

Help Center to obtain copies of the Plan disclosure documents and the Plan. You should carefully read the Plan disclosure documents and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure documents and agree to be bound by the terms of this Agreement and the Plan. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Capital One or a third-party designated by Capital One.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed on their behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

/s/ Jory Benson
Jory Berson
Chief Human Resources Officer

PARTICIPANT

By: SIGNED BY ELECTRONIC SIGNATURE
FIRST NAME, LAST NAME

BY ELECTRONICALLY ACCEPTING THE AWARD, YOU AGREE THAT (i) SUCH ACCEPTANCE CONSTITUTES YOUR ELECTRONIC SIGNATURE IN EXECUTION OF THIS AGREEMENT; (ii) YOU AGREE TO BE BOUND BY THE PROVISIONS OF THE PLAN AND THE AGREEMENT; (iii) YOU HAVE REVIEWED THE PLAN AND THE AGREEMENT IN THEIR ENTIRETY, HAVE HAD AN OPPORTUNITY TO OBTAIN THE ADVICE OF COUNSEL PRIOR TO ACCEPTING THE AWARD AND FULLY UNDERSTAND ALL OF THE PROVISIONS OF THE PLAN AND THE AGREEMENT; (iv) YOU HAVE BEEN PROVIDED WITH A COPY OR ELECTRONIC ACCESS TO A COPY OF THE U.S. PROSPECTUS FOR THE PLAN; AND (v) YOU HEREBY AGREE TO ACCEPT AS BINDING, CONCLUSIVE AND FINAL ALL DECISIONS OR INTERPRETATIONS OF THE COMMITTEE UPON ANY QUESTIONS ARISING UNDER THE PLAN AND THE AGREEMENT.

* * * * *

Appendix A

PERFORMANCE-BASED ADJUSTMENT DETERMINATION FACTORS

The Committee shall take into account the following factors for purposes of making any determinations referenced in Section 13(a)(i)(B) of the Agreement in its sole discretion:

- The extent to which Core Earnings were negative;
- Whether the outcome was the result of the performance of a line of business, control function or staff group for which you exercised direct or indirect responsibility;
- The extent to which your performance contributed to the outcome, including your performance with respect to risk management and oversight; and
- Such other factors as the Committee deems appropriate.

Exhibit 10.2.27

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Performance Unit Award Agreement

No. of Performance Units at Target: [# of Units]

THIS PERFORMANCE UNIT AWARD AGREEMENT (this "Agreement"), dated February 4, 2021 (the "Date of Grant"), between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation ("Capital One" or the "Company"), and **Richard D. Fairbank** ("you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan") and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless they are otherwise defined herein. For purposes of this Agreement, "Employer" means the entity (i.e., Capital One, Subsidiary or Affiliate) that employs you.

WHEREAS, Article 9 of the Plan provides for the award from time to time in the discretion of the Committee of performance units, the vesting and issuance of which are subject to certain service, performance or other conditions;

W I T N E S S E T H :

1. Grant of Performance Units. Capital One hereby grants to you an award of performance units (the "Units") with a target award of [# of Units} Units (the "Target Award"). The maximum payout for this award is 150% of the Target Award plus accrued dividends pursuant to Section 6. The Units shall vest and the underlying shares of common stock of Capital One, $.01 par value per share (such underlying shares, the "Shares"), shall be issuable only in accordance with the provisions of this Agreement and of the Plan. The Units will not have voting rights.

2. Non-Transferability. Subject to the provisions of Section 3 and 13 hereof, the right to receive some or all of the Units and the Shares related thereto shall not be assignable or transferable, or otherwise alienated, pledged or hypothecated or otherwise encumbered under any circumstances. Any purported or attempted assignment, transfer, alienation, pledge, hypothecation or encumbrance of such rights or of the Units or the Shares related thereto prior to their issuance to you shall be null and void and shall result in the immediate forfeiture of such rights or Units, including the Shares related thereto, and cancellation of this Agreement.

3. Lapse of Restrictions.

(a) Vesting. Except as provided in Sections 3(b) and 3(c) below and to the extent not previously vested or forfeited as provided herein, the Units shall vest on a date as determined by the Committee after termination of the Performance Period (as defined below) and certification of performance by the Committee, but no later than March 15, 2024 (the "Date of Issuance"). On the Date of Issuance, the Units shall vest, and the Shares shall become issuable as determined based on the Company's TSR, as defined on Appendix A, relative to the Peer Group, as defined on Appendix B, over a three-year performance period beginning on January 1, 2021 and ending on December 31, 2023 (the "Performance Period") as certified by the Committee following the end of the Performance Period. The number of Units that shall vest and the number of Shares that shall become issuable on the Date of Issuance shall be determined as set forth on Appendix A. The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall also be subject to reduction in accordance with section 12 below.

With respect to any Units that have vested on the Date of Issuance, the Shares related thereto shall be issued to you, in settlement of such vested Units, on such Date of Issuance. Dividends will be accrued and paid out as additional shares at the time of the award as provided in Section 6 below. All Units, including your rights thereto and to the underlying Shares, which do not vest on or before the Date of Issuance, as provided in this Section 3, shall immediately be forfeited as of such Date of Issuance (to the extent not previously forfeited as provided herein).

(b) Effect of Termination of Employment.

(i) Upon termination of your employment with Capital One for any reason other than death, Disability or Retirement, as defined below, prior to the Date of Issuance, all Units shall immediately be forfeited (to the extent not previously vested or forfeited as provided herein).

(ii) Upon termination of your employment as a result of your death or Disability on or prior to December 31, 2023, a number of the Units equal to (1) the Target Award amount as specified above, or (2) following a Change of Control, the Time-Based Units as calculated in Section 3(c) below, shall immediately vest and the Shares shall be immediately issuable to you as soon as practicable following your death or Disability and in all events on or before the later of December 31 of the year of termination or 2.5 months following such termination. Upon your termination of employment as a result of your death or Disability on or after January 1, 2024, but prior to the Date of Issuance, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) above.

(iii) Notwithstanding any other provision in this Agreement, upon your Retirement, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) and 3(c).

(iv) Upon termination of your employment with Capital One for Cause, as defined herein, prior to the Date of Issuance, all Units shall be immediately forfeited (to the extent not previously vested or forfeited as provided herein).

(c) Effect of Change of Control. Upon a Change of Control, a number of Units shall, upon certification of performance by the Committee, convert into time-based restricted stock units (the "Time-Based Units") calculated based on a performance period from January 1, 2021 through the end of the fiscal quarter immediately preceding the closing date of the transaction giving rise to the Change of Control; and provided further that the Date of Issuance in such case shall be December 31, 2023 subject to either (1) your continued employment through such date or (2) your Retirement, pursuant to Section 3(b)(iii). Upon your termination of employment by Capital One without Cause or for Good Reason (each as defined below), in either case on or prior to the second anniversary of the occurrence of a Change of Control of Capital One and prior to the Date of Issuance with respect to the Time-Based Units, then notwithstanding anything herein to the contrary, all of the Time-Based Units shall vest and the Shares shall be issuable in full without restrictions on transferability immediately upon the occurrence of your termination of employment following such Change of Control (to the extent not previously vested or forfeited as provided herein) and such date shall be the Date of Issuance; provided, however, that if the Time-Based Units are considered deferred compensation under Section 409A of the Code and not exempt from Section 409A of the Code as a short-term deferral or otherwise, and you are a "specified employee," as defined in and pursuant to Reg. Section 1.409A 1(i) or any successor regulation, on the date of any such termination of employment without Cause or for Good Reason, you will not be entitled to such vesting earlier than the earlier of (i) the date which is six months from the date of your "separation from service" (as defined in Reg. Section 1.409A 1(h) or any successor regulation) as a result of such termination and (ii) your death.

With respect to any Time-Based Units that have vested, the Shares related thereto shall be issued to you, in settlement of such vested Time-Based Units, on the Date of Issuance. Dividends will be accrued and paid out as additional shares at the time of the award, as provided in Section 6 below. All Time-Based Units, including your rights thereto and to the underlying Shares, which do not vest on or before the Date of Issuance, as provided in this Section 3, shall immediately be forfeited as of such Date of Issuance (to the extent not previously forfeited as provided herein).

(d) Definitions.

(i) For purposes of this Agreement, "Cause" shall mean (1) the willful and continued failure to perform substantially your duties with the Company or any Affiliate (other than any such failure resulting from incapacity due to physical or mental illness or following your delivery of a Notice of Termination for Good Reason), after a written demand for substantial performance is delivered to you by the Board or the Committee that specifically identifies the manner in which the Board or the Committee believes that you have not substantially performed your duties, or (2) the willful engaging by you in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company. No act, or failure to act, on the part of you shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the Employer and is not publicly-traded, the board of directors (or equivalent management body) of the ultimate parent of the Employer (the "Applicable Board") or (B) the advice of counsel for the

Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3(d)(i), and specifying the particulars thereof in detail.

(ii) For purposes of this Agreement, “Good Reason” shall mean (1) the assignment to you of any duties inconsistent in any respect with your position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any action by the Company that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (2) any failure by the Company to pay your compensation owed other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by you; (3) the Company’s requiring you (I) to be based at any office or location more than 35 miles from the office or location at which you were required to work as of the date of this Agreement or (II) to travel on Company business to a substantially greater extent than required during the 120-day period immediately prior to the date the Change of Control occurs; or (4) any other action or inaction that constitutes a material breach by the Company of this Agreement or any employment agreement. For purposes of this Section 3(d)(ii) of this Agreement, any good faith determination of Good Reason made by you shall be conclusive. Your mental or physical incapacity following the occurrence of an event described above in clauses (1) through (4) shall not affect your ability to terminate employment for Good Reason.

(iii) Any termination by the Company for Cause, or by you for Good Reason, shall be communicated by Notice of Termination to the other party. “Notice of Termination” means a written notice that (1) indicates the specific termination provision in this Agreement relied upon, (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated, and (3) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by you or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of you or the Company, respectively, hereunder or preclude you or the Company, respectively, from asserting such fact or circumstance in enforcing your or the Company’s respective rights hereunder.

(iv) “Date of Termination” means, if your employment is terminated by the Company for Cause, or by you for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be. You and the Company shall take all steps necessary to ensure that any termination described in this Section 3(d) constitutes a “separation from service” within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the “Date of Termination.”

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board or the Committee and subject to the Committee’s right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided, that changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(a) Capital One will automatically withhold the number of Shares having a Fair Market Value on the date the tax withholding obligation is to be determined equal to the amount required to be withheld (as determined pursuant to the Plan), rounded up to the nearest whole Share; or

(b) by such other methods as Capital One may make available from time to time.

6. Dividends. Dividends with respect to the Shares shall accrue beginning on January 1, 2021, through the applicable Date of Issuance when the Shares underlying the Units or Time-Based Units are delivered, at which time such accrued dividends shall be paid out in the form of additional shares of common stock of the Corporation based on the Fair Market Value of a share of the Company’s common stock on the business day prior to the Date of Issuance. The accrued dividends that shall be paid out to you shall be only such amount that has accrued with respect to the Shares underlying the Units or Time-Based Units that vest on the Date of Issuance.

7. Governing Law. This Agreement shall be governed by United States federal law and, to the extent not preempted thereby, by the laws of the State of Delaware. Capital One and you hereby consent and submit to the personal jurisdiction and venue of any state or federal court located in any city or county of Delaware for resolution of any and all claims, causes of action or disputes arising out of this Agreement. You and Capital One agree that the court shall not set aside the Committee’s determinations unless there is clear and convincing evidence of bad faith or fraud.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of this Agreement shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Units and the Shares, you agree that you will comply with such conditions as the Committee may impose on the Units and the Shares and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

11. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

12. Clawback and Other Forfeiture Events.

(a) The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall be subject to reduction in an amount as determined by the Committee in its sole discretion in the event that, prior to the Date of Issuance, the Committee in its sole discretion determines that (i) there has been misconduct resulting in either a violation of law or of Capital One policy or procedures, including but not limited to the Capital One Code of Conduct, that in either case causes significant financial or reputational harm to Capital One and (ii) either you committed the misconduct or failed in your responsibility to manage or monitor the applicable conduct or risks.

(b) You agree to reimburse the Company with respect to the Units and the Shares to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

13. Mandatory Holding Requirement.

(a) You agree that with respect to the Applicable Holding Shares you may not transfer, sell, pledge, hypothecate or otherwise dispose of such Applicable Holding Shares until the Holding Date; provided that the requirements set forth in this Section 13 shall immediately lapse and be of no further force and effect upon your death, Disability or termination of employment by Capital One without Cause or for Good Reason following a Change of Control, pursuant to Section 3(c).

(b) For purposes of this Section 13:

(i) "Applicable Holding Shares" means 50% of the Shares acquired hereunder (not including any Shares sold or retained by the Company or its designated agent to fund the payment of any tax withholding obligation, brokerage commission or fees payable in connection with the Shares) during your term of employment with the Company and during the one-year period after termination of your employment for any reason; and

(ii) "Holding Date" means the later of: (1) the first anniversary of the date of acquisition of any Applicable Holding Shares; or (2) until your stock ownership requirement is met, as determined by the Committee.

14. Data Protection. You consent to the collection, processing and transfer (including international transfer) of your personally identifiable data in connection with the grant of the Units and participation in the Plan.

15. Severability. This Agreement shall be enforceable to the fullest extent allowed by law. In the event that any provision of this Agreement is determined to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, then that provision shall be reduced, modified or otherwise conformed to the relevant law, judgment or determination to the degree necessary to render it valid and enforceable without affecting the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be deemed severable from the remainder of this Agreement, and the remaining provisions contained in this Agreement shall be construed to preserve to the maximum permissible extent the intent and purposes of this Agreement.

16. Miscellaneous. In accepting the grant, you acknowledge and agree that:

(a) this Agreement is intended to comply with the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in a manner so as to comply therewith;

(b) your obligations under this Agreement shall survive any termination of your employment with the Company for any reason;

(c) any of the Company's rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity;

(d) any recovery by the Company under this Agreement will be a recovery of Shares to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty;

(e) the Company may, to the maximum extent permitted by applicable law and Section 409A of the Code, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe to the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement;

(f) the Company reserves the right to impose other requirements on the Units, any Shares acquired pursuant to the Units, and your participation in the Plan, to the extent Capital One determines, in its sole discretion, that such other requirements are necessary or advisable in order to comply with local laws, rules and regulations, or to facilitate the administration of the Units and the Plan. Such requirements may include (but are not limited to) requiring you to sign any agreements or undertakings that may be necessary to accomplish the foregoing; and

(g) Capital One from time to time distributes and makes available to associates disclosure documents, including a prospectus, relating to the Plan. You may also contact the HR Help Center to obtain copies of the Plan disclosure documents and the Plan. You should carefully read the Plan disclosure documents and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure documents and agree to be bound by the terms of this Agreement and the Plan. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Capital One or a third-party designated by Capital One.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed on their behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

____
Mayo A. Shattuck III
Chair, Compensation Committee

PARTICIPANT

By: ___________________________________
Richard D. Fairbank

APPENDIX A

PERFORMANCE SHARE METRICS AND PAYOUT

Company Total Shareholder Return Relative to Peer Group

The number of Units that shall vest and the number of Shares that shall become issuable on the Date of Issuance pursuant to Section 3(a) shall be based on the Company's Total Shareholder Return relative to the Peer Group on Appendix B over the Performance Period, using a metric calculated as follows:

The Units shall become issuable as Shares based on the TSR achieved by the Company over the Performance Period, relative to the TSR achieved by each member of the Peer Group over the Performance Period, expressed as a percentile (the "Relative TSR Percentile"), such that:

1. If the Company's Relative TSR Percentile is 80th or higher, then 150% of the Units shall be issuable as Shares.

2. If the Company's Relative TSR Percentile is 25th, then 40% of the Units shall be issuable as Shares.

3. If the Company's Relative TSR Percentile below 25th, then 0% of the Units shall be issuable as Shares.

4. If the Company's Relative TSR Percentile is above 25th but below 80th, then the number of issuable Shares shall be calculated by interpolation between the points listed above.

"Total Shareholder Return" or "TSR" means the change in the value of the applicable common stock over the Performance Period, taking into account the reinvestment of common dividends on the ex-dividend date. The calculation of the stock price appreciation component of TSR = (Ending Stock Price – Beginning Stock Price)/Beginning Stock Price.

"Beginning Stock Price" means the average Stock Price for the 20 trading days immediately preceding the first day of the Performance Period.

"Ending Stock Price" means the average Stock Price for the 20 trading days immediately preceding and including the last day of the Performance Period.

"Stock Price" means the closing price for the day as reported on the applicable exchange or market.

APPENDIX B

PEER GROUP

The “Peer Group” shall consist of the companies in the KBW Bank Index as of January 1, 2021, excluding custody banks, as shown below. For members of the Peer Group who fail, are acquired, or cease to have publicly-traded shares before the conclusion of the Performance Period, their TSR will be frozen as of the last date on which such company has publicly-traded shares and this TSR measurement will serve as their final TSR for the Performance Period. Members of the Peer Group that continue to operate as independent companies, but that are not a member of the KBW Bank Index at the conclusion of the Performance Period, will continue to be used in the Peer Group for purposes of the award determination or calculation through the full three-year Performance Period. Any new entrants to the KBW Bank Index after January 1, 2021 will not be considered members of the Peer Group for any award determination or calculation related to this Agreement.

Bank of America
CIT Group
Citigroup
Citizens Financial Group
Comerica
Fifth Third Bancorp
First Horizon National Corporation
First Republic
Huntington Bancshares
JP Morgan Chase
KeyCorp
M&T
People’s United
PNC
Regions
SVB Financial
Truist
US Bancorp
Wells Fargo
Zions

Exhibit 21

SUBSIDIARIES AS OF DECEMBER 31, 2020

Subsidiaries*	Jurisdiction of Incorporation or Organization	Parent Company
Capital One Bank, (USA), National Association ("COBNA")	United States	Capital One Financial Corporation
Capital One N.A. ("CONA")	United States	Capital One Financial Corporation

* Direct subsidiaries of Capital One Financial Corporation other than COBNA and CONA are not listed above because, in the aggregate, they would not constitute a significant subsidiary.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements, as listed below, of Capital One Financial Corporation and in the related Prospectus, where applicable, of our reports dated February 25, 2021, with respect to the consolidated financial statements of Capital One Financial Corporation and the effectiveness of internal control over financial reporting of Capital One Financial Corporation, included in this Annual Report (Form 10-K) of Capital One Financial Corporation for the year ended December 31, 2020.

Registration Statement Number	Form	Description
033-99748	Form S-3	Dividend Reinvestment and Stock Purchase Plan
333-97125	Form S-3	Dividend Reinvestment and Stock Purchase Plan
033-86986	Form S-8	1994 Stock Incentive Plan
033-91790	Form S-8	1995 Non-Employee Directors Stock Incentive Plan
033-97032	Form S-8	Amendment to 1994 Stock Incentive Plan
333-42853	Form S-8	1994 Stock Incentive Plan - 1997 Special Option Program
333-45453	Form S-8	Associate Savings Plan
333-51637	Form S-8	1994 Stock Incentive Plan
333-51639	Form S-8	1994 Stock Incentive Plan - Tier 5 Special Option Program
333-57317	Form S-8	1994 Stock Incentive Plan - 1998 Special Option Program
333-70305	Form S-8	1994 Stock Incentive Plan - Supplemental Special Option Program
333-78067	Form S-8	1994 Stock Incentive Plan
333-78383	Form S-8	1994 Stock Incentive Plan - 1999 Performance-Based Option Program and Supplemental Special Option Program
333-78609	Form S-8	1999 Stock Incentive Plan
333-78635	Form S-8	1999 Non-Employee Directors Stock Incentive Plan
333-84693	Form S-8	1994 Stock Incentive Plan - Supplemental Special Option Program
333-91327	Form S-8	1994 Stock Incentive Plan - Supplemental Special Option Program
333-92345	Form S-8	1994 Stock Incentive Plan
333-43288	Form S-8	1994 Stock Incentive Plan
333-58628	Form S-8	1994 Stock Incentive Plan
333-72788	Form S-8	1994 Stock Incentive Plan - 2001 Performance-Based Option Program
333-72820	Form S-8	1999 Non-Employee Directors Stock Incentive Plan
333-72822	Form S-8	1994 Stock Incentive Plan
333-76726	Form S-8	1994 Stock Incentive Plan - 2001 Performance-Based Option Program
333-97123	Form S-8	2002 Non-Executive Officer Stock Incentive Plan
333-97127	Form S-8	Associate Savings Plan as Amended and Restated
333-100488	Form S-8	2002 Associate Stock Purchase Plan
333-117920	Form S-8	2004 Stock Incentive Plan
333-124428	Form S-8	Plans of Hibernia Corporation
333-136281	Form S-8	2004 Stock Incentive Plan
333-133665	Form S-8	Plans of North Fork Bancorporation
333-151325	Form S-8	Amended and Restated Associate Stock Purchase Plan
333-158664	Form S-8	Second Amended and Restated 2004 Stock Incentive Plan
333-181736	Form S-8	Amended and Restated 2002 Associate Stock Purchase Plan
333-193683	Form S-8	Associate Savings Plan as Amended and Restated
333-195677	Form S-8	Third Amended and Restated 2004 Stock Incentive Plan
333-219570	Form S-8	Amended and Restated 2002 Associate Stock Purchase Plan

Registration Statement Number	Form	Description
333-223608	Form S-3	Senior Debt Securities, Subordinated Debt Securities, Preferred Stock, Depositary Shares, Common Stock, Purchase Contracts, Warrants, Units
333-232907	Form S-8	Associate Savings Plan as Amended and Restated

/s/ Ernst & Young LLP

Tysons, Virginia

February 25, 2021

Exhibit 31.1

CERTIFICATION FOR ANNUAL REPORT ON FORM 10-K OF CAPITAL ONE FINANCIAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

I, Richard D. Fairbank, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 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: February 25, 2021

By: /s/ RICHARD D. FAIRBANK

Richard D. Fairbank
Chair, Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION FOR ANNUAL REPORT ON FORM 10-K OF CAPITAL ONE FINANCIAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

I, R. Scott Blackley, certify that,

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 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: February 25, 2021

By: /s/ R. SCOTT BLACKLEY
R. Scott Blackley
Chief Financial Officer

Exhibit 32.1

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 Annual Report on Form 10-K for the year ended December 31, 2020 (the “Form 10-K”) 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-K fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Date:	February 25, 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.

Exhibit 32.2

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, R. Scott Blackley, Chief Financial Officer of Capital One Financial Corporation ("Capital One"), a Delaware corporation, do hereby certify that:

1. The Annual Report on Form 10-K for the year ended December 31, 2020 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Date: February 25, 2021

By: /s/ R. SCOTT BLACKLEY
R. Scott Blackley
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.