Capital One Financial Corporation

Dodd-Frank Act Company-Run Stress Test Disclosures

September 16, 2013

Explanatory Note

Section 165 of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") requires that certain bank holding companies, including Capital One, conduct stress tests twice per year to assess the potential impact of certain scenarios on the consolidated earnings, losses, and capital of each bank holding company, taking into account its current condition, risks, exposures, strategies and activities.

Capital One conducted the stress tests in the second quarter of 2013 using its actual performance through the first quarter of 2013 and information available at that time. Any results, events or financial performance after the first quarter of 2013, other than the previously announced sale of the Best Buy credit card portfolio which was completed in the third quarter of 2013, are not reflected in the stress test results. Capital One submitted the full results of its stress tests to the Federal Reserve Board (the "Federal Reserve") on July 5, 2013.

The Dodd-Frank Act also requires that Capital One disclose a summary of the stress test results under Capital One's Severely Adverse Scenario. Capital One's Severely Adverse Scenario represents a hypothetical economic situation that is significantly more adverse than expected and includes assumptions of economic worsening that are at least as severe as the economic conditions experienced in the 2008 recession. The summary of Capital One's results must include estimates of the aggregate impact of the stressed economic scenario on certain financial metrics over the 9-quarter planning horizon. In addition, Capital One must provide estimates of its Tier 1 Common ratio and other regulatory capital ratios.

Certain statements and estimates below may be forward-looking, including those that discuss, among other things: loss projections, revenues, income, capital measures, accruals for litigation and for other claims against Capital One, future financial and operating results, Capital One's plans, objectives, expectations and intentions, and the assumptions that underlie these matters. Capital One cautions readers that the results in the summary below are not forecasts, predictions of future performance, or measures of its solvency; actual results could differ materially from those contained in this summary. In addition, these results do not represent Capital One's current expectations regarding future results of operations or financial condition. They are based on hypothetical scenarios and other assumptions used for the sole purpose of conducting the required stress tests, and Capital One makes no assurances or predictions about the likelihood of any of these scenarios or assumptions actually occurring. Capital One does not undertake any obligation to update or revise any of the information contained herein whether as a result of new information, future events, or otherwise.

The stress test results below are expected to differ from the stress test results produced by the Federal Reserve in its annual Comprehensive Capital Assessment and Review (CCAR) process due to differences in methodologies and assumptions used to produce the results. Refer to the section below entitled *"Considerations in Assessing our DFAST Projections"* for more information.

Scenario Description

Capital One has a long-established process of monitoring the economic environment and its impact on our portfolios. As part of this process, senior management routinely reviews and approves baseline and stressed economic forecasts which are used for internal financial and business planning as well as for Federal Reserve stress tests.

One of the criteria we evaluate when selecting a stress scenario is the relevance of the risk in light of our business model and balance sheet. For example, we use a targeted set of economic variables that stress consumer credit losses due to our concentration in consumer lending. While we use a broad array of national and Metropolitan Statistical Area (MSA) level economic variables in our scenarios, measures of the labor market (both the level of unemployment and the pace of change in employment growth), housing market (level of home prices and pace of change), and interest rates are the predominant factors influencing the earnings dynamics of our consumer lending portfolios. Similarly, employment growth, GDP growth and corporate credit spreads are the predominant factors influencing the earnings from our commercial lending portfolios.

The Severely Adverse Scenario we developed for the mid-cycle Dodd-Frank Act Stress Test (DFAST) assumes significant deterioration in economic conditions from current levels, creating large reductions in employment, house prices and GDP, among other factors. Under this scenario, the U.S. is assumed to fall into a severe recession, with the unemployment rate increasing more than 4 percentage points to a peak of 12.2% in the first quarter of 2015 before improving modestly to 12.1% by the end of the stress horizon (Q2 2015). Our Severely Adverse Scenario also projects a significant drop in home prices. Home prices are assumed to decline 25% from the beginning level of the stress test to a low point in the third quarter of 2014 and are projected to remain 24% below the beginning level through the second quarter of 2015. Commercial real estate values are assumed to follow a similar path.

In addition to the adverse economic assumptions, we have incorporated a number of idiosyncratic risks in our Severely Adverse Scenario, including the risk of higher representation and warranty claims arising from mortgages that were originated by predecessor companies between 2005 and 2008, higher “other litigation” expenses, elevated levels of operating expenses and unexpected operational losses, as well as idiosyncratic risks in our Commercial portfolio.

While these other risks are not necessarily correlated with the economic conditions reflected in our Severely Adverse Scenario, we assume that they could manifest in an environment generally characterized by the types of conditions described in the scenario. Accordingly, we included the full and simultaneous impact of all of these risks in our Severely Adverse Scenario on top of the impacts assumed to result as a direct consequence of the adverse economic environment. Adding these idiosyncratic risks to the severely adverse economic environment results in a stress scenario that we believe has a very low probability of occurrence.

Overview of Stress Test Methodology and Approach

Our stress test methodology considers a broad range of potential stresses to our balance sheet and capital levels, including potential impacts to our interest rate risk position, balance sheet composition, and levels of pre-provision net revenue (PPNR), charge-offs, allowance for loan losses, and tax. The stress analysis and underlying assumptions are informed by a number of factors, including the performance we have observed in our portfolios through prior actual stress periods, including the 2008 recession. The analysis was conducted in the second quarter of 2013 based on information available to us at that time.

In our Severely Adverse Scenario, the largest impact to our capital ratios comes from changes in credit performance. For our credit card and mortgage portfolios, we project stressed losses using account-level econometric models, which incorporate Metropolitan Statistical Area (MSA) level variables. In our commercial portfolios, much of our loss modeling estimates the impact of a given stress scenario at the borrower-level, capturing the effects of varying loan characteristics and collateral positions, among other factors. In other portfolios, we use more aggregated economic forecasting approaches that incorporate the specific macro-drivers relevant to each portfolio, including customer and relationship-level attributes.

Once credit has been modeled, we translate our overall credit outlook into projected allowance levels for each quarter (to estimate what the pattern of allowance builds and releases would look like). We also use our stressed views of losses to estimate second order impacts of credit worsening, such as the increase in operating costs related to collections and other loss-mitigation activities, the impact on fees (assessments, reversals and reserves), and the reduction in future revenue due to the inevitable reduction in outstandings from higher losses. The impacts on fees and operating costs are estimated based on historical data, modified as needed to reflect changes due to new legislation, regulations, or business practices.

We model pre-provision net revenue based on the expected performance of our various businesses to estimate the overall impact our Severely Adverse Scenario will have on our overall financial performance. The projected impacts are based on the characteristics of each asset and liability class and the related support costs for new originations, ongoing management, and underlying infrastructure for each business. Our revenue modeling is divided into Net Interest Income and Non-Interest Income, and our Non-Interest Expense modeling is split between Operating and Marketing expenses.

In addition to modeling the income statement impact of our Severely Adverse Scenario, we capture the projected impact of the stressed environment on our balance sheet size and composition. The three main factors impacting our balance sheet projections include: (1) the impact to existing loan balances of higher charge-offs; (2) the impact to growth in loan balances due to changes in demand; and (3) the impact to loan growth from fewer lending opportunities meeting our profitability and resilience requirements as our models and underwriting scorecards systematically incorporate leading credit indicators to reflect the worsening credit conditions in the financial projections used in underwriting. As we have observed in prior stress periods, these three factors have the natural result of quickly reducing the size of our loan portfolio.

While all of these factors meaningfully influence our balance sheet during stress periods, the inevitable reduction in profitable and resilient lending opportunities as credit worsens has a particularly pronounced impact on us given our concentration in credit cards and auto loans, the balances of which naturally decline quickly absent a high level of new (and discretionary) account originations.

Because of the high volume of new originations required to maintain and grow the Card and Auto portfolios, we have much higher marketing costs as a percent of risk weighted assets than most banks subject to stress testing under the Dodd-Frank Act. This distinction is important to note because these costs naturally drop in a worsening credit environment as our underwriting models incorporate early warning credit indicators to recalibrate financial projections which automatically results in fewer lending opportunities and less marketing. The absence of marketing efforts quickly results in lower outstandings given the lack of new loans to replace attrition. Using data including from the most recent recession, we estimate the reduction in originations that we would expect to see due to worsening credit conditions, and we model the related implications to marketing costs, losses, allowance, outstandings and revenue.

Table 1: Results of Capital One Internal Modeling in our Severely Adverse Scenario under the DFAST Rules

Projected Basel I Capital Ratios through Q2 2015 under the DFAST rules in the Capital One Severely Adverse Scenario

	Consolidated Parent (COFC)			
	Actual		Stressed Ratios	
	Q1 2013	Q2 2013	Q2 2015	Minimum
Tier 1 Common Ratio (%)	11.8%	12.1%	12.5%	9.9%
Tier 1 Capital Ratio (%)	12.2%	12.4%	13.0%	10.3%
Total Risk-based Capital Ratio (%)	14.4%	14.7%	15.2%	12.6%
Tier 1 Leverage Ratio (%)	9.1%	9.7%	9.5%	7.7%

Note: The capital ratios include capital actions as required under the DFAST rules. The DFAST stress testing capital actions include the Company's actual capital actions taken in the first quarter of the planning horizon (Q2 2013). For the second through ninth quarters of the planning horizon (Q3 2013 – Q2 2015) the DFAST capital actions include common stock dividends equal to the quarterly average dollar amount of common stock dividends that the Company paid in the previous year, payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter, issuance of common stock for employee compensation and an assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio. In accordance with DFAST rules, the capital ratios include the divestiture of the Best Buy portfolio but exclude the $1B share repurchase the Company announced in connection with the divestiture.

Projected Revenue, Losses, and Net Income Before Taxes for Q2 2013 through Q2 2015 under the Capital One Severely Adverse Scenario

	Consolidated Parent (COFC)	
	$ in Billions	% of Average Assets[1]
Pre-Provision Net Revenue[2]	17.3	6.3%
Other Revenue[3]	0.0	0.0%
Less		
Provisions	19.3	7.1%
Realized Losses/(Gains) on Securities AFS/HTM	0.3	0.1%
Trading and Counterparty Losses[4]	0.0	0.0%
Other Losses/(Gains)[5]	0.0	0.0%
Equals		
Net Income before Taxes	(2.3)	-0.8%

1) Expressed on a 9 quarter cumulative basis as a percentage of average assets over the same time period.
2) Pre-provision net revenue includes stress adjustments for operational risk events, litigation expenses including mortgage representation and warranty and real estate held for sale.
3) Other revenue includes one-time income and (expense) items not included in pre-provision net revenue.
4) Trading and counterparty includes mark-to-market losses, changes in credit valuation adjustments (CVA) and incremental default losses.
5) Other losses/gains includes projected change in fair value of loans held for sale and loans held for investment measured under the fair-value option, and goodwill impairment losses.

Projected Loan Losses by Type of Loans for Q2 2013 through Q2 2015 under the Capital One Severely Adverse Scenario

	Consolidated Parent (COFC)	
	$ in Billions	% of Avg. Portfolio Balance[1]
Loan Losses[2]		
First Lien Mortgages, Domestic	0.1	0.4%
Junior Liens and HELOCs, Domestic	0.1	6.3%
Commercial and Industrial	1.2	6.8%
Commercial Real Estate, Domestic	0.5	2.3%
Credit Cards	12.2	18.0%
Other Consumer	2.1	8.5%
Other Loans	0.1	1.5%
Total Loan Losses	16.4	9.5%

Note: Reflects loan classification under regulatory reporting FR Y9-C. This classification is different than how Capital One classifies loan product types for SEC reporting purposes. For example, FR Y9-C requires that Small Business Credit Card loans be reported under C&I, whereas these loans are reported under Credit Card for SEC reporting purposes.

1) 9 quarter cumulative losses as a percent of average balances over the same time period
2) C&I loans include small and medium enterprise loans and corporate cards. Other loans include international real estate loans. Average loan balances used to calculate portfolio loss rates exclude loans held for sale and loans held for investment under the fair-value option.

Description of Projections

In our Severely Adverse Scenario, our capital ratios are projected to be lower than in our baseline, but would still remain well above current regulatory requirements.
Our Tier 1 Common ratio is projected to decline to a low point of 9.9% in the fourth quarter of 2013. This low point results primarily from reserve builds in our consumer lending businesses, coupled with a concurrent increase in disallowed deferred tax assets. We project capital accretion in each quarter after the low point, beginning in the first quarter of 2014 through the end of the scenario.

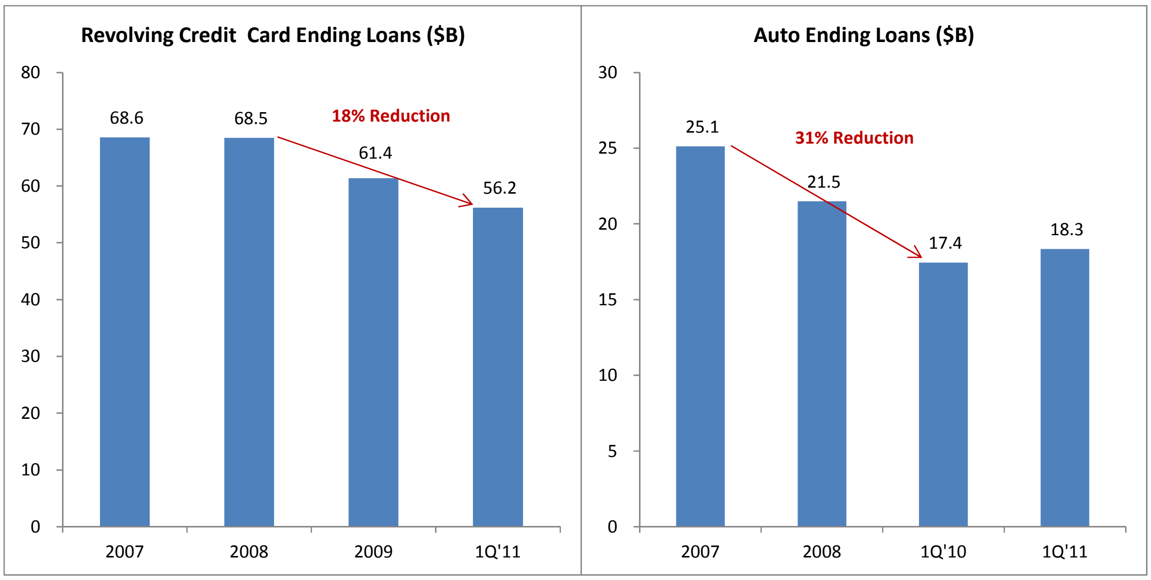
The largest impact to our projected income forecasts in our Severely Adverse Scenario is due to the provision for credit losses. This impact is most pronounced in our Card and Auto portfolios. Provision for credit losses is projected to increase, initially driven by allowance builds (in anticipation of credit deterioration) and later by elevated charge-offs (as the housing and labor markets deteriorate). Consistent with our experience in the last recession, as the economic stress dissipates and our loan balances decline due to elevated charge-offs and reduced new origination activity, we forecast allowance releases toward the end of the nine quarter period.

In addition to the provision impact described above, we project revenues to decline as the portfolio contracts and reversals of finance charges and past due fees increase with rising charge-offs. We incorporate modest rate cuts in deposits, along with other management actions, to reduce costs and to partially offset the decline in demand for credit and resulting lower funding needs. We also expect marketing expense to decline (primarily due to lower originations), while operating expenses would be reduced modestly as higher collections and recoveries costs and costs associated with the non-economic risks described above partially offset projected operating expense reductions due to lower originations and a smaller portfolio.

The largest impact to our balance sheet in our Severely Adverse Scenario is to the size of our loan portfolio. In addition to the direct impact of higher charge-offs, in a period of economic stress we typically experience reduced loan demand, and in response to deteriorating credit, our underwriting models formulaically recalibrate using leading credit indicators and identify fewer lending opportunities, which naturally reduces marketing. These shifts immediately help to offset deterioration in both our earnings and capital ratios by reducing non-interest expense and by shrinking the balance sheet. The impact to balance sheet size driven by reduced loan demand and the natural reduction in lending opportunities that occur under economic stress is particularly pronounced for Capital One given the consumer-centric composition of our portfolio. Compared to most banks subject to stress testing under the Dodd-Frank Act, a much larger share of our loan portfolio is in asset classes that run off quickly, specifically auto loans and credit cards.

Different factors drive the rapid run-off in these two asset types. Auto loans are amortizing loans with original terms typically ranging from four to six years. In addition to the relatively short contractual life of these loans, there is a significant amount of voluntary prepayment on auto loans as consumers pay off loans early, usually due to sale or trade in of the vehicle. While credit cards are revolving products that do not have the contractual amortization characteristics of auto loans, the relatively high expected loss rate, voluntary pay down of balances, and the rate of account closures results in relatively rapid asset attrition. Due to this natural run-off, our Card portfolio shrinks meaningfully absent a high level of new account originations.

As shown below, within nine quarters of tightening underwriting in 2008, our Card portfolio contracted 18% from $68.5B to $56.2B. Credit quality and underwriting were impacted earlier in Auto than in our other portfolios. In the last recession, our Auto portfolio contracted 31% from $25.1B at the end of 2007 to $17.4B at the end of the first quarter of 2010. The natural contraction of our loan portfolios as our underwriting models recalibrate when credit begins to worsen is a powerful and deeply embedded characteristic of our business model which helps us weather significant economic downturns.



Our consumer lending lines of business rely upon significant levels of marketing. Our concentration in consumer lending means that we have a disproportionately large marketing budget compared with other banks. The natural reduction in our marketing budget of approximately $1.5 billion as our underwriting models identify fewer lending opportunities that meet our profitability and resilience requirements is a meaningful lever for improving earnings and capital ratios under stress. The combination of lower loan demand that we expect to occur as the economy deteriorates, and fewer opportunities as our underwriting models systematically recalibrate to the worsening environment, immediately reduces our need for marketing. We have previously committed to spend on some media marketing channels in the first two quarters of the stress horizon (Q2 and Q3 2013), but we anticipate that marketing expense would naturally drop beginning in the fourth quarter of 2013, partially offsetting the negative impact on our earnings from the downturn.

In our Severely Adverse Scenario, our assumptions of lower demand, combined with higher charge-offs and the natural reduction in profitable and resilient lending opportunities, reduce the size of our Card portfolio by 21% and our Auto portfolio by 31% over the nine quarter stress test horizon. Although not an exact comparison due to differences in seasonality and contributions from discrete discontinued portfolios, this level of reduction is consistent with what we experienced in the last downturn, when our Card portfolio contracted by 18% and our Auto portfolio contracted by 31% in an economic environment that was not as severe as our Severely Adverse Scenario used for purposes of this stress test.

We have high confidence in these assumptions, as we have observed the dynamics of reduced demand and tighter underwriting as our models systematically incorporate deteriorating credit conditions in the past recession and anticipate similar dynamics in future downturns. Importantly, these actions do not require us to form assumptions regarding competitor actions like changes in price; rather, they are rooted in our own lending choices, the direct consequence of charge-off-driven reduction in loan balances, and the natural tightening that occurs as fewer lending opportunities meet our profitability and resilience requirements.

In summary, the adverse impact to capital driven by income statement dynamics in our Severely Adverse Scenario is projected to be substantially offset by the capital benefits of a smaller balance sheet.

Considerations in Assessing our DFAST Projections:

1. **There are fundamental differences between our stress testing methodology and the Federal Reserve's approach.** Our stress testing models are customized to reflect the unique profile and business model of each of our portfolios. The models incorporate vast amounts of detailed, internal performance data as well as customer and loan characteristics that we have, for years, systematically captured and used for decision-making and ongoing financial management. While we do not have insight into the specific inputs or assumptions contained in the regulatory stress test models, the Federal Reserve appears to have made a philosophical choice to use industry-wide models without making adjustments for objectively observable differences in business practices and results among banks. To the extent the Federal Reserve uses an "industry average" modeling approach, important differences in our business model and practices which are meaningfully different than industry average may not be fully captured.

2. **Our projected results under stress may differ meaningfully from the Federal Reserve's own modeling during the annual stress test process.** The models we used for the mid-cycle DFAST are substantially similar to the models we used in the annual DFAST stress test that was completed earlier this year. As was evident in the Federal Reserve's March 2013 disclosure of stress test results[1], a comparison of our DFAST projections to the projections calculated by the Federal Reserve revealed

[1] The March 14, 2013 disclosures of stress test results is available on the Federal Reserve Board's website (http://www.federalreserve.gov/newsevents/press/bcreg/20130314a.htm)

significant differences. The Federal Reserve projections estimated the low-point in our Tier 1 Common Equity Ratio to be approximately 180 basis points lower than the minimum ratio resulting from our own modeling. Additionally, the time period in which the respective nadirs were estimated to occur was also significantly different (the 9th Quarter in the stress period in the Federal Reserve's modeling vs. the 1st Quarter in our own modeling).

Because the Federal Reserve's disclosure of its specific modeling methodologies is limited, we cannot with any certainty substantiate the causes of any differences in projections. However, in the March 2013 stress test disclosures, one of the largest contributing factors to the difference in overall projected results was significant differences in estimates of credit card loss rates. While we are confident in our models for estimating potential losses under stress in our various loan portfolios and have tested them against historical data where appropriate, we believe that the variation in future projected results – as exemplified by the difference in credit card loss rates between Capital One's models and the Federal Reserve's models – may persist.

Additionally, as the Federal Reserve expands the use of its own independent models and assumptions, it is possible that the differences between our projections and those of the Federal Reserve could increase in the future. Importantly, the models of the Federal Reserve are proprietary, and we have limited to no insight into the inputs or methodologies they use. Since the approval of any proposed capital distributions is ultimately determined by the Federal Reserve's own projections, our DFAST projections should not be interpreted as an accurate indicator of our ability to make future distributions of capital.

3. **Our performance in future stress periods may not be consistent with past stress periods.** Stress tests have been an important tool in our overall risk and capital management approach for a number of years. Over time, we have developed a robust methodology and comprehensive set of models to simulate Capital One's performance under a range of scenarios. While we have incorporated our observations from actual results over the course of past economic downturns – most notably those from the 2008-2009 recession – into our methodologies and models, there can be no assurance that our methodologies and models will be accurate predictors of our performance or capital levels in future downturns.