



UConn Student Managed Fund
Full Analyst Report Spring 2017

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Capital One Financial Corporation (NYSE: COF)

Sector: Financial Services

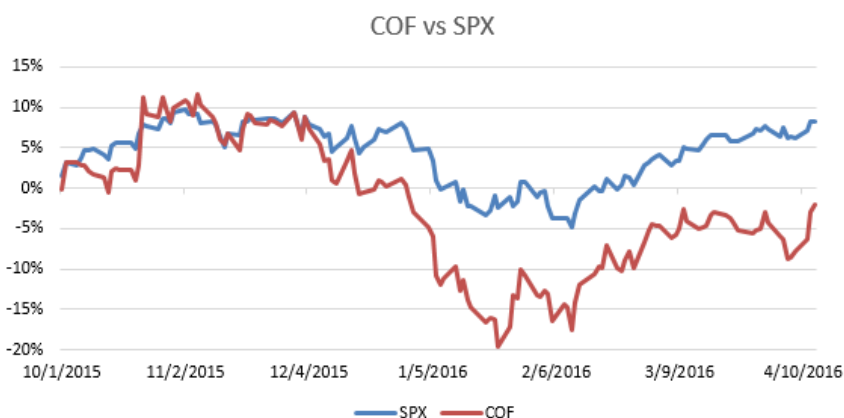
Current Price *	Target Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$72.75	\$92.19	\$81.62	\$58.03	10.12	\$37 BN	2.24%	1.25

REPORT HIGHLIGHTS

We recommend a **BUY** rating for Capital One based on a price target of \$92.19 per share, offering a 28% margin of safety over the closing price of \$72.75 per share on October 6th, 2016. The driving factors for this recommendation are:

- 1. Growing diversification of business** – Capital One has been expanding and diversifying its business segments over the past few years. It is a leader in credit card business, and has extended its offerings into consumer banking, and commercial banking.
- 2. Expertise in managing quality of deposits and loans** – The Management at Capital One, led by Richard Fairbank have extensive expertise in managing loans and deposits that ensure the sustainability of the banks operations.
- 3. Capabilities in key online areas**– Capital One is a leader in online banking and credit card management functions.

The company has been able to withstand financial volatility and has taken on successful organic and inorganic growth opportunities throughout its lifetime. It is currently undervalued and has significant upside potential.



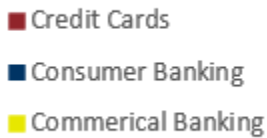
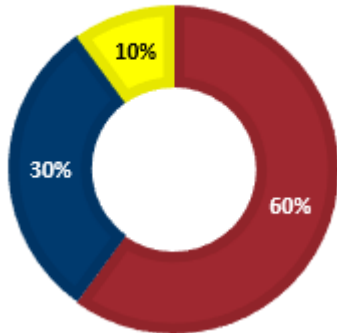
Mobile Banking

Source: Investor Presentation 2015

* Current Price Implies price at analysis: October 6, 2016

BUSINESS DESCRIPTION

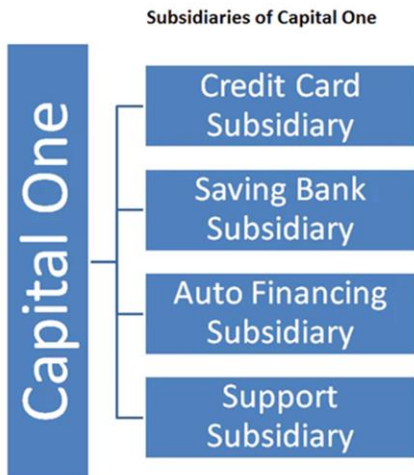
BUSINESS SEGMENTS



Capital One (COF) is a domestic and international diversified financial services holding company. They were incorporated on July 21st, 1994. They have bank locations in Connecticut, Louisiana, New Jersey, New York and Texas, and offer a broad array of financial products and services to customers, small businesses and commercial clients. These products and services are offered through mediums such as branches, the Internet and other distribution channels.

Company segments

The company's segments include Credit Card, Consumer Banking, Commercial Banking and Other. The Credit Card business is their legacy business that they began with the inception of the company in 1994. They distribute credit cards to individuals, small businesses and corporates. This is the largest segment in terms of revenue and income. Their consumer banking offers a variety of mass-market and customized financial products for individuals, families and communities. Their commercial banking segment offers loans for corporations. The Other segments includes management of its corporate investment portfolio and asset/liability management.



Company subsidiaries

Capital One operates through two main subsidiaries, 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 spectrum of banking products and financial services to both consumers and businesses of various sizes. Banking customer accounts are serviced through Internet, mobile banking, ATMs, and branch locations across New York, Louisiana, Texas, Maryland, Virginia, New Jersey, and the District of Columbia. In addition to bank lending, auto loans, credit and debit cards, and mortgage banking are offered in markets across the United State's.

Capital One Subsidiaries
Source: Market Realist 2015

Key Stats

#10 Largest Bank

45 Million Customers

In SP100 Index

800+ Locations

10 CapitalOne360 cafés

Acquisitions

Capital One was mainly a credit card issuer until the early 2000s. Through a series of acquisitions, the company sought to provide a stable and less expensive funding source from the deposits of the banks that were acquired. It is the eighth largest bank in the United States based on assets and the number four credit card issuer based on loan balances.

- 2005 - Hibernia National Bank
- 2006 - North Fork Bank (New York area)
- 2009 - Chevy Chase (DC Metropolitan area)
- 2012 - ING Direct (online banking)

INDUSTRY TRENDS AND POSITIONING

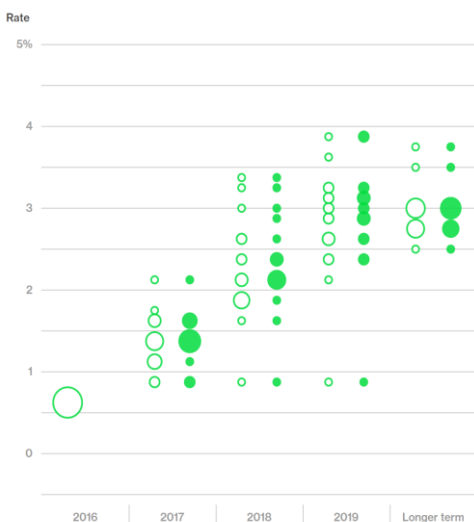
Positive Industry Outlook

The banking industry has been underperforming in 2016 due to the low interest rate environment. However, with consumer health improving there is a strong outlook in the financial services industry. The Census Bureau released data in 2015 indicating that the real median U.S. household income increased 5.2%. Additionally, consumer confidence has increased leading to more spending. With this increased income and confidence, disposable income is being put to work which is good news for the credit card and loan industries. According to the Fed Dot Plot, there is likely to be 2-3 rate hikes in the upcoming year which will be profitable for Capital One.

Competitors across business segments

Capital One competes with many different financial services firms across their various business lines. Their main competitors in terms of size and similarity, however, are JPMorgan Chase, Citigroup, Bank of America, American Express and Discover Financial. Capital One has shown bigger market-share gains than its leading competitors in the past six years ended June 30th, 2016.

The Fed's Dot Plot



Note: Outlined Circles = December, Solid Circles = March
Source: Bloomberg

COMPETITIVE ADVANTAGES

International Credit Cards

Capital One has a prominent international credit card business in the UK and Canada. Direct competitors Wells Fargo, U.S. Bank and PNC Bank don't have a strong international card presence.

Pioneers in online banking

Capital One, since its acquisition of ING Direct in 2012, has been the pioneer in online banking and mobile banking. Capital One 360 was the first U.S. issuer app from contactless payments on Android 360 and the Capital One wallet are two of the highest rated apps in financial services.

Cards with rewards

Additionally, their cards with rewards are well-known and continuing to expand. Quicksilver and Venture cards are growing at a faster pace than competitors American Express and Discover Financial Services while also managing their overall costs well. Their credit card balances are up 12% in Q2 Year over Year.



Mobile Banking

Source: Investor Presentation 2015

DIVERSIFICATION

Business model

The company has diversified itself to not only be a credit card company, but also has established itself in the consumer and commercial banking industries as well. The credit card business, consumer banking and commercial banking businesses make up approximately 60%, 30% and 10% of the company's revenues.

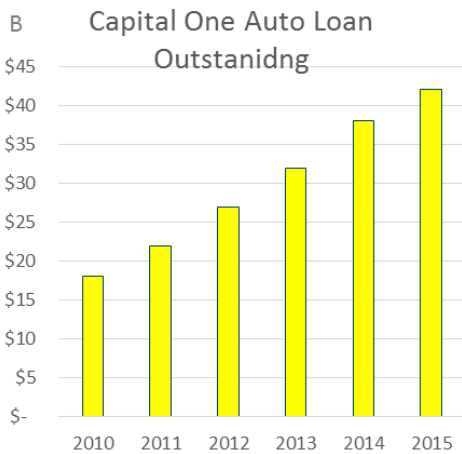
Geography

The company is not only diversified in its business but also where its business takes place. 57% of the credit card business is in the United States, Canada and United Kingdom. There are 800 Capital One locations in eight state's.



Card with Rewards

Source: Investor Presentation 2015



Auto loan growth
Source: Investor Presentation 2015

Opportunities

COF has increased its share in auto loans, which has been more risky but also profitable to the company. They also have many co-branded cards and partnerships with key retailers to promote their brand. Some of these include Hudson’s Bay, Saks Fifth Avenue and OFF 5th, Home Outfitters, Lord & Taylor, and most recently a ten year agreement with Cabella’s.

Channels

The company operates through regional, online and mobile channels. They make it easy for customers to access their accounts both in person and on the go.

LOANS AND DEPOSITS

Deposits

COF deposits account for 81% of the funding for the bank. This has from just 30% in 2004. Deposits have been increasing year over year as well. The lower average account balance of approximately \$14,000 is beneficial to the company. If a customer leaves or defaults, the accounts are smaller and do not make as great an impact than if the average balance was quite large. In addition, a high percentage of the deposits are insured by the FDIC, which helps mitigate risk.

Loans

The company’s non-performing assets are lower than the industry average. NPA decreased 3% in 2016 alone. Although the company caters to low and high subprime borrowers, auto loans considered subprime have been held steady, but increasing prime loans. The write offs have also been held steady at 1.2%. Cards charge-offs have increased but are steady at 4%, but decreasing internationally which is good for the company looking to expand its geographic footprint. Also, the high-yield loans provide profitable returns to Capital One.

1.		13.2%
2.		5.3% ¹
3.		3.1%
4.		0.3%
5.		(0.6%)
6.		(2.5%)

Loan growth (total)
Source: Investor Presentation 2015

INVESTMENT THESIS

Average Account Balance (\$K)	Percent of Deposits FDIC Insured	
Lower is Better	Higher is Better	
WFC	13	
PNC	13	HBAN 62%
COF	14	COF 62%
RF	15	RF 55%
USB	16	WFC 53%
HBAN	17	PNC 53%
BBT	17	STI 53%
FITB	17	FITB 53%
STI	20	BBT 47%
MTB	20	KEY 44%
KEY	24	MTB 44%
ZION	29	ZION 43%
CMA	43	USB 42%
		CMA 30%

Consumer Deposit Exposure	Change in Non-Interest as % of Deposits since 2007
Higher is Better	Lower is Better

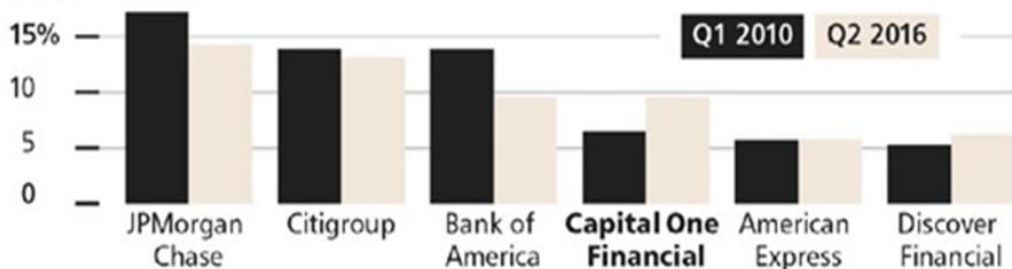
COF	77%	COF	4%
STI	60%	WFC	5%
PNC	54%	USB	5%
FITB	53%	PNC	8%
RF	51%	HBAN	9%
WFC	48%	STI	10%
BBT	48%	BBT	12%
KEY	45%	MTB	12%
HBAN	43%	ZION	13%
MTB	43%	RF	13%
USB	40%	FITB	14%
CMA	36%	CMA	15%
ZION	27%	KEY	15%

Source: Capital One

Capital One will deliver long run value due to its growing diversification in business, experience in managing quality of deposits and loans, and their competitive advantage in key areas such as online banking and their credit card business. The company has been able to withstand financial volatility (as seen during the financial crisis) and has taken on successful organic and inorganic growth opportunities through its life time. It is currently undervalued and has significant upside potential.

- The market is not recognizing the diversification nature of Capital One's business. Not only is the business trying to diversify its business segments between credit cards, consumer banking, and commercial banking, the geographical region is also expanding. What started off as credit card business is now a diversified bank.
- Capital One has been diligently balancing both the amount and quality of loans and deposits. Currently deposits account for 81% of funding, and grew from 30% in 2004. They have been increasing year over year. The deposits are typically lower balance of around 14K and thus a high percentage of them are covered by FDIC, re-assuring customers the safety of their money. On the loans side, NPA are lower than industry and decreased from 2015 to 2016. Auto loan charge offs are increasing 1.2% but this is an international trend. The type of loans Capital One holds are usually high yield, thus resulting in more returns. The company has successfully been able to manage the risk that comes with these loans.
- The products Capital One provides are innovative and competitive with the consumer in mind, as demonstrated by their legacy credit card products and services.

Research Note #1: Market Share Comparison



Sources: FactSet, company data, Federal Reserve, SNL Financial, Nomura Research

Source: Capital One, MarketRealist



Charge-offs

While net charge-offs are increasing to rate of 2.48% (Q4 2016), allowances are increasing as well to meet the riskiness of charge defaults to \$6.8B (Q4 2016)

P/E TTM

Data	Input
AVG	17.2
Median	11.9
COF EPS	7.21
Valuation	\$124.14

P/B TTM

Data	Input
AVG	5.0
Median	1.3
COF TBVP	58.25172
Valuation	\$74.18

FINANCIALS

Capital One is continuing to grow its revenue. While it underwent significant YoY growth in 2010, and slowed down in 2003, revenue growth is once again picking up as the company seeks to diversify its services and offerings. In 2015 revenue grew 4.9% and 2016 about 9.9%, with the current twelve month growth set at around 7%. The 5 year CAGR for the company for 2016 was at 8.2%. The 5 year average for the earnings growth rate has been at about 1% (2016) as the company reinvests and continues building up its business. Operating margins are at around a healthy 20% and above for the past few years.

The company has been steadily growing market share across the three business segments with particular strong gains in the credit card business going from 8% share in the global card issuers in 2010 to almost 15% in 2016. Customers are attracted to the rewards programs and ease of access. COF balances these risks by giving small credits and helping customers build their credit and reliability.

Other notable highlights include the increase in efficiency ratio to 53% to 56% (LTM). The Tier-1 Capital ratio of 10.9%, and the leverage ratio of 9.9% that is significantly above the minimum requirements for banks.

VALUATION

Multiples Model Valuation

Average Valuation	\$102.06
Median Valuation	\$104.96
Margin on Safety	42%
Current Price	\$ 71.83

Dividend Discount Model Assumptions

Growth Rate	2.0%
Discount Rate	9.0%
Terminal Value	\$ 92.43
Present Value of Terminal Value	\$ 39.04
Present Value of Dividend	\$ 43.28

Dividend Discount Model Valuation

Stock Value	\$ 82.32
Stock Price	\$ 71.83
Margin of Safety	15%

Dividend Discount Model: The DDM valuation was weighted 50%. The major assumptions in the valuation included a 9% WACC that was found to be the historical WACC for the company, a 2% perpetuity growth rate that is inline with economic assumptions. The dividends paid in 2016E were based on average since 1998 historical data. Shares outstanding grew 0% , which is actually conservative since the company approved a \$300M share repurchase program in addition to an already \$3.13B one.

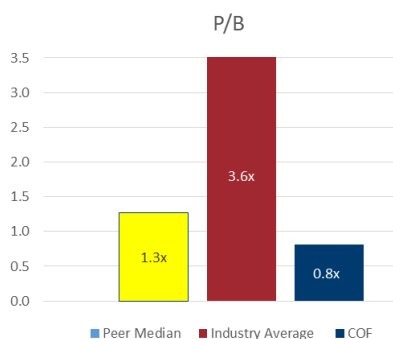
Multiple Comparison: The Multiples Peer model was weighted 50%. This model also had several metrics that were each used. First, price to earnings was calculated and then also price to book. Price to book is a typical peer analysis used for valuating banks. The average ratio for the peers groups was calculated both for 2015 and for the most recent twelve months trailing.

Capital One Peer Group
American Express
JPMorgan Chase
Wells Fargo
Bank of America
Mastercard
Visa

Under each peer average ratio (P/E 2015, P/E TTM, P/B 2015, P/B TTM) the implied price of Capital One was evaluated, then they were all averaged equally in order to get a current valuation.

The DDM model resulted in an implied price of \$82.32 and the multiples model in a price of \$102.06. Weighted equally this led us to the intrinsic value of \$92.19

RISKS OF INVESTMENT



Interest Rate Risk

Capital One is well-positioned for a rate increase, as they are not as rate-sensitive as a typical bank due to their higher net-margin and greater proportion of high-yield assets.

Credit Losses

Capital One has proven itself to be a prudent underwriter of risk. Although the credit card business caters to low-prime and high-quality subprime borrowers, it did not have a loss during the financial crisis and all money borrowed from the government was returned the following year.

Technology Risks

As a prominent player in the online and mobile banking space, there is a risk of credit information being stolen through a security breach. There has not been an incident in the past however and Capital One has invested in cyber threat analytics, data encryption and tokenization technologies, anti-malware defenses and a vulnerability management program.

Dividend Discount Model: TERMINAL GROWTH VS. DISCOUNT RATE

	WACC				
	8.0%	8.5%	9.0%	9.5%	10.0%
0.5%	83.05209	78.72397	74.96072	71.66454	68.75844
1.5%	89.56126	84.1597	79.54209	75.55727	72.08992
2.0%	93.62949	87.50477	82.32363	77.89291	74.06798
3.5%	111.2585	101.5541	93.70268	87.23546	81.82809
4.5%	131.4059	116.7741	105.5032	96.57801	89.35304

Research Note #2: FICO Scores of Customers

(Percentage of portfolio)	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Domestic credit card—Refreshed FICO scores:⁽¹⁾					
Greater than 660	64%	64%	65%	65%	66%
660 or below	36	36	35	35	34
Total	100%	100%	100%	100%	100%
Auto—At origination FICO scores:⁽²⁾					
Greater than 660	52%	51%	51%	51%	51%
621 - 660	17	17	17	17	17
620 or below	31	32	32	32	32
Total	100%	100%	100%	100%	100%

⁽¹⁾ Credit scores generally represent Fair Isaac Corporation ("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⁾ 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.

Research Note #3: Highlights Today

Earnings Highlights

Net income for the fourth quarter of 2016 of \$791 million, or \$1.45 per diluted common share; full year 2016 net income of \$3.8 billion, or \$6.89 per diluted common share.

Undergraduate Student Managed Fund Gains

As of April 17th, 2017, the Student Managed Fund had made a 12.11% return on our investment. Financials as a whole did very well during our tenure on the team, and we believe that Capital One's intrinsic value was reached, as we did hit our target price of \$92.19 at one point. On March 1st, 2017 the stock was trading at \$96.92.

Current Insights

Currently the stock is trading at around \$80 (as of April 4, 2017). Other analysts are anticipating a greater increase in EPS growth for 2017. There are some concerns with credit quality that were highlighted in Q4'16 with net charge offs at 2.48%, but Capital One is maintaining its excellence in managing the subprime market lending. Net interest margin also increased 6 bps quarter over quarter, this is driven by the higher yields in the credit card segment and higher interest rates. Capital One is well positioned for the future economic environment of the banking business.

Source: Bloomberg

Key Quote

"Assuming no substantial change in the broader credit and economic cycles, our strong growth over the last two years and actions to reduce share count put us in a position to deliver solid EPS growth in 2017."

-Richard Fairbank, CEO

CONCLUSION

In conclusion, we recommend Capital One as a buy for the Student Managed Fund portfolio.

We believe that the company's dedication to diversifying the business will help the company be adaptable in a changing financial landscape.

Capital One has proven that it can manage the quality of loans and deposits and has the experience to continue to do so in the future.

In this technological age, Capital One's leadership in the online banking arena will continue to help the company gain value in the long run.

This is a company that is innovative with its products and is positioned for growth in the economic and regulatory environment.

APPENDIX

Corporate Social Responsibility Highlights

- Environmental Disclosure Score: 32.14 (Industry average: 16.88)
- % Of Women Employed: 57.00 % (Industry average: 56.00%)
- Board Average Age: 63.60 (Industry average: 62.81)
- CEO Tenure: 18 (Industry average: 8.94)
- % NonExec Directors on Board: 90.00% (Industry average: 89.79)
- Capital One has won numerous awards for its workplace culture and diversity



2015 COMMUNITY INVESTMENTS

Total Philanthropic Giving:
\$46.6 million

Loans & Investments:
\$1.4 billion

2015 workplace diversity

U.S. Workforce:

56% WOMEN | **44%** MEN



46% DIVERSE RACES & ETHNIC BACKGROUNDS

Total Workforce:

46,900

U.S. | U.K. | CANADA | INDIA | PHILIPPINES

U.S.-Based Employees:

90%

2015 U.S. WORKFORCE

JOB CATEGORIES	TOTAL RACE / ETHNICITY							TOTAL WOMEN
	White	Black/African American	Hispanic/Latino	Asian	American Indian/Alaskan Native	Native Hawaiian/ Other Pacific Islander	Two or More Races	
Executive/Senior Officials & Managers	85.5%	2.7%	2.7%	8.5%	0.2%	0.0%	0.4%	25.5%
First/Mid-Level Officials & Managers	68.7%	10.1%	8.2%	12.0%	0.2%	0.1%	0.7%	41.6%
Professionals	63.2%	7.8%	4.3%	23.2%	0.2%	0.2%	1.1%	42.1%
All Other*	43.1%	33.0%	15.3%	5.3%	0.4%	0.3%	2.7%	68.6%
Total 2015	53.1%	21.4%	10.5%	12.6%	0.3%	0.2%	1.9%	56.1%

* All Other includes the following EEO-1 Job Categories: Technicians, Sales Workers, Administrative Support, and Service Workers

Source: Bloomberg, CSR Report 2015, Investor Presentation 2015

APPENDIX

Valuation Details

COF

Valuation Summary

Valuation Comparison

Value Method	Stock Price	Weight	Intrinsic Value
DDM	\$ 82.32	0.50	\$ 92.19
Multiples	\$ 102.06	0.50	

Margin of Safety

Margin of Safety Calculation

Current Stock Price	\$71.83
Intrinsic Value Price	\$ 92.19
Margin of Safety	28%

Multiple Analysis

\$ in Millions

Price to Earnings 2015	Revenue	Debt	Market Value	Net Income	P/E Multiple	<i>morningstar comp</i>
COF US EQUITY	23413.00	51092.00	38057.62	3872.00	9.8	10.2

AXP US EQUITY	32818.00	30111.00	67393.95	5063.00	13.3	12.5
JPM US EQUITY	93543.00	20902.00	241899.22	22406.00	10.8	11.2
WFC US EQUITY	86057.00	7823.00	276808.12	21470.00	12.9	13.1
BAC US EQUITY	82507.00	146537.00	174699.86	14405.00	12.1	12.5
MA US EQUITY	9667.00	-3451.00	108653.76	3808.00	28.5	29.9
V US EQUITY	13880.00	-9399.00	169552.44	6328.00	26.8	30.0

Price to Earnings Q2

	PRICE	EPS TTM	
COF US EQUITY	6254.00	71.83	7.07
AXP US EQUITY	8235.00	64.04	5.45
JPM US EQUITY	24380.00	66.59	5.17
WFC US EQUITY	22162.00	44.28	4.07
BAC US EQUITY	20398.00	15.65	1.32
MA US EQUITY	2694.00	101.77	3.56
V US EQUITY	3630.00	82.70	2.40

Price to Book 2015

	Net Assets	Book Value	Market Value	P/B Multiple	<i>morningstar comp</i>
COF US EQUITY	47284.00	43990.00	38057.62	0.9	0.8
AXP US EQUITY	20673.00	20673.00	67393.95	3.3	3.2
JPM US EQUITY	247573.00	221505.50	241899.22	1.1	1.1
WFC US EQUITY	193891.00	170635.66	276808.12	1.6	1.6
BAC US EQUITY	256205.00	233932.00	174699.86	0.7	0.7
MA US EQUITY	6062.00	6028.00	108653.76	18.0	17.3
V US EQUITY	29842.00	29842.00	169552.44	5.7	6.3

Price to Book TTM

	Shares out	BVPS	Market Value	BOOK	
COF US EQUITY	512.10	88.58	36784	45361.8	0.8
AXP US EQUITY	923.78	22.39	59159	20683.4	2.9
JPM US EQUITY	3611.98	62.67	240522	226362.8	1.1
WFC US EQUITY	5045.55	34.77	223417	175433.8	1.3
BAC US EQUITY	10204.80	23.67	159705	241547.6	0.7
MA US EQUITY	1077.45	5.32	111717	5732.0	19.5
V US EQUITY	1886.43	11.47	195239	21637.4	9.0

USB US EQUITY

P/E 2015

Data	Input
AVG	16.32625
Median	12.9
COF EPS	7.07
Valuation	\$115.43

P/E TTM

Data	Input
AVG	17.2
Median	11.9
COF EPS	7.21
Valuation	\$124.14

P/B 2015

Data	Input
AVG	4.5
Median	1.6
COF TBVP	58.25172
Valuation	\$94.50

P/B TTM

Data	Input
AVG	5.0
Median	1.3
COF TBVP	58.25172
Valuation	\$74.18

APPENDIX

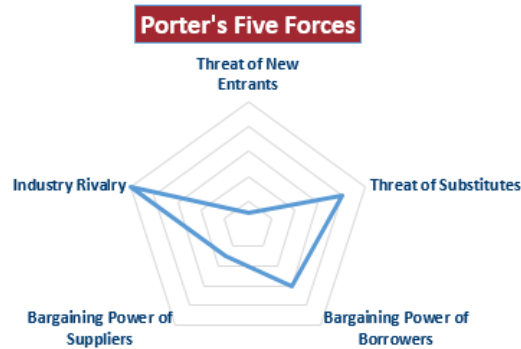
Valuation Details

DDM	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Dividends Paid	-91.0	-91.0	-126.0	-608.0	-746.0	-974.0	-1271.7	-1551.5	-1861.7	-2196.9	-2460.5	-2755.7	-3031.3	-3152.6	-3247.1	-3344.6
Shares outstanding	457.0	459.9	582.2	572.7	553.4	527.3	527.3	527.3	527.3	527.3	527.3	527.3	527.3	527.3	527.3	527.3
Div per share	0.2	0.2	0.2	1.1	1.3	1.8	2.4	2.9	3.5	4.2	4.7	5.2	5.7	6.0	6.2	6.3
Metrics and assumptions	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
div paid	-71%	0%	38%	383%	23%	31%	24%	22%	20%	18%	12%	12%	10%	4%	3%	3%
shares outstanding	0%	1%	27%	-2%	-3%	-5%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Dividend Discount Model Assumptions																
Growth Rate	2.0%	Average change in div paid since 1998														92.43067
Discount Rate	9.0%	Assumption - zero percent, very conservative														39.04371
Terminal Value	\$ 92.43	2016 - Approved \$300 million share repurchase in addition to \$3.125 billion already authorized														
Present Value of Terminal Valu	\$ 39.04															
Present Value of Dividend	\$ 43.28															
Dividend Discount Model Valuation																
Stock Value	\$ 82.32															
Stock Price	\$ 71.83															
Margin of Safety	15%															

Dividend Discount Model: TERMINAL GROWTH VS. DISCOUNT RATE

		WACC				
		8.0%	8.5%	9.0%	9.5%	10.0%
G	0.5%	83.05209	78.72397	74.96072	71.66454	68.75844
	1.5%	89.56126	84.1597	79.54209	75.55727	72.08992
	2.0%	93.62949	87.50477	82.32363	77.89291	74.06798
	3.5%	111.2585	101.5541	93.70268	87.23546	81.82809
	4.5%	131.4059	116.7741	105.5032	96.57801	89.35304

APPENDIX



Threat of new entrants - low

There is a high barrier to entry in the banking industry. Customers prefer well established institutions in addition to easily accessible funds. Consumers want to be able to trust their banks, and therefore are more trusting of well-known and major banks, such as Capital One.

Threat of substitutes - high

There are many substitutes to choose from when it comes to getting a credit card, however, there are high switching costs to do so. Also, those seeking certain types of cards will look to one company over another, as people seek Capital One cards that are paired with certain retailers and offer certain discounts and point reward programs, that another company may not.

Bargaining power of borrowers - medium

Borrowers have some power when it comes to borrowing. They do not have much say on the interest rates charged however, they can choose from various product offerings and can switch if they are unhappy with their current provider.

Bargaining power of fund suppliers - low

Those who deposit with companies such as Capital One have low bargaining power when it comes to interest rates, and they have diversified and stable deposit inflows.

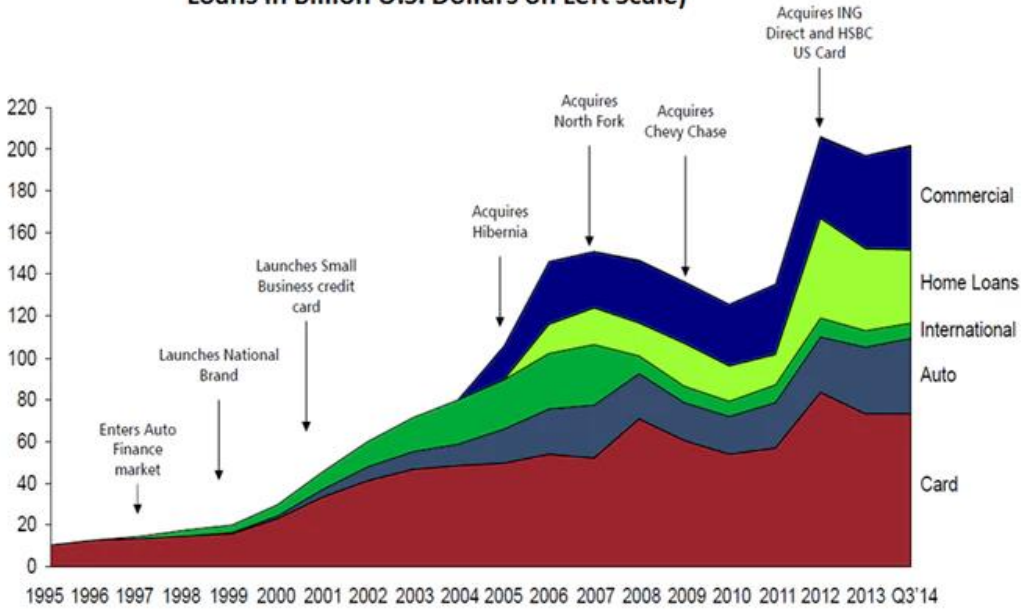
Industry Rivalry - high

The industry rivalry is very high, as Capital One operates in different business segments so they compete with different companies. There are various credit and debit card issuers, banks, larger-scaled competitors, other banks to seek loans from.

APPENDIX

Diversification of Business Segments and Acquisition History

Evolution of Capital One (Total Outstanding Loans in Billion U.S. Dollars on Left Scale)

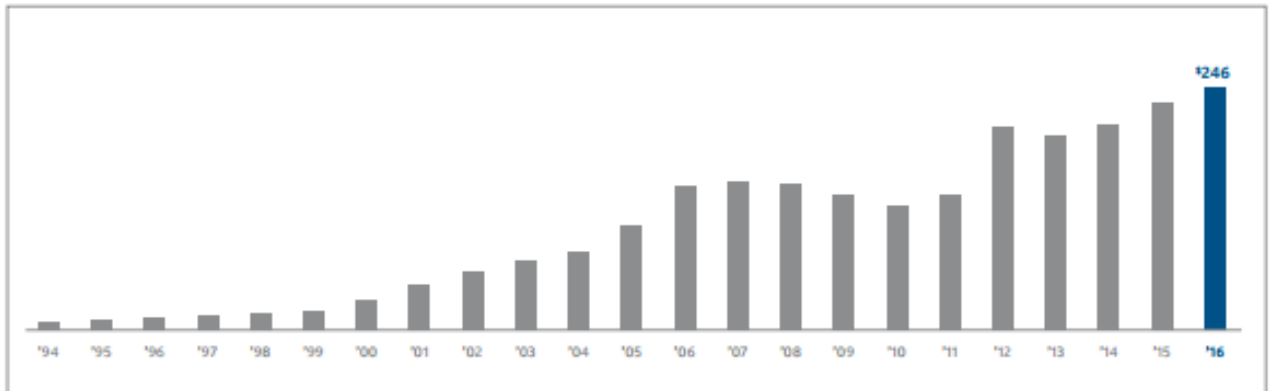


Market Realist

Source: Capital One

Highlighted Financials

LOANS HELD FOR INVESTMENT (\$ IN BILLIONS)

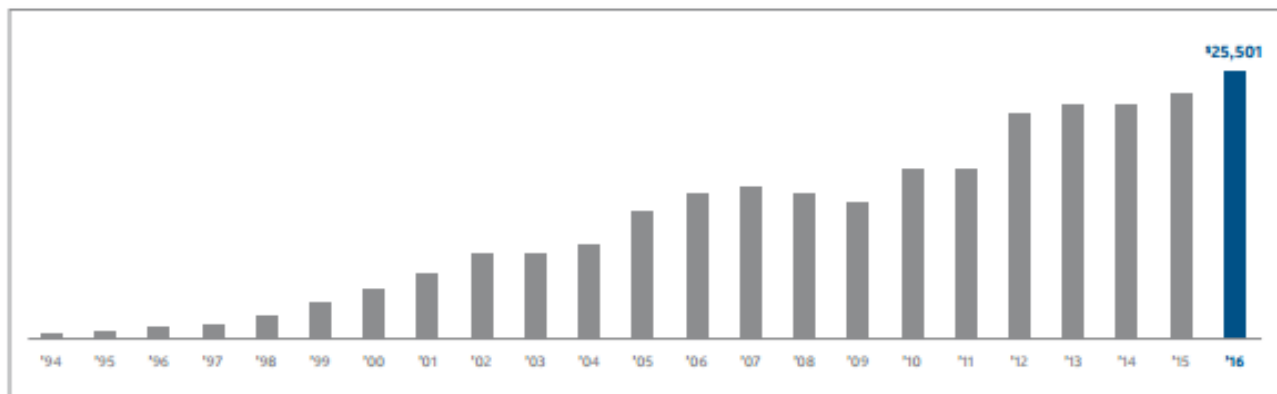


Source: COF Forms 10-K published at sec.gov

APPENDIX

Highlighted Financials

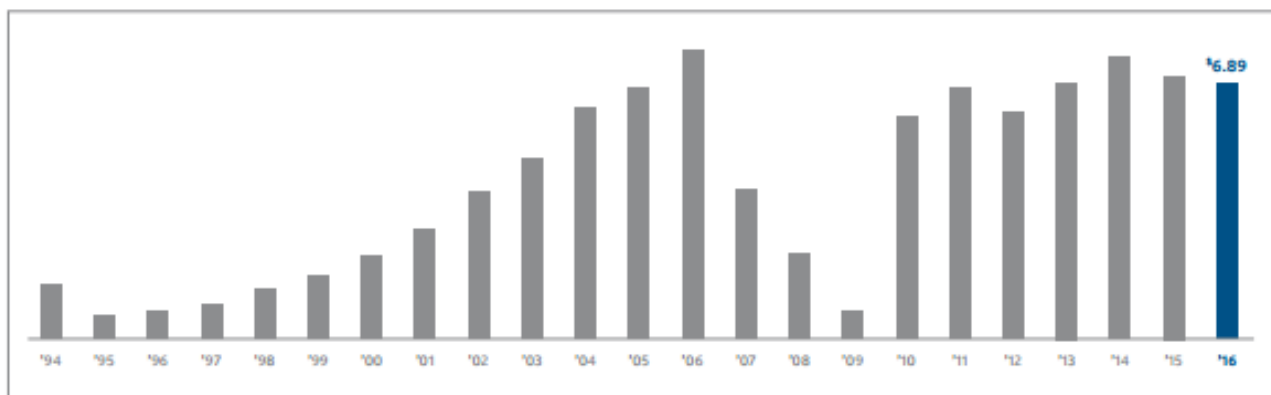
TOTAL REVENUE (\$ IN MILLIONS)



Source: COF Forms 10-K published at sec.gov

Note: Figures prior to 2005 do not include the effects of securitization transactions qualifying as sales under GAAP

DILUTED EARNINGS PER SHARE (DOLLARS)



Source: COF Forms 10-K and earnings release materials published at sec.gov

Note: 2008 represents adjusted earnings per common share from continuing operations of \$2.28 per share and does not include an \$811 million (\$2.14 per share) non-cash goodwill impairment and the associated \$7 million tax effect of the impairment (\$0.01 per share) related to our Auto Finance business. 2008 loss as reported under GAAP was \$0.21 per share.

APPENDIX

Highlighted Financials

Dollars in millions, except per share data	2016	2015
Income Statement:		
Net interest income	\$ 20,873	\$ 18,834
Non-interest income	4,628	4,579
Total revenue	25,501	23,413
Provision for credit losses	6,459	4,536
Non-interest expense	13,558	12,996
Income from continuing operations before income taxes	5,484	5,881
Income tax provision	1,714	1,869
Income from continuing operations, net of tax	3,770	4,012
Income (loss) from discontinued operations, net of tax	(19)	38
Net income	3,751	4,050
Dividends and undistributed earnings allocated to participating securities	(24)	(20)
Preferred stock dividends	(214)	(158)
Net income available to common stockholders	\$ 3,513	\$ 3,872
Common Share Statistics:		
Basic earnings per share:		
Income from continuing operations, net of tax	\$ 7.00	\$ 7.08
Income (loss) from discontinued operations, net of tax	(0.04)	0.07
Net income per common share	\$ 6.96	\$ 7.15
Diluted earnings per common share:		
Income from continuing operations, net of tax	\$ 6.93	\$ 7.00
Income (loss) from discontinued operations, net of tax	(0.04)	0.07
Net income per common share	\$ 6.89	\$ 7.07
Dividends per common share	\$ 1.60	\$ 1.50
Balance Sheet:		
Loans held for investment	\$ 245,586	\$ 229,851
Interest-earning assets	321,807	302,007
Total assets	357,033	334,048
Interest-bearing deposits	211,266	191,874
Total deposits	236,768	217,721
Borrowings	60,460	59,115
Common equity	43,154	43,990
Total stockholders' equity	47,514	47,284
Average Balances:		
Loans held for investment	\$ 233,272	\$ 210,745
Interest-earning assets	307,796	282,581
Total assets	339,974	313,474
Interest-bearing deposits	198,304	185,677
Total deposits	223,714	210,989
Borrowings	56,878	45,420
Common equity	45,162	45,072
Total stockholders' equity	48,753	47,713
Credit Quality Metrics:		
Allowance for loan and lease losses	\$ 6,503	\$ 5,130
Allowance as a % of loans held for investment	2.65 %	2.23 %
Net charge-offs	\$ 5,062	\$ 3,695
Net charge-off rate	2.17 %	1.75 %
30+ day performing delinquency rate	2.93	2.69
30+ day total delinquency rate	3.27	3.00
Performance Metrics:		
Purchase volume	\$ 307,138	\$ 271,167
Total net revenue margin	8.29 %	8.29 %
Net interest margin	6.78	6.66
Return on average assets	1.11	1.28
Return on average common equity	7.82	8.51
Return on average tangible common equity	11.93	12.87
Efficiency ratio	53.17	55.51
Effective income tax rate on continuing operations	31.3	31.8
Employees (in thousands), period end	47.3	45.4
Capital Ratios:		
Common equity Tier 1 capital ratio	10.1 %	11.1 %
Tier 1 risk-based capital ratio	11.6	12.4
Total risk-based capital ratio	14.3	14.6
Tier 1 leverage ratio	9.9	10.6
Tangible common equity ratio	8.1	8.9

APPENDIX: SOURCES

Sources:

Reuters

Yahoo Finance

Bloomberg

Morningstar

Value Line

COF website and reports

10K's and investor presentations (COF)

Seeking Alpha

Market Realist