

Fitch: Relatively Stable 4Q'13 Earnings for Capital One Financial

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Capital One Financial's (COF) reported earnings for fourth quarter 2013 (4Q'13) were relatively stable, according to Fitch Ratings. COF's results were down to \$842 million from \$1.09 billion in 3Q'13 but modestly up from \$825 million in the year-ago quarter. This equated to a 4Q'13 annualized return on average assets (ROA) of 1.20%, which is not as good as the 3Q'13 ROA of 1.53%, but still compares favorably to peer banks.

Overall revenue in 4Q'13 modestly declined from the sequential quarter as lower interest income due to the full impact of the sale of the Best Buy private label card portfolio and continued expected run-off of mortgage loans acquired with ING Direct, was only partially offset by lower funding costs. As such, the company's net interest margin (NIM) declined by 16 basis points to 6.73% in 4Q'13 down from 6.89% in 3Q'13. Relative to the prior-year quarter the 4Q'13 NIM was 19 basis points higher due almost entirely to lower funding costs in the year-over-year comparison.

Non-interest income increased relative to the sequential quarter, due in part to higher interchange fees amid higher spend volumes on the quarter. Expenses, however, also increased sequentially as lower compensation and benefits expense was offset by higher marketing expenses, professional services, and expenses related to COF's acquisitions over the last couple of years. As the desire for incremental loan growth remains intense, Fitch would expect marketing costs to remain on the higher side over the balance of the next year.

Total period end loans balances increased 2.81% from the sequential quarter as growth in domestic credit cards, auto loans, and commercial loans were offset by the continued run-off of the company's acquired home loan portfolio. Fitch would expect more of the same over the course of the year, but domestic card loans are in part seasonally higher amid higher consumer spending during the holiday season in 4Q'13.

Credit quality across the board remains good. Fitch notes that credit quality in COF's consumer portfolios as measured by net charge-off (NCO) rates and 30-day plus delinquency rates appear to have essentially bottomed in 3Q'13, as there was a modest uptick in NCO rates in both the domestic card and auto loan portfolios. Fitch had been expecting some reversion in NCO rates and would expect some additional increase in NCO rates over the year as the company continues to pursue growth.

Capital ratios modestly declined from the sequential quarter as COF increased share buybacks after completing the sale of the Best Buy portfolio noted above. Nevertheless, Fitch continues to view capital ratios as adequate. Under Basel 1, COF's Tier 1 common (CET1) ratio was 12.2%, down from 12.7% in the sequential quarter. And under the fully phased in Basel III standardized approach the CET1 was approximately 10.9%, just down modestly from 11.1% in 3Q'13. Under Basel III advanced approaches, the fully phased in CET1 ratio remains slightly higher than 8%.

COF's capital ratios remain modestly below some peer-rated banks. However, Fitch believes this is still offset by the company's superior capital generation abilities.

Additional information is available at www.fitchratings.com

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