

# **Capital One** | fourth quarter results

**January 19, 2005**

# Forward looking statements

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All information in these slides is based on the consolidated results of Capital One Financial Corporation. Further information about Capital One can be obtained from the Corporation's public filings with the SEC. A reconciliation of any non-GAAP financial measures included in this presentation can be found in the Company's most recent Form 8-K or Form 10-Q concerning quarterly financial results, available on the Company's website at [www.capitalone.com](http://www.capitalone.com) in Investor Relations under "About Capital One."

# Capital One delivered strong results in 2004

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- **2004 fully diluted EPS of \$6.21 (up 28% from 2003)**
  - Q404 of \$0.77
- **2004 managed ROA of 1.73%**
  - 0.83% in Q404
  - Q404 below recent trend due to seasonality and timing of expenses
- **\$8.6 billion year-over-year managed loan growth (12% growth from 2003)**
  - Q404 growth: \$4.4 billion managed loans; 1.35 million accounts
- **Diversification beyond US Card delivers growth and profits**
  - 39% of managed loans as of 12/31/04
  - 24% of 2004 profits
- **Strong & stabilizing credit quality and margins**
  - Q404 increase in charge-offs due to normal seasonality
- **Continued strength in liquidity and capital**

# We are well positioned to deliver strong performance in 2005

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## 2005 Expectations:

**12-15%  
Loan Growth Rate**

- Continued asset diversification with a bias toward lower loss assets
- US Card growth rate higher than industry
- Diversification businesses grow faster than US Card

**Managed ROA  
between  
1.7% and 1.8%**

- Modest declines in revenue margin offset by improvements in provision, operating and marketing expenses as a percentage of managed assets
- Quarter to quarter variability

**Continuing  
Diversification**

- Loans
- Profits

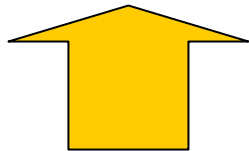
**2005 EPS Guidance of \$6.60 - \$7.00**

# Fourth quarter 2004

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**Financial  
Update**

**Business  
Update**



# Seasonality and increased marketing spend drove Q404 EPS below trend

## Managed Income Statement (\$Millions except per share data)

	<u>Q404</u>	<u>Q304</u>	<u>Q403</u>	<u>Q404/Q403 Change</u>	
				<u>\$</u>	<u>%/bps</u>
Net Interest Income	\$ 1,701.8	\$ 1,670.4	\$ 1,571.7	\$ 130.1	8 %
Non-Interest Income	1,099.0	1,099.8	1,077.5	21.5	2 %
Total Revenue	2,800.8	2,770.2	2,649.2	151.6	6 %
Net Charge-offs	839.7	753.7	913.6	(73.9)	(8) %
Allowance Build/(Release)	110.0	(30.0)	25.0	85.0	340 %
Other	12.1	(0.5)	(0.6)	12.7	n/a
Provision for Loan Losses	961.8	723.2	938.0	23.8	3 %
Marketing Expenses	511.1	317.7	290.1	221.0	76 %
Operating Expenses	1,045.4	994.3	999.3	46.1	5 %
Tax Rate	30.9 %	33.3 %	37.0 %	n/a	(610) bps
Net Income After Tax	\$ 195.1	\$ 490.2	\$ 265.7	\$ (70.6)	(27) %
Shares Used to Compute Diluted EPS	253.0	249.0	239.2	n/a	6 %
Fully Diluted EPS	\$ 0.77	\$ 1.97	\$ 1.11	\$ (0.34)	(31) %
Revenue Margin	12.66 %	13.03 %	13.89 %	n/a	(123) bps
ROA	0.83	2.17	1.30	n/a	(47) bps

# Seasonal factors drove Q404 provision expense significantly higher

## Allowance for Loan Losses (\$Millions)

	<u>Q404</u>	<u>Q304</u>	<u>\$</u>	<u>Change</u> <u>%/bps</u>
Managed Net Charge-offs	\$ 839.7	\$ 753.7	\$ 86.0	11 %
Allowance Build/(Release)	110.0	(30.0)	140.0	(467) %
Other	12.1	(0.5)	12.6	n/a
Managed Provision for Loan Losses	961.8	723.2	238.6	33 %
Reported Loans	\$ 38,216	\$ 35,161	\$ 3,055	9 %
Allowance for Loan Losses	1,505	1,395	110	8 %
Reported \$30+ Day Delinquencies	1,472	1,407	65	5 %
Reported \$30+ Delinquency Rate	3.85 %	4.00 %	n/a	(15) bps
Reported Net Charge-off Rate	3.82	3.43	n/a	39 bps

## Finance Charge & Fee Revenue Recognition (\$Millions)

	<u>Q404</u>	<u>Q304</u>	<u>\$</u>	<u>Change</u> <u>%</u>
Amounts Billed to Customers but not Recognized as Revenue	\$ 276.8	\$ 269.7	\$ 7.1	3 %

# Improved credit and operating efficiency drove strong 2004 results

## Managed Income Statement (\$Millions except per share data)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2004/2003 Change</u>	
				<u>\$</u>	<u>%/bps</u>
Net Interest Income	\$ 6,634.7	\$ 6,037.9	\$ 5,284.3	\$ 596.8	10 %
Non-Interest Income	4,224.6	4,200.6	4,411.2	24.0	1 %
Total Revenue	10,859.3	10,238.5	9,695.5	620.8	6 %
Net Charge-offs	3,251.8	3,683.9	2,769.2	(432.1)	(12) %
Allowance (Release)/Build	(90.0)	(125.0)	880.0	35.0	(28) %
Other	15.2	(3.9)	9.7	19.1	n/a
Provision for Loan Losses	3,177.0	3,555.0	3,658.9	(378.0)	(11) %
Marketing Expenses	1,337.8	1,118.4	1,070.6	219.4	20 %
Operating Expenses	3,984.4	3,738.3	3,515.0	246.1	7 %
Tax Rate	34.6 %	37.0 %	38.0 %	n/a	(240) bps
Net Income After Tax <sup>(1)</sup>	\$ 1,543.5	\$ 1,135.8	\$ 899.6	\$ 407.7	36 %
Shares Used to Compute Diluted EPS	248.8	234.1	228.7	n/a	6 %
Fully Diluted EPS	\$ 6.21	\$ 4.85	\$ 3.93	\$ 1.36	28 %
Revenue Margin	12.89 %	14.65 %	16.93 %	n/a	(176) bps
ROA	1.73	1.52	1.47	n/a	21 bps

<sup>(1)</sup> Also includes (\$15.0) net of tax cumulative effect of accounting change in 2003 related to the adoption of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*

# Improved credit and operating efficiency have more than offset our declining revenue margin

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## **As a Percentage of Average Total Managed Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue <sup>(1)</sup>	12.13%	13.68%	15.79%
Less Expense:			
Provision	(3.55%)	(4.75%)	(5.96%)
Operating Expense	(4.45%)	(5.00%)	(5.72%)
Marketing	(1.49%)	(1.49%)	(1.74%)
Tax	(0.91%)	(0.90%)	(0.90%)
Net Income (ROA)	1.73%	1.52% <sup>(2)</sup>	1.47%

<sup>(1)</sup> Total Revenue divided by average total managed assets. Note that this is not revenue margin which is total revenue as a percentage of average managed earning assets

<sup>(2)</sup> Also includes 0.02% (\$15.0M) net of tax cumulative effect of accounting change in 2003 related to the adoption of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*"

# Our managed balance sheet remains strong

## Managed Balance Sheet Highlights (\$Millions)

	<u>Q404</u>	<u>Q304</u>	<u>Q403</u>	<u>Q404/Q403 Change</u>	
				<u>\$</u>	<u>%/bps</u>
Loans	\$ 79,861	\$ 75,457	\$ 71,245	\$ 8,616	12 %
Total Assets	\$ 94,792	\$ 91,665	\$ 83,999	\$ 10,793	13 %
Capital <sup>(1)</sup>	9,231	8,769	6,882	2,349	34 %
Capital to Assets Ratio	9.74 %	9.57 %	8.19 %	n/a	155 bps
Capital plus Allowance to Assets Ratio	11.33	11.09	10.09	n/a	124 bps

<sup>(1)</sup> Includes preferred interests and mandatory convertible securities.

## Available Liquidity (\$Millions)

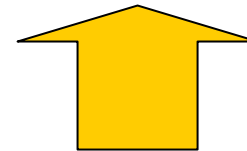
	<u>Q404</u>	<u>Q304</u>	<u>Q403</u>	<u>Q404/Q403 Change</u>	
				<u>\$</u>	
Cash and Securities	\$ 10,712	\$ 10,962	\$ 7,847	\$ 2,865	37 %
Untapped Conduit Capacity	9,696	9,763	6,771	2,925	43 %
Unsecured Credit Facility	750	750	1,377	(627)	(46) %
Total Available Liquidity	\$ 21,158	\$ 21,475	\$ 15,995	\$ 5,163	32 %

# Fourth quarter 2004

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**Financial  
Update**

**Business  
Update**



# Managed loan & profit diversification continued in 2004

## Managed Loans (\$Millions)

	<u>2004</u>	<u>2003</u>	<u>2004/2003 Change</u>	
			<u>\$</u>	<u>%</u>
<b>US Card</b>	\$ 48,610	\$ 46,279	\$ 2,331	5 %
<b>Global Financial Services</b> <sup>(2)</sup>	21,240	16,508	4,732	29
<b>Auto Finance</b>	9,997	8,467	1,530	18
<b>Other</b> <sup>(3)</sup>	14	(9)	23	n/a
<b>Total Consolidated</b>	<b>\$ 79,861</b>	<b>\$ 71,245</b>	<b>\$ 8,616</b>	<b>12 %</b>

## Net Income After Tax<sup>(1)</sup> (\$Millions)

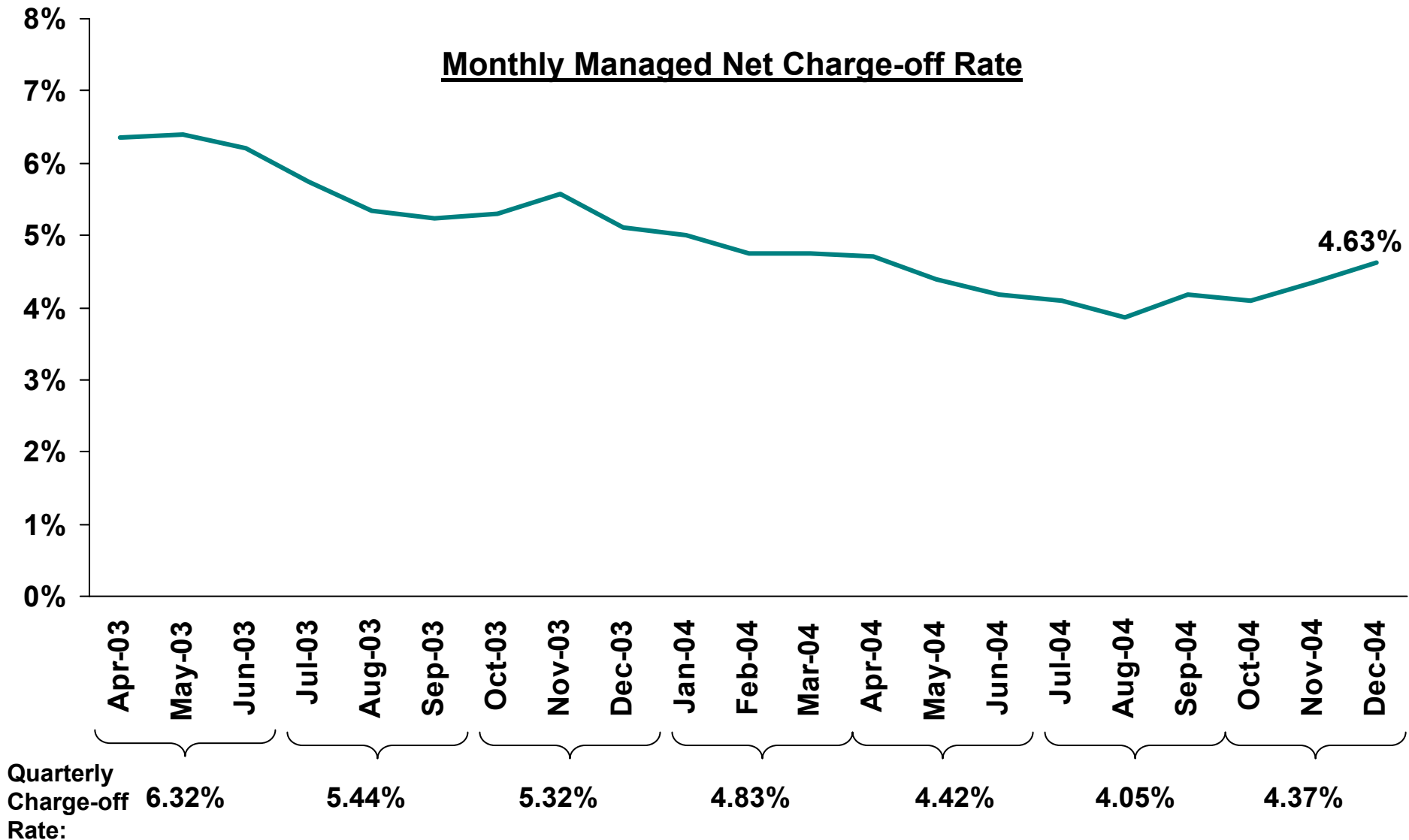
	<u>2004</u>	<u>2003</u>	<u>2004/2003 Change</u>	
			<u>\$</u>	<u>%</u>
<b>US Card</b>	\$ 1,387.3	\$ 1,181.2	\$ 206	17 %
<b>Global Financial Services</b> <sup>(2)</sup>	213.1	64.8	148	229
<b>Auto Finance</b>	163.8	99.3	65	65
<b>Other</b> <sup>(3)</sup>	(220.7)	(209.5)	(11)	5
<b>Total Consolidated</b>	<b>\$ 1,543.5</b>	<b>\$ 1,135.8</b>	<b>\$ 408</b>	<b>36 %</b>

(1) Based on internal allocations of consolidated results

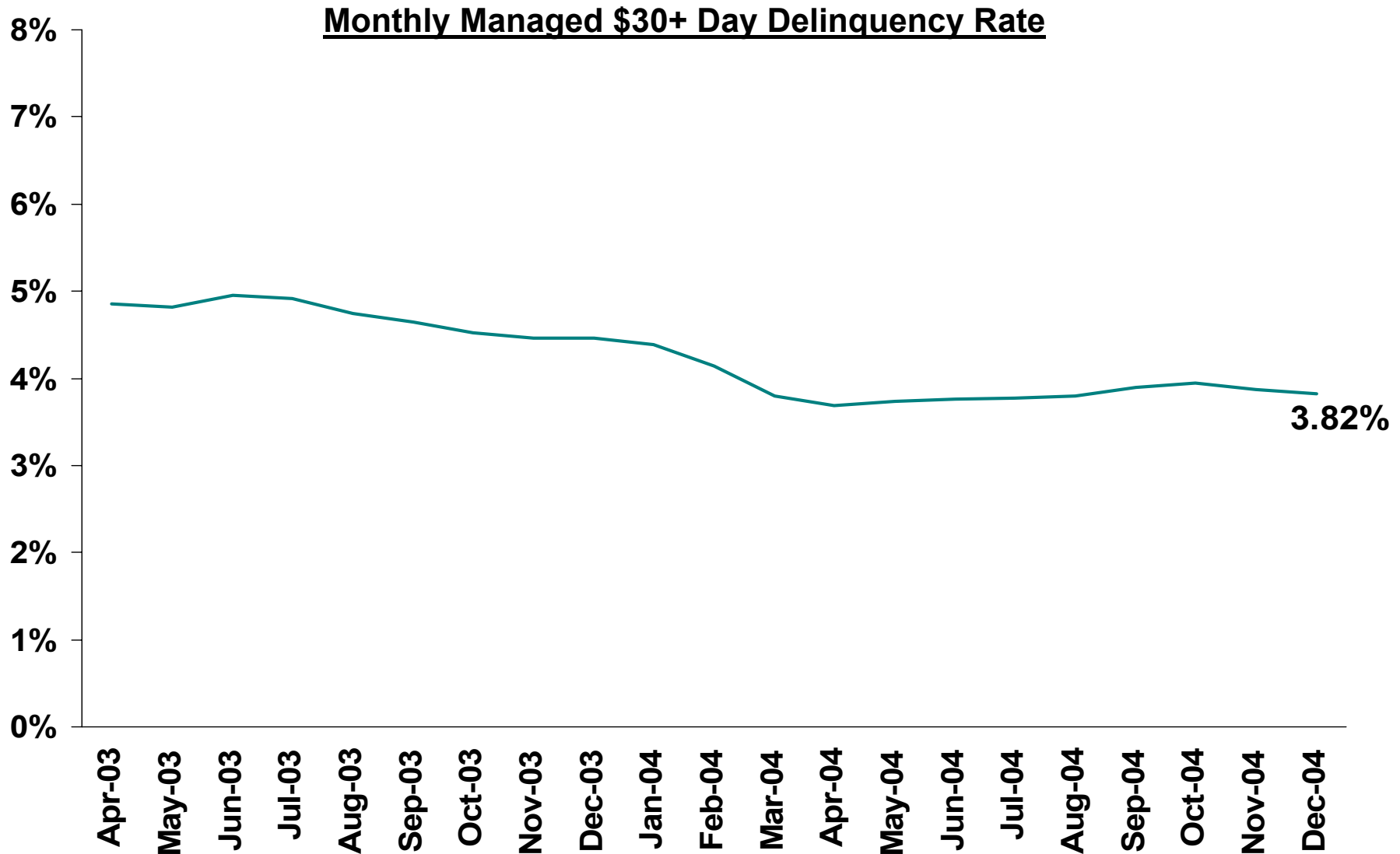
(2) Global Financial Services includes all International businesses, Installment Loans, Small Business Lending, and a variety of smaller ventures

(3) The Other caption includes the company's treasury activities, investments in external companies, various non-lending activities and certain unallocated expenses

# The quarterly managed charge-off rate reflects normal seasonality

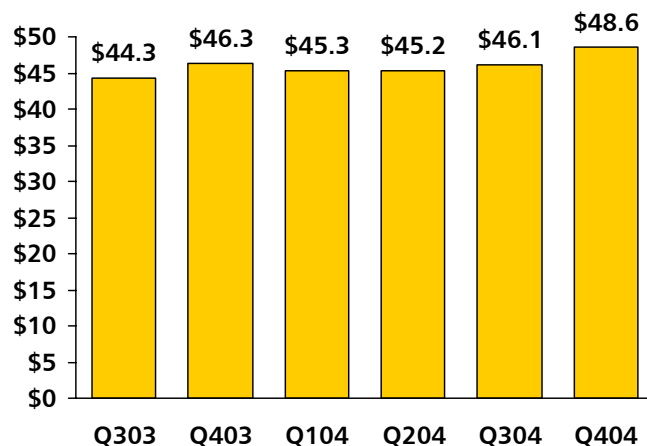


# The managed \$30+ delinquency rate has been relatively stable for three quarters

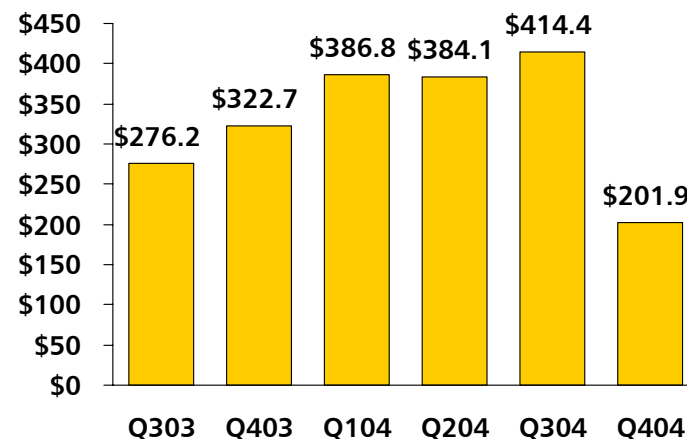


# US Card continued to deliver strong profitability & credit performance

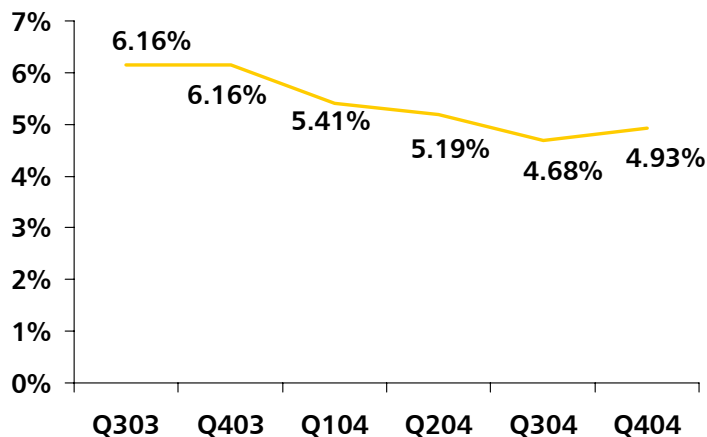
**Managed Loans (\$B)**



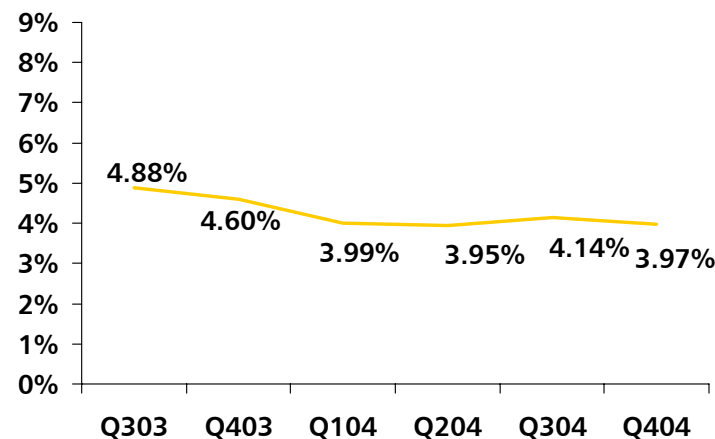
**Net Income After Tax<sup>(1)</sup> (\$M)**



**Managed Net Charge-off Rate**

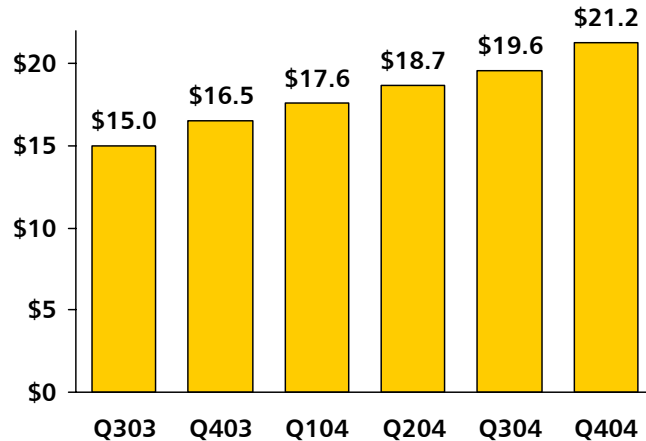


**Managed \$30+ Delinquency Rate**

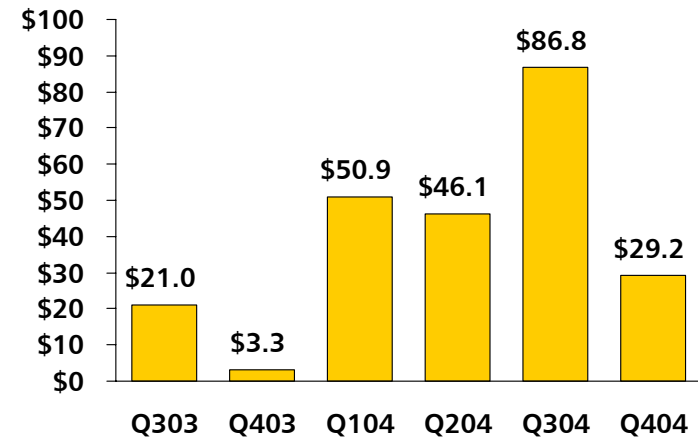


# Global Financial Services continued to be a significant driver of both asset & profit diversification

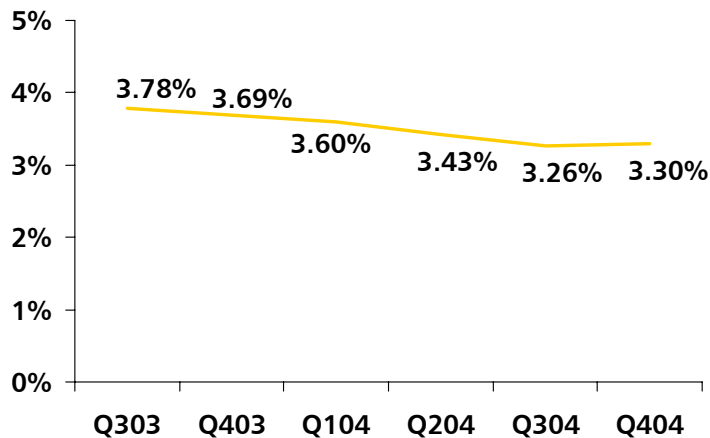
**Managed Loans (\$B)**



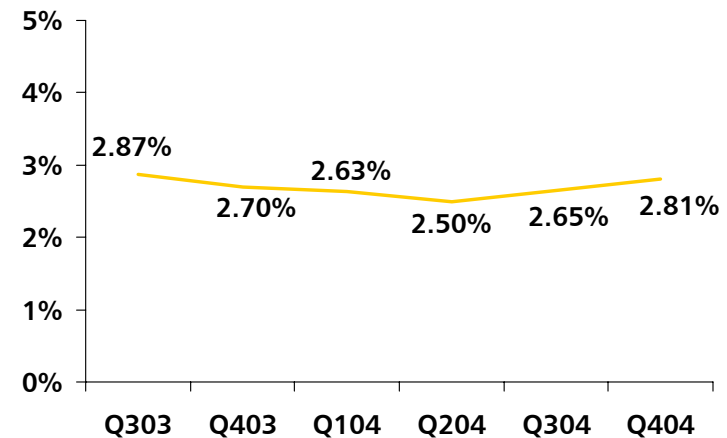
**Net Income After Tax<sup>(1)</sup> (\$M)**



**Managed Net Charge-off Rate**

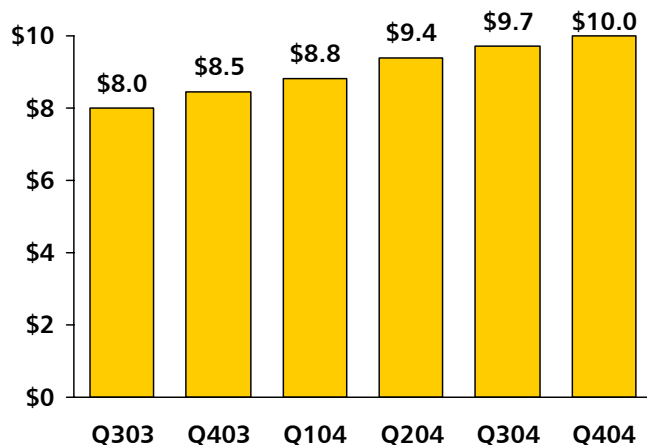


**Managed \$30+ Delinquency Rate**

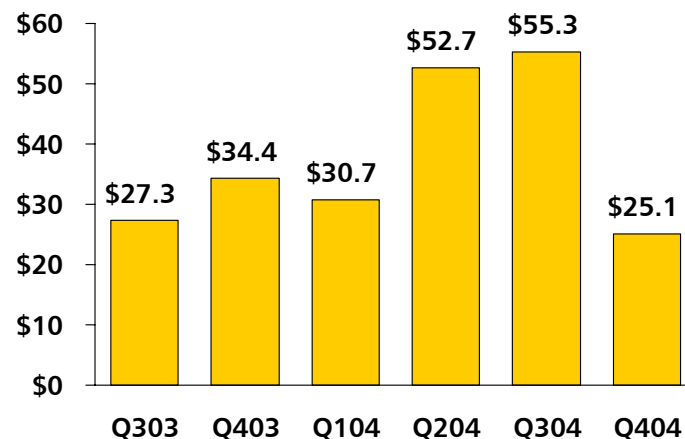


# Auto Finance continued to drive both asset & profit diversification

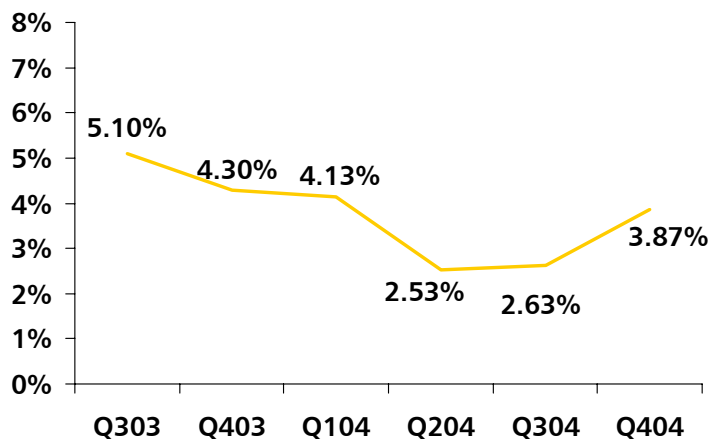
**Managed Loans (\$B)**



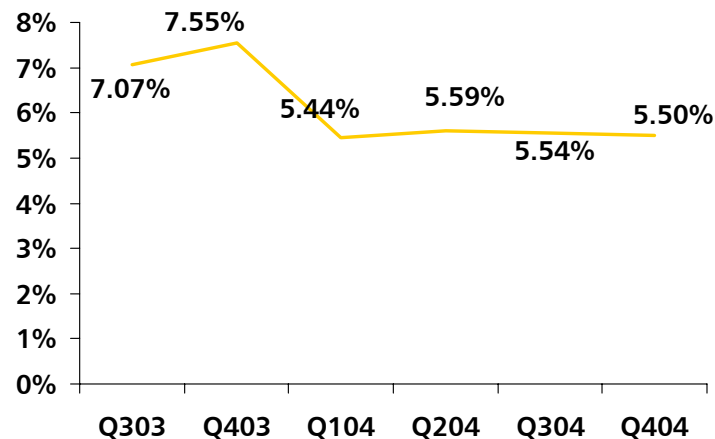
**Net Income After Tax<sup>(1)</sup> (\$M)**



**Managed Net Charge-off Rate**



**Managed \$30+ Delinquency Rate**



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## 2005 Expectations:

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Loan Growth Rate**

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- US Card growth rate higher than industry
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- Profits

**2005 EPS Guidance of \$6.60 - \$7.00**