

Bank of America, Wachovia report strong 4Q earnings

by AP-News

Fourth-quarter earnings rose strongly at Bank of America Corp. and Wachovia Corp., driven by acquisitions last year that helped the banks avoid the interest-rate squeeze that has hampered some of the nation's other leading banks.

Bank of America, the nation's No. 2 bank, said Tuesday that fourth-quarter net income jumped 47 percent, aided by its takeover of credit card issuer MBNA Corp. Its local rival, No. 4 Wachovia, said its 35 percent gain in fourth-quarter earnings was driven by its purchase of Golden West Financial Corp., which was completed in October.

Gary Townsend, an analyst with Friedman, Billings, Ramsey & Co., said he liked what he saw from the banks and reiterated his "outperform" rating for Bank of America.

"Both banks seemed very pleased with their acquisitions and outlooks, although to some degree, Wachovia did acknowledge that the overall condition of the housing market is currently more muted than they expected it to be," Townsend said.

Bank of America profits climbed to \$5.26 billion, or \$1.16 per share, from \$3.57 billion, or 88 cents per share, a year ago. Results for the fourth quarter of 2005 did not include MBNA, which was acquired on Jan. 1, 2006. Excluding merger and restructuring charges, the company earned \$5.01 billion, or \$1.19 per share, in the latest quarter.

The bank's revenue grew 34 percent to \$18.46 billion from \$13.81 billion last year.

That exceeded the profits of \$1.18 per share on revenue of \$18.01 billion expected by analysts surveyed by Thomson Financial.

Michael L. Mayo, an analyst with Prudential Equity Group, said in a research note that he was concerned that Bank of America's fourth-quarter performance was below that of other money center banks, such as JPMorgan Chase & Co.

He said that spread revenues - the different between what the bank pays for funds and what it can lend them out at - were up only modestly. Meanwhile, "its institutional securities business lagged peers" and capital markets revenue was not as strong as at other major banks, Mayo said.

Earnings at Wachovia rose to \$2.3 billion, or \$1.20 per share, in the fourth quarter from \$1.71 billion, or \$1.09 per share, during the same period last year. Excluding merger and restructuring expenses, adjusted net income totaled \$2.33 billion, or \$1.21 per share, versus \$1.74 billion, or \$1.11 cents per share, last year.

Total revenue gained 31 percent to \$8.59 billion versus \$6.56 billion last year.

That topped the \$1.18 per share on revenue of \$7.81 billion expected by analysts surveyed by Thomson Financial.

Wachovia shares climbed 26 cents to \$56.53 on the NYSE.

Goldman Sachs analyst Lori B. Appelbaum wrote in a research note to investors Tuesday that Wachovia's fourth quarter earnings were among the best reported by any bank for the period.

"Wachovia generated one of the strongest fourth quarters of the banks reporting so far given sizable strength in market-sensitive businesses, net interest margin improvement, and stable-to-improved credit trends across the portfolio," the note said. "Credit quality was among the best of those reporting this quarter."

Like all U.S. banks, Bank of America and Wachovia continued to battle an inverted yield curve, which means short-term rates are higher than long-term rates. That means banks must pay more for deposits while they're earning less on loans, which squeezes profits.

In other reports Tuesday, Pittsburgh-based PNC Financial Services Group Inc. said fourth-quarter profit rose 6 percent, but came in below estimates on a narrowing interest-rate spread and the need to set aside more reserves against problem loans.

PNC posted fourth-quarter net income of \$376 million, or \$1.27 per share, compared with profit of \$355 million, or \$1.20 per share, a year earlier. Excluding an \$8 million charge for a sale of part of its stake in BlackRock, PNC earned \$1.20 per share in the quarter. Analysts polled by Thomson Financial forecast earnings of \$1.30 per share for the fourth quarter.

PNC's shares fell 81 cents, or 1 percent, to \$73.11 in afternoon trading on the NYSE.

By Ieva M. Augstums , AP Business Writer

©The Herald Standard 2007

Copyright © 1995 - 2007 Townnews.com All Rights Reserved.

Copyright 2007 Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Bank of America, Wachovia report strong 4Q earnings by AP-News