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RBC Q2 report fuels acquisition rumours

BY JOHN GREENWOOD

TORONTO — Boosted by stellar performance in its domestic banking business, Royal Bank of Canada on Thursday posted third-quarter earnings ahead of estimates, lifting its share price and fuelling speculation that it is getting ready for another acquisition.

"We believe Royal had a good quarter as it continues to position itself well in the face of weaker global competition," said Blackmont Capital analyst Brad Smith.

For the three months ended July 31, Canada's largest bank had a profit of \$1.26 billion, or 92 cents a share, down 10 per cent from last year.

The results included \$498 million in writedowns related to structured investments that have been hurt by the credit crunch.

Despite difficult market conditions, "we have effectively managed our costs as well as our risk, while taking advantage of market opportunities and continuing to invest in future growth," said RBC chief executive Gord Nixon.

RBC suffered a glancing blow from structured credit investments, and as a result, the writedowns have not been in the league of many banks its size.

Royal is one of several major financial firms negotiating with U.S. regulators over possible penalties arising from their participation in the collapsed market for auction-rate securities in the United States.

Over the several weeks, eight major banks have settled claims that they misled investors about the safety of auction-rate securities, agreeing to pay more than \$40 billion US in penalties.

"The \$498-million charge it took (on structured investments) was a little smaller than what the Street was expecting, and hopefully we are seeing the tail of these exposures," said Craig Fehr, an analyst at Edward Jones.

The biggest bright spot of the quarter was RBC's domestic retail banking unit, which had a profit of \$709 million, up 19 per cent from the same period last year.

Fehr said the fact that Royal mostly avoided the subprime debacle means it is in a good position to exploit the weakness of many of its global peers by doing an acquisition.

"I would expect them to look for opportunities," he said, noting that, "longer term, the U.S. is a good area for them to focus on."

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TD fights back, matches interest rates

BY JOHN GREENWOOD

TORONTO — Toronto-Dominion Bank is vowing to fight back against the erosion of market share at its recently acquired Commerce Bancorp division in the United States that officials say faces "irrational" pricing by competitors.

Amid the turmoil in the U.S. banking sector from the subprime crisis, players are luring new customers with unreasonably high interest rates, chewing into Commerce Bancorp's business, said Bharat Masrani, TD's head of personal and commercial banking in the United States.

"What this liquidity crisis has done is cause competitors to price deposits irrationally," he said on a conference call with analysts Thursday as the Canadian bank posted second-quarter earnings.

At first TD, thought it could sit back and stay out of the fight, but as some of its own deposits ended up "running off," TD has now chosen to match the interest rates offered by the competition, Masrani said.

Blackmont Capital analyst Brad Smith said that with the new strategy, Commerce Bancorp may find it hard to grow without sacrificing profit.

"But it's early days yet," Smith added, noting that the \$71-billion dollar acquisition was only done in March.

Canada's second-biggest bank had a profit for the third quarter of \$997 million, or \$1.21 a share, down nearly 10 per cent from a year earlier.

TD was alone among Canadian banks in avoiding almost completely direct impact from subprime-linked investments.

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National Bank profit rises 18 per cent

OTTAWA — National Bank of Canada saw its profit rise 18 per cent in the third quarter, boosted by strong performances in its personal and commercial banking operations, as well as gains in the financial markets.

Canada's sixth largest bank said Thursday net income totalled \$286 million, or \$1.73 a share, for the three months ended July 31, compared with \$243 million, or \$1.48 a share, in the third quarter of 2007.

The Montreal-based bank had a loss of \$37 million, or 15 cents a share, on writedowns for investments in asset-backed commercial paper that was more than offset by a one-time gain of \$88 million, or 36 cents a share, from the merger of the Montreal Exchange with TSX Group Inc. —

creating the new entity TMX Group — through the sale of securities related to the tie-up.

Excluding the special items, third-quarter profit was \$253 million, or \$1.52 a share, an increase of four per cent from the same period of last year.

"The bank turned in a solid performance this quarter, driven in particular by a strong contribution from the financial markets segment and good growth in business volumes at personal and commercial. Moreover, our financial health remains excellent, as evidenced by the good credit quality of the loan portfolio and our high regulatory capital ratios," said Louis Vachon, president and chief executive officer.

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