

RBC sees quarterly profit falling 15 percent

Lynne Olver, Reuters

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* Royal Bank sees Q4 net income falling to C\$1.1 billion

* Sees loan losses rising to C\$620 million

* Results due Dec. 5

* Shares rise up 4.5 percent at C\$38.15

(Updates stock movement)

TORONTO (Reuters) - Royal Bank of Canada (RY.TO: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) said on Monday it expects quarterly net income to drop 15 percent to C\$1.1 billion (\$894 million) due to mounting credit losses and the effects of the global economic downturn, and it ratcheted up its provision for credit losses.

Royal, Canada's biggest bank, said its results for the fourth quarter ended Oct. 31 would be about C\$360 million lower after taxes because of "the market environment."

If Royal is taking trading losses, "then others are suffering as well," said **Ohad Lederer**, an analyst at **Veritas Investment Research** in Toronto.

"It is very difficult to forecast these things in advance," he added.

The bank did not provide an earnings per share estimate, but analysts said that, adjusted for offsetting gains, the net impact of the market losses would be about 8 Canadian cents a share.

RBC becomes the third big Canadian bank to give a glimpse into results for the end-of-year quarter, after Bank of Nova Scotia (BNS.TO: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Toronto-Dominion Bank (TD.TO: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) warned of trading losses last week.

RBC said it lost about C\$1 billion on various securities, which was partly offset by a C\$330 million valuation gain on liabilities due to changing credit spreads.

The bank also reduced its provision for Enron litigation by about C\$540 million, or C\$250 million after tax, resulting in higher earnings. TD Bank said last week it would benefit from a similar reversal of part of its Enron litigation reserve.

Analysts were expecting RBC to post a profit, before items, of C\$1.37 billion and earnings per share of C\$1.03, according to Reuters Estimates.

The new details prompted one analyst to cut and another to upgrade his recommendation on RBC stock.

"Although the pre-announcement itself was not a surprise, the positive items appear to be more 'one-time' than do the negative items, said Rob Sedran, an analyst at National Bank Financial.

Sedran cut his recommendation on RBC shares to "underperform" and slashed his price target to C\$36.00, from C\$46.00.

Dundee Securities analyst John Aiken, however, said it was positive that RBC was able to produce profit despite the deteriorating credit environment, and he upgraded RBC to "neutral" from "sell."

"These are challenging times, with extreme volatility in the global financial markets and an uncertain outlook," Gord Nixon, RBC's president and chief executive, said in a release.

The bank said its provision for credit losses would jump to C\$620 million. A year earlier, total provision for credit losses was C\$263 million.

"The loan losses moved up very significantly for Royal, though they do have a very large U.S. portfolio," **Veritas** analyst **Lederer** said.

RBC stock was up 4.5 percent at C\$38.15 on the Toronto Stock Exchange by early Monday afternoon.

Royal shares fell early in the session but that was later offset by positive reaction to Washington's move to rescue Citigroup (C.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), with concerns about weaker Canadian bank earnings being outweighed by relief that the global financial system might have avoided collapse with the Citigroup bailout.

With the numbers provided by RBC, the bank's full-year net income should come in at C\$4.5 billion, down 18 percent from C\$5.5 billion reported in fiscal 2007.

Last week, TD Bank said the "dramatic" lack of liquidity in global credit markets will prompt it to take fourth-quarter charges of C\$350 million for credit-trading losses.

Scotiabank said it would take a hit of C\$890 million before tax, or C\$595 million after tax, on trading losses tied to bankrupt Lehman Brothers Holdings (LEHMQ.PK: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), as well as lower securities and derivatives valuations.

Overall, analysts expect a 10 percent to 12 percent drop in Canadian banks' quarterly profits, excluding one-time items, because of capital-markets losses, higher loan loss provisions and wealth-management weakness.

Bank of Montreal (BMO.TO: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) will kick off the parade of results on Tuesday.

(\$1=\$1.23 Canadian)

(Additional reporting by Scott Anderson; editing by Rob Wilson)