

## Royal Bank of Canada Posts a Slight Miss, Domestic Operations Solid

### Description

It's the end of the road for Q2/13 Canadian bank earnings and **RBC's** (TSX:RY,NYSE:RY) results help to marginally offset the distinct trend of slowing domestic lending that was emerging.

Although the bank checked in with adjusted EPS of \$1.29 in the quarter, which just missed estimates of \$1.30 (Capital IQ), RBC's banking division, the area that most are interested in these days, posted respectable year-over-year profit growth.

Although aided by its purchase of Ally Canada, which contributed \$12 million, net income in the Canadian banking division measured \$1.043 billion in the quarter, an 11.3% improvement over last year's Q2. However, this figure was down slightly from the \$1.106 billion profit generated in the first quarter of this year.

Revenues in this division followed a similar pattern. Increasing year-over-year, but down from the previous quarter. Again, this was influenced by the Ally transaction.

The bank's overall return on equity (ROE) also improved year-over-year, which is a differentiator from some of RBC's peers. Second quarter ROE measured 18.5% and sits at 19.1% for the first 6 months of 2013. This compares to 16.1% and 17.9% respectively over these same periods last year.

### Foolish Takeaway

Though RBC has attempted to diversify its business mix over the years, domestic banking remains critical. That it remained reasonably strong is a welcomed site and helps to stem the fears that overall domestic lending is on the verge of a significant decline. Still, with Canadians carrying historically high debt levels and our housing market having done what it's done, believing that the domestic banking operations will improve dramatically from here is a stretch. Without this tailwind, capital appreciation from Royal's stock is likely to be limited in the short- to medium-term. This holds for all of the banks.

Because of their significant weight in the S&P/TSX Composite Index, a lack of capital appreciation from the banks means the Canadian market could be stalled, making passive Canadian index investors vulnerable to disappointing returns in the coming years.

We have prepared a [Special FREE Report](#) that will clue you into the perils of investing in the Canadian index and suggests an easy to implement alternative strategy. It's called "**5 Stocks That Should Replace Your Canadian Index Fund**" and you can receive a copy at no charge – just by [clicking here](#).

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*Fool contributor Iain Butler does not own shares of any of the companies mentioned at this time. The Motley Fool doesn't own shares in any of the companies mentioned.*

### CATEGORY

1. Investing

## **TICKERS GLOBAL**

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

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