3 Major Takeaways From Royal Bank of Canada's Latest Results

Description

On Thursday morning, **Royal Bank of Canada** (TSX: RY)(NYSE: RY) reported second-quarter earnings for the 2014 fiscal year. And the news was very positive, with earnings per share of $1.47, up 15% year over year. The stock is up 1.8% in response. As RBC President (and soon-to-be CEO) Dave McKay put it, "we know we hold a privileged position, and we'll work hard to keep it."

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Below are the three biggest takeaways from the earnings report.

1. Wealth management's strength

RBC has been putting a big emphasis on wealth management for some time now, and in recent years this has paid off very well. In the most recent quarter, the division earned $278 million, up 25% year over year. Much of this is due to rising stock markets — not only do clients' portfolios grow, resulting in more fees, but rising markets also encourage people to plow more money into higher-fee equity funds.

If RBC can continue to grow its wealth management business, that would be great news for the bank, since this division does not require much capital to fund growth. But there are headwinds, mainly from the growth of products like ETFs, which resonate well with investors tired of paying high fees. And of course, RBC can't count on a rising equity market forever.

2. Personal and commercial banking: still solid

When it comes to plain old banking in Canada, RBC is one of the clear leaders, holding No. 1 or No. 2 market share in all product categories in Canadian banking. And this unit continued to perform well, with net income of $1.1 billion, up 7% year over year.

The result was partly driven by volume growth, impressive given that market share is very difficult to steal in Canadian banking. For example, a recent study indicated that only about 5% of Canadians are looking to switch their bank account.

But part of the earnings growth was also driven by Canada's strong real estate market, which is constantly under question. If the market were to suffer a downturn, then that would have a negative impact on loan growth and credit losses. This is something that RBC's investors should continue to monitor very closely.

3. The Caribbean continues to show weakness

It wasn't all good news for RBC in the second quarter, though. The bank continues to struggle in the Caribbean ever since entering the region in 2008. The main problem has been a lack of tourism revenue, resulting in higher loan losses for the bank.

RBC is not the only bank to struggle in the Caribbean, though; just last week the **Canadian Imperial Bank Commerce** (TSX: CM)(NYSE: CM) recently took a $420 million after-tax writedown in the region. CIBC reports its results on Thursday of next week, and surely will have to answer questions about its Caribbean strategy.

So what does this all mean?

Once again, RBC has delivered results above expectations. But at the same time, there are growing signs that the bank will come down to earth.

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