

BANK OF BARODA

Industry	Financial
Bloomberg	BOB IN
BSE CODE	532134

Excluding IL&FS exposure, Assets quality improves impressively.

RATING UNDER REVIEW

CMP 114

Price Target

Potential Upside

Rating Change

Estimate Change

Target Change

Stock Info

52wk Range H/L	173/91
Mkt Capital (Rs Cr)	30,119
Free float (%)	36%
Avg. Vol 1M (,000)	13497
No. of Shares (Cr)	265
Promoters Pledged %	0%

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3QFY19 Result Update

- NII was in line with our expectation. PAT increased by 321% YoY to Rs 470 Cr. Operating profit increased by 15% QoQ to Rs 3539 Cr QoQ. NII increased by 8% to Rs 4742 Cr YoY. NIM increased by 8 bps QoQ to 2.69%.
- C/I ratio increased from 39.8% to 44.4% YoY due to higher OPEX(+17% YoY). Other income declined by 3% YoY due to decline in FX profits (-64% YoY) and lower treasury gain (-25% YoY). Treasury gain stood at Rs 382 Cr during the quarter.
- Gross NPA declined from 11.78% to 11.01% QoQ, while Net NPA declined from 4.86% to 4.26% QoQ. Fresh slippage stands at Rs 2933 Cr in Q3FY19 out of which Rs 1169 Cr slippage from IL&FS. The bank has total IL&FS exposure of Rs 4677 Cr, out of which Rs 1169 Cr is of parent company and remaining is SPVs (all operational). Management has provided 20% provisions on IL&FS exposure. Provision coverage ratio increased from 71% to 73%. Credit cost increased from 1.31% to 2.92% QoQ due to contingent provision of Rs 919 Cr over and above IRAC norms. The bank has made about 73% on overall NCLT provisions.
- Watch list of the bank remained stable at Rs 8500 Cr. SMA -2 of the bank has come down to 1.30% as against 1.42% QoQ but SMA-1 numbers have been slightly higher at 1.43% v/s 1% a quarter back.
- Advances grew at 12%/3% YoY/QoQ driven by retail loan of and deposits increased by 7%/1% YoY. CASA ratio stood at 35%.

View and Valuation

Bank of Baroda is well positioned in terms of growth, capital and PCR than most of the other PSU peers. PCR of the bank has improved to more than 60% and remained adequately provisioned against stress assets. Management expects assets quality to improve going forward. BoB has disclosed its exposure to IL&FS which is around Rs 4677 Cr and out of this Rs 1169 Cr towards parent company slipped into NPA during the quarter. On the growth front, domestic loan book has growth has been impressive led by retail assets. We expect NIM to improve considering MCLR reset, strong CASA franchise, lower delinquencies and improvement in international margins. However remaining exposure to IL&FS will remain hangover on assets quality going ahead. On the merger front, we believe there will be integration issues due to high base of PSU employees, technology and infrastructure which may shoot up the operating cost for banks and due to focus of management on merger, growth may take back seat. We remain UNDER REVIEW on the stock.

Key Risks to our rating and target

- Integration risk of human and infrastructure due to merger

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	12740	13513	15522	18620	21853
PPP	8816	10975	12006	13407	16085
PAT	-5396	1383	-2432	2520	5351
NIM %	1.9	2.1	2.3	2.6	2.7
EPS (Rs)	-23	6	-9	10	20
EPS growth (%)	-252	-126	-253	-204	112
ROE (%)	-13.5	3.4	-5.8	5.6	11.0
ROA (%)	-0.8	0.2	-0.3	0.3	0.6
BV	174	174	164	173	193
P/B (X)	0.8	1.0	0.9	0.7	0.6
P/E (x)	-6.3	28.9	-15.5	12.5	5.9

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3Q FY 19 Results Below expectation

Asset Quality Improved

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	11,303	11,039	11,640	12,078	12,941	14%	7%	42,200	43,649	3%
Interest Exp.	6,909	7,037	7,259	7,586	8,198	19%	8%	28,687	28,127	-2%
NII	4,394	4,002	4,381	4,493	4,742	8%	6%	13,513	15,522	15%
Other Income	1,673	1,696	1,148	1,352	1,621	-3%	20%	6,758	6,657	-1%
Total Income	6,067	5,698	5,529	5,844	6,363	5%	9%	20,271	22,179	9%
Ope Exp.	2,417	3,033	2,523	2,763	2,826	17%	2%	9,296	10,173	9%
PPP	3,650	2,665	3,006	3,081	3,538	-3%	15%	10,975	12,006	9%
Provisions	3,427	6,672	2,166	2,430	2,794	-18%	15%	8,502	14,796	74%
PBT	224	(4,007)	840	652	743	232%	14%	2,473	(2,791)	-213%
Tax	112	(905)	312	227	273	144%	20%	1,090	(359)	-133%
Extra Items										
Net Profit	112	(3,102)	528	425	470	321%	11%	1,383	(2,432)	-276%

NIM improved sequentially.

NIM increased by 8 bps QoQ from 2.61% to 2.69% and declined by 3bps YoY from 2.72% to 2.69%. Overseas NIM increased by 93 bps YoY from 1.06% to 1.99% . Domestic NIM decreased by 3 bps QoQ from 2.83% to 2.80% due to decline in yield. Yield on advances decline by 76 bps QoQ from 8.47% to 7.71%. Yield on investment increased by 40 bps QoQ.

C/I ratio increased from 39.8% to 44.4% YoY due to higher OPEX. Total income increased by 5% from Rs 6067 Cr to Rs 6363 Cr YoY. Operating expenses increased from Rs 2417 Cr to Rs 2826 Cr

Assets quality improves

Slippage during the quarter decreased from Rs 3751 Cr to Rs 3733 Cr QoQ. Fresh slippage stood at Rs 2933 Cr. The bank has total IL&FS exposure of Rs 4677 Cr, out of which Rs 1169 Cr is of parent company and remaining is SPVs. Management has provided 20% provisions on IL&FS exposure. Gross NPA declined from 11.78% to 11.01% QoQ, while Net NPA declined from 4.86% to 4.26% QoQ. Watch list stands at Rs 8500 Cr. Specific PCR has increased from 62% to 64% QoQ whereas PCR including technical write offs increased from 71% against 73% a quarter back. Credit cost increased from 1.31% to 2.92% QoQ due to excess NPL provision of Rs 919 Cr over and above IRAC norms. SMA2 accounts declined by 12 bps to 1.3% QoQ whereas SMA1 accounts increased by 43 bps to 1.43% QoQ. Management expects Net NPA to come down by year end.

Loan growth was driven by retail book.

Advances grew by 12%/3% YoY/QoQ. Domestic loan growth picked up to 21% YoY led by retail advances. Retail growth was driven by 51% YoY growth in auto and 34% YoY growth in home loan. Overseas advances declined by 11% YoY. Domestic corporate loans grew by 21% YoY while MSME loans stands at 5% YoY. Under corporate credit rating profile A & Above stood at 58.75% as against 50.42% YoY. Below BBB rated increased to 14.26% against 13.49% a year back.

Deposits increased by 7%/1% YoY/QoQ. CASA increased by 8% amounting to Rs 213633 Cr. CASA ratio stood at 35% vs 34.6% a year back.

Other highlights:

Other income declined by 3% YoY due to decline in FX profits (-64% YoY) and lower treasury gain (-25% YoY).

CAR ratio stood at 11.7% as against 11.9% a quarter back. Tier-1 ratio stood at 9.9%.

Concall Highlights

- Yield improved by 8 bps QoQ and the management expects it to improve going forward.
- In Q3FY19 fresh slippage stands at Rs 2933 Cr which includes Rs 1169 Cr slippages from IL&FS. The bank has total IL&FS exposure of Rs 4677 Cr, out of which Rs 1169 Cr is of parent company and remaining is SPVs. Management has provided 20% provisions on IL&FS exposure.
- There is a recovery in RBI-1 and RBI-2 list of NCLT accounts of Rs 2,532 Cr, while recovery amount includes sale of three Financial Assets Rs 1,064 Cr and Up-gradation of one account, Rs 275 Cr.
- In Q3FY19 watch list stands at Rs 8500 Cr.
- There is an exposure in accounts under NCLT 1 list was Rs 3910 Cr and NCL T 2 list was Rs 3,839 Cr as on December 31, 2018. The bank has made about 73% on overall NCLT provisions.
- SMA -2 of the bank has come down but SMA-1 numbers have been slightly higher.
- NBFC exposure on sequential basis remained flat and stood at Rs 72843 Cr.
- A & above portfolio increased to 63.5% v/s 29.3% in FY16.
- Tier-1 capital has come down to 9.86% v/s 10.25% in Q2FY19 due to the transfer of Rs 1345 Cr to the bank's subsidiary in U.K.
- Management expects Net NPA to come down by year end.
- Management expects huge amount of opportunity related to cross sell and also with respect to managing risk going forward.
- With respect to MSME business the bank has wider range of project the bank is financing and the bank is getting into logistic primarily financing tankers for Indian Oil Corporation.
- Management expects branch expansion to normalize due to the amalgamation process going on.
- Retail loans increased by 32.58% led by home and auto loans at 33.93% and 50.61%.
- In the international business lower margin business has started to improve.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	47	44	40	53	46	47	44	5	-3
Empl. Cost/ Tot. Exp. %	44	50	46	42	44	44	46	0	2
Other Exp/Tot. Exp.%	56	50	54	58	56	56	45	-9	-11
Provision/PPP %	89	77	94	250	72	79	79	-15	0
Tax /PBT %	27	50	50	23	37	35	37	-13	2
Int Exp./Int Inc. (%)	68	65	61	64	62	63	63	2	1
Other Inc./Net Inc. %	31	32	28	30	21	23	25	-2	2
PAT/ Net Income %	4	7	2	(54)	10	7	7	6	0
PAT Growth %	(52)	(36)	(56)	(2,105)	160	20	321	376	301
NII Growth % (YoY)	1	9	40	12	29	21	8	-32	-13
Oper. Profit Growth YoY %	(1)	13	41	(12)	13	1	(3)	-44	-4

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances%	6.9	6.9	7.2	7.1	7.5	7.4	8.6	1.41	1.15
Yield on Total Assets %	6.7	6.8	7.3	6.9	7.0	7.1	7.5	0.26	0.40
Cost Of Funds%	4.6	4.5	4.4	4.4	4.4	4.6	4.8	0.48	0.29
Cost of Deposits%	4.6	4.5	4.4	4.5	4.5	4.6	4.8	0.32	0.17
NIM%	2.1	2.3	2.7	2.5	2.7	2.6	2.7	-0.03	0.08

Exhibit: Yield and Cost

Growing Margins

■ Yield on Advances% ■ Cost of Deposits%

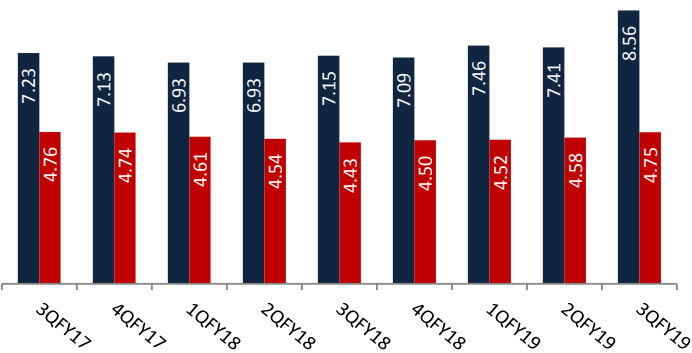
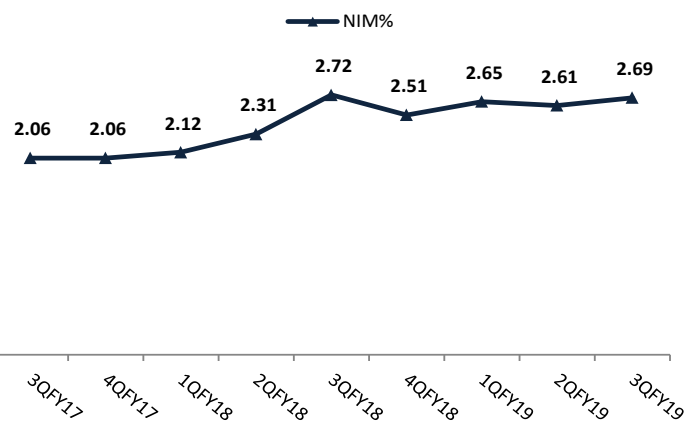


Exhibit: Net Interest Margin

NIM has Expanded



Asset & Borrowings Growth Trend

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Net Advances (Rs in Cr)	349960	383259	377607	387302	399381	427432	414517	433549	448679
Adv. Growth YoY %	-8.9	-0.1	4.1	9.4	14.1	11.5	9.8	11.9	12.3
>> Growth QoQ %	-1.2	9.5	-1.5	2.6	3.1	7.0	-3.0	4.6	3.5

Deposits (Rs in Cr)	589859	601675	570608	583212	573265	591315	581484	606973	610569
Growth YoY %	0.0	4.8	1.5	2.8	(2.8)	(1.7)	1.9	4.1	6.5
>> Growth QoQ %	3.9	2.0	(5.2)	2.2	(1.7)	3.1	(1.7)	4.4	0.6
CASA (Rs)	196236	193496	188280	194935	198487	211779	206544	214414	213633
>> Growth YoY %	38.7	27.9	24.1	24.4	1.1	9.4	9.7	10.0	7.6
>> Growth QoQ %	25.2	(1.4)	(2.7)	3.5	1.8	6.7	(2.5)	3.8	(0.4)

Exhibit: Fee Income/Advances %

Fee income increased

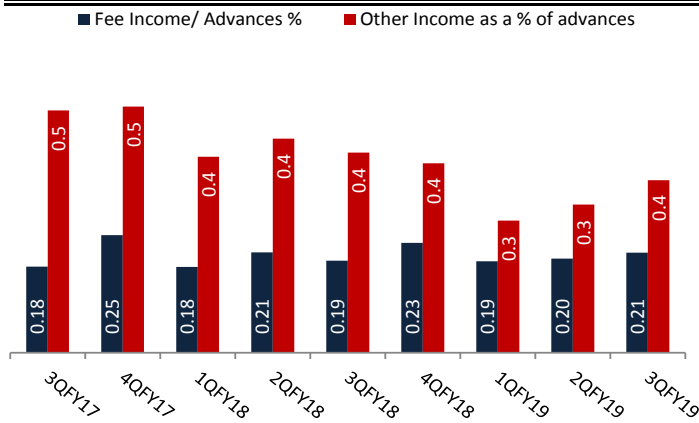
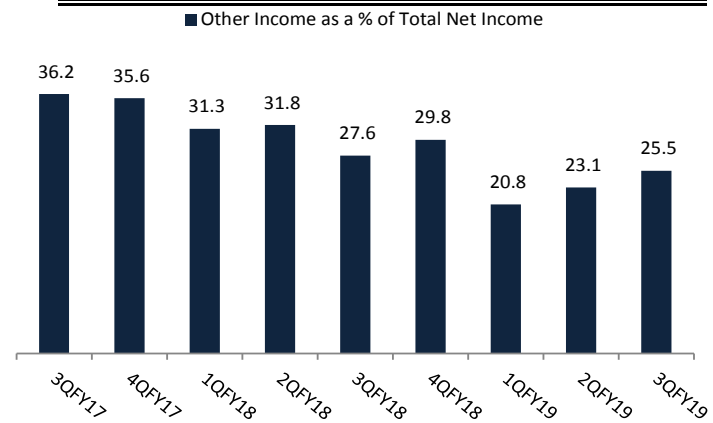


Exhibit: Other Income/ Total Income %

Other income improved



Asset Composition %

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Large Corporates%	72	71	70	70	69	67	67	67	68
SME /MSME%	13	13	13	13	13	12	12	12	12
Retail Advance%	15	15	14	17	17	16	17	18	18
Others%	0	1	2	1	1	5	3	3	2
Total	100	100	100	100	100	100	100	100	100

Borrowing Mix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
CASA %	33	32	33	33	35	36	36	35	35
CA %	7	7	7	7	7	8	7	7	7
SA %	26	25	26	26	27	28	28	28	28

Asset Quality

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
GNPA (Rs)	42,642	42,718	46,173	46,307	48,480	56,480	55,874	55,121	53,184
GNPA %	11	10	11	11	11	12	12	12	11
NNPA (Rs)	19,006	18,080	19,519	19,573	19,852	23,483	22,384	21,059	19,130
NNPA %	5	5	5	5	5	5	5	5	4
Slippages (Rs)	4,135	4,077	5,200	3,451	5,630	12,569	4,733	3,751	3,733
Std Restructured Assets %	4	3	3	3	2	-	-	-	-
Net Stress Assets %	9	8	9	9	8	8	7	5	6
PCR %	65	67	66	67	68	67	69	71	73
Credit Cost %	2	2	2	2	3	6	2	1	3
Prov/Avg Adv% (Ann.)	2	3	2	2	3	6	2	2	3
Specific PCR%	55	58	58	58	59	58	60	62	64

Exhibit: Asset Quality

Asset quality improved.

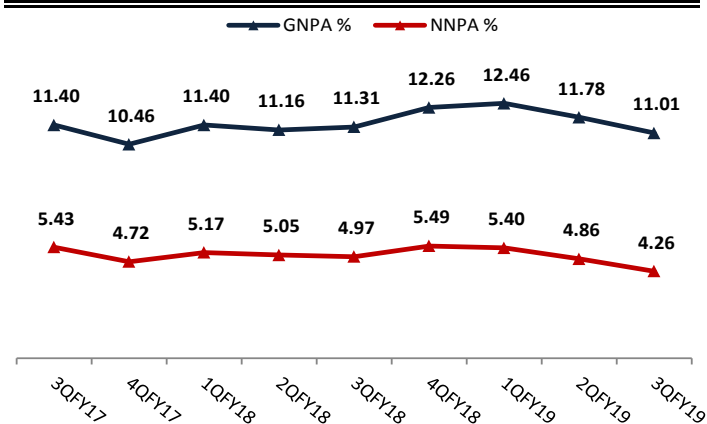


Exhibit: Provisions

PCR improvement

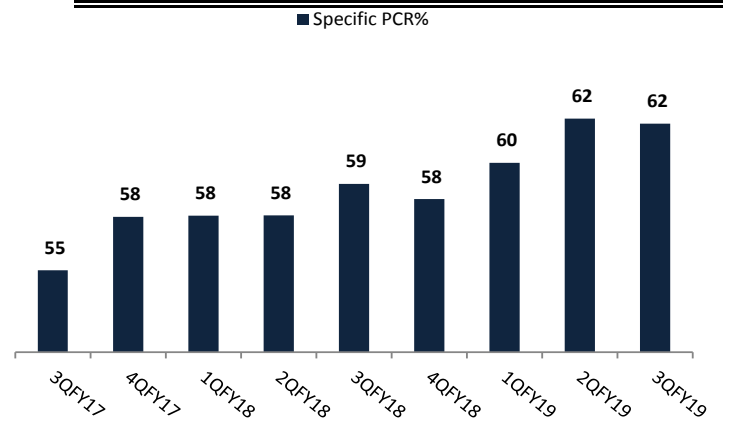


Exhibit: Advances Performance

Advances growth was stable

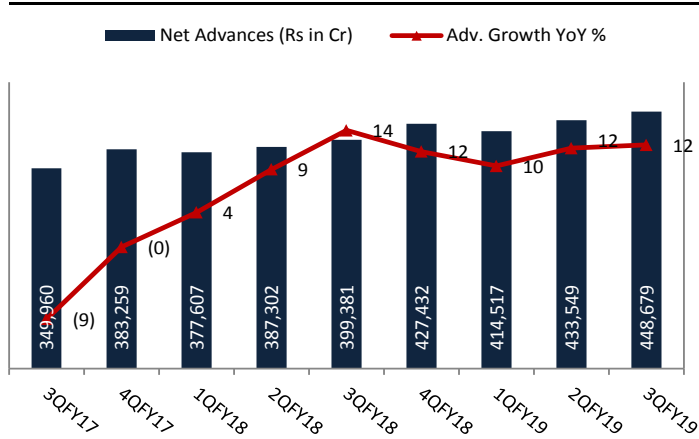


Exhibit: Advances Breakup%

Advance mix.

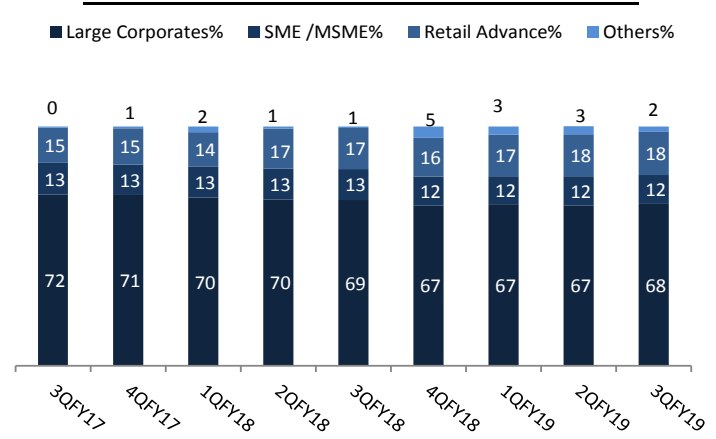


Exhibit: Deposits Performance

Deposits growth on up ward trend.

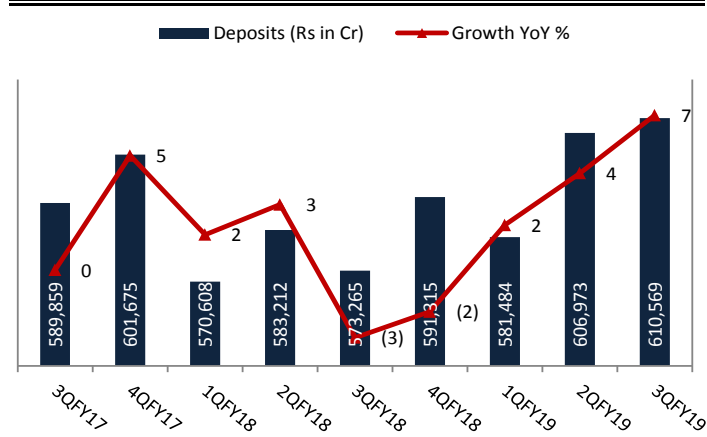


Exhibit: CASA Performance

Stable CASA ratio

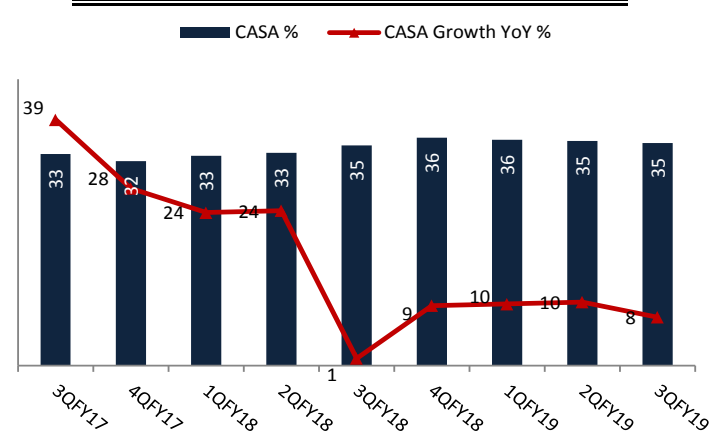


Exhibit: Credit Deposits Ratio

Trending upward.

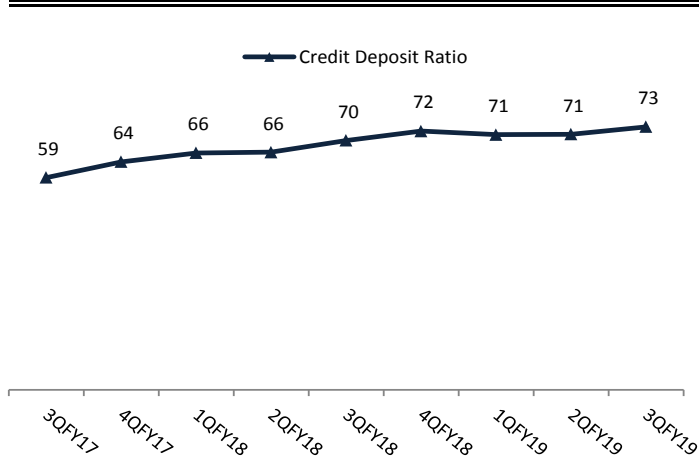
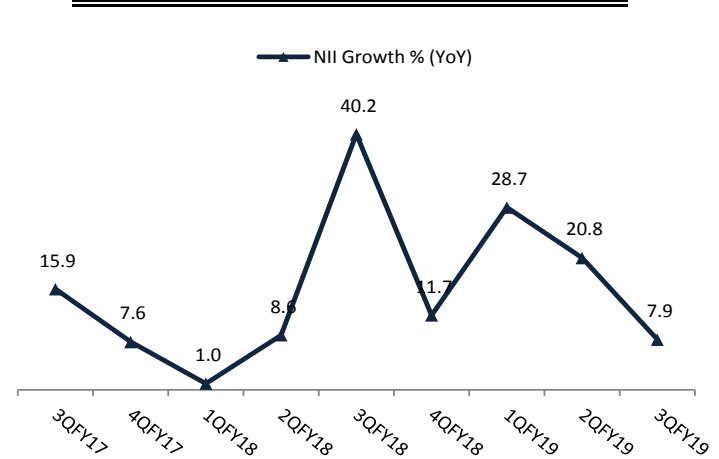


Exhibit: Improving NII growth

NII on pressure



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	423	431	444	462	462	530	530	530
>> <i>Equity Capital</i>	423	431	444	462	462	530	530	530
>> <i>Preference Capital</i>	0	0	0	0	0	0	0	0
Reserves & Surplus	31547	35555	39392	39737	39841	42864	45384	50576
Networth	31969	35986	39835	40199	40303	43395	45915	51106
Deposits	473883	568894	617560	574038	601675	591315	643997	766135
Change (%)	23	20	9	-7	5	-2	9	19
>> <i>CASA Deposits</i>	119980	146489	162969	151334	193496	211779	231839	275808
Change (%)	16	22	11	-7	28	9	9	19
Borrowings	26579	36813	35264	33472	30611	62572	73673	76997
Other Liabilities & Provisions	14703	17812	22329	23667	22286	22718	25760	26418
Total Liabilities	547135	659505	714989	671376	694875	720000	789345	920656
Cash & Bank	85399	130878	148353	133900	150470	92897	85831	114110
Investments	121394	116113	122320	120450	129631	163185	186759	214518
Change (%)	46	-4	5	-2	8	26	14	15
Advances	328186	397006	428065	383770	383259	427432	482998	555448
Change (%)	14	21	8	-10	0	12	13	15
Fixed Assets	2453	2734	2875	6254	5758	5367	5421	5475
Other Assets	9704	12774	13376	27002	25757	31119	28336	31105
Total Assets	547135	659505	714989	671376	694875	720000	789345	920656

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	35,197	38,940	42,964	44,061	42,200	43,649	49,941	58,734
Interest expended	23,881	26,974	29,776	31,321	28,687	28,127	31,321	36,881
Net Interest Income	11,315	11,965	13,187	12,740	13,513	15,522	18,620	21,853
Change (%)	9.7	5.7	10.2	(3.4)	6.1	14.9	20.0	17.4
Other Income	3,631	4,463	4,402	4,999	6,758	6,657	5,811	6,486
Change (%)	6.1	22.9	(1.4)	13.6	35.2	(1.5)	(12.7)	11.6
>> <i>Core Fee Income</i>	1,858	2,117	2,200	2,346	2,835	3,277	3,918	4,274
>> <i>Treasury Income</i>	1,420	1,783	2,013	2,432	3,595	2,699	1,171	1,762
>> <i>Others</i>	352	563	189	221	328	681	722	450
Total Net Income	14,946	16,428	17,589	17,739	20,271	22,179	24,431	28,339
Operating Expenses	5,872	7,075	7,674	8,923	9,296	10,173	11,024	12,254
Change (%)	14.9	20.5	8.5	16.3	4.2	9.4	8.4	11.2
>> <i>Employee Expenses</i>	3,450	4,140	4,261	4,978	4,638	4,607	5,032	5,951
Pre-provisioning Profit	9,074	9,353	9,915	8,816	10,975	12,006	13,407	16,085
Change (%)	5.1	3.1	6.0	(11.1)	24.5	9.4	11.7	20.0
Provisions	4,168	3,794	4,495	15,514	8,502	14,796	9,486	7,978
Change (%)	63.1	(9.0)	18.5	245.2	(45.2)	74.0	(35.9)	(15.9)
PBT	4,831	5,497	5,421	(6,698)	2,473	(2,791)	3,922	8,107
Tax	351	956	2,022	(1,303)	1,090	(359)	1,402	2,756
Profit After Tax	4,481	4,541	3,398	(5,396)	1,383	(2,432)	2,520	5,351
Change (%)	(10.5)	1.3	(25.2)	(258.8)	(125.6)	(275.8)	203.6	112.3

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
Loan Growth (%)	14.2	21.0	7.8	(10.3)	(0.1)	11.5	13.0	15.0
Deposit Growth (%)	23.1	20.0	8.6	(7.0)	4.8	(1.7)	8.9	19.0
C/D Ratio (%)	69.3	69.8	69.3	66.9	63.7	72.3	75.0	72.5
CASA (%)	25.3	25.7	26.4	26.4	32.2	35.8	36.0	36.0
Investment/Deposit (%)	25.6	20.4	19.8	21.0	21.5	27.6	29.0	28.0
CRAR (%)	13.3	12.3	12.6	13.2	12.2	12.1	11.3	10.6
>> Tier 1 (%)	10.1	9.3	9.9	10.8	9.9	10.5	9.4	9.0
>> Tier 2 (%)	3.2	3.0	2.7	2.4	2.3	1.7	1.9	1.6

Assets Quality Metrics

Gross NPA	7,983	11,876	16,261	40,521	42,718	56,480	51,363	40,575
Gross NAP (%)	2.4	2.9	3.7	10.0	10.5	12.3	9.9	6.8
Net NPA	4,192	6,035	8,069	19,406	18,080	23,483	19,004	14,201
Net NPA (%)	1.3	1.5	1.9	5.1	4.7	5.5	3.9	2.6
Slippages (%)	2.3	2.1	2.2	7.3	4.7	7.3	3.8	2.1
Provision Coverage (%)	68.2	65.5	65.0	60.1	66.8	67.2	73.3	75.6
Provision/Average Advances (%)	1.4	1.0	1.1	3.8	2.2	3.7	2.1	1.5

Margin Metrics

Yield On Advances (%)	7.9	7.7	7.5	7.3	7.2	7.2	7.5	7.8
Yield On Investment (%)	7.3	7.3	8.1	8.8	8.5	7.1	7.5	7.9
Yield on Earning Assets (%)	6.6	6.7	6.5	6.7	6.5	6.5	7.0	7.3
Cost Of Deposits (%)	5.2	4.8	4.7	4.9	4.6	4.4	4.5	4.7
Cost Of Funds (%)	4.7	4.8	4.7	4.9	4.5	4.3	4.5	4.6
Spread (%)	2.0	1.9	1.8	1.8	2.0	2.2	2.5	2.6
NIM (%)	2.1	2.1	2.0	1.9	2.1	2.3	2.6	2.7

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	67.9	69.3	69.3	71.1	68.0	64.4	62.7	62.8
Fee Income/NII (%)	16.4	17.7	16.7	18.4	21.0	21.1	21.0	19.6
Cost to Income (%)	39.3	43.1	43.6	50.3	45.9	45.9	45.1	43.2
Cost on Average Assets (%)	1.2	1.2	1.1	1.3	1.4	1.4	1.5	1.4
Tax Rate (%)	7.3	17.4	37.3	19.4	44.1	12.9	35.7	34.0

Valuation Ratio Metrics

EPS (Rs)	21	21	15	(23)	6	(9)	10	20
Change (%)	(12.7)	(0.6)	(27.3)	(252.4)	(125.6)	(253.2)	203.6	112.3
ROAE (%)	15.3	13.5	9.0	(13.5)	3.4	(5.8)	5.6	11.0
ROAA (%)	0.9	0.8	0.5	(0.8)	0.2	(0.3)	0.3	0.6
Dividend Payout (%)	20.3	20.4	20.9	-	20.0	-	5.3	9.9
Dividend yield (%)	3.2	3.0	2.0	-	0.7	-	0.4	1.7
Book Value (Rs)	151	167	180	174	174	164	173	193
Change (%)	13.6	10.4	7.5	(3.1)	0.3	(6.2)	5.8	11.3
ABVPS (Rs)	126	134	139	72	81	62	88	126
P/B (X)	0.9	0.9	0.9	0.8	1.0	0.9	0.7	0.6
P/E (X)	6.4	6.8	10.7	(6.3)	28.9	(15.5)	12.5	5.9

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	6.5	6.3	6.4	6.2	6.2	6.6	6.9
Interest expended	4.5	4.3	4.5	4.2	4.0	4.2	4.3
Net Interest Income	2.0	1.9	1.8	2.0	2.2	2.5	2.6
Non-Fund Based Income	0.7	0.6	0.7	1.0	0.9	0.8	0.8
>> Core Fee Income	0.4	0.3	0.3	0.4	0.5	0.5	0.5
>> Trading and Other Income	0.4	0.3	0.4	0.6	0.5	0.3	0.3
Core Operating Income	2.3	2.2	2.2	2.4	2.7	3.0	3.1
Total Income	2.7	2.6	2.6	3.0	3.1	3.2	3.3
Total Operating Expenses	1.2	1.1	1.3	1.4	1.4	1.5	1.4
>> Employee Expenses	0.7	0.6	0.7	0.7	0.7	0.7	0.7
>> Other Expenses	0.5	0.5	0.6	0.7	0.8	0.8	0.7
Operating Profit	1.6	1.4	1.3	1.6	1.7	1.8	1.9
Provisions	0.6	0.7	2.2	1.2	2.1	1.3	0.9
Others	(0.0)	-	-	-	-	-	-
PBT	0.9	0.8	(1.0)	0.4	(0.4)	0.5	0.9
Tax	0.2	0.3	(0.2)	0.2	(0.1)	0.2	0.3
PAT/RoAA	0.8	0.5	(0.8)	0.2	(0.3)	0.3	0.6
Equity Multiplier (x)	17.8	18.1	17.3	17.0	16.9	16.9	17.6
ROAE	13.5	9.0	(13.5)	3.4	(5.8)	5.6	11.0

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