

Equity Note on BRAC Bank PLC.

Date: December 12, 2024

Current Price (BDT): 48.30

Ticker: BRACBANK

Sector: Bank

Company Fundamentals

Market Cap (BDT mn)	85,300.1
Market Weight	1.29%
Authorized Capital (BDT mn)	50,000.0
Paid-up Capital (BDT mn)	17,697.1
Free-float shares (mn)	952.6
3 Months Return	-12.5%
3 Months Average Turnover (BDT mn)	127.2
52-weeks Price Range	32.3 - 58.9
Current P/E	7.4
Sector P/E	6.5

	2021	2022	2023	2024 (9M' Ann)
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Financial Information (BDT mn):

Interest Income	24,225	31,370	41,864	55,738
Net Interest Inc.	16,312	18,416	20,549	16,780
Investment Inc.	7,142	7,586	12,687	26,201
Operating Inc.	31,623	37,857	46,447	61,199
Total Provision	3,219	2,189	2,922	3,973
Profit After Tax	4,653	6,142	8,275	13,475
Deposit	364,330	447,058	588,43	723,322
Loans and Adv.	322,135	412,085	520,28	574,394
Total Asset	527,913	655,950	837,14	995,666
Total Equity	57,187	61,186	66,541	75,008
Retained Earnings	26,403	29,105	33,198	38,603
Dividend (C/B)%	7.5/7.5	7.5/7.5	10/10	n/a

Growth (YoY):

Net Interest Inc.	22.1%	12.9%	11.6%	-18.3%
Operating Inc.	10.7%	19.7%	22.7%	31.8%
Net Profit	15.1%	32.0%	34.7%	62.8%
Loans & Adv.	17.8%	27.9%	26.3%	10.4%
Deposits	9.2%	22.7%	31.6%	22.9%
Equity	17.7%	7.0%	8.8%	12.7%

Margin:

Profit Before Prov.	32.0%	30.3%	33.9%	42.4%
Profit Before Tax	21.9%	24.5%	27.6%	35.9%
Profit After Tax	14.7%	16.2%	17.8%	22.0%

Financial Indicators:

Loan/Deposit	88.4%	92.2%	88.4%	79.4%
Asset/Equity	9.2	10.7	12.6	13.3
Assets/Liabilities	1.2	1.1	1.1	1.1
NPL Ratio	3.9%	3.7%	3.6%	3.0%
Op. Exp. Ratio	68.0%	69.7%	66.1%	57.6%

Profitability:

NIM	9.6%	8.3%	7.2%	5.0%
ROA	0.9%	0.9%	1.0%	1.4%
ROE	8.1%	10.0%	12.4%	18.0%

Valuation:

Res. EPS	3.1	3.4	4.3	6.6
NAVPS	41.1	40.9	41.4	42.4
P/E	14.1	9.6	7.6	8.3
P/NAV	1.3	0.9	0.9	1.3

Others:

CAR	20.4%	19.4%	18.6%	18.5%
Interest Spread	5.3%	4.3%	4.3%	5.1%
Dividend Yield	1.4%	1.9%	2.8%	n/a

Company Overview

BRAC Bank PLC. (BRACBANK) is one of the largest private commercial banks in Bangladesh, operating through 187 branches, 40 sub-branches, 457 SME offices and over 1000 agent banking outlets. The third-generation bank is sponsored and majority-owned (46.2%) by BRAC, the world's largest NGO and a pioneer in microfinance that provides BRACBANK a competitive advantage in the SME segment. Moreover, the bank is a market leader in the mobile financial services industry through its subsidiary, bKash Limited (bKash), which provides electronic payment and remittance services.

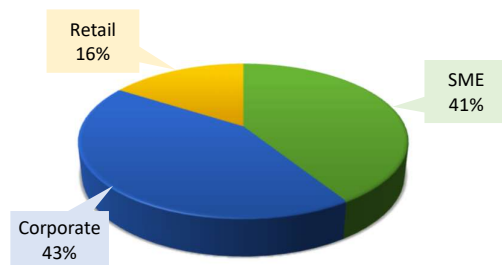
Company Profile:

- **Incorporation:** July 4, 2001
- **Listing Year:** 2007 (both DSE & CSE)
- **Key Personnel:** Mr. Meheriar M. Hasan (Chairman), Mr. Faruq Mayeenuddin Ahmed (Vice-Chairperson), Mr. Selim R. F. Hussain (Managing Director & CEO) and Mr. M Masud Rana FCA (DMD & Chief Financial Officer).
- **Number of Employees:** 8,231
- **Head Office:** Anik Tower, 220/B, Tejgaon - Gulshan Link Road, Tejgaon I/A, Dhaka-1208.
- **Subsidiaries:** It has three local subsidiaries and one overseas subsidiary.

Loan Portfolio Mix:

BRAC Bank PLC. has three core business segments covering its loan portfolio, with the SME segment holding a significant share of 41%, while Corporate and Retail segments make up 43% and 16% respectively, as of September 30, 2024.

Loan Portfolio Mix



Source: BRAC Bank Earnings Disclosure - Q3'24

Shareholding Structure (%):

Period	Sponsor/ Director	Inst.	Foreign	Public
As on Oct 31, 2024	46.17	13.87	31.92	8.04
As on Jun 30, 2024	46.24	17.32	30.25	6.19
As on Dec 30, 2023	46.24	16.21	30.20	7.35

Subsidiary and Associates:

- **bKash Limited (51% owned):** bKash Limited, the leading Mobile Financial Services (MFS) Provider in Bangladesh started its journey in July 2011 as a joint venture between BRAC Bank PLC., Bangladesh and Money in Motion LLC, USA. Later, The International Finance Corporation (IFC) of The World Bank Group and the Bill & Melinda Gates Foundation joined bKash's investments in April 2013 and April 2014 respectively. Later on, bKash onboarded Ant Financial Services Group and Softbank as equity partners in April 2018 and December 2021 respectively.

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Financial Highlights (Mn)	2022	2023	2024*
Revenue	34,308.1	41,907.0	48,609.9
Operating Profit	(766.6)	305.9	2,999.4
Net Profit	172.1	1,039.1	2,911.8
Asset	105,584.4	118,814.3	137,114.3
Debt	596.7	418.5	447.9
Equity	30,602.3	31,543.0	33,726.8
Retained Earnings	(1,384.5)	(542.4)	1,641.4
Cash and cash equiv.	5,871.0	7,432.2	1,789.5

* Income statement data are annualized estimates of 9M 2024

The company contributed to 21.6% of the consolidated profit of BRAC Bank PLC during 9M'24, following 12.6% contribution in FY'23.

- **BRAC EPL Investments Limited (99.9% owned):** BRAC EPL Investment Limited is a merchant bank with a full-fledged merchant banking license from the Bangladesh Securities and Exchange Commission (BSEC). Since 2019, BRAC Bank has held 99.9% of the total shares of the company.
- **BRAC EPL Stock Brokerage Limited (90% owned):** BRAC EPL Stock Brokerage Limited is one of the leading brokerage firms in Bangladesh, having corporate memberships in both the Dhaka Stock Exchange and the Chittagong Stock Exchange.
- **BRAC SAAJAN Exchange Limited (93.75% owned):** BRAC SAAJAN Exchange Limited offers remittance and exchange services in the UK.
- **BRAC IT Services Limited (Associate; 10% owned):** BRAC IT Services Ltd. was formed in April 2013 through the merger of Documenta™ Ltd and the IT Division of BRAC Bank.

Contribution to Group Financials (FY 2023):

Company Name	Asset Composition	Profit Composition
BRAC Bank PLC.	85%	88%
bKash Limited	14%	13%
BRAC EPL Stock Brokerage Ltd.	0.3%	1%
BRAC EPL Investment Ltd.	0.4%	0%
BRAC Saajan Exchange Limited	0.1%	-1%
BRAC Bank Group	100%	100%

Source: Annual Report 2023

Investment Insights

Investment Positives

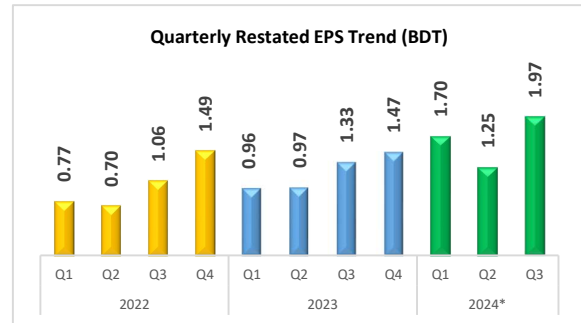
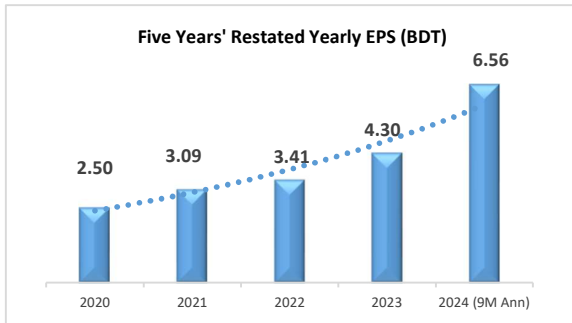
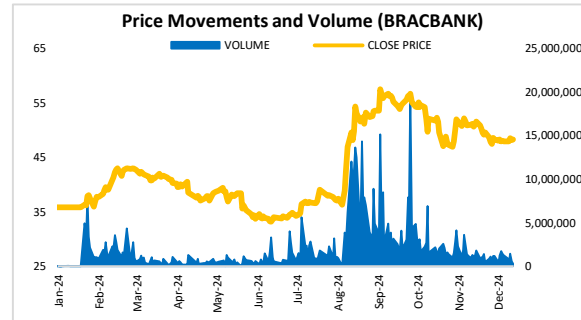
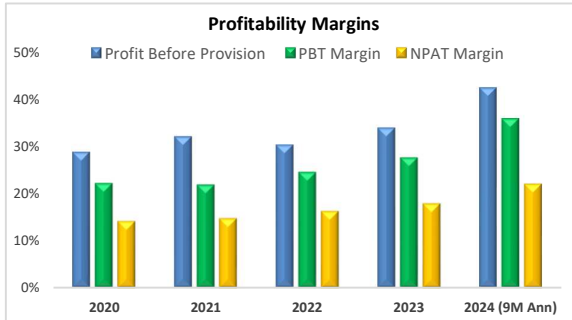
- BRACBANK shows consistent balance sheet growth historically. 5-year CAGR of Loans and Advances was 16.9% and for Deposits it was 17.7% during FY'19 to FY'23. Moreover, Deposits showed impressive growth of 22.9% (YTD) during 9M'24 despite the prevailing liquidity crunch in the banking sector, while Loan growth remained modest at 10.4% (YTD) amidst decelerated private sector investments.
- The operating income of the bank experienced a stellar growth of 34.5% YoY during 9M'24, despite an 18.0% YoY decline in net interest income mainly due to a boost in investment income (increased by 112.4% YoY) alongside a strong growth in commission and fee-based revenue streams. Meanwhile, the bank's investment in government securities increased by 46.0% (YTD) to BDT 264.8 billion till 9M'24.
- The bottom line experienced consistent growth over the past five years, with EPS (restated) rising from BDT 2.5 in FY'20 to BDT 6.6 in FY'24 (9M Ann.). Moreover, the net profit witnessed a staggering 73.8% YoY growth during

9M'24 owing to higher operating profits along with an improved cost to income ratio from 66.1% in FY'23 to 57.6% in FY'24.

- BRAC Bank maintains a well-diversified loan portfolio, with the highest exposure in 'high-yielding' SME segments. As of September 2024, SME loans accounted for BDT 235.1 billion (41.1% of the total loan portfolio). Hence, the bank has been able to maintain more than 4.0% interest rate spread over the years. Moreover, the bank signed a USD 50 million loan agreement with British International Investment (BII) in May 2024 to further enhance its SME loan portfolio.
- The bank's CRAR ratio stood at 18.5% in FY'23, which is much above the minimum regulatory requirement of 12.5%, indicating the bank's strong capital base. Moreover, to further enhance its Tier II capital, BRAC Bank issued the "BBPLC 2nd Subordinated Bond" worth BDT 7,000 million with a 7-year tenor in FY'24. As of September 2024, bonds amounting to BDT 3,456 million have already been subscribed. Upon full subscription, the bond will further strengthen the bank's capital base.
- The bank consistently improved its credit quality, with the NPL ratio reducing steadily from 3.9% in 2021 to 3.0% as of September 2024, while the overall banking sector has been grappling with a rising amount of classified loans.
- bKash Limited showed consistent revenue growth over the past five years at an 16.8% CAGR, leading to positive operating profit since FY'23, marking a significant recovery from reported operating losses between FY'19 and FY'22. Moreover, operating profit boosted by 17x times YoY during 9M'24, riding on improved operating margin of 6.2%, compared to 0.4% in the same period of the previous year owing to consistent revenue growth (19.5% YoY) and enhanced gross profit margin (increased to 35.2% in 9M'24 from 29.8% in 9M'23). Apparently, net profit also increased by 1.5x times YoY, contributing 21.6% to BRAC Bank's consolidated profit during 9M'24.

Investment Concerns

- Net interest income dropped by 18.0% YoY during 9M'24 due to rising cost of funds amidst a tightened money market condition. Consequently, the net interest margin (NIM) of the bank also fell from 7.2% in FY'23 to 5.0% as of Q3'24.
- The bank's Current and Savings Account (CASA) ratio gradually declined to 50.5% in Q3'24 from 64.3% in FY'21, leading to an increase in the cost of funds to 6.0% in Q3'24 compared to 4.5% in FY'21.
- The bank's loan growth from the SME segment remained stagnant at 1.2% in FY'24 (YTD), down from its 5-year CAGR of 23.6%. Moreover, subdued growth in the country's SME sector is expected to persist, given the prevailing macroeconomic and political concerns which may pose challenges in the business growth of small and medium enterprises. As a result, BRAC Bank may face challenges in sustaining its SME-driven growth and could potentially be compelled to shift toward lower-yielding loan segments during the period.
- Despite consistently declaring dividends over the past years in mixed form, the dividend yield of BRACBANK has been relatively lower than the other top-tier banks (less than 3%), making it less attractive for value investors seeking high dividend paying stocks.


Listed Banks with Similar Paid-up Capital or NAVPS:

Bank Name	Paid-up (mn)	EPS (An.)	P/E	NAVPS	P/NAVPS	Price*
BRACBANK	17,697.1	6.56	7.36	42.38	1.14	48.30
UCB	17,092.9	2.01	4.57	28.37	0.32	9.20
EBL	13,581.4	4.55	5.15	32.04	0.73	23.40
CITYBANK	13,470.8	4.47	4.81	29.91	0.72	21.50
BANKASIA	11,659.1	2.35	7.20	26.55	0.64	16.90
PRIMEBANK	11,322.8	5.84	3.94	33.45	0.69	23.00
DUTCHBANGL	8,788.2	3.60	13.22	55.94	0.85	47.60

* Prices are as on December 12, 2024

Relative Valuation and Pricing:

Pricing Based on Relative Valuation			
EPS Based Pricing	EPS*	Multiple	Value
Peer Forward P/E	6.56	6.48	42.53
Sector Forward P/E	6.56	6.52	42.76
5Y Historical Average P/E	6.56	11.91	78.12
Sensitivity Analysis			
Price @ 7.00(x)PE	6.56	7.00	45.93
Price @ 8.00(x)PE	6.56	8.00	52.49
Price @ 9.00(x)PE	6.56	9.00	59.05
Price @ 10.00(x)PE	6.56	10.00	65.62
NAV Based Pricing	NAVPS*	Multiple	Value
Market P/NAV	42.38	1.19	50.25
Sector P/NAV	42.38	0.69	29.16
5Y Historical Average P/NAV	42.38	1.13	48.04

* EPS (9M'24 Annualized) and NAVPS as of 30th September 2024

STATEMENT OF CONSOLIDATED INCOME (BDT)

Particulars	2020	2021	2022	2023	2024 (9M Ann)
Interest income	27,079,940,016	24,225,217,948	31,370,219,731	41,863,962,190	55,738,346,171
Interest paid	13,724,700,661	7,912,883,508	12,953,873,731	21,315,015,978	38,958,502,875
Net interest income	13,355,239,355	16,312,334,440	18,416,346,000	20,548,946,212	16,779,843,296
Investment income	8,182,278,016	7,142,434,925	7,585,930,404	12,686,698,490	26,201,328,997
Commission, exchange & brokerage	6,846,329,406	7,992,853,236	11,522,086,777	13,038,891,842	18,001,349,777
Other operating income	170,205,482	175,087,450	332,351,076	172,424,955	216,026,267
Total operating income	28,554,052,259	31,622,710,051	37,856,714,257	46,446,961,499	61,198,548,337
Operating Expenses	20,345,378,712	21,515,425,868	26,392,087,449	30,720,363,542	35,242,869,045
Salaries and allowances	9,043,103,741	9,889,092,833	12,519,270,169	14,513,613,225	16,928,144,671
Rent, taxes, insurance, electricity	619,719,635	645,414,492	695,793,870	818,310,310	931,756,705
Legal expenses	67,443,988	62,840,810	65,119,247	48,644,306	48,007,887
Postage, stamp, telecommunication	301,320,117	317,984,231	411,000,956	408,781,265	452,460,217
Stationery, printing, advertising	2,842,951,296	2,608,773,879	3,224,031,540	4,185,699,523	4,431,218,605
Chief Executive's salary & fees	18,775,000	19,424,250	24,471,250	24,471,250	22,290,000
Director's fees	3,304,211	4,572,209	4,534,312	4,626,142	9,804,735
Auditor's fees	7,895,608	7,125,166	6,729,906	7,871,545	6,710,863
Impairment of goodwill			54,905,518		
Depreciation and repair	3,898,055,827	4,577,170,806	5,383,326,638	6,400,036,242	7,511,290,356
Other expenses	3,542,809,289	3,383,027,192	4,002,904,043	4,308,309,734	4,901,185,007
Operating profit	8,208,673,547	10,107,284,183	11,464,626,808	15,726,597,957	25,955,679,292
Share of profit/(loss) of associates		3,742,052	4,860,182	18,630,757	-10,784,135
Gain/(loss) on disposal of subsidiaries/associates		17,373,182	2,049,419		
Profit Before Provision	8,208,673,547	10,128,399,417	11,471,536,409	15,745,228,714	25,944,895,157
Total Provisions	1,872,502,599	3,218,609,472	2,188,618,856	2,922,357,227	3,973,205,435
Provision for loans & advances /investments	2,365,157,113	2,971,016,470	1,938,266,664	2,714,391,075	3,708,874,933
Provision for diminution in value of investments	(563,219,881)	(74,000,000)	20,539,430	21,830,293	136,850,460
Provision for Off balance sheet items	63,083,635	251,500,000	204,740,420	168,284,002	91,702,388
Other provisions	7,481,732	70,093,002	25,072,342	17,851,857	35,777,653
Profit Before Taxation	6,336,170,948	6,909,789,945	9,282,917,553	12,822,871,487	21,971,689,723
Provision for Taxation	2,294,780,169	2,257,189,651	3,140,916,459	4,547,820,919	8,496,691,879
Current tax	2,840,345,166	3,737,018,428	4,279,554,349	6,374,635,200	6,629,111,891
Deferred tax	(545,564,997)	(1,479,828,777)	(1,138,637,890)	(1,826,814,281)	1,867,579,988
Net Profit	4,041,390,779	4,652,600,294	6,142,001,094	8,275,050,568	13,474,997,844
Non-controlling interest	(376,921,243)	(812,072,386)	109,274,117	664,954,789	1,862,864,867
Profit attributable to ordinary shareholders	4,418,312,022	5,464,672,680	6,032,726,977	7,610,095,779	11,612,132,977
Earnings per share (par value Taka 10)	3.33	3.93	4.03	4.73	6.56
Restated EPS	2.50	3.09	3.41	4.30	6.56

STATEMENT OF FINANCIAL POSITION (BDT)

Particulars	2020	2021	2022	2023	Q3 2024
PROPERTY AND ASSETS:					
Cash	19,987,803,891	23,459,424,430	31,871,548,949	39,567,393,814	46,123,438,609
In hand	7,836,614,607	9,207,161,626	11,918,023,476	11,416,440,336	16,349,328,325
Balance with Bangladesh Bank	12,151,189,284	14,252,262,804	19,953,525,473	28,150,953,478	29,774,110,284
Balance with other banks and FIs	42,650,004,620	78,261,312,910	52,950,426,764	34,928,586,993	34,013,599,100
In Bangladesh	35,478,313,372	70,561,465,538	47,798,974,745	28,059,887,006	21,569,339,715
Outside Bangladesh	7,171,691,248	7,699,847,372	5,151,452,019	6,868,699,987	12,444,259,385
Money at call and short notice	0	3,500,000,000	6,826,376,000	3,000,000,000	500,000,000
Investment	94,094,812,131	70,068,593,304	116,551,993,858	191,144,171,435	275,245,097,856
Government	85,498,396,233	60,998,642,835	107,319,008,486	181,372,719,817	264,848,667,898
Others	8,596,415,898	9,069,950,469	9,232,985,372	9,771,451,618	10,396,429,958
Loans and Advances	273,438,940,961	322,135,188,439	412,084,750,584	520,287,630,605	574,393,841,666
Loans, cash credits, overdrafts etc./Investments	136,750,360,676	169,128,372,833	222,711,877,598	285,203,753,699	337,251,730,001
Small and medium enterprises	134,621,356,804	150,749,009,625	187,247,111,913	232,338,801,248	235,074,048,201
Bills purchased and discounted	2,067,223,481	2,257,805,981	2,125,761,073	2,745,075,658	2,068,063,464
Fixed Assets including premises, furniture and fixtures	11,067,096,465	12,834,169,424	13,462,730,429	13,018,659,233	14,167,355,854
Other Assets	13,862,504,994	16,222,224,464	20,818,534,774	33,816,037,500	49,839,086,237
Goodwill	1,427,468,911	1,427,468,911	1,372,563,393	1,372,563,393	1,372,563,393
Non-Banking Assets	66,471,775	4,541,700	11,341,700	10,141,700	10,978,565
Total Assets	456,595,103,748	527,912,923,582	655,950,266,451	837,145,184,673	995,665,961,280
LIABILITIES AND CAPITAL:					
Liabilities:					
Tier-II subordinated bond					3,456,000,000
Borrowings from other bank and FIs	12,572,789,394	24,150,953,707	38,909,562,251	41,923,370,755	49,314,186,607
Borrowings from Bangladesh Bank	23,370,068,779	23,175,903,824	42,184,501,809	61,430,274,796	56,957,726,104
Affordable housing bond			4,751,000,000	4,751,000,000	4,751,000,000
Money at call on short notice	84,801,100			550,000,000	5,040,000,000
Deposits and other accounts	333,615,619,705	364,329,900,482	447,057,995,909	588,430,345,153	723,322,492,633
Current deposits and other accounts	141,841,491,410	164,417,743,536	187,854,787,905	232,223,892,907	272,143,065,357
Bills payable	1,797,962,669	2,367,889,416	1,739,503,614	2,716,819,155	1,439,482,934
Savings bank deposits	57,230,594,232	68,334,576,200	71,890,957,598	79,097,018,100	92,535,819,769
Fixed deposits	130,608,019,962	127,956,809,129	182,973,780,522	260,827,011,296	350,694,204,351
Other deposits	2,137,551,432	1,252,882,201	2,598,966,270	13,565,603,695	6,509,920,222
Other Liabilities	32,773,722,525	39,308,075,071	41,983,017,316	53,039,790,814	55,941,719,739
Total Liabilities:	402,417,001,503	450,964,833,084	574,886,077,285	750,124,781,518	898,783,125,083
Shareholders' Equity	48,567,965,432	57,187,474,350	61,186,045,126	66,541,474,577	75,007,828,607
Paid up capital	13,258,784,760	13,921,723,990	14,965,853,280	16,088,292,270	17,697,121,490
Share premium	3,853,767,032	3,853,767,032	3,853,767,032	3,853,767,032	3,853,767,032
Statutory reserve	9,405,017,728	10,067,956,958	11,148,169,834	12,312,787,273	12,316,488,915
Dividend equalization fund	355,218,455	355,218,455	355,218,455	355,218,455	355,218,455
Revaluation reserve on govt. securities	4,805,926,053	2,490,292,927	1,337,245,165	183,523,000	1,328,740,370
Assets revaluation reserve	478,558,600				
Fair value reserve	78,920,073	78,920,073	78,920,073	70,197,708	70,197,708
Foreign currency translation reserve	-14,777,280	16,632,383	342,065,555	480,002,180	783,528,418
Surplus in profit and loss account	16,346,550,011	26,402,962,532	29,104,805,732	33,197,686,659	38,602,766,219
Non-controlling interest	5,610,136,813	19,760,616,148	19,878,144,040	20,478,928,578	21,875,007,590
Total liabilities and Shareholders' equity	456,595,103,748	527,912,923,582	655,950,266,451	837,145,184,673	995,665,961,280
Net Asset Value (NAV) per share	36.63	41.08	40.88	41.36	42.38
No. of Share Outstanding	1,325,878,476	1,392,172,399	1,496,585,328	1,608,829,227	1,769,712,149

RATIO ANALYSIS

Particulars	2020	2021	2022	2023	2024 (9M Ann)
Profitability Ratios:					
Net Interest Margin	9.77%	9.64%	8.27%	7.21%	4.98%
ROA	0.89%	0.88%	0.94%	0.99%	1.35%
ROE	8.32%	8.14%	10.04%	12.44%	17.96%
Financial Indicators:					
Loan/Deposit	81.96%	88.42%	92.18%	88.42%	79.41%
Asset/Equity	9.40	9.23	10.72	12.58	13.27
Assets/Liabilities	1.13	1.17	1.14	1.12	1.11
NPL (%)	2.93%	3.90%	3.72%	3.60%	3.01%
Op. Exp. Ratio	71.25%	68.04%	69.72%	66.14%	57.59%
Leverage:					
Total Debt to Equity	25.89%	42.23%	63.59%	63.00%	65.75%
Debt to Total Assets	2.75%	4.57%	5.93%	5.01%	4.95%
Margin:					
Profit Before Provision	28.75%	32.03%	30.30%	33.90%	42.39%
Profit Before Tax	22.19%	21.85%	24.52%	27.61%	35.90%
Profit After Tax	14.15%	14.71%	16.22%	17.82%	22.02%
Growth:					
Net Interest Inc.	-25.49%	22.14%	12.90%	11.58%	-18.34%
Operating Inc.	2.64%	10.75%	19.71%	22.69%	31.76%
Net Profit	-11.81%	15.12%	32.01%	34.73%	62.84%
Loans & Adv.	3.24%	17.81%	27.92%	26.26%	10.40%
Deposits	12.04%	9.21%	22.71%	31.62%	22.92%
Equity	19.68%	17.75%	6.99%	8.75%	12.72%
Valuation:					
EPS	2.50	3.09	3.41	4.30	6.56
P/E	13.29	14.09	9.55	7.57	8.26
NAV	36.63	41.08	40.88	41.36	42.38
P/NAV	1.21	1.35	0.94	0.87	1.28
Others:					
CAR%	15.13%	20.42%	19.37%	18.61%	18.47%
CASA	59.99%	64.30%	58.33%	53.15%	50.52%
Interest Spread	5.5%	5.3%	4.3%	4.3%	5.1%
Dividend Yield	2.26%	1.36%	1.95%	2.79%	n/a

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