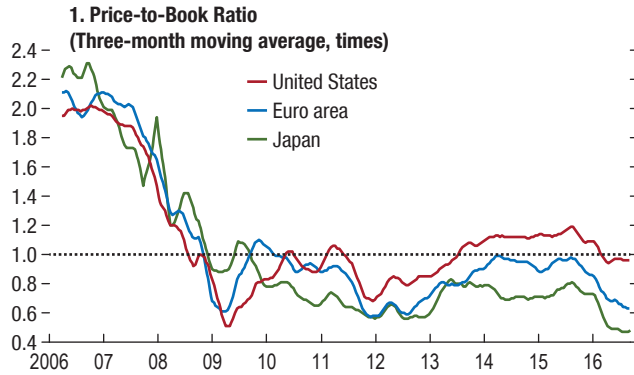
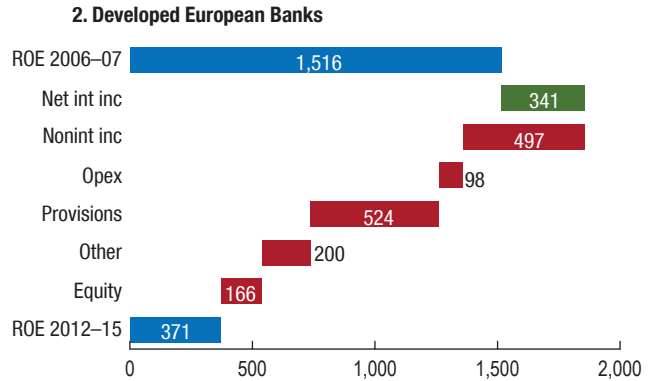


**Figure 1.11. Price-to-Book and Return on Equity Decomposition, 2006–15**  
*(Basis points, relative to average equity)*

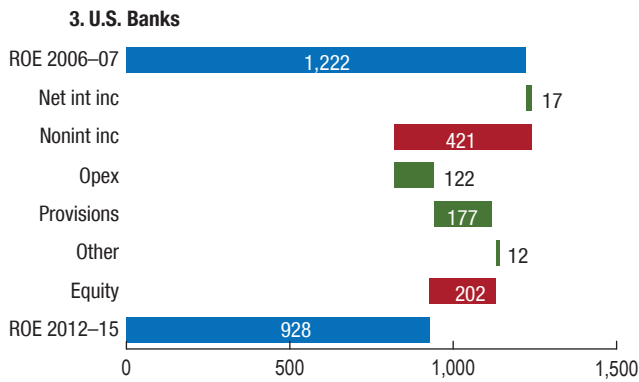
Valuations remain below the balance sheet values of banks, signaling market concerns about bank business models.



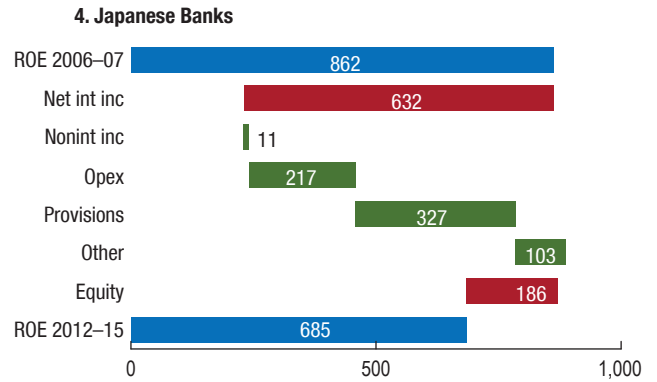
European bank profitability has deteriorated, driven by falling noninterest income and rising provisions.



U.S. banks' cost flexibility and lower provisioning compensated for falling noninterest income.



Japanese banks have offset net interest income compression with lower provisioning and operating costs.



Sources: Federal Reserve call reports; Fitch Ratings; SNL Financial; and IMF staff estimates.

Note: Price-to-book ratio is based on the KBW index for the U.S., Stoxx Europe 600 bank index for the euro area and TOPIX bank index for Japan. Int inc = interest income; Opex = operating expenses; ROE = return on equity; Other = taxes + nonoperating income. Blue = ROE levels; red = negative contribution to ROE; green = positive contribution to ROE.