

US Banks: Reading the Tea Leaves

Catalyst watch: Regional bank catch-up brewing?

Industry Overview

Deja vu: Soft landing 2.0 could drive regional bank bounce

Regional banks have lagged their GSIB bank peers by ~20ppt YTD, trading at a 9% P/E discount vs. 20% historical premium (Exhibits 1-5). We believe a few catalysts over the coming weeks that increase confidence for soft landing 2.0 for the US economy, could set the stage for a regional bank catch-up. This would be similar to last July when regional banks outperformed large-cap peers by ~10ppt on increased confidence that the Fed would cut interest rates and engineer the elusive soft landing. Relevant research: [Reading the Tea Leaves: Regional bank re-rating in hand?](#)

Catalyst #1 Stress tests results could trigger a rotation

GSIB bank stocks have outperformed heading into tonight's stress test results (up ~20ppt YTD). We would not be surprised to see some profit-taking (and/or a rotation into regionals) on the back of these results. The bar is high, and based on our conversations, investors seem to expect a 30-50bp reduction in CET1 capital requirements, with anything less likely to be seen as a near term disappointment (but not thesis changing). On the other hand, any signs of a pick-up in larger bank M&A could serve as a catalyst for regional banks. Relevant research: [US Banks: Stress test results: Time to de-stress?](#)

Catalyst #2 June jobs report needs to show resiliency

The monthly June jobs report on July 3rd will be closely watched given the gradual increases in weekly and continuing jobless claims (Exhibits 6-7). Any material cracks in the job market could reignite credit quality concerns, barely a passing thought for most investors at the moment. While readings on consumer sentiment have perked up, they remain near decade lows. Confidence that the job market is resilient could increase investor confidence to add exposure to regional banks (more economically sensitive).

Catalyst #3 90-day tariff pause to confirm peak-chaos

The end of the 90-day tariff pause on July 9 has the potential to serve as a positive or negative catalyst. UK style trade agreements with key trading partners could provide assurance that "peak chaos" due to tariffs is in the rear-view mirror. This could jump-start customer activity (positive for loan growth, middle market investment banking activity), serving as a potential positive catalyst for the group. Mgmt. messaging during 2Q results (starts July 15) should provide further insight into customer appetite for capex.

Our view: Three Rs thesis intact

Our three Rs thesis - Rates, Regulations, Rebounding activity - from the beginning of the year continues to inform our view on bank stocks and EPS growth. GSIB bank stocks and EPS revisions have outperformed S&P YTD. While regionals have trailed, we see improving macro-outlook and a pick-up in bank M&A as serving as catalysts to drive flows into the group. We highlight Buy-rated KeyCorp (KEY), Truist (TFC), M&T (MTB), Synovus (SNV), East West (EWBC), Webster (WBC), UMB Financial (UMBF), FNB Corp (FNB), Western Alliance (WAL) as offering an attractive risk/reward. Neutral-rated Citizens (CFG) could also benefit from the above tailwinds. Relevant research: [US Banks: 2025 Year Ahead \(Mid-Year Check-in\): Top ten questions asked \(and answered...again\)](#)

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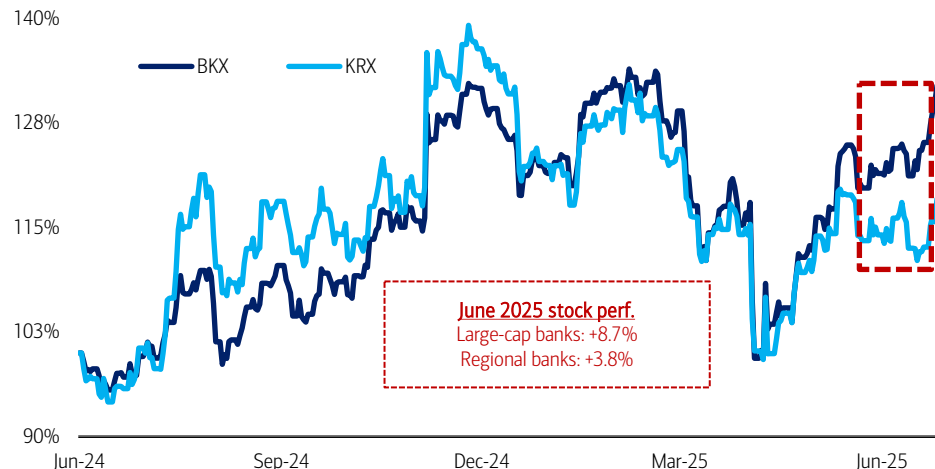
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See acronym definitions on page 7

Regional banks have lagged their GSIB peers YTD and are now trading at a discount to both P/E and P/TBV vs historic premiums. Positive proof points towards a soft landing could drive a regional bank catch-up due to their higher economic sensitivity.

Exhibit 1: Large-cap bank stocks have outperformed regional peers by 5ppt in June

BKX, KRX stock performance since 6/1/2024

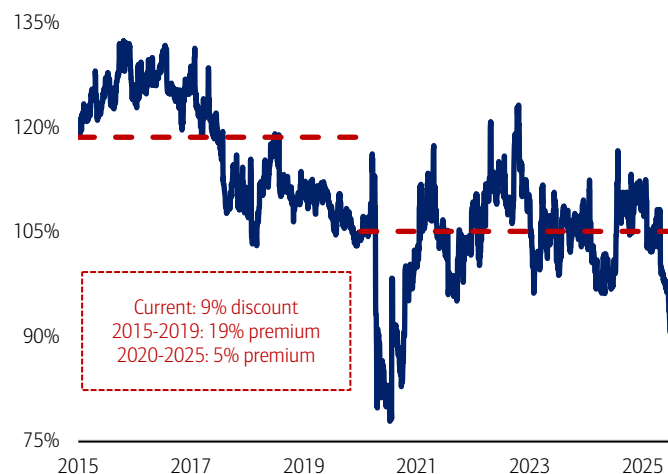


Source: BofA Global Research, Bloomberg

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Exhibit 2: KRX now trading at a discount to BKX on P/E...

KRX to BKX relative P/E



Source: BofA Global Research, Bloomberg

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Exhibit 3: ...and P/TBV vs historic premiums

KRX to BKX relative P/TBV



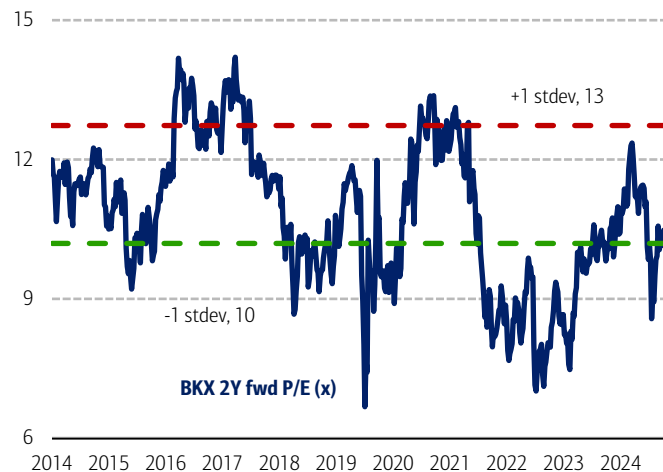
Source: BofA Global Research, Bloomberg

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Exhibit 4: BKK trading within 1SD on 2Y fwd P/E...

BKK 2Y fwd P/E with +/- 1 standard deviation bands

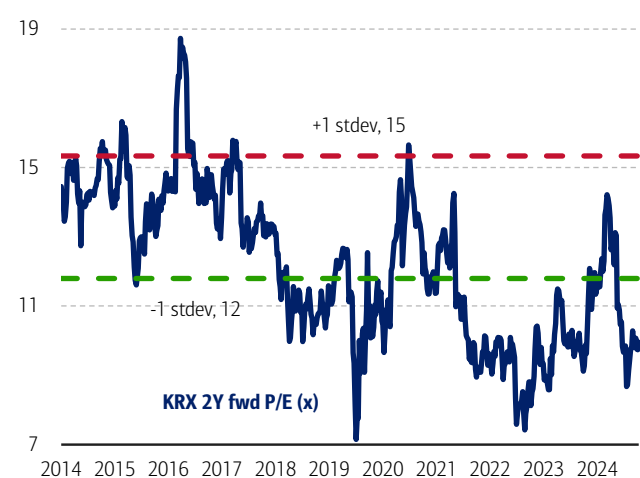


Source: BofA Global Research, Bloomberg

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Exhibit 5: ...while KRX trading below -1SD

KRX 2Y fwd P/E with +/- 1 standard deviation bands



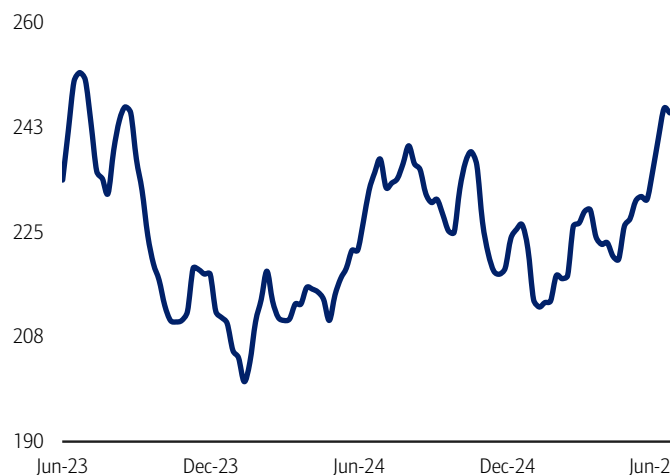
Source: BofA Global Research, Bloomberg

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Initial jobless claims have risen throughout 2025 with continuing claims sharply rising in the past 2 months.

Exhibit 6: Initial jobless claims at their highest level in the past 2 years

US initial jobless claims



Source: Bloomberg

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Exhibit 7: Continuing jobless claims have sharply risen since May

US continuing jobless claims



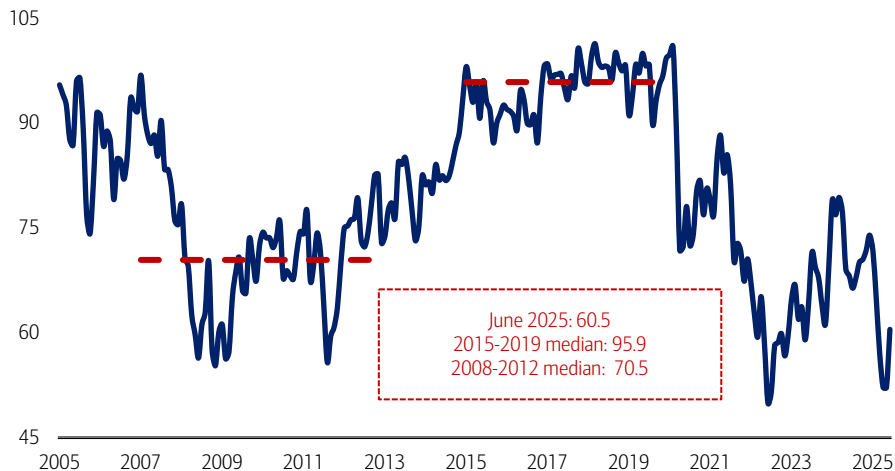
Source: Bloomberg

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Soft data like University of Michigan's Consumer Sentiment survey has been weak since the start of Covid. While readings on sentiment did begin to perk up in June, they remain near decade lows. Following imposition of tariffs, focus has shifted to hard data (employment, consumer spending) to determine whether tariffs are having any impact on consumer credit quality.

Exhibit 8: Consumer sentiment showed signs of life, increasing in June from May lows

University of Michigan Consumer Sentiment Index since 1/31/2005

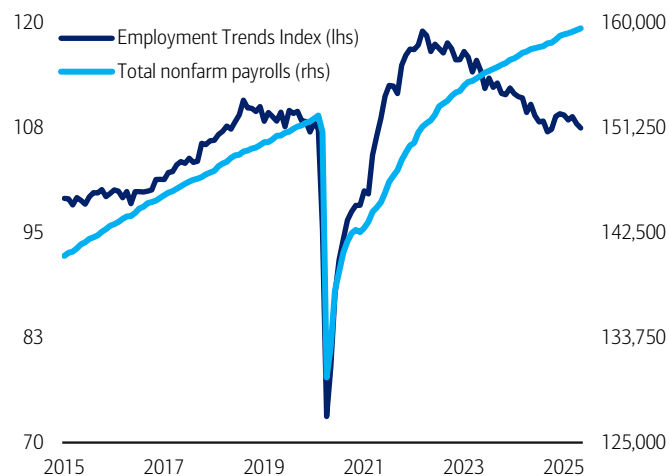


Source: Bloomberg

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Exhibit 9: Employment trends leading indicator has declined since 2022

Conf. Board Employment Trends Index (lhs) vs. total nonfarm payrolls (rhs)

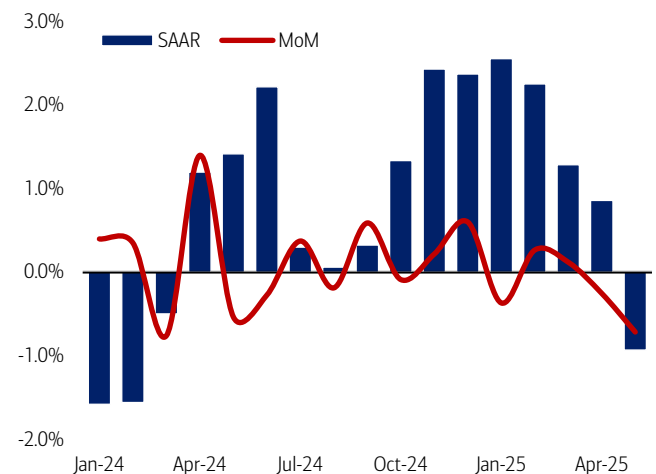


Source: Bloomberg, Conference Board

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Exhibit 10: Consumers pulled back on spending, with spending down 0.9% on an annualized basis in May 2025

Total credit and debit card spending growth per household, based on Bank of America card data (monthly, MoM%, seasonally adjusted (SA) and 3-month moving average, SAAR, SA)



Source: Bank of America internal data

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Economic conditions for businesses slipped into contraction territory as ISM Manufacturing PMI fell below 50 from March – May. CFO confidence in their company and the US economy has fallen from 4Q highs as trade tensions have risen.

Exhibit 11: Business conditions slipped into contraction territory in May

ISM Manufacturing PMI last 10 years

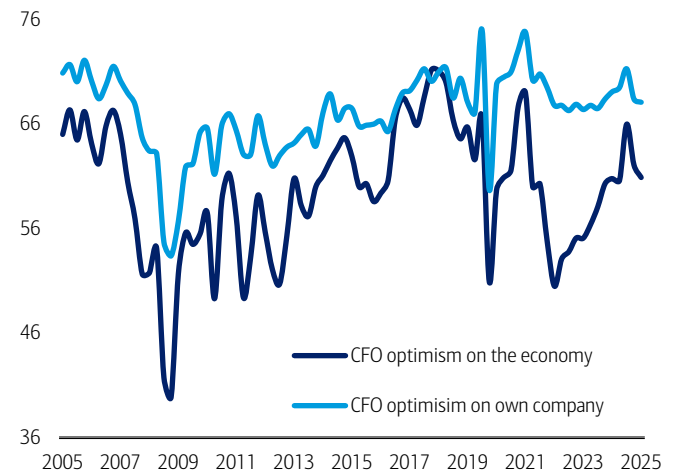


Source: Bloomberg

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Exhibit 12: Business optimism has taken a hit from US tariff wars

Survey of CFO optimism on their own company and US economy



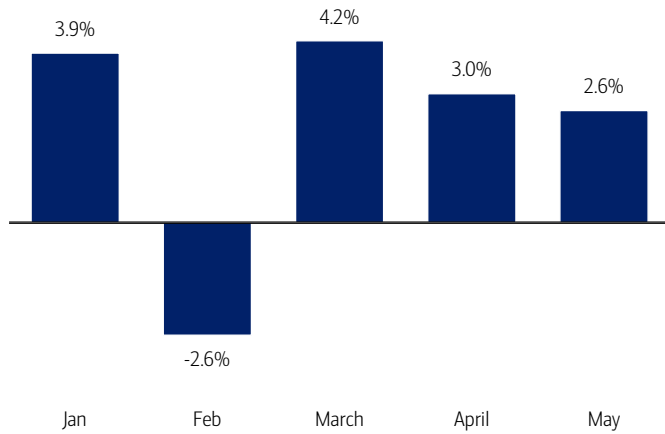
Source: Federal Reserve Bank of Richmond

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While small business have remained resilient, they are most at risk to impacts from tariffs due to thinner profit margins and less supply chain optionality. The end of the 90-day tariff pause on July 9 could provide clarity for small businesses and improve their economic outlook.

Exhibit 13: Deposit volume growth remains positive, but momentum is slowing for small manufacturers

Deposit volume per manufacturing small business client (YoY%, monthly)

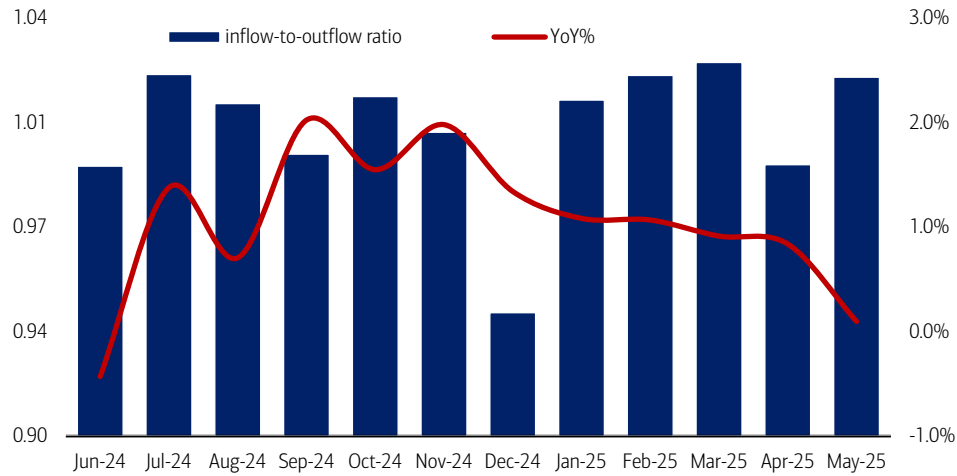


Source: Bank of America internal data

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Exhibit 14: Small business profitability was up YoY in May, but momentum has been slowing since the end of last year

Inflow-to-outflow ratio for small businesses, based on Bank of America internal data (monthly, 1+ = inflow greater than outflow) ratio (lhs, monthly) and YoY% (rhs, monthly)



Source: Bank of America internal data

Note: A ratio less than 1 means inflow less than outflow

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Acronyms

CET1: Common equity tier 1

GSIB: Global systemically important bank

ISM: Institute for Supply Management

M&A: Mergers & acquisitions

PMI: Purchasing managers' index

TBV: Tangible book value



Exhibit 15: Companies mentioned

Companies mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CFG	CFG US	Citizens Financial	US\$ 44.12	B-2-7
EWBC	EWBC US	East-West	US\$ 101.75	B-1-7
FNB	FNB US	FNB Corp	US\$ 14.54	B-1-7
KEY	KEY US	KeyCorp	US\$ 17.15	C-1-8
MTB	MTB US	M&T Bank	US\$ 193.49	B-1-7
SNV	SNV US	Synovus	US\$ 51.57	C-1-7
TFC	TFC US	Truist Financial	US\$ 42.54	B-1-7
UMBF	UMBF US	UMB Financial Corp	US\$ 106.14	B-1-7
WBS	WBS US	Webster Financial Co	US\$ 54.68	B-1-7
WAL	WAL US	Western Alliance	US\$ 77.68	C-1-7

Source: BofA Global Research

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Price objective basis & risk**Citizens Financial Group (CFG)**

Our \$44 PO is based on 50% P/E (equal weight FY25/26e) and 50% P/TBV (equal weight FY25/26e). Assign 10.5x/9.5x to FY25/26e EPS, 1.1x/1.2x YE25/26e TBV, below the bank's 5 year pre pandemic median of 13.2x/1.2x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop. Downside risks to our PO: higher than expected credit losses, greater than expected revenue pressure, regulatory changes that would impact growth/profitability, less than expected synergies from acquisition of First Republic private bankers, JMP, HSBC New York branches and ISBC.

East West Bancorp, Incorporated (EWBC)

Our \$112 PO is based on 50% P/E (25% FY25/26 each) and 50% P/TBV (25% FY25/26 each) estimates. We assign multiples of 13x/12x to FY25/26e EPS and 1.8x/1.6x to FY25/26e TBV. These are below the bank's 5 year pre pandemic median of 14.3x/2.4x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop.

Downside risks to our PO are: worse than expected credit losses, greater than expected net interest margin compression, and slower than expected economic growth. Upside risks to our PO are: credit resilience, better than expected margin performance, and stronger than expected economic growth.

FNB Corporation (FNB)

Our \$17 PO is based on 50% P/E (equal weight FY25/26e) and 50% P/TBV (equal weight FY25/26e). Assign 12x/10.5x to FY25/26e EPS, 1.3x/1.3x YE25/26e TBV, respectively above pre-pandemic (2015-19) average multiples driven by improved capital position and fee growth opportunity.

Upside risks: stronger than expected balance sheet growth, quicker return to profitability, and greater NIM expansion relative to peers. Downside risks: higher than expected expense growth, accelerated credit migration, and slower balance sheet growth.

KeyCorp (KEY)

Our \$20 PO is based on a 50% P/E (equal weight FY25/26e) and 50% P/TBV (equal weight FY25/26e). We assign multiples of 13.5x/12.5x to FY25/26 EPS, 1.4x/1.3x to FY25/26 TBV, vs. the bank's 5-year pre pandemic median of 11.4x/1.4x given expected tailwinds from asset repricing, capital markets. Downside risks to our PO: higher for longer interest rate environment increasing deposit costs, greater than expected expenses, inability to maximize balance sheet efficiency, and the announcement of



expensive deals. Upside risks: lower than expected credit losses and better than expected PPNR growth.

M&T Bank (MTB)

Our \$198 PO is based on 50% P/E (equal weight FY25/26e) and 50% P/TBV (equal weight FY25/26e). Assign 13.0x/12.0x to FY25/26e EPS, 1.6x/1.6x YE25/26e TBV, respectively, below the bank's 5 year pre pandemic median of 14.7x/2.2x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop.

Downside risks to our PO: a significant deterioration in the CRE market beyond office that would weigh on credit quality, higher funding costs that would squeeze the net interest margin, and rising regulatory burden.

Upside risks: stronger growth, lower funding costs, opportunistic M&A.

Synovus Financial Corp. (SNV)

Our \$60 PO is based on 50% P/E (25% FY25/26 each) and 50% P/TBV (25% FY25/26 each) estimates. We assign multiples of 13.0x/12.0x to FY25/26 EPS and 1.6x/1.4x to FY25/26 TBV. These are below SNV's 5-yr pre-pandemic medians due to heightened uncertainty around the macro backdrop.

Downside risks: worse than expected margin compression, greater than expected deterioration in credit quality.

Upside risks: better than expected margin performance, credit quality resilience.

Truist Financial (TFC)

Our \$46 PO is based on 50% P/E (equal weight FY25/26e), 50% P/TBV (equal weight FY25/26e). Assign 11x/10x to FY25/26e EPS, 1.5x/1.4x YE25/26e TBV., respectively, vs. the bank's 5 year pre pandemic median of 12.7x/2.2x given reduced uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop. Downside risks to our PO: higher than expected credit losses, greater than expected revenue pressure, regulatory changes that would impact growth/profitability, execution risk tied to STI/BBT merger of equals that completed in December 2019.

UMB Financial Corporation (UMBF)

Our \$112 PO is based on 50% P/E (equal weight FY25/26e) and 50% P/TBV (equal weight FY25/26e). We assign 13x/13x to FY25/26e EPS and 1.2x/1.2x YE25/26e TBV, respectively. The discount to pre-pandemic multiples (15x/1.4x, respectively) reflects the near-term macro headwinds as well as merger integration risks.

Upside risk: stronger than expected balance sheet growth and greater NIM expansion relative to peers. Downside risk: higher than expected expense growth, accelerated credit migration, and greater impact on fee income from regulatory changes

Webster Financial Corp. (WBS)

Our \$66 PO is based on 50% P/E (equal weight FY25/26e) and 50% P/TBV (equal weight FY25/26e). We assign multiples of 13x/12x on our FY25/26 EPS est and 1.4x/1.4x on our FY25/26 TBV est. The above industry multiples reflect its near 20% ROTCE profile but below its pre-pandemic P/TBV average (1.8x) due to near-term EPS headwinds. Upside risks: stronger than expected balance sheet growth, quicker return to profitability, and greater NIM expansion relative to peers. Downside risks: higher than expected expense growth, accelerated credit migration, and slower balance sheet growth.

Western Alliance Bancorp (WAL)

Our \$98 PO is based on 50% P/E (25% FY25/26 each) and 50% P/TBV (25% FY25/26 each) estimates. We assign multiples of 11.0x/10.0x to FY25/26 EPS and 1.6x/1.5x to FY25/26 TBV. These are below the bank's 5 year pre pandemic median of 14.8x/2.8x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro

backdrop. Downside risks to our PO are: worse than expected credit losses, greater than expected net interest margin compression, and slower than expected economic growth. Upside risks to our PO are: credit resilience, better than expected margin performance, and stronger than expected economic growth.

Analyst Certification

We, Ebrahim H. Poonawala and Brandon Berman, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	BNY	BK	BK US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	Kayne Anderson BDC, Inc.	KBDC	KBDC US	Derek Hewett
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	National Bank of Canada	YNA	NA CN	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Nuveen Churchill Direct Lending	NCDL	NCDL US	Derek Hewett
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TS LX	TS LX US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	UMB Financial Corporation	UMBF	UMBF US	Brandon Berman
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Flagstar Financial Inc	FLG	FLG US	Ebrahim H. Poonawala
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	Palmer Square Capital BDC	PSBD	PSBD US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	Regions Financial	RF	RF US	Ebrahim H. Poonawala



North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Runway Growth	RWAY	RWAY US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Washington Trust Bancorp Inc	WASH	WASH US	Brandon Berman

UNDERPERFORM

	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
	Zions Bancorp	ZION	ZION US	Brandon Berman

RVW

	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
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Disclosures

Important Disclosures

Equity Investment Rating Distribution: Banks Group (as of 31 Mar 2025)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	113	54.85%	Buy	96	84.96%
Hold	45	21.84%	Hold	34	75.56%
Sell	48	23.30%	Sell	38	79.17%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2025)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1867	54.40%	Buy	1108	59.35%
Hold	774	22.55%	Hold	466	60.21%
Sell	791	23.05%	Sell	368	46.52%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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