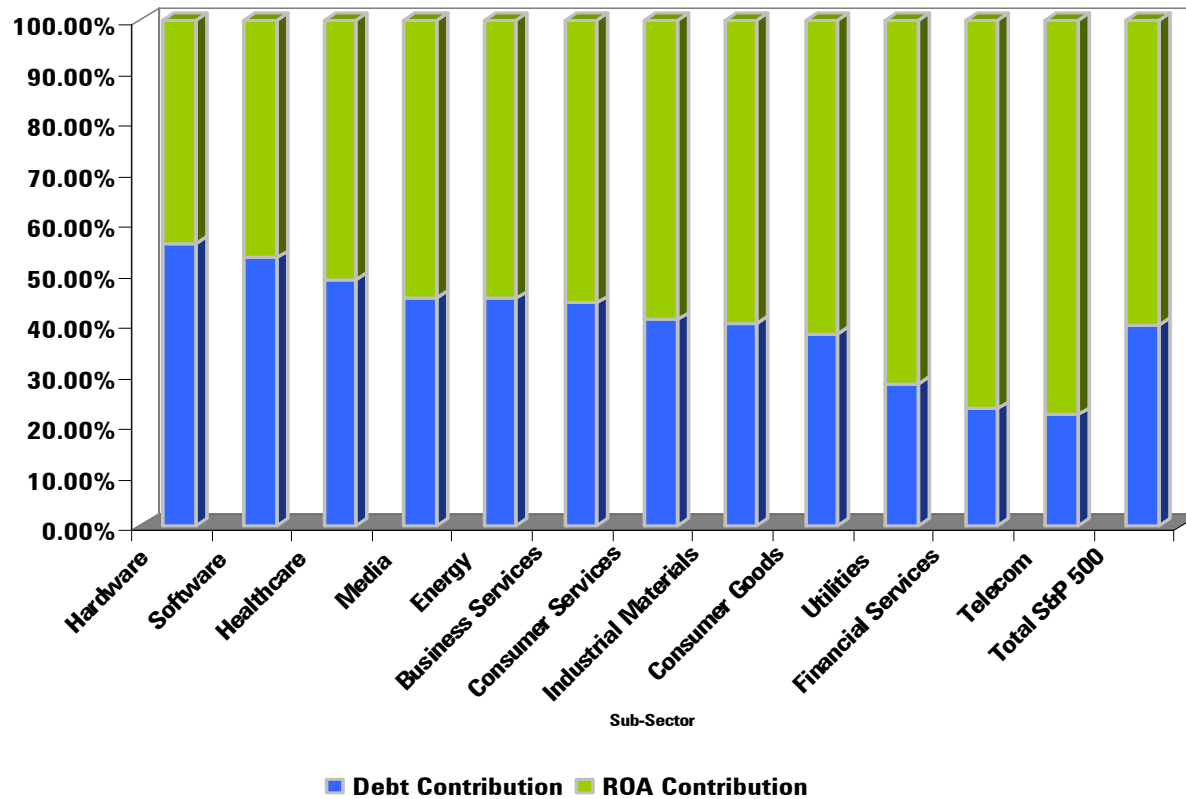


# Leverage as a Source of Return on Equity

## Return on Assets vs. Financial Leverage

S&P 500 Breakdown of Contribution to ROE% 2008



Industries with higher leverage contribution (green bar), relative to ROA contribution (blue bar), are more heavily dependent on debt for profitability.

**Note on Methodology:**

- $ROE = \text{Net Income/Equity}$  OR  $\text{Return on Assets} \times \text{Leverage}$
- $\text{Contribution of Return on Assets to ROE} = ROA/ROE$
- $\text{Contribution of Leverage to ROE} = (1 - (ROA/ROE))$