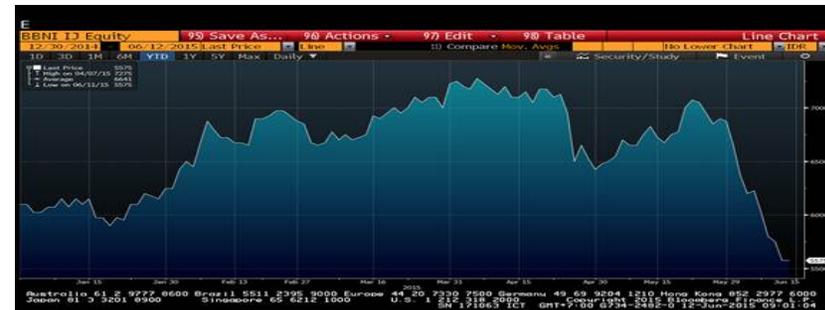
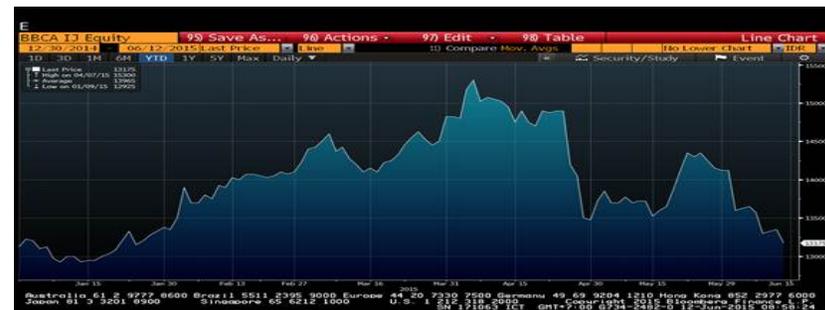
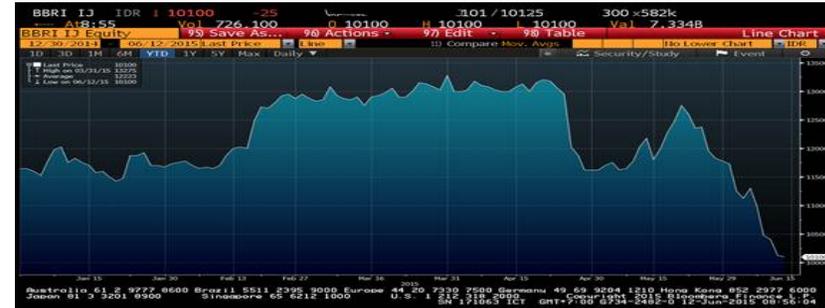
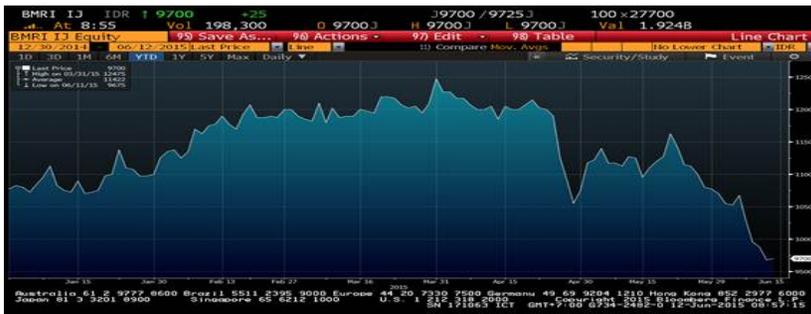


FLASH NOTE: Vice President Jusuf Kalla to Set a Ceiling on KUR at 12.0%

Given the high level of inflation as of May and the emerging fear of the Fed increasing the rate as soon as September this year, all sectors that are interest rate sensitive are in an unfavorable bad cycle right now, no exception to Banking Sector. In addition to the growing concern on big banks' tax dispute following OJK's / Financial Services Authority's plan to systemize the calculation of risk weighted asset and its provisions, Indonesian Banks are facing another speed bump from the KUR lending rate cap as mentioned by the Vice President Jusuf Kalla. Two days ago, Jusuf Kalla had mentioned that the government plans to set a ceiling on KUR at 12.0%. As of now, KUR is diversified into two categories, namely Micro and Small-Businesses. As for Small Businesses, we foresee the impact will be minimum, given all banks under our coverage (BMRI, BBRI, BBCA, BBNI) have their rates ranging from 12.15%-13%. Nevertheless, lending rates for Micro are ranging from 19.25% to 20%, which way above the ceiling that the government wants to put. Borrowers will be charged 12.0% and banks will get more as the government plans to subsidize some percentages to support banks, though the number has not been finalized yet according to BBRI's Finance Director Haru Koesmahargyo. We view this as a negative news, as government intervention has never been good to the market (i.e. cement price cut early this year). **Hence, we recommend to avoid Banking Sector until further notice.**

YTD Performances from BMRI, BBRI, BBCA and BBNI



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