

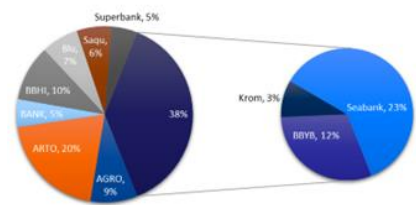
Overweight

(Maintained)

Digital banks' strategic group map



Digital banks' Loans Market Share



Source: Company, BRIDS

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Digital Banks

Still Robust Earnings Growth Potentials Despite Increasing Competition

- Despite heightened competition from new players, we expect Seabank and ARTO to retain their dominance in the digital banking space.
- We expect digital banks' NP growth to outpace that of conventional banks amid improving market trends and better asset quality coverage.
- We maintain our Overweight rating on the digital banking sector on intact NP growth potential; ARTO is our top pick.

Competition from the emergence of newer digital banks

With the emergence of newer digital banks, such as Superbank, Krom Bank, and Bank Saqu, we anticipate the digital banking landscape will become increasingly competitive in the future. Based on its lending target market, indicated by the EA yield, Krom bank is the only new digital bank that directly competes with Seabank and Bank Neo Commerce, while Bank Saqu and Superbank are positioned alongside the majority of their digital banking peers. We note that this dynamic may shift as the banks ramp up their lending activities, as some have only recently begun operations. In terms of funding rate, Krom Bank is the most aggressive, as reflected in its CoF of 7.5%, which was the highest among its peers (avg of 4.8%) in 6M24, followed by Superbank and Bank Saqu at 7.3% and 4.8%, respectively.

Digital banks are here to stay, serving the underserved

Despite operating under the same banking license, we note that digital banks generally target different lending customer segments, i.e., less bankable or higher risk. This is reflected in the higher EA yields of the digital banks compared to conventional banks. We note that the EA yields also include non-loan earnings assets, which diluted the loan yield. Most of the conventional banks' EA yields are below 8%, except for BTPS and BBRI as they serve the micro and ultra micro segments. In contrast, nearly all digital banks have EA yields above 8% (average of 14.9%).

Potentially faster growth than conventional banks

Aggregate digital banks have turned to net profit in 1H24 (from net losses in 1H23), driven by high loan growth and lower CoC, though partly offset by a lower NIM. Despite recent volatility in the mass market segment, digital banks' risk-adjusted-NIM turned positive (albeit still lower than conventional banks' 4.1%) from -1.4% in 1H23 to 1.2% in 1H24, which we believe was owed to better credit scoring and more sufficient coverage. As we see these trends continuing, coupled with recovery in the mass market, we expect the digital banks' NP growth ought to outpace conventional banks, partially justifying their higher valuations.

Maintain Overweight, with ARTO as our top pick

We maintain our Overweight rating on the digital banking sector on the back of immense earnings growth potential, higher digital adoption, and sufficient coverage (1H24 of 281%) against potential asset deterioration. ARTO remains our top pick in the sector, as we believe its steady improvement and customer loyalty will remain key drivers for the bank's LT growth. Risks to our view are higher CoF and deteriorating asset quality.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%) 2025F
					2024F	2025F	2024F	2025F	
Bank Jago	ARTO IJ	BUY	3,800	38,797.5	310.8	209.5	4.6	4.5	2.2
Bank Neo Commerce	BBYB IJ	BUY	600	3,009.7	(48.1)	20.1	0.9	0.9	4.5

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Exhibit 1. Digital banks funding-lending strategic group map (6M24)



Source: Company (Bank-only), BRIDS Estimates

Sensitivity towards BI Rate changes

Overall, changes in the BI rate are correlated with changes in monthly CoF for most digital banks, except for Seabank and BBYB. This is because Seabank and BBYB started with a high deposit rate offerings (high base) and currently have low LDR. The most strongly correlated are AGRO, BBHI, and BANK. We note that the correlation coefficients for Superbank, SAQU, and KROM do not accurately reflect the effects of BI rate changes on their performance ratios, as they only began operating as digital banks in late 2023 or early 2024.

In terms of EA yield changes, BBHI, Blu, and BANK are the most strongly correlated with BI rate changes. While ARTO's correlation coefficient shows a moderate negative correlation, its decline in EA yield was more due to a shift to a loan scheme with lower yields.

Exhibit 2. Digital Banks' CoF & EA yield correlations with BI Rate Changes

CoF (monthly)	BI-Rate Correlation (Jan22- Jun24)		Correlation
	Correlation	EA yield (monthly)	
ARTO	0.41	ARTO	-0.58
BBYB	-0.27	BBYB	0.72
Seabank	-0.87	Seabank	-0.16
Blu	0.39	Blu	0.89
AGRO	0.92	AGRO	0.32
BANK	0.83	BANK	0.86
Superbank	0.96	Superbank	0.48
SAQU	0.74	SAQU	-0.07
KROM	0.90	KROM	0.54
BBHI	0.86	BBHI	0.92

Source: Company (Bank-only), BRIDS Estimates

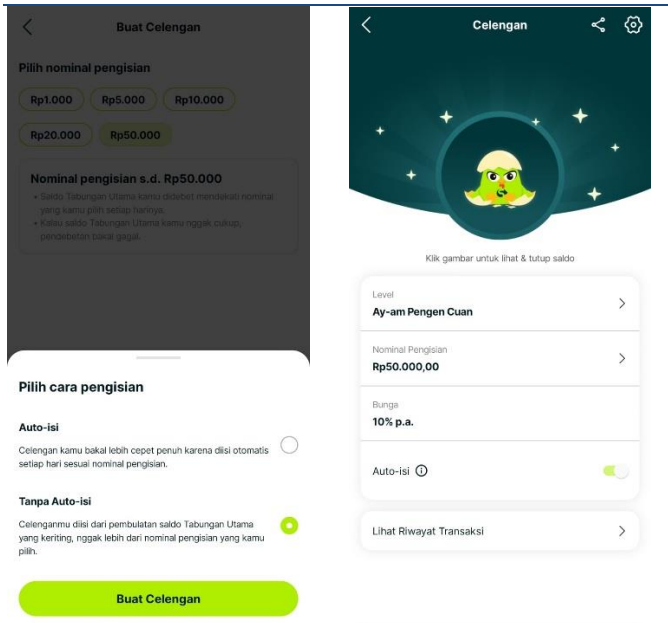
Increased competition in customer acquisition and marketing expenses

The good news is that we expect the entry of new digital banks into the industry to enhance overall quality, diversify banking services, and accelerate customer awareness. These new players will introduce innovative products and technologies, pushing existing banks to elevate their offerings. However, the competition in deposit gathering is likely to intensify as digital banks may offer competitive interest rates to attract customer deposits, while simultaneously offering promotional activities to increase the use of their digital banking apps.

We note that Krom Bank and Superbank are offering lucrative interest rates. Both banks currently offer a savings account deposit rate of 6.0%, the highest among digital banks. Krom Bank offers TD rate of up to 8.75% for a 6-month tenor (minimum Rp5mn) and 7.25% for a 1-month tenor, while Superbank offers TD rate of 7.5% for both 1-month and 6-month tenors, with a minimum placement of Rp500k (the rates declined by 100bps for placement above Rp1bn). Additionally, Superbank introduces a new distinct high-rate deposit feature, called Celengan, offering a rate of 10% p.a. However, Celengan has a limitation: it only allows daily deposit from Rp1k to Rp50k per day, up to a maximum of Rp5mn (at which point the funds are transferred back to a savings account).

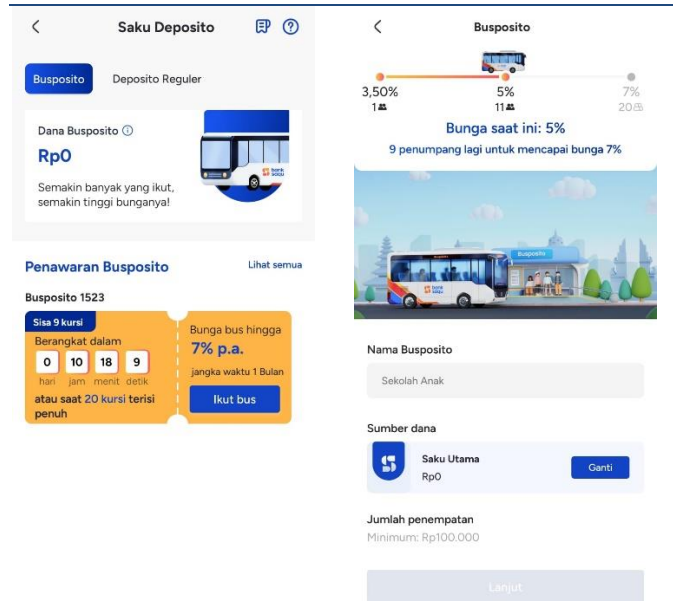
Interestingly, Bank Saqu is less aggressive with its current account (Saku Utama), offering a rate of only 0.5% p.a. While it has a different scheme, i.e., Saku Booster, which offers 10% rate p.a., it can only be funded through Tabungmatic and rewards/cashback gained through the apps' usage. Its deposit rate was also lower compared to Superbank's and Krom Bank's, standing at 4.25% p.a. It has a distinct feature called Busposito, where the deposit rates increase as more people join the "Bus". Currently, the Busposito (1-month tenor) offers a rate of 3.5% with 1 person joining, rising to 5% with 10 people, and 7% when a maximum of 20 people join.

Exhibit 3. Celengan feature in Superbank



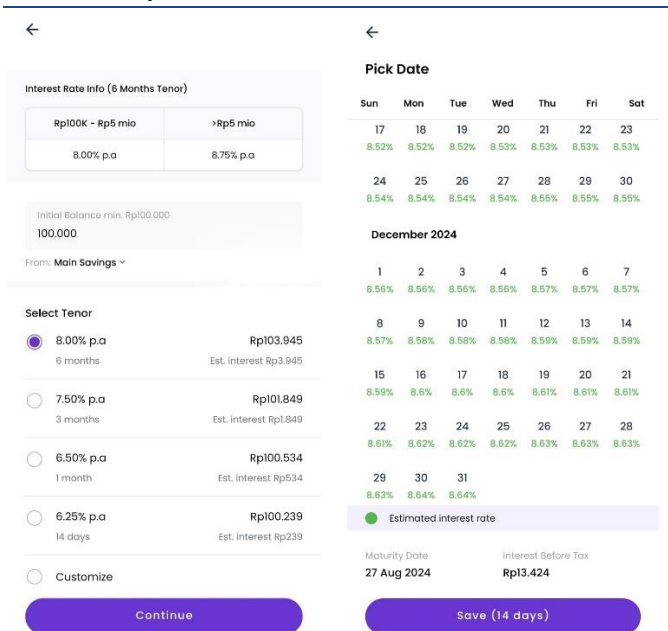
Source: BRIDS

Exhibit 4. Busposito feature of Bank Saqu



Source: BRIDS

Exhibit 5. Deposito feature of Krom Bank



Source: BRIDS

Exhibit 6. Digital Banks' SA and TD Rates

	As of 12 Aug'24		
	TD		Savings
	Rate (3m)	Rate (6m)	Rate
ARTO	4.25%	4.25%	2.50%
BBYB	6.75%	7.50%	4.25%
Seabank	6.00%	6.00%	3.50%
Blu	3.50%	3.50%	3.00%
AGRO	4.25%	4.50%	3.75%
BANK	6.25%	6.50%	5.50%
Superbank	7.50%	7.50%	6.00%
BBHI	5.50%	6.00%	4.00%
Saqu	4.25%	4.25%	3.50%
KROM	7.50%	8.00%	6.00%

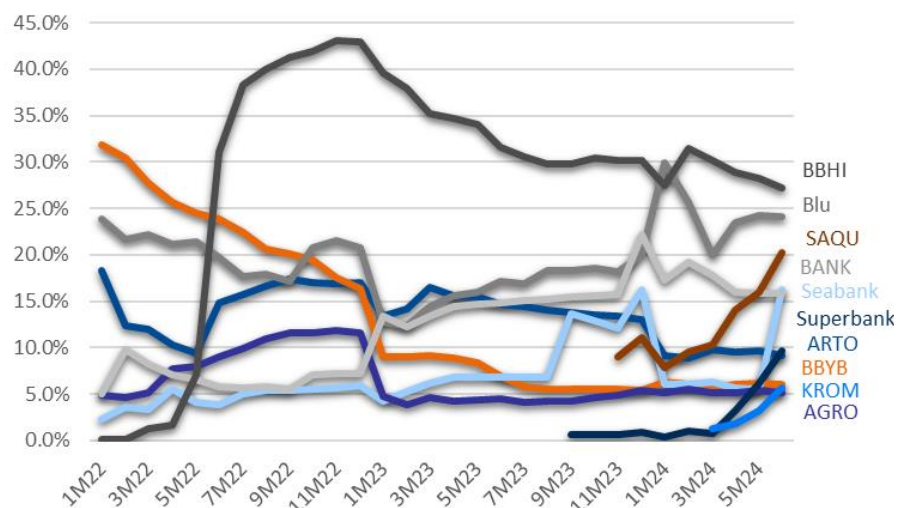
Source: Companies, BRIDS

New digital banks push for brand awareness and customer loyalty

The new digital banks, i.e., SAQU, KROM, and Superbank, have reported an increasing trend in opex spent on promotions as they strive to build brand awareness. We expect this trend to continue for these 3 banks until they establish strong brand loyalty. In the future, they may follow in the footsteps of BBYB, which has significantly reduced its proportion of opex spent on promotions significantly over the last 2.5 years, from 31.9% in 1M22 to 6.0% in 6M24.

We also observed that since mid-2022, BBHI has reported the highest portion of promotional expense relative to total opex among digital banks, peaking at the beginning of 2023. However, this trend has been on a declining trajectory since then. In contrast, Seabank's promotional expenses reached Rp141.6bn in 6M24, with Rp104.3bn incurred in Jun24 alone. We believe Seabank opted for an aggressive promotional strategy in response to heightened competition in the digital banking space.

Exhibit 7. Digital banks' historical promotional expense/opex

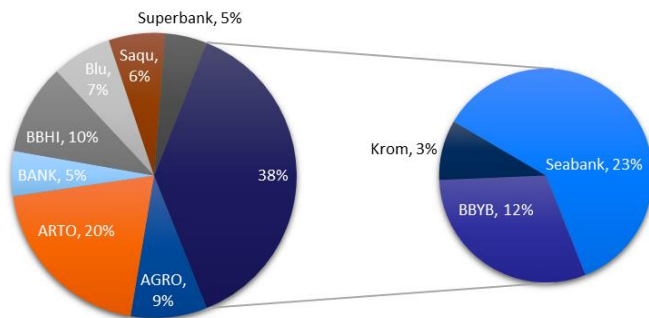


Source: Company (Bank-only), BRIDS Estimates

Seabank dominates digital banking market share, with ARTO in pursuit

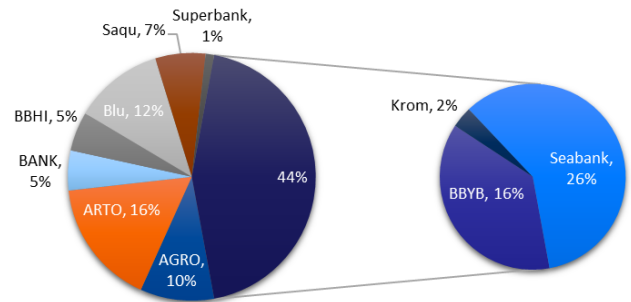
As of Jun24, Seabank remained the market leader in both loans and TPF, with market shares of 23% and 26%, respectively. ARTO followed with a market share of 20% in loans and 16% in TPF. Digital banks with high EA yields, such as Krom, BBYB, and Seabank, formed 44% of the TPF market share in 6M24, while their combined loan market share only accounted for 38%, primarily due to Seabank's and BBYB's low LDR. Given the aggressive funding rates offered by newer digital banks, we may see some changes in the deposit market share in the near future.

Exhibit 8. Loan market share of digital banks (6M24)



Source: Company (Bank-only), BRIDS

Exhibit 9. TPF market share of digital banks (6M24)

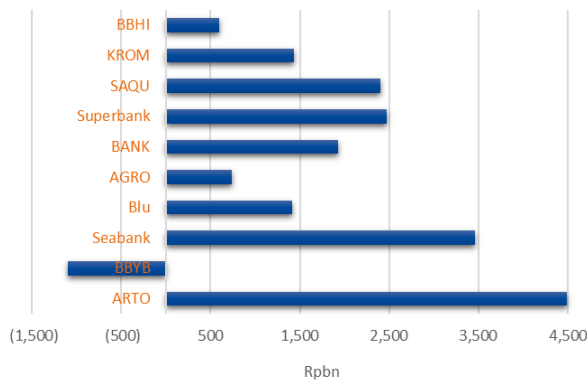


Source: Company (Bank-only), BRIDS

Digital banks are still in expansion mode with ARTO leading the pack

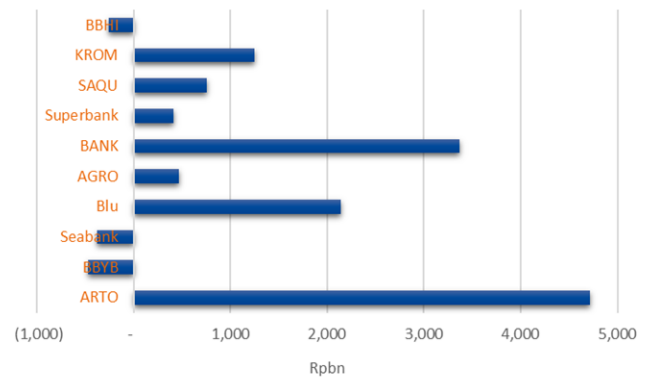
Most digital banks are ramping up their lending and funding activities. In terms of lending, only BBYB experienced a contraction (negative yoy loan growth) in Jun24, as the bank was impacted by the discontinuation of channeling through Akulaku Finance. On the funding side, aside from BBYB, Seabank and BBHI also experienced negative yoy deposit growth. We believe this was mainly due to the banks' efforts to increase their LDR, given the high base in deposits.

Exhibit 10. Digital banks' loan growth (yoy) (6M24)



Source: Company (Bank-only), BRIDS

Exhibit 11. Digital banks' Deposit growth (yoy) (6M24)



Source: Company (Bank-only), BRIDS

Asset quality: high NPL coverage to mitigate risky segments

In terms of mitigation of asset quality concerns, Seabank reported the highest NPL coverage, at 657.5%, significantly higher than those of other digital banks, as it also recorded the 3rd highest CoC of 18.1%, third highest among the 10 banks in 1H24, trailing only KROM (21.7%) and BBYB (26.1%). The high coverage is in contrast with the Seabank's business model, which focuses on unsecured consumption loans.

On the other hand, Superbank and AGRO reported the highest NPLs among 10 digital banks in 1H24, both at 4.3%. AGRO also had the second highest NPL coverage at 337.2%. On the other hand, Superbank's NPL Coverage is only above those of BBYB and SAQU. We also note that BBYB's NPL coverage in 1H24 is below average; however, we expect the bank to increase it going forward as it currently focuses on unsecured consumption loans. BBYB's ideal coverage should be lower than those of Seabank and Krom, as the bank aims to have 20% of its total lending book as commercial loans.

Exhibit 12. Digital banks' NPL and NPL Coverage (1H24)

Rank	Digibank	NPL (1H24)	Digibank	NPL Coverage (1H24)
1	BANK	0.0%	Seabank	657.5%
2	ARTO	0.4%	AGRO	337.2%
3	BBHI	0.4%	ARTO	280.7%
4	BCA Digital	1.5%	BBHI	248.3%
5	SAQU	1.9%	KROM	215.2%
6	Seabank	2.0%	BCA Digital	214.4%
7	BBYB	3.9%	Superbank	201.6%
8	KROM	3.9%	BBYB	139.1%
9	AGRO	4.3%	SAQU	131.2%
10	Superbank	4.3%	BANK	n.a

Source: Company (Bank-only), BRIDS Estimates

Exhibit 13. Digital banks' CoC (1H24 and 2Q24)

Rank	Digibank	CoC - annualized (1H24)	Digibank	CoC - annualized (2Q24)
1	BANK	-0.4%	BANK	-0.2%
2	BBHI	0.8%	BBHI	1.5%
3	ARTO	1.6%	ARTO	1.7%
4	SAQU	2.3%	SAQU	2.7%
5	Superbank	3.8%	Superbank	3.3%
6	BCA Digital	6.6%	AGRO	4.7%
7	AGRO	6.6%	BCA Digital	6.0%
8	Seabank	18.3%	Seabank	16.8%
9	KROM	21.7%	KROM	20.5%
10	BBYB	26.1%	BBYB	26.6%

Source: Company (Bank-only), BRIDS Estimates

Digital banks are here to stay, serving the underserved

Despite operating under the same banking license, we note that digital banks generally target different lending customer segments, i.e., less bankable or higher risk. This is reflected in the higher EA yields of the digital banks compared to conventional banks. We note that the EA yields also include non-loan earnings assets, which diluted the loan yield. Most of the conventional banks' EA yields are below 8%, except for BTPS and BBRI as they serve the micro and ultra micro segments. In contrast, nearly all digital banks have EA yields above 8% (average of 14.9%).

Exhibit 14. Digital and conventional banks' EA Yield (6M24)

Rank	Digibank	EA Yield (6M24)	Bank (only)	EA Yield (6M24)
1	BBYB	25.2%	BTPS	28.0%
2	KROM	22.6%	BBRI	9.9%
3	Seabank	22.0%	BDMN	8.0%
4	BBHI	11.9%	BRIS*	7.9%
5	BANK	10.6%	BBTN	7.5%
6	ARTO	10.3%	BNGA	7.5%
7	Superbank	9.5%	NISP	7.4%
8	Blu	9.4%	BMRI	7.2%
9	AGRO	8.7%	BBCA	7.0%
10	SAQU	7.3%	BBNI*	6.9%

*note: 5M24 (6M24 numbers not available)

Source: Company (Bank-only), BRIDS Estimates

Some digital banks continue to struggle with high-risk segments

Some digital banks are still struggling with loan quality, as indicated by their high cost of credit (CoC), which is necessary to write off their NPLs. In 1H24, only 5 digital banks recorded notable positive risk-adjusted NIM. We observe that most banks with negative risk-adjusted NIM are those focused on higher-risk segments (EA yields of 20% and higher). This suggests that no bank has yet been profitable in this segment, even with the support of big data and their respective ecosystems.

Exhibit 15. Digital and conventional banks' risk-adjusted NIM (6M24)

Rank	Digibank	Risk-adjusted NIM (6M24)	Bank (only)	Risk-adjusted NIM (6M24)
1	BBHI	8.3%	BTPS	10.9%
2	ARTO	6.4%	BBCA	7.1%
3	BANK	5.4%	BBRI	5.4%
4	Superbank	4.9%	NISP	5.1%
5	SAQU	2.9%	BRIS*	4.5%
6	Blu	0.0%	BMRI	4.2%
7	Seabank	-0.3%	BNGA	3.2%
8	KROM	-1.0%	BDMN	3.1%
9	AGRO	-2.1%	BBNI*	3.0%
10	BBYB	-7.0%	BBTN	2.8%

*note: 5M24 (6M24 numbers not available)

Source: Company (Bank-only), BRIDS Estimates

Potentially faster growth than conventional banks

Aggregate digital banks have turned to net profit in 1H24 (from net losses in 1H23), driven by high loan growth and lower CoC, though partly offset by a lower NIM. Despite recent volatility in the mass market segment, digital banks' risk-adjusted-NIM turned positive (albeit still lower than conventional banks' 4.1%) from -1.4% in 1H23 to 1.2% in 1H24, which we believe was owed to better credit scoring and more sufficient coverage. As we see these trends continuing, coupled with recovery in the mass market, we expect the digital banks' NP growth ought to outpace conventional banks, partially justifying their higher valuations.

Exhibit 16. Conventional Banks vs Digital Banks Performance (6M24)

	6M24 (Aggregate)	Conventional Banks*	Digital Banks
Net Profits Growth (%) (yoy)		7.6%	n.a
Loan Growth (%) (yoy)		13.9%	29.5%
Customer Deposits Growth (%) (yoy)		10.0%	15.4%
NIM (%)		5.4%	11.5%
NIM changes (bps) (yoy)		(45)	(69)
CoC (%)		1.3%	10.3%
CoC changes (bps) (yoy)		(14)	(334)
Risk Adjusted NIM (%)		4.1%	1.2%

note: *5M24 numbers were used for BBNI and BRIS

Source: Company (Bank-only), BRIDS Estimates

Higher loan growth led to bottom line turnaround

In 1H24, digital banks' aggregate loan (+29.5% yoy) and customer deposits (+15.4% yoy) growth far exceeded those of conventional banks (+13.9% yoy and +10.0% yoy, respectively). This reflects the different stages of development between digital and conventional banks, with digital banks still in the process of establishing their operations. Additionally, digital banks reported a turnaround from a net loss of Rp126.2bn in 1H23 to a net profit of Rp198.4bn in 1H24.

NIM compression on falling yield, but more resilient on CoF front

Another effect of the difference in development stages was demonstrated by the risk-adjusted NIM. For conventional banks, it stood at 4.1% in 1H24, while for digital banks it reached just 1.2%. Overall, NIM declined for both conventional and digital banks, with digital banks experiencing a steeper yoy decline. The decline in aggregate NIM for digital banks was due to a 79bps yoy fall in EA yield to 14.9%. In contrast, the decline in conventional banks' NIM was primarily driven by a 58bps rise in aggregate CoF to 2.95% in 1H24, which is a higher increase compared to the 17bps rise in digital banks' aggregate CoF to 4.79%.

Improving credit cost resulted in a positive risk-adjusted NIM

Digital banks' aggregate CoC saw a significant improvement of 334bps yoy, reaching 10.3% in 1H24. Consequently, we expect digital banks' risk-adjusted NIM to improve, as we believe the high CoC was primarily due to their involvement in the micro segment, which has faced asset quality concerns this year. As issues in the middle-lower segment begin to subside, we anticipate a further improvement in the overall CoC for digital banks. Additionally, the high level of NPL coverage of digital banks, which was well ahead of their conventional counterparts in 1H24, may offer opportunities for these banks to reduce their provisions going forward.

Exhibit 17. Digital and Conventional banks' NPL Coverage (6M24)

Rank	Digibank	NPL Coverage (6M24)	Bank (only)	NPL Coverage (6M24)
1	Seabank	657.5%	BMRI	330.5%
2	AGRO	337.2%	BTPS	291.4%
3	ARTO	280.7%	BNGA	252.0%
4	BBHI	248.3%	NISP	238.2%
5	KROM	215.2%	BDMN	227.4%
6	BCA Digital	214.4%	BBRI	200.5%
7	Superbank	201.6%	BBCA	190.2%
8	BBYB	139.1%	BBTN	135.8%
9	SAQU	131.2%	BRIS*	n.a
10	BANK	n.a	BBNI*	n.a

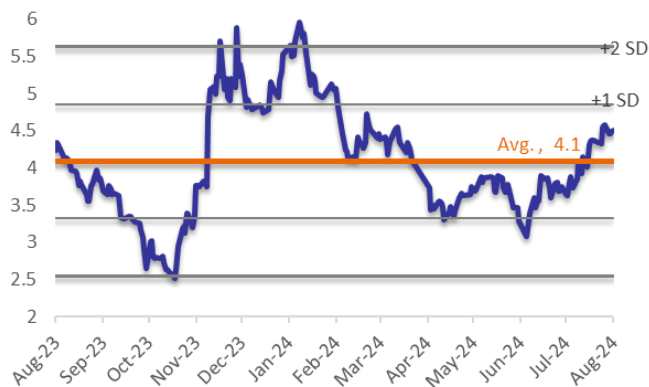
*note: 6M24 numbers not available

Source: Company (Bank-only), BRIDS Estimates

Maintain Overweight, with ARTO as our top pick

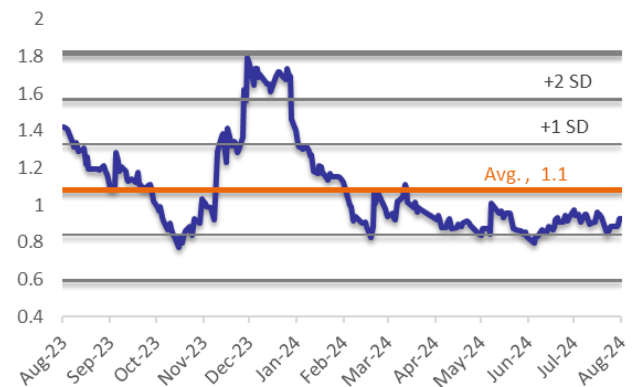
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Exhibit 18. ARTO's 12M BF P/BV band chart (1-year)



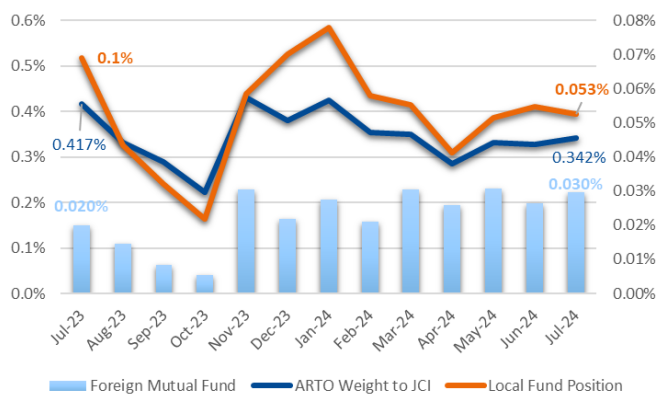
Source: Bloomberg, BRIDS Estimates

Exhibit 19. BBYB's 12M BF P/BV band chart (1-year)



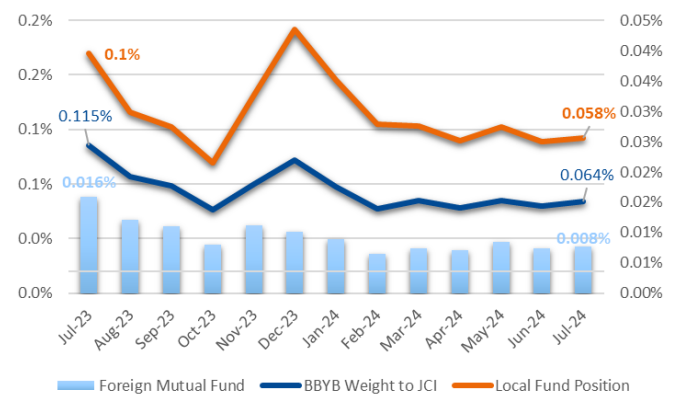
Source: Bloomberg, BRIDS Estimates

Exhibit 20. ARTO's weighting and fund position



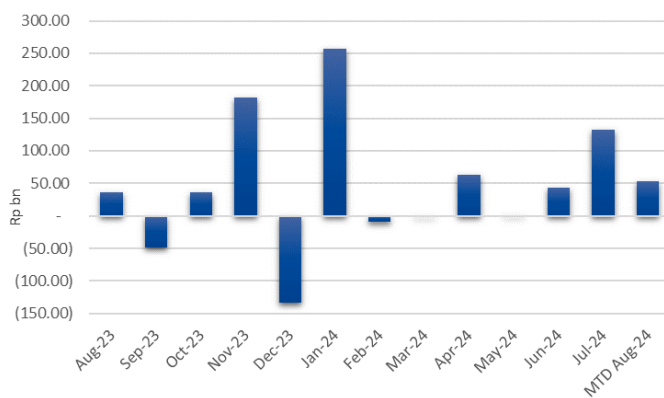
Source: IDX, BRIDS Estimates

Exhibit 21. BBYB's weighting and fund position



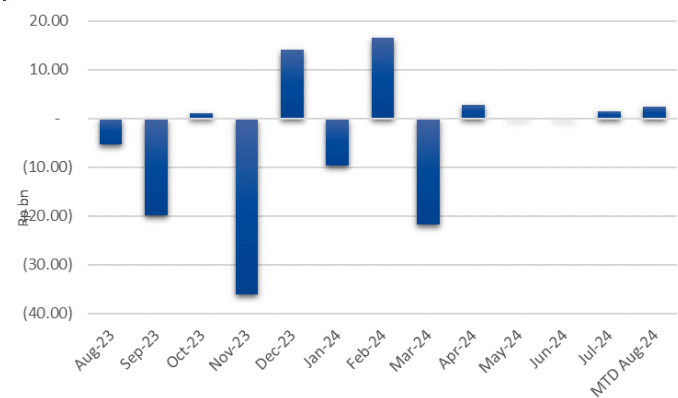
Source: IDX, BRIDS Estimates

Exhibit 22. ARTO's historical foreign flows (as of 9 Aug24)



Source: IDX, BRIDS Estimates

Exhibit 23. BBYB's historical foreign flows (as of 9 Aug24)



Source: IDX, BRIDS Estimates

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INVESTMENT RATING

BUY	Expected total return of 10% or more within a 12-month period
HOLD	Expected total return between -10% and 10% within a 12-month period
SELL	Expected total return of -10% or worse within a 12-month period

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