

## Bank Papua's rating outlook revised to "Negative"

PEFINDO has revised the outlook of the rating of PT Bank Pembangunan Daerah Papua (BPPP or the Bank) to "Negative" from "Stable". The revision reflects the deterioration of the Bank's asset quality and profitability as of March 2015 (1Q2015) and December 2014 (2014) as well as the risk of further weakening performance. Less favorable macroeconomic conditions have caused the Bank to suffer significant blow to its asset quality and profitability profiles as reflected by rising non-performing loan (NPL) ratio to 7.5% as of 1Q2015 and 7.3% in 2014 from 1.1% in 2013 and considerable increase in provision expense amounting to IDR552.7 billion in 2014 from IDR73.9 billion in 2013. The rating may be lowered if BPPP suffers further financial setback, including to its currently strong capitalization profile. On the other hand, the outlook may be revised back to "Stable" if the Bank manages to significantly improve its asset quality by lowering the NPL ratio and stabilizing it in the medium term. In addition, credit cost provisioning must also be stable. The Bank's rating is affirmed at "idA".

The "idA" rating reflects the Bank's captive market in the Papua region and its strong capitalization. However, the rating is constrained by high operating expenses and its limited retail funding. BPPP is a regional development bank in Papua and West Papua provinces, which focuses on the corporate and consumer segments. At the end of March 2015, its major shareholder was the Provincial Government of Papua with 20.89% ownership, followed by the Provincial Government of West Papua (9.21%), city and district governments in Papua and West Papua (66.22%), and Cooperatives of Bank Papua Berdikari (3.68%).

Rating Period: June 22, 2015 – November 1, 2015  
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