PEFINDO
CREDIT RATING AGENCY

Rating Rationale

PT Bank Pembangunan Daerah Daerah Istimewa Yogyakarta

Credit Rating(s)

General Obligation (GO)	$_{id}$A/Stable

Rating Period

May 9, 2023 – May 1, 2024

Published Rating History

MAY 2022	$_{id}$A/Stable
MAR 2021	$_{id}$A/Stable
JAN 2020	$_{id}$A/Stable
MAR 2013	$_{id}$A-/Stable

PEFINDO has assigned its "$_{id}$A" rating to PT Bank Pembangunan Daerah Daerah Istimewa Yogyakarta (BPD DIY). The outlook for the corporate rating is "stable". The rating reflects BPD DIY's captive market in the region, very strong capitalization, and strong liquidity profile. However, the rating is constrained by the region's exposure to tourism industry and tight competition in the productive loan segment.

The rating may be raised if BPD DIY significantly strengthens its business position and makes notable and sustainable improvements to its asset quality profile and sustain its profitability. Conversely, the rating may be lowered if its business profile weakens substantially.

BPD DIY was established in 1961 as a regional development bank (BPD) with a business focus in Daerah Istimewa Yogyakarta (DIY) province. As of FY2022, it was 51.3% owned by the DIY provincial government and the remaining 48.7% by several regencies in the DIY province. Its business activities are supported by 994 employees and a network of 7 branches, 107 sub-branches, 48 functional offices and 45 sharia service points.

Rating Definition

An obligor-rated $_{id}$A has a strong capacity to meet its long-term financial commitments relative to those of other Indonesian obligors. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than higher-rated obligors.

Financial Highlights

As of/for the year ended	Dec-2022 (Audited)	Dec-2021 (Audited)	Dec-2020 (Audited)	Dec-2019 (Audited)
Total assets [IDR bn]	16,850.9	15,765.3	14,707.0	13,653.0
Total equity [IDR bn]	3,207.6	2,668.7	2,351.3	2,279.6
Total gross loans [IDR bn]	9,992.7	9,307.6	8,883.2	8,470.1
Total customer deposits [IDR bn]	12,516.7	12,313.5	11,894.5	10,065.4
Net interest revenue [IDR bn]	877.4	849.6	862.5	860.6
Net income [IDR bn]	279.9	269.3	240.6	271.5
NIR/average earning assets [%]	5.7	5.9	6.4	7.0
Operating expense/income [%]	69.2	70.1	72.4	67.3
ROAA [%]	1.7	1.8	1.7	2.1
NPL (3-5)/gross loans [%]	2.9	2.1	2.1	3.1
Loan loss reserve/NPL (3-5) [%]	116.2	168.7	167.8	82.7
Risk weighted CAR [%]	31.4	29.3	26.8	24.1
Gross loans/total deposits [%]	79.8	75.6	74.7	84.2
USD exchange rate [USD/IDR]	15,568	14,269	14,105	13,883

The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to PEFINDO's definitions.

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Key Strengths

Captive market in the region

PEFINDO expects BPD DIY to maintain its strong market position in the region, supported by its captive market from the regional governments of DIY. BPD DIY serves a pivotal role as the transaction bank for the regional governments and payment bank for civil servant (PNS) salaries. BPD DIY also has a special privilege in capturing consumer loans from them. Given the prime quality of these loans due to a direct salary deduction system, this segment remains very attractive and important for the Bank. As of FY2022, it has served around 42% of the total PNS in the region, which should remain solid and may further improve given its well-established relationship with the regional governments. Such stability should strengthen the Bank's efforts in maintaining its market position in the region in terms of total loans and total deposits to be maintained at above 20% and 15%, respectively, over the near to medium term, consistent with FY2022 figures of 21.1% and 15.9%, respectively. With total assets of IDR16.8 trillion as of FY2022, it was one of the leading banks in the province, despite commanding only 0.2% market share in the assets of the national banking industry as of FY2022.

Very strong capitalization

PEFINDO expects BPD DIY's capitalization to remain very strong over the near to medium term, stemming from profit accumulation and regular capital injections to support its business activities. As of FY2022, it had a very strong capital adequacy ratio (CAR) of 31.4%, improving upon 29.3% as of FY2021. We project the Bank to be able to maintain its CAR at approximately 29%-32%, incorporating the regular capital injections from each shareholder, despite a high dividend payout policy of around 70%. We view Yogyakarta's special political and managerial landscape status as a monarchy, also contributes to a seamless decision-making hierarchy and stable working system in comparison to most of other provinces. As seen in the issuance of each specific local government regulation by the shareholders simultaneously, such as when deciding a capital injection plan to raise the Bank's capital to IDR4 trillion by the end of 2025. Since 2017, BPD DIY has received accumulated capital injection of IDR1.7 trillion, bolstering its core capital to IDR3.1 trillion as of FY2022. Its focus on low-weighted risk assets of payroll loans to PNS should further support its capitalization profile.

Strong liquidity profile

We view BPD DIY liquidity profile as above average, mainly bolstered by its status as regional treasurer, resulting in a significant amount of low-cost current accounts. Combined with its saving account (CASA), both low-cost funds averaged at above 80% in the last five years, with the latest figures of 82.3% and 83.2% as of FY2022 and FY2021, respectively. We view this significant CASA portion should provide ample cushions to the Bank against high interest rate volatility period, especially amidst increasing interest rate trend. In addition, most of its excess liquidity are invested in government bonds, further promoting the stability of its liquidity position.

Key Weaknesses

Exposure to tourism industry

We are of the view that BPD DIY remains exposed to the tourism industry, given its dominant contribution of approximately around 55% to the regional economy. The tourism sector also indirectly impacts other sectors such as accommodation, food, and beverage, manufacture, transportation, manufacturing, and agriculture, which form an important part of Yogyakarta's overall business environment. Despite the Bank's ability to sustain its loan growth during the pandemic driven by PNS loans, its asset quality was significantly affected, as reflected in the significant increase of restructured loans to 11.4% as of FY2022 and 13.0% as of FY2021, from below 2% during pre-pandemic years.

Tight competition in the productive loan segment

We view that BPD DIY's strategy to expand its productive loan portfolio will be challenged by the intense competition against other commercial banks operating within the region, notably the larger ones with stronger expertise. The Bank's plan to maintain its productive loan composition at around 50% of its lending portfolio may put potential margin pressure amid the tight competition. In addition, the productive loan segment also carries higher credit risk, which potentially hampers the Bank's non-performing loans (NPL) ratio in the future. Without adequate infrastructure, including human resources and risk management capability, this strategy may expose it to the risk of asset quality deterioration, leading to a weakening of its overall credit profile. The productive loan segment has been dominating BPD DIY's non-performing loans, representing 85.6% and 77.6% of total NPL as of FY2022 and FY2021.