S&P Global Ratings

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# BRAC Bank Ltd.

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# BRAC Bank Ltd.

## Ratings Score Snapshot

| Issuer Credit Rating |
|---|
| B+/Stable/B |

**SACP: b+** → **Support: 0** → **Additional factors: 0**

| | | |
|---|---|---|
| Anchor | b+ | |
| Business position | Adequate | 0 |
| Capital and earnings | Moderate | 0 |
| Risk position | Adequate | 0 |
| Funding | Adequate | 0 |
| Liquidity | Adequate | |
| CRA adjustment | | 0 |

| | |
|---|---|
| ALAC support | 0 |
| GRE support | 0 |
| Group support | 0 |
| Sovereign support | 0 |

| Issuer credit rating |
|---|
| **B+/Stable/B** |

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Good management and business franchise in the domestic retail and small and midsize (SME) segments. | Challenging operating conditions, given Bangladesh's declining foreign exchange reserves, and extremely high credit risk. |
| Above-industry average asset quality. | |

***BRAC Bank Ltd. (BBL) will continue to face tough operating conditions.*** Despite some moderation, economic growth in Bangladesh, where the bank is based, is likely to remain high due to momentum in its labor markets and export industries. Commodity inflation and external sector volatility present significant risks. Bangladesh is weathering a period of elevated import bills and declining foreign exchange reserves.

***BBL is likely to maintain its satisfactory franchise.*** The bank is among the top 15 in Bangladesh's fragmented banking industry. BBL accounts for a modest share of about 2.9% of the system's deposits. BBL has been able to establish a good branch network and online presence. It accounted for about 4.6% of the flow of remittances into the country in April-June 2023. BBL's access to retail remittances and export-oriented clients will help it navigate the challenges arising from Bangladesh's weak external position. We believe the bank will maintain its satisfactory franchise, particularly in the SME and retail segments in the underpenetrated Bangladeshi market. BBL also benefits from above-industry average asset quality.

## Outlook

The stable outlook on BRAC Bank reflects our view that the bank should be able to steadily navigate the challenging operating conditions in Bangladesh and maintain its financial profile over the next 12-18 months.

### Downside scenario

We may lower the ratings if:

- Contrary to our expectation, we see BBL's funding and liquidity metrics coming under stress because of the ongoing shortage of U.S. dollar liquidity in Bangladesh; or
- BBL's asset quality deteriorates sharply, due, for example, to ongoing macroeconomic economic vulnerabilities; or
- Transfer and convertibility assessment ratings on Bangladesh are downgraded.

### Upside scenario

An upgrade in the bank's ratings looks unlikely over the next 12-18 months unless there is a significant improvement in the bank's credit profile.

## Key Metrics

**BRAC Bank Ltd.--Key ratios and forecasts**

| | --Fiscal year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2021a** | **2022a** | **2023f** | **2024f** | **2025f** |
| Growth in operating revenue | 10.1 | 19.6 | 19.0-20.0 | 25.0-26.0 | 18.0-19.0 |
| Growth in customer loans | 17.8 | 27.9 | 24.0-25.0 | 19.0-20.0 | 14.0-15.0 |
| Growth in total assets | 15.5 | 24.6 | 24.0-25.0 | 16.0-17.0 | 11.5-12.5 |
| Net interest income/average earning assets (NIM) | 4.8 | 4.2 | 4.0-4.2 | 4.6-4.8 | 5.0-5.2 |
| Cost to income ratio | 68.0 | 69.6 | 65.0-66.0 | 62.0-63.0 | 62.0-63.0 |
| Return on average common equity | 10.3 | 10.2 | 11.5-12.0 | 14.5-15.5 | 15.5-16.0 |
| Return on assets | 1.0 | 1.1 | 1.1-1.2 | 1.3-1.4 | 1.35-1.45 |
| New loan loss provisions/average customer loans | 1.1 | 0.6 | 0.7-0.8 | 0.65-0.75 | 0.6-0.7 |
| Gross nonperforming assets/customer loans | 4.3 | 4.0 | 3.8-4.0 | 3.6-3.7 | 3.5-3.7 |
| Net charge-offs/average customer loans | 0.3 | 0.3 | 0.30-0.35 | 0.30-0.35 | 0.30-0.35 |
| Risk-adjusted capital ratio | N/A | 4.6 | 4.5-4.6 | 4.55-4.65 | 4.8-4.9 |

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

## Anchor: Operates Predominantly In Bangladesh

Our anchor of 'b+' for BBL draws on our view of the economic and industry risk in Bangladesh, where the bank predominantly operates. In our opinion, Bangladesh's low-income economy, heavy development needs, and fiscal constraints limit the banking industry's economic resilience.

While Bangladesh has healthy growth prospects (due to poverty alleviation measures and the development of the manufacturing and service sectors), credit risk in the country remains extremely high. This is underscored by weak foreclosure laws and underwriting standards, weak governance at some banks, and client concentration that leads to sizable stressed assets in the banking industry.

Bangladesh's regulatory supervision set-up also has gaps, which results in limited market discipline. The weak asset quality and capitalization of some banks reflect shortcomings in monitoring and in the system's ability to address problems early.

In our view, Bangladesh's banking system has overcapacity and market distortions that lead to low profitability. A supportive core customer deposit base and low reliance on external funding temper these weaknesses.

## Business Position: Diversified Business Mix

BBL is likely to maintain its market position and business stability over the next 12-18 months. The bank is among the top 15 banks in the country and accounts for about 3.25% and 2.9% of the system's loans and deposits, respectively.

Bangladesh has a fragmented banking industry and BBL competes against more than 60 other banks in the country. Banks in Bangladesh traditionally focus on the wholesale segment due to relationship-based lending and higher operating costs associated with SMEs and retail businesses. Within the Bangladesh banking industry, loans to corporates account for slightly over 80% of total loans on average. BBL has a bigger focus on the retail and SME segments than the other local banks.

We expect the bank to retain its diversified loan exposure. It has loan exposure to SMEs (46% of loans as of Sept. 30, 2023), corporates (37%), and retail (17%).

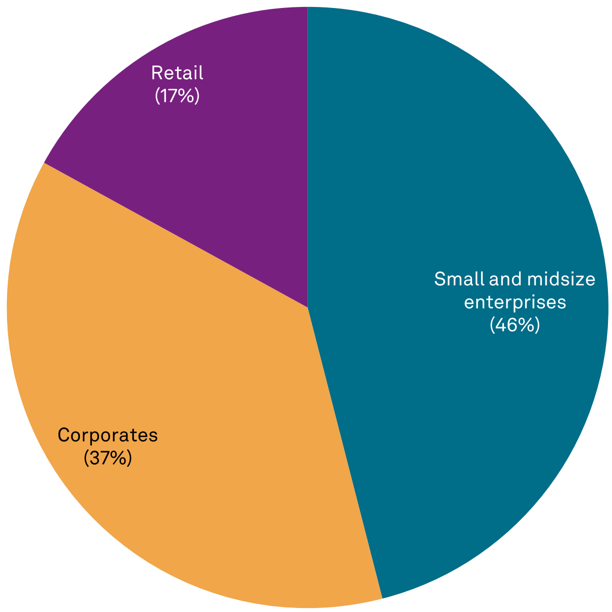
We expect BBL to maintain its fee income from mobile banking, trade finance, and card products. Such income accounted for around a quarter of the bank's operating revenues on average in the past five years. This ratio is high compared with peers, and adds to BBL's business diversity.

We consider BBL's management to be satisfactory. The management team has identified the SME and retail segments as the niche area and has since 2015 embarked on strategies to improve operating competitiveness. The bank continues to increasingly migrate customers from physical channels to digital ones to reduce operating costs and offer more convenience to customers. BBL offers mobile financial services (through its subsidiary bKash Ltd.) to reach a sizable underbanked and unbanked population in the country.

BBL's management has also shown prudence in managing its balance sheet, by keeping capitalization above the industry average and adequately managing its liquidity during periods of stress, such as COVID pandemic and the ongoing challenges from U.S. dollar shortage.

**Chart 1**

**BBL has diversified loan exposure**




Data as of September 2023. Source: BBL published presentation.



## Capital And Earnings: Interest Rate Deregulation To Support Profitability

We expect BBL's capitalization to benefit from an improvement in its profitability and high earnings retention amid above-average loan growth. BBL will likely have a risk-adjusted capital (RAC) ratio of about 5% over the next 12-24 months, versus 4.7% as of end-2022. However, the bank's capitalization, as measured by the RAC ratio, remains a neutral factor for the credit ratings.

Our RAC ratio for 2022 is calculated after deconsolidating the assets and liabilities of the bank's subsidiary, bKash.

In our view, the investment in bKash will not be available to help BBL absorb any unexpected losses at the bank.

An investment by SoftBank Vision Fund 2 in bKash's preference shares has reduced BBL's economic interest in bKash to 35.7%. However, BBL still retains a majority voting shareholding of 51%.

BBL's profitability remains significantly better than that of the industry. The bank's return on average assets ratio has stayed at about 1% or higher over the past several years (including the COVID pandemic). This compares favorably to the 0.5% level for the industry. Its profitability is characterized by a high net interest margin (NIM), owing to higher yields on its SME and retail portfolio, fee income contributions from mobile banking and trade finance, and competitive cost of funds (due to sizable low-cost deposits).

We expect BBL's NIM to benefit from the introduction of the new lending interest rate benchmark for commercial banks (SMART—six-month moving average Treasury rates). Under this, a bank can price loans 375 basis points higher than the benchmark rate. This compares with the earlier 9% lending rate ceiling imposed by Bangladesh Bank, the country's central bank, until June 2023. An increase in the cost of funds as the central bank tries to tame high inflation will somewhat temper this benefit.

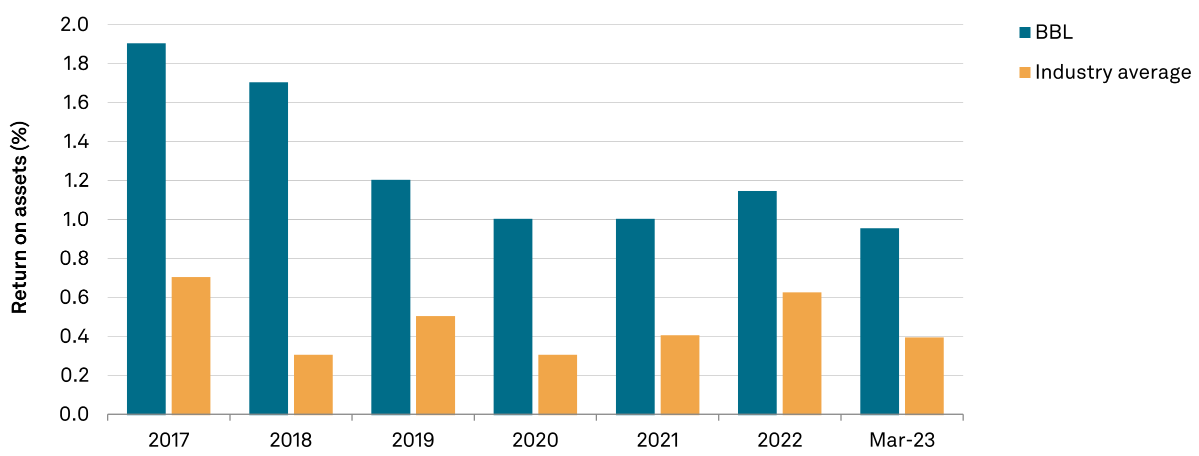
We expect BBL's operating revenues to benefit from the 1% additional fee that commercial banks can levy on the cottage, micro, and SME industries, and on retail customers, to cover supervision costs.

BBL's operating revenues help to offset elevated operating costs. Operating costs for the bank have been high due to its large SME clientele and investments in staff, infrastructure, and technology initiatives, especially through bKash. We expect the bank's cost to income ratio to moderately improve to about 63% over the next two years compared with about 67% at the end of September 2023.

BBL's credit losses will likely stay at around the long-term average of about 0.65% over the next two years. This is because the bank has made adequate provisioning coverage for existing nonperforming loans (NPL). It also has a lower stock of restructured loans (including those due to COVID relief) than peers'. COVID-related moratorium facilities in Bangladesh ended at the end of December 2022.

**Chart 2**

**BBL profitability ahead of industry average**




Sources: BBL financial statements. Bangladesh Bank.

## Risk Position: Asset Quality Is Better Than The Industry Average

BBL has a more balanced loan book than peers. The book comprises corporate, SME, and retail loans. Although the bank has corporate client concentration, this concentration is less than the industry average in Bangladesh. The corporate segment has been a source of poor risk culture in the country's banking industry.

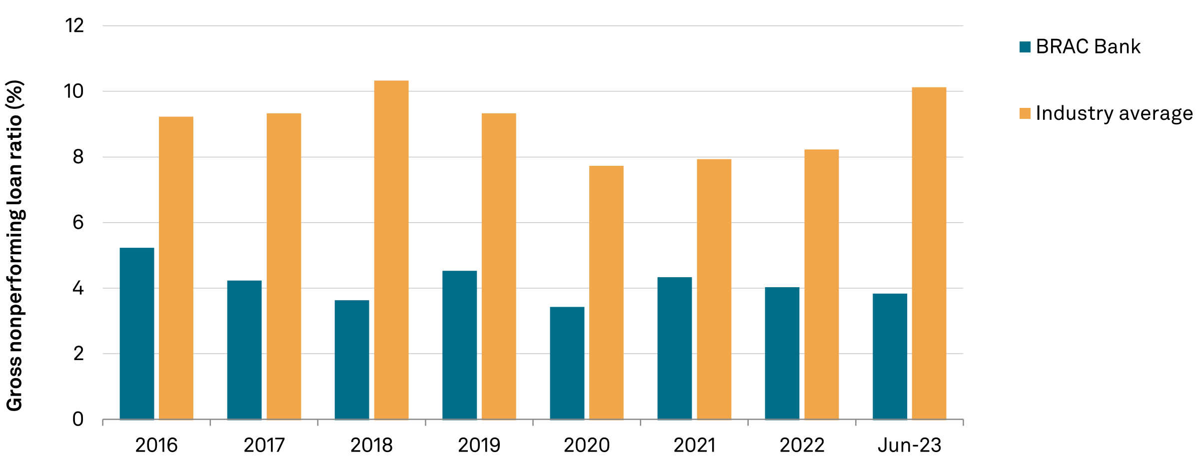
An increase in BBL's unsecured exposure to the SME and retail segments is historically balanced by the granularity and high spreads for these exposures, and the bank's good understanding of its SME clients. BBL's SME business caters to entrepreneurs and small businesses. The bank makes these loans to them for business expansion.

BBL's smaller-ticket loans are unsecured while its larger ones are secured by mortgages. Most of the bank's SME borrowers operate essential services and BBL maintains close contact and monitoring of its loans. This helps to keep delinquencies in check. Even during COVID, BBL's SME portfolio performed better than its other segments. Given high interest rates and inflation, we do see some pressure on the bank's retail book. At end-September 2023, there was a modest uptick in retail loans' NPL ratio and portfolio-at-risk measure (30 days past due) to 5% and 2.9%, from 4.7% and 2.7%, respectively, at end-June 2023. The bank's retail loans consist of home loans, followed by personal loans and credit cards.

BBL's asset quality is likely to remain better than that of the industry, in our view. We forecast NPL ratio in the range of 3.6%-3.8% over the next two years. The bank's gross NPL ratio was 3.4% as of end-September 2023, as compared with about 3.8% at end- March 2023. The bank's restructured book (COVID-related) stood at about 3.3% and rescheduled loans at about 0.5% of the total customer loans at end September 2023. These percentages are lower than industry peers.

**Chart 3**

**BBL asset quality better than industry average**




Sources: Bangladesh Bank. S&P Global Ratings.

## Funding And Liquidity: Deposit Franchise Supports Funding

BBL will likely maintain its diversified deposit franchise over the next 12-18 months. BBL's deposits, particularly its sizable low-cost current and savings accounts (CASA), support its funding profile. As of June 30, 2022, deposits contributed to about 85% of the bank's funding base. This was broadly in line with the industry average.

As of Sept. 30, 2023, household deposits accounted for about 49% of BBL's deposits. This was followed by corporates (31%) and SMEs (19%). The bank's CASA ratio was about 49%, which is above the industry average of about 42%. Similar to its peers, the bank witnessed some migration in its CASA deposits to term deposits, due to rising interest rates.

BBL's assets in the form of cash and short-term funds underpin its liquidity. The bank had a ratio of broad liquid assets to short-term wholesale funding of 2.1x as of Sept. 30, 2023 as compared to 2.7x at end Dec. 2022. This matched that of global peers.

BBL also maintains matched asset-liability position in its foreign exchange exposure. While its foreign exchange liabilities stood at about 13% of total liabilities, the foreign exchange assets were about 17% of the total assets at end June 2023. The bank has a positive net foreign exchange open position. It has also been managing the issuance of letters of credit (LC) at levels largely commensurate with its foreign exchange inflows from export receipts and remittances.

## Environmental, Social, And Governance

We believe governance and transparency is weak within the Bangladesh banking industry. However, we assess BBL's governance as stronger than that of its domestic peers.

In our view, Bangladesh's regulatory standards generally comply with international standards, although gaps could occur in supervision, resulting in limited market discipline. The weak asset quality and capitalization of some banks in the country reflect gaps in monitoring and the system's inability to address problems early.

## Key Statistics

**Table 1**

**BRAC Bank Ltd.--Key figures**

| | --Year ended Dec.31-- | | | | | |
|---|---|---|---|---|---|---|
| **(Mil. BDT)** | **2023*** | **2022** | **2021** | **2020** | **2019** | **2018** |
| Adjusted assets | 778,810.9 | 639,177.8 | 512,957.9 | 441,021.1 | 401,828.6 | 346,359.5 |
| Customer loans (gross) | 487,712.5 | 412,084.8 | 322,135.2 | 273,438.9 | 264,870.3 | 238,400.4 |
| Adjusted common equity | 51,832.5 | 46,269.7 | 39,125.2 | 44,200.2 | 43,245.8 | 38,600.1 |
| Operating revenues | 34,122.3 | 37,822.6 | 31,622.7 | 28,715.8 | 27,804.8 | 26,000.9 |
| Noninterest expenses | 22,779.5 | 26,333.7 | 21,515.4 | 20,533.1 | 18,859.4 | 16,691.1 |

**Table 1**

| BRAC Bank Ltd.--Key figures (cont.) | | | | | | |
|---|---|---|---|---|---|---|
| | --Year ended Dec.31-- | | | | | |
| **(Mil. BDT)** | **2023*** | **2022** | **2021** | **2020** | **2019** | **2018** |
| Core earnings | 5,812.4 | 6,165.4 | 4,638.3 | 4,019.4 | 4,572.7 | 5,587.5 |

*YTD September 30, 2023 BDT--Bangladeshi taka.

**Table 2**

| BRAC Bank Ltd.--Business position | | | | | | |
|---|---|---|---|---|---|---|
| | --Year ended Dec.31-- | | | | | |
| **(%)** | **2023*** | **2022** | **2021** | **2020** | **2019** | **2018** |
| Loan market share in country of domicile | N/A | 2.5 | 2.4 | 2.3 | 2.6 | 2.5 |
| Deposit market share in country of domicile | N/A | 2.1 | 2.4 | 2.4 | 2.4 | 2.3 |
| Return on average common equity | 11.1 | 10.2 | 10.3 | 9.9 | 13.1 | 17.9 |

*YTD September 30, 2023. N/A--Not applicable

**Table 3**

| BRAC Bank Ltd.--Capital and earnings | | | | | | |
|---|---|---|---|---|---|---|
| | --Year ended Dec.31-- | | | | | |
| **(%)** | **2023*** | **2022** | **2021** | **2020** | **2019** | **2018** |
| Tier 1 capital ratio | 17.0 | 17.9 | 19.1 | 13.9 | 15.0 | 14.5 |
| Adjusted common equity/total adjusted capital | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Net interest income/operating revenues | 56.5 | 59.6 | 67.5 | 63.7 | 73.2 | 67.3 |
| Fee income/operating revenues | 23.5 | 23.8 | 23.1 | 22.3 | 21.1 | 25.1 |
| Market-sensitive income/operating revenues | 8.8 | 8.7 | 4.0 | 7.1 | 4.5 | 7.0 |
| Cost to income ratio | 66.8 | 69.6 | 68.0 | 71.5 | 67.8 | 64.2 |
| Preprovision operating income/average assets | 2.1 | 2.0 | 2.1 | 1.9 | 2.4 | 2.8 |
| Core earnings/average managed assets | 1.1 | 1.1 | 1.0 | 0.9 | 1.2 | 1.7 |

*YTD September 30, 2023.

**Table 4**

| BRAC Bank Ltd.--Risk-adjusted capital framework data | | | | | |
|---|---|---|---|---|---|
| | **Exposure*** | **Basel III RWA** | **Average Basel III RW(%)** | **S&P Global Ratings' RWA** | **Average S&P Global Ratings' RW (%)** |
| **Credit risk** | | | | | |
| Government and central banks | 88,413,883,770 | 376,921,250,000 | 426 | 70,655,492,917 | 80 |
| Of which regional governments and local authorities | 0 | 0 | 0 | 0 | 0 |
| Institutions and CCPs | 23,861,910,724 | 0 | 0 | 31,593,358,589 | 132 |
| Corporate | 337,405,833,761 | 0 | 0 | 539,116,214,398 | 160 |
| Retail | 96,457,439,794 | 0 | 0 | 142,846,223,059 | 148 |
| Of which mortgage | 12,684,890,000 | 0 | 0 | 11,732,254,761 | 92 |
| Securitization§ | 0 | 0 | 0 | 0 | 0 |

**Table 4**

| BRAC Bank Ltd.--Risk-adjusted capital framework data (cont.) | | | | | |
|---|---|---|---|---|---|
| Other assets† | 34,005,351,335 | 0 | 0 | 90,719,628,338 | 267 |
| Total credit risk | 580,144,419,384 | 376,921,250,000 | 65 | 874,930,917,301 | 151 |
| **Credit valuation adjustment** | | | | | |
| Total credit valuation adjustment | -- | 0 | -- | 0 | -- |
| **Market risk** | | | | | |
| Equity in the banking book | 1,631,553,827 | 0 | 0 | 16,929,295,158 | 1,038 |
| Trading book market risk | -- | 16,070,375,000 | -- | 24,105,562,500 | -- |
| Total market risk | -- | 16,070,375,000 | -- | 41,034,857,658 | -- |
| **Operational risk** | | | | | |
| Total operational risk | -- | 0 | -- | 70,917,410,589 | -- |
| | **Exposure** | **Basel III RWA** | **Average Basel II RW (%)** | **S&P Global Ratings' RWA** | **% of S&P Global Ratings' RWA** |
| **Diversification adjustments** | | | | | |
| RWA before diversification | -- | 349,831,720,000 | -- | 986,883,185,548 | 100 |
| Total diversification/ Concentration adjustments | -- | -- | -- | 373,267,336,435 | 38 |
| RWA after diversification | -- | 349,831,720,000 | -- | 1,360,150,521,983 | 138 |
| | | **Tier 1 capital** | **Tier 1 ratio (%)** | **Total adjusted capital** | **S&P Global Ratings' RAC ratio (%)** |
| **Capital ratio** | | | | | |
| Capital ratio before adjustments | | 43,433,330,000 | 12.4 | 46,269,712,979 | 4.7 |
| Capital ratio after adjustments‡ | | 43,433,330,000 | 12.4 | 46,269,712,979 | 3.4 |

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. BDT--Bangladesh taka. Sources: Company data as of Dec. 31, 2022. S&P Global Ratings.

**Table 5**

| BRAC Bank Ltd.--Risk position | | | | | | |
|---|---|---|---|---|---|---|
| | **--Year ended Dec.31--** | | | | | |
| **(%)** | **2023*** | **2022** | **2021** | **2020** | **2019** | **2018** |
| Growth in customer loans | 24.5 | 27.9 | 17.8 | 3.2 | 11.1 | 17.2 |
| Total managed assets/adjusted common equity (x) | 15.1 | 13.8 | 13.1 | 10.1 | 9.4 | 9.1 |
| New loan loss provisions/average customer loans | 0.7 | 0.6 | 1.1 | 0.7 | 0.6 | 0.3 |
| Gross nonperforming assets/customer loans + other real estate owned | 3.6 | 4.0 | 4.3 | 3.4 | 4.5 | 3.6 |
| Loan loss reserves/gross nonperforming assets | N/A | 93.2 | 101.8 | 126.9 | 82.8 | 99.6 |

*YTD September 30, 2023. N/A--Not applicable

**Table 6**

| BRAC Bank Ltd.--Funding and liquidity | | | | | | |
|---|---|---|---|---|---|---|
| | --Year ended Dec.31-- | | | | | |
| **(%)** | **2023*** | **2022** | **2021** | **2020** | **2019** | **2018** |
| Core deposits/funding base | 82.6 | 82.9 | 86.1 | 88.9 | 86.8 | 84.6 |
| Customer loans (net)/customer deposits | 90.7 | 89.1 | 86.1 | 78.8 | 86.8 | 94.9 |
| Long-term funding ratio | 88.8 | 89.1 | 90.5 | 92.7 | 92.9 | 92.2 |
| Stable funding ratio | 105.5 | 118.2 | 121.5 | 126.6 | 118.1 | 113.4 |
| Short-term wholesale funding/funding base | 12.6 | 12.4 | 11.2 | 8.3 | 8.0 | 8.9 |
| Broad liquid assets/short-term wholesale funding (x) | 2.1 | 2.7 | 3.3 | 4.4 | 3.9 | 3.4 |

*YTD September 30, 2023.

| BRAC Bank Ltd.--Rating component scores | |
|---|---|
| **Issuer credit rating** | **B+/Stable/B** |
| SACP | b+ |
| Anchor | b+ |
| Economic risk | 8 |
| Industry risk | 9 |
| Business position | Adequate |
| Capital and earnings | Moderate |
| Risk position | Adequate |
| Funding | Adequate |
| Liquidity | Adequate |
| Comparable ratings analysis | 0 |
| Support | 0 |
| ALAC support | 0 |
| GRE support | 0 |
| Group support | 0 |
| Sovereign support | 0 |
| Additional factors | 0 |

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Bangladesh BICRA Industry Risk Trend Revised To Negative On Declining Foreign Exchange Reserves, Aug. 8, 2023
- Bangladesh Outlook Revised To Negative On Enduring External Risk; 'BB-/B' Ratings Affirmed, July 25, 2023

| Ratings Detail (As Of December 7, 2023)* | |
|---|---|
| **BRAC Bank Ltd.** | |
| Issuer Credit Rating | B+/Stable/B |
| **Issuer Credit Ratings History** | |
| 26-Feb-2018 | B+/Stable/B |
| **Sovereign Rating** | |
| Bangladesh | BB-/Negative/B |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.