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BRAC Bank Ltd.

Primary Credit Analyst:

Shinoy Varghese, Singapore +65 6597-6247; shinoy.varghese1@spglobal.com

Secondary Contact:

Amit Pandey, Singapore + 65 6239 6344; amit.pandey@spglobal.com

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BRAC Bank Ltd.

Rating 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 elevated import bill, declining foreign exchange reserves, and extremely high credit risk.
Above-industry-average asset quality.	Regulations on bank lending rates restrict net interest margins (NIMs).

BRAC Bank Ltd. (BBL) is likely to further develop its franchise. We believe the bank will maintain its satisfactory franchise, particularly in the SME and retail segments in the underpenetrated Bangladeshi market.

BBL faces tough operating conditions. While economic growth is likely to remain high in Bangladesh due to momentum in its labor markets and export industries, there are downside risks from commodity inflation and external sector volatility. Bangladesh is weathering a period of elevated import bills and declining foreign exchange reserves.

Outlook

The stable outlook on BBL reflects our view that the bank will steadily navigate challenging operating conditions in Bangladesh and maintain its financial profile over the next 12-18 months.

Downside scenario

We may lower the ratings if BBL's asset quality deteriorates sharply, for example, due to a prolonged reduction in economic activities in Bangladesh.

Upside scenario

We could upgrade BBL if its profitability improves while remaining higher than the industry average and the bank sustainably increases its market share without strategic or operational missteps. Consistently good asset-quality metrics, prudential underwriting standards, and healthy capitalization could indicate this.

Key Metrics

BRAC Bank Ltd.--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue	3.3	10.1	11.4-13.9	15.0-18.3	21.5-26.2
Growth in customer loans	3.2	17.8	23.0-25.0	18.0-22.0	18.0-22.0
Growth in total assets	9.8	15.5	16.6-20.3	14.4-17.6	14.6-17.9
Net interest income/average earning assets (NIM)	4.7	4.8	4.3-4.5	4.2-4.4	4.5-4.7
Cost to income ratio	71.5	68.0	67.0-69.0	64.0-66.0	58.0-60.0
Return on average common equity	9.9	10.3	9.5-10.5	11.5-12.5	16.0-17.0
Return on assets	1.0	1.0	1.0-1.2	1.1-1.3	1.5-1.7
New loan loss provisions/average customer loans	0.7	1.1	0.6-0.7	0.5-0.6	0.45-0.55
Gross nonperforming assets/customer loans	3.4	4.3	4.0-4.2	3.8-4.0	3.7-3.9
Net charge-offs/average customer loans	0.2	0.3	0.3-0.4	0.2-0.3	0.2-0.3
Risk-adjusted capital ratio	N/A	4.9	4.5-5.0	4.5-5.0	4.5-5.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin. N/A--Not applicable.

Rationale

The ratings reflect BBL's good management and franchise in the domestic retail and SME segments. The ratings also reflect the bank's above-industry-average asset quality. BBL remains concentrated in Bangladesh, where banks face several structural challenges like high competition and substantial credit risk versus international peers.

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

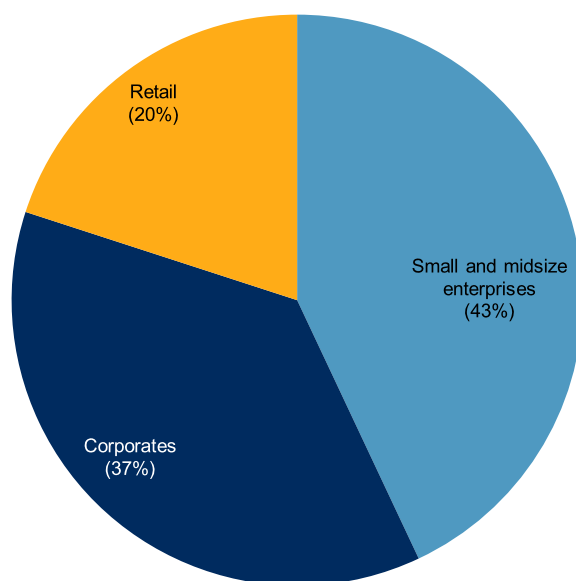
While Bangladesh has healthy growth prospects (due to poverty alleviation measures and the development of its manufacturing and service sectors), credit risk in the country remains extremely high. This is underscored by weak foreclosure laws and underwriting standards, weak governance at some banks, and client concentration leading 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 gaps in monitoring and in the system's ability to address problems early. In our view, the country's banking system has overcapacity and market distortions which lead to low profitability for the banking system. A supportive core customer deposit base and low reliance on external funding temper these weaknesses.

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 2.4% of the system's deposits.

Bangladesh has quite a fragmented banking industry and BBL competes with more than 50 other banks in the country. We expect the bank to retain its diversified loan exposure. It has loan exposure to SMEs (43% of loans as of Sept. 30, 2022), corporates (37%), and retail (20%).

BBL uses mobile-banking solutions (through its subsidiary bKash Ltd.) to reach a sizable underbanked and unbanked population in the country. The bank has a bigger focus on the retail and SME segments than the other local banks. In the industry, loans to corporates comprise about 75% of total loans on average. Banks in Bangladesh traditionally focus on the wholesale segment due to relationship-based lending and higher operating costs associated with SMEs and retail businesses.

Chart 1**BRAC Bank Ltd. Has Diversified Loan Exposure**

Data as of September 2022. Source: Published results.

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BBL will likely have a risk-adjusted capital (RAC) ratio of about 5% over the next 12-24 months, versus 4.9% as of end-2021. We calculated our RAC ratio for 2021 after deconsolidating the assets and liabilities of the bank's subsidiary, bKash.

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

We expect BBL's capitalization to decline if Bangladesh sustains its loan interest rate cap and the bank continues to grow at a brisk pace. However, the bank's capitalization, as measured by the RAC ratio, remains a neutral factor for the credit ratings.

BBL could potentially achieve credit growth of about 20% on average over the next 18-24 months. The bank will likely grow at a faster rate than the industry. In our view, the high growth is to compensate for the slowdown during COVID, particularly in 2020 when the bank's loan book only expanded by about 3.2%. This was much lower than its historical high growth of double digits.

BBL's profitability is significantly better than the industry. The bank's core earnings to average adjusted assets ratio

was close to 1% even during COVID-19, compared with 0.5% for the industry. Its profitability is characterized by high NIMs (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).

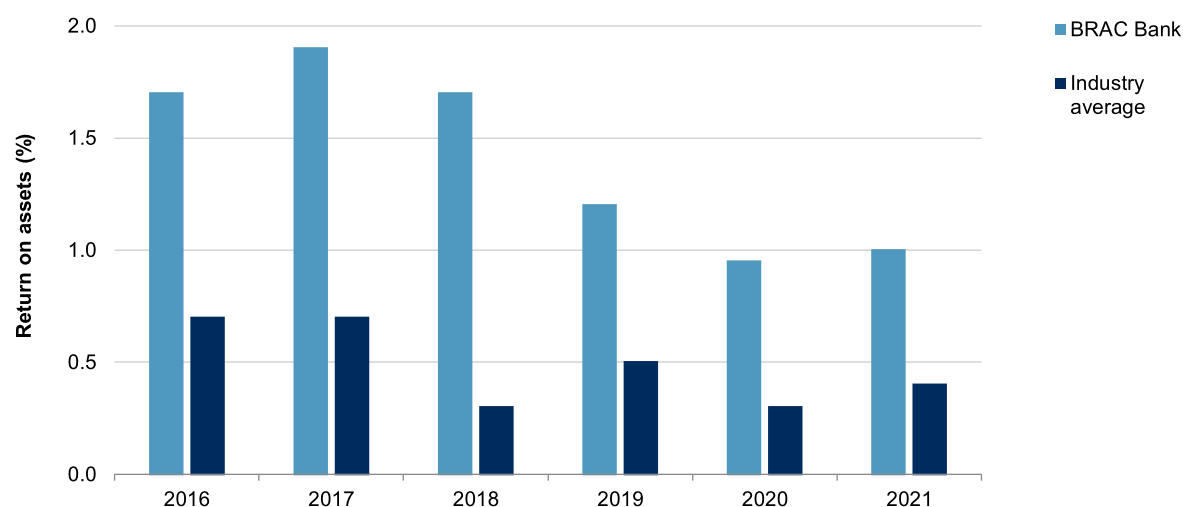
BBL's operating revenues help to offset elevated operating costs. Operating costs for the bank have been high due to its large SME clientele and investments in staff, infrastructure, and technology initiatives, especially through bKash.

NIM may decline over the next 12 months. This is due to lending rate caps in the country. The regulator capped interest rates at 9% on all loans barring credit-card loans in April 2020. It may waive these caps progressively at some point. If there is a waiver, our NIM and capitalization estimates may have upside.

BBL will likely keep its credit losses within normalized losses. This is because the bank has made adequate provisioning coverage for existing nonperforming loans. It has a lower stock of restructured loans (including those due to COVID relief) than peers and Bangladesh is likely to withdraw its relief mechanisms gradually.

Chart 2

BRAC Bank Ltd.'s Profitability Has Declined, But Is Better Than The Industry



Source: Bank Reports, Bangladesh Bank.

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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.

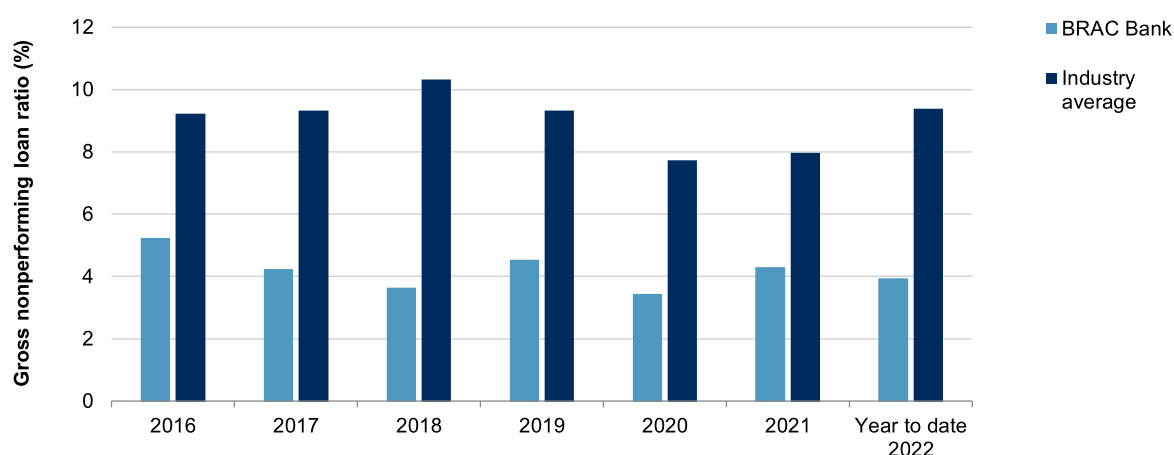
An increase in BBL's unsecured exposure to the SME and retail segments is historically balanced by the granularity and high spreads for these exposures and the bank's good understanding of its SME clients. BBL's SME business caters to entrepreneurs and small businesses. The bank makes these loans to 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-19, BBL's SME portfolio behaved better than the other segments. The bank's retail loans consist of home loans, followed by personal loans and credit cards.

BBL's loans under payment deferral schemes stood at below 3% as of end-September 2022. The bank had a better nonperforming loan ratio than the industry. Its gross NPL ratio was 3.9% as of end-September 2022, much lower than the industry's 9.4%.

Chart 3

BRAC Bank Ltd. Has Better Asset Quality Than The Industry Average



Source: Bank reports, Bangladesh Bank.

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BBL will likely maintain its diversified deposit franchise over the next 12-18 months. We expect the bank's cost of funds to increase progressively. This is given interest rate rises and the lag between deposit growth and loan growth.

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, 2022, household deposits accounted for about 51% of BBL's deposits. This was followed by corporates (32%) and SMEs (19%). The bank's CASA ratio was about 51%, above the industry average of about 44%. The bank also has matched funding in terms of its foreign assets, which account for about 10% of the total assets.

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 3.3x as of Dec. 31, 2021. This matched that of global peers.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- N/A					- N/A					- Transparency and reporting				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Governance factors are a moderately negative consideration in our credit rating analysis of BBL. However, we assess the bank's governance to be 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)	2022*	2021	2020	2019	2018	2017
Adjusted assets	609,557.7	512,957.9	441,021.1	401,828.6	346,359.5	309,359.1
Customer loans (gross)	396,638.9	322,135.2	273,438.9	264,870.3	238,400.4	203,431.0
Adjusted common equity	45,147.4	39,125.2	44,200.2	43,245.8	38,600.1	26,204.9
Operating revenues	27,286.8	31,622.7	28,715.8	27,804.8	26,000.9	23,687.3
Noninterest expenses	19,143.5	21,515.4	20,533.1	18,859.4	16,691.1	14,248.9
Core earnings	3,845.0	4,638.3	4,019.4	4,572.7	5,587.5	5,509.6

BDT--Bangladeshi taka. YTD September 30.

Table 2

BRAC Bank Ltd.--Business Position						
	--Year ended Dec. 31--					
(%)	2022*	2021	2020	2019	2018	2017
Loan market share in country of domicile	N/A	2.4	2.3	2.6	2.5	2.4
Deposit market share in country of domicile	N/A	2.4	2.4	2.4	2.3	2.1
Return on average common equity	8.7	10.3	9.9	13.1	17.9	21.3

YTD September 30. N/A--Not applicable.

Table 3

BRAC Bank Ltd.--Capital And Earnings						
	--Year ended Dec. 31--					
(%)	2022*	2021	2020	2019	2018	2017
Tier 1 capital ratio	17.5	19.1	13.9	15.0	14.5	10.6
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	61.5	67.5	63.7	73.2	67.3	65.6
Fee income/operating revenues	29.9	23.1	22.3	21.1	25.1	25.5
Market-sensitive income/operating revenues	1.9	4.0	7.1	4.5	7.0	9.8
Cost to income ratio	70.2	68.0	71.5	67.8	64.2	60.2
Preprovision operating income/average assets	1.9	2.1	1.9	2.4	2.8	3.3
Core earnings/average managed assets	0.9	1.0	0.9	1.2	1.7	1.9

*YTD September 30.

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 & central banks	69,173,438,294.0	0.0	0.0	58,004,377,296.7	83.9
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	31,885,273,926.0	0.0	0.0	48,286,137,671.7	151.4
Corporate	276,782,080,314.0	322,792,879,862.5	116.6	456,037,083,550.0	164.8
Retail	64,418,059,053.0	0.0	0.0	91,600,471,833.6	142.2
Of which mortgage	12,909,673,974.0	0.0	0.0	11,940,157,458.6	92.5
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	17,187,879,724.4	0.0	0.0	47,866,266,467.8	278.5
Total credit risk	459,446,731,311.4	322,792,879,862.5	70.3	701,794,336,819.7	152.7
Credit valuation adjustment					
Total credit valuation adjustment	--	0.0	--	0.0	--
Market Risk					
Equity in the banking book	1,090,653,281.0	0.0	0.0	11,281,932,385.0	1,034.4
Trading book market risk	--	20,158,652,825.0	--	30,237,979,237.5	--
Total market risk	--	20,158,652,825.0	--	41,519,911,622.5	--
Operational risk					
Total operational risk	--	41,248,042,550.0	--	59,292,474,723.8	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	384,199,575,237.5	--	802,606,723,166.0	100.0

Table 4

BRAC Bank Ltd.--Risk-Adjusted Capital Framework Data (cont.)					
Total diversification/ concentration adjustments	--	--	--	314,791,386,477.4	39.2
RWA after diversification	--	384,199,575,237.5	--	1,117,398,109,643.3	139.2
	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments	0.0	0.0	39,125,248,979.4		4.9
Capital ratio after adjustments†	0.0	0.0	39,125,248,979.4		3.5

*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--Bangladeshi taka. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

BRAC Bank Ltd.--Risk Position						
	--Year ended Dec. 31--					
(%)	2022*	2021	2020	2019	2018	2017
Growth in customer loans	30.8	17.8	3.2	11.1	17.2	15.7
Total managed assets/adjusted common equity (x)	13.5	13.1	10.1	9.4	9.1	11.9
New loan loss provisions/average customer loans	0.7	1.1	0.7	0.6	0.3	0.6
Gross nonperforming assets/customer loans + other real estate owned	4.2	4.3	3.4	4.5	3.6	4.2
Loan loss reserves/gross nonperforming assets	N/A	101.8	126.9	82.8	99.6	94.0

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

Table 6

BRAC Bank Ltd.--Funding And Liquidity						
	--Year ended Dec. 31--					
(%)	2022*	2021	2020	2019	2018	2017
Core deposits/funding base	84.2	86.1	88.9	86.8	84.6	82.2
Customer loans (net)/customer deposits	95.2	86.1	78.8	86.8	94.9	94.6
Long-term funding ratio	99.5	90.5	92.7	92.9	92.2	90.3
Stable funding ratio	112.3	121.5	126.6	118.1	113.4	104.9
Short-term wholesale funding/funding base	0.5	11.2	8.3	8.0	8.9	10.8
Broad liquid assets/short-term wholesale funding (x)	41.9	3.3	4.4	3.9	3.4	2.7

*YTD September 30.

BRAC Bank Ltd.--Rating Component Scores

Issuer Credit Rating	B+ /Stable/B
SACP	b+
Anchor	b+
Economic risk	8

BRAC Bank Ltd.--Rating Component Scores (cont.)

Issuer Credit Rating	B+ /Stable/ B
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 | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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

Ratings Detail (As Of December 20, 2022)***BRAC Bank Ltd.**

Issuer Credit Rating B+ /Stable/ B

Issuer Credit Ratings History

26-Feb-2018 B+ /Stable/ B

Sovereign Rating

Bangladesh BB- /Stable/ 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.

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