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## BRAC Bank Ltd.

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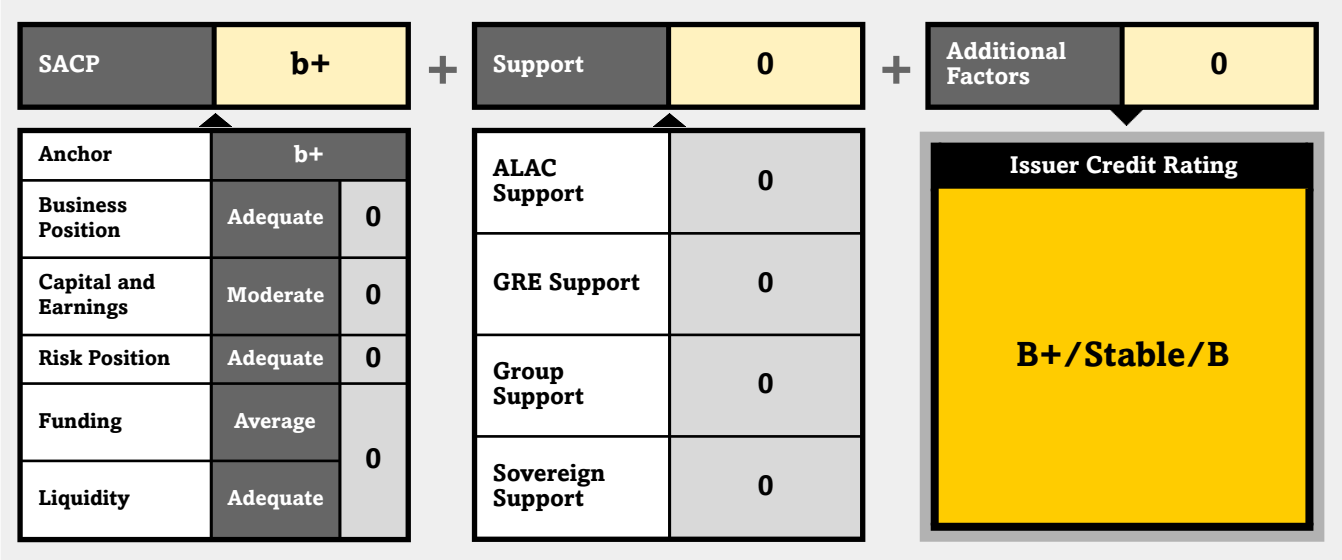
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# BRAC Bank Ltd.



## Credit Highlights

Key strengths	Key risks
Good management and business franchise in the domestic retail and small and midsize enterprise (SME) segments.	Challenging operating conditions amid COVID-19-induced economic uncertainties and substantial credit risk in the Bangladesh economy.
Above-industry-average asset quality and capitalization.	Reduced profitability due to pressure on interest margins and credit costs.

**BRAC Bank Ltd. is likely to grow its franchise.** We believe the bank will maintain its satisfactory franchise, particularly in the SME and retail segments in the underpenetrated Bangladesh market, over the next two years. We expect BRAC Bank's deposit base to remain adequate due to the bank's good distribution network, diversified customer base, and solid brand name.

**COVID-19 related uncertainties to linger.** Bangladesh has experienced sharp COVID-19 waves in the current year. While we expect the economy to pick up over next 12-18 months, pandemic-related uncertainties are likely to linger as the country has a low vaccination rate. We expect BRAC Bank's profitability to be muted relative to its average over 2016-2019 owing to higher credit costs and lower net interest margins (NIMs). Regulatory caps on loan yields and floors on retail term deposit rates are likely to keep spreads under check. The bank's above-industry-average asset quality and capitalization should support its credit profile.

**Outlook: Stable**

The stable outlook on BRAC Bank 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 rating if BRAC Bank's asset quality deteriorates sharply, for example due to a prolonged reduction in economic activity in Bangladesh.

**Upside scenario**

We could upgrade BRAC Bank if its profitability improves while remaining higher than the industry average, and the bank increases its market share in a sustainable fashion without strategic or operational missteps. This could be shown by sustained good asset quality metrics, prudential underwriting standards, and healthy capitalization.

**Key Metrics****BRAC Bank Ltd.--Key Ratios And Forecasts\***

(%)	--Fiscal year ended Dec. 31--			
	2019a	2020a	2021f	2022f
Growth in customer loans	11.1	3.2	6.0-7.5	9.0-12.0
Net interest income/average earning assets (NIM)	5.9	4.7	4.4-4.6	4.1-4.5
Cost to income ratio	67.8	71.5	67.0-70.0	63.0-65.0
Return on assets	1.2	1.0	0.8-1.0	0.9-1.2
New loan loss provisions/average customer loans	0.6	0.7	1.2-1.4	0.9-1.3
Risk-adjusted capital ratio	5.6	5.3	5.0-5.3	5.0-5.4

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

**Anchor: 'b+' For A Bank In Bangladesh**

In our opinion, Bangladesh's low-income economy, heavy development needs, and fiscal constraints limit its economic resilience. Bangladesh's severe COVID-19 outbreak may act as a near-term brake on economic activity, but economic recovery should build over the next one to two years. Bangladesh has healthy medium-term growth prospects and relatively low economic imbalances, with credit growing in line with nominal GDP and benign current account positions. Bangladesh's credit risk remains extremely high, with weak foreclosure laws and underwriting standards, weak governance at some banks, and client concentration leading to sizable stressed assets in the banking industry.

Bangladesh is aiming to implement international regulatory standards. However, supervision has gaps and results in limited market discipline. Weak asset quality and capitalization of some banks in the country reflect gaps in monitoring and in the system's ability to address problems early. In our view, Bangladesh's banking system has overcapacity and market distortions. A supportive core customer deposit base and low reliance on external funding temper these

weaknesses.

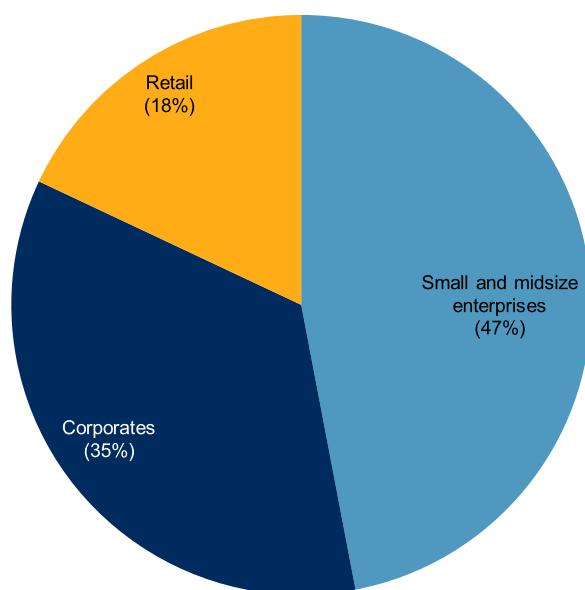
## Business Position: Diversified Business Mix

We expect BRAC Bank to maintain its market position and business stability over next 12-15 months. The bank is among the top 15 in the country and accounts for about 2.4% of the system's deposits. Bangladesh's banking industry is quite fragmented, and BRAC Bank competes with more than 50 other banks in the country.

BRAC Bank's business growth may be tepid in the next six months. However, we expect the bank to continue to grow its franchise in the competitive yet underpenetrated financial services industry in Bangladesh over the longer term. BRAC Bank's distribution network as of end-December 2020 is spread over 187 branches, 375 ATMs, and 456 SME unit offices that service SMEs.

### Chart 1

#### BRAC Bank Has Diversified Loan Exposure



Data as of June 2021. Source: Published results.

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We expect BRAC Bank to retain its diversified loan exposure. The bank has loan exposure to SME (47% of loans as of June 30, 2021), corporates (35%), and retail (18%). It has a higher focus on retail and SME segments than other local banks. This compares with an industry average, where loans to corporates comprise about 75% of total loans. BRAC Bank uses mobile-banking solutions--through its subsidiary bKash Ltd.--to reach a sizable underbanked and unbanked

population in the country. Banks in Bangladesh have traditionally focused on the wholesale segment due to relationship-based lending and higher operating costs associated with SMEs and retail businesses.

We expect BRAC Bank 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 BRAC Bank's business diversity.

We consider BRAC Bank's management to be satisfactory. The management team has identified SME and retail segments as the niche area and has since 2015 embarked on strategies to improve operating competitiveness. We expect the bank to increasingly migrate customers from physical channels to digital ones to reduce operating costs and offer more convenience to customers. BRAC Bank's management has shown prudence in managing its balance sheet by keeping capitalization above the industry average and increasing liquidity during COVID-19 disruptions. That said, the bank's profitability has come under strain owing to a 9% cap on lending rates introduced by the regulator, and the bank's higher exposure to SME businesses, which tend to result in higher operating costs.

## Capital And Earnings: Profitability To Remain Muted

We anticipate BRAC Bank's credit growth will be in single digit percentage over the next six months before reverting to double digit growth. Bangladesh's economy has performed well relative to regional peers, with GDP growth averaging over 4% for fiscals 2020 and 2021 (years ending June 30). However, recurring COVID-19 waves and lockdowns have disrupted economic activity and the current growth rate is much lower than long-term trend (7%-8%). In our view, it will take some time for businesses and individual confidence to be fully restored. The credit demand is likely to lag recovery in economic conditions.

We expect BRAC Bank's profitability to remain below the 2016-2019 average over the next nine to 15 months. This is due to the twin effects of NIM compression and an increase in credit costs from the cyclically low levels prior to the onset of COVID-19.

The regulator has imposed an interest rate cap of 9% on all loans barring credit card loans since April 2020. This was followed by setting retail term deposit floors above the inflation rate earlier this year. Banks' spreads are therefore lower by about 100 basis points from pre-COVID-19 levels. Similarly, credit costs are likely to be elevated as the pandemic is straining cash flows of individuals and causing hardship to businesses, notwithstanding some improvement as peak COVID-19 stress recedes and economic growth improves.

Given margin and credit cost pressures, management of operating costs through increasing use of technology and rationalizing existing infrastructure, and boosting noninterest income including investment income via opportunistic gains on government securities and dividend payouts will be key capital management drivers.

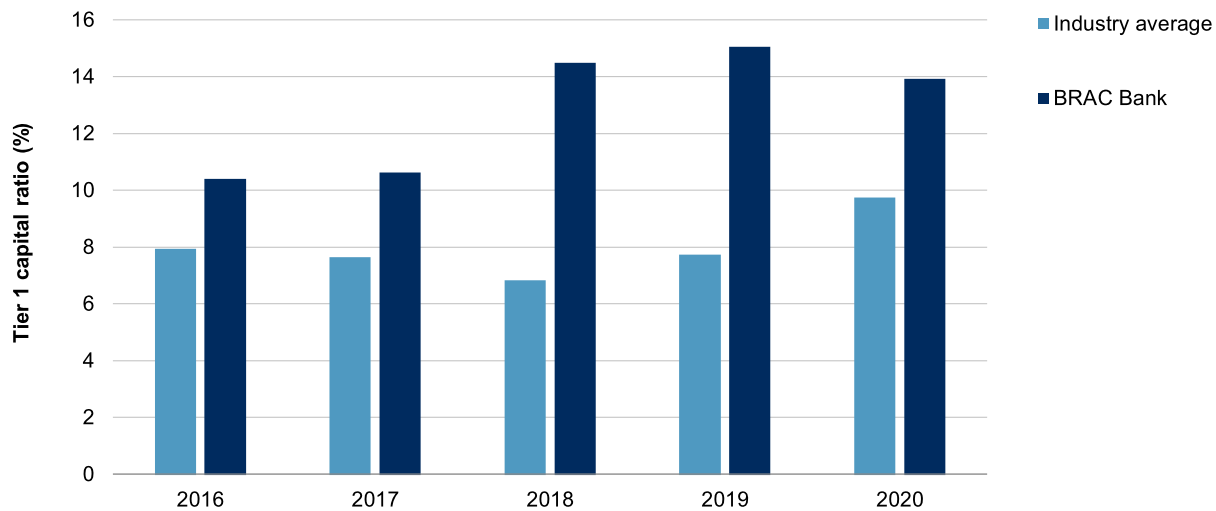
BRAC Bank's ratio of core earnings to average assets has averaged about 1.5% over the past five years, better than the industry average of 0.5%. The bank's profitability has been characterized by high NIMs owing to higher yields on its SME and retail portfolio, fee income contribution from mobile banking and trade finance, and competitive cost of funds due to sizable low-cost deposits. BRAC Bank's operating revenues have helped to offset elevated operating costs.

The operating cost for the bank has been high due to its large SME clientele and investments in staff, infrastructure, and technology initiatives especially through bKash.

BRAC Bank has above-industry-average capitalization due to historically high internal capital generation and retention, and additional capital injection by bKash in 2018. The enhanced capital base has supported its expansion in the fast-growing Bangladesh market.

## Chart 2

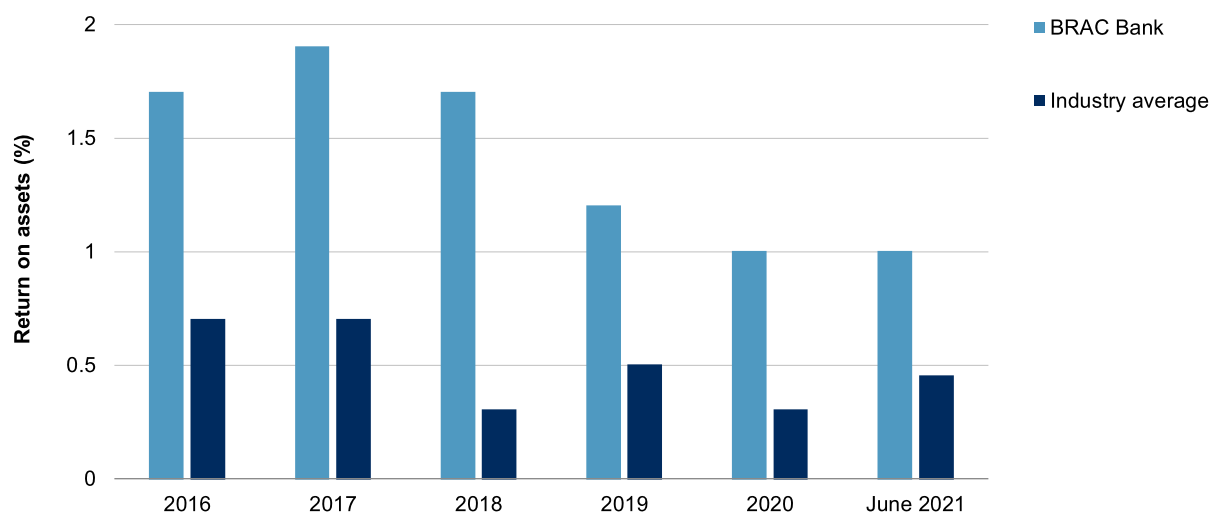
### BRAC Bank's Capitalization Is Better Than The Industry Average



Source: Bank reports, Bangladesh Bank.

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Chart 3

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

Source: Bank Reports, Bangladesh Bank.

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## Risk Position: COVID-19-Related Disruptions Have Hit Asset Quality

Our assessment of BRAC Bank's risk position reflects our view that the bank's credit losses over the next six-12 months will be higher than in the past few years, but will remain within our normalized loss expectations.

BRAC Bank's reported nonperforming loan (NPL) ratio has stayed broadly stable in the past 12-18 months. This was due to the combined effects of relatively shallow slowdown in the Bangladesh economy, liquidity support to borrowers at lower interest rates, and a loan moratorium and loan restructuring scheme the central bank introduced. In the wake of the COVID-19-related slowdown, the regulator directed banks to extend debt relief to affected borrowers and give moratorium on debt repayment till December 2020. After the completion of blanket moratorium, the regulator allowed banks to restructure loans to provide COVID-19 relief to borrowers based on client-bank relationships. BRAC Bank has provided COVID-19 relief on around 4.6% of its total loans. Individuals and businesses had weaker cash flows amid sluggish COVID-19-related demand, both externally and domestically (due to social distancing measures and lockdowns).

We expect some slippages in loans and an increase in credit costs due to this pool of customers over the next 12-18 months. COVID-19 related risk remains in Bangladesh because the country's vaccination rate remains low at about 22% (of at least one dose by October 2021).

In our view, BRAC Bank is likely to keep its credit losses within normalized loss expectations. This is because the bank's provisioning coverage of existing NPLs is adequate, current stock of restructured loans is low compared to its peers',

and the Bangladesh economy is likely to pick up over next 12-18 months.

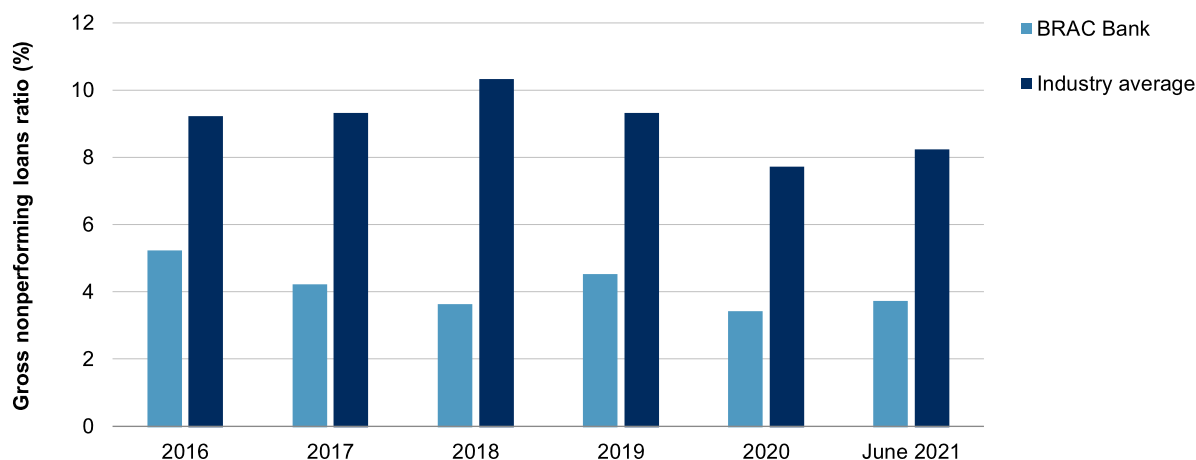
Prior to the COVID-19, BRAC Bank was a beneficiary of the Bangladesh economy being in a sweet spot with one of the highest real GDP growth rates in Asia (averaging over 7% in the prior five years). BRAC Bank has a more balanced overall loan book comprising corporate, SMEs, and retail. It has some corporate client concentration; however, it is less than the industry average in Bangladesh. The corporate segment has been source of poor risk culture in the Bangladesh banking industry.

BRAC Bank's growth of unsecured exposures in the SME and retail segments are historically balanced by the granularity and high spreads on these exposures and the bank's good understanding of SME clients. BRAC Bank's SME business caters to entrepreneurs and small businesses; loans are given for business expansion. The smaller ticket-size loans are unsecured while the larger ones are secured by mortgages. Most of SME borrowers operate essential services, and BRAC Bank maintains close contact and monitors these loans, keeping delinquencies under check. Even in the current episode, the bank's SME portfolio has behaved better than other segments. BRAC Bank's retail loans consist of home loans, followed by personal loans, and credit cards.

BRAC Bank had a lower gross NPL ratio of 3.7% as of June 2021, compared with the industry average of 8.2%. The banking system is also prone to moral hazard due to forbearance allowed by the regulator in the form of rescheduling of loans even prior to the current COVID-19 episode. Such loans constituted 11.8% of total loans as of end-2020 while's BRAC Bank's ratio was 0.7%.

#### Chart 4

#### BRAC Bank's Asset Quality Is Better Than The Industry Average



Source: Bank reports, Bangladesh Bank.

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## Funding And Liquidity: Deposit Franchise Supports Funding

We expect BRAC Bank to maintain its diversified deposit franchise over the next 12-18 months. The bank's deposits, particularly its sizable low-cost current and saving accounts (CASA), support its funding profile. As of June 30, 2021, deposits contributed 88% to the bank's funding base, in line with the industry average. Household deposits accounted for around 57% of deposits in June 2021, followed by corporates (22%) and SMEs (21%). The bank's CASA ratio of around 59% in June 2021 was higher than the industry average of 42% as of Dec. 31, 2020. Its ratio of loans to customer deposits was 85% as of June 30, 2021, in line with the industry average. BRAC Bank has increased its deposit base and shored up liquidity in the wake of the COVID-19 related disruptions. Excess liquidity has been parked in government securities amid the declining interest rate environment, leading to sizable treasury gains.

BRAC Bank's assets in the form of cash and short-term funds underpin its liquidity. The bank's ratio of broad liquid assets to short-term wholesale funding was 4.4x as of Dec. 31, 2020, in line with that of global peers.

## Key Statistics

**Table 1**

BRAC Bank Ltd.--Key Figures					
	--Year ended Dec. 31--				
(Mil. BDT)	2020	2019	2018	2017	2016
Adjusted assets	441,021	401,829	346,359	309,359	258,808
Customer loans (gross)	273,439	264,870	238,400	203,431	175,841
Adjusted common equity	44,200	43,246	38,600	26,205	21,414
Operating revenues	28,716	27,805	26,001	23,687	20,182
Noninterest expenses	20,533	18,859	16,691	14,249	11,545
Core earnings	4,019	4,573	5,587	5,510	4,103

BDT--Bangladesh taka.

**Table 2**

BRAC Bank Ltd.--Business Position					
	--Year ended Dec. 31--				
(%)	2020	2019	2018	2017	2016
Loan market share in country of domicile	2.3	2.6	2.5	2.4	2.5
Deposit market share in country of domicile	2.4	2.4	2.3	2.1	2.0
Return on average common equity	9.9	13.1	17.9	21.3	18.3

**Table 3**

BRAC Bank Ltd.--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2020	2019	2018	2017	2016
Tier 1 capital ratio	13.9	15.0	14.5	10.6	10.4
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0

**Table 3**

BRAC Bank Ltd.--Capital And Earnings (cont.)					
	--Year ended Dec. 31--				
(%)	2020	2019	2018	2017	2016
Net interest income/operating revenues	63.7	73.2	67.3	65.6	68.9
Fee income/operating revenues	22.3	21.1	25.1	25.5	24.3
Market-sensitive income/operating revenues	7.1	4.5	7.0	9.8	4.5
Cost to income ratio	71.5	67.8	64.2	60.2	57.2
Provision operating income/average assets	1.9	2.4	2.8	3.3	3.6
Core earnings/average managed assets	0.9	1.2	1.7	1.9	1.7

**Table 4**

BRAC Bank Ltd.--Risk-Adjusted Capital Framework Data			
(BDT)	Exposure*	S&P Global RWA	Average S&P Global RW (%)
<b>Credit risk</b>			
Government & central banks	107,545,661,222.0	109,228,426,920.6	101.6
Of which regional governments and local authorities	0.0	0.0	0.0
Institutions and CCPs	51,160,663,436.6	98,346,143,324.1	192.2
Corporate	232,383,529,749.9	380,622,059,306.5	163.8
Retail	45,793,086,457.6	60,473,640,453.1	132.1
Of which mortgage	13,454,925,029.8	12,444,460,160.1	92.5
Securitization§	0.0	0.0	0.0
Other assets†	23,525,162,343.8	63,769,201,079.4	271.1
Total credit risk	460,408,103,209.8	712,439,471,083.7	154.7
<b>Credit valuation adjustment</b>			
Total credit valuation adjustment	--	0.0	--
<b>Market Risk</b>			
Equity in the banking book	2,633,193,274.3	27,185,319,294.0	1,032.4
Trading book market risk	--	45,105,118,163.3	--
Total market risk	--	72,290,437,457.2	--
<b>Operational risk</b>			
Total operational risk	--	53,842,140,718.1	--
	<b>Exposure</b>	<b>S&amp;P Global RWA</b>	<b>% of S&amp;P Global RWA</b>
<b>Diversification adjustments</b>			
RWA before diversification	--	838,572,049,259.1	100.0
Total Diversification/ Concentration Adjustments	--	332,566,232,840.0	39.7
RWA after diversification	--	1,171,138,282,099.1	139.7

**Table 4**

BRAC Bank Ltd.--Risk-Adjusted Capital Framework Data (cont.)		
	Total adjusted capital	S&P Global RAC ratio (%)
<b>Capital ratio</b>		
Capital ratio before adjustments	44,200,157,251.0	5.3
Capital ratio after adjustments‡	44,200,157,251.0	3.8

\*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, 2020, S&P Global Ratings.

**Table 5**

BRAC Bank Ltd.--Risk Position					
	--Year ended Dec. 31--				
(%)	2020	2019	2018	2017	2016
Growth in customer loans	3.2	11.1	17.2	15.7	17.3
Total managed assets/adjusted common equity (x)	10.1	9.4	9.1	11.9	12.2
New loan loss provisions/average customer loans	0.7	0.6	0.3	0.6	1.0
Gross nonperforming assets/customer loans + other real estate owned	3.4	4.5	3.6	4.2	5.2
Loan loss reserves/gross nonperforming assets	126.9	82.8	99.6	94.0	88.4

**Table 6**

BRAC Bank Ltd.--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	2020	2019	2018	2017	2016
Core deposits/funding base	88.9	86.8	84.6	82.2	80.4
Customer loans (net)/customer deposits	78.8	86.8	94.9	94.6	98.7
Long-term funding ratio	92.7	92.9	92.2	90.3	89.6
Stable funding ratio	126.6	118.1	113.4	104.9	103.3
Short-term wholesale funding/funding base	8.3	8.0	8.9	10.8	11.5
Broad liquid assets/short-term wholesale funding (x)	4.4	3.9	3.4	2.7	2.4

## Related Criteria

- 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: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	<b>b+</b>	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

#### Ratings Detail (As Of November 3, 2021)\*

##### 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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