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Research Update:

**BRAC Bank Ltd. 'B+/B' Ratings
Affirmed On Stable Financial Profile
Amid Heightened Industry Risks;
Outlook Stable**

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Overview

- BRAC Bank's capitalization has sustainably improved due to prudent capital management, which includes completion of a stake sale in its subsidiary, moderation in growth, and plans for full profit retention.
- We believe the broader banking system in Bangladesh will face increasing pressure on earnings capacity from already moderate levels.
- We are affirming our 'B+' long-term and 'B' short-term issuer credit ratings on Bangladesh-based BRAC Bank.
- The stable outlook reflects our view that BRAC Bank will maintain its financial profile over the next 12-18 months amid heightened competitive conditions.

Rating Action

On Dec. 18, 2018, S&P Global Ratings affirmed its 'B+' long-term and 'B' short-term issuer credit ratings on Bangladesh-based BRAC Bank Ltd. The outlook on the long-term rating is stable.

Rationale

We affirmed the rating because we expect BRAC Bank's above-industry average profitability and capital buffers will sustain its credit profile over the next 12-18 months. At the same time, we believe Bangladesh's broader banking system faces increasing pressure on earnings capacity, from an already moderate base. We have reflected the increased systemwide risks in our revised BICRA scores on Bangladesh (see BICRA score snapshot below).

By our estimates, BRAC Bank's pre-diversification risk-adjusted capitalization will remain above 5% over the next 12-24 months. In our view, the bank is implementing prudent capital strategy, which includes completion of a stake sale in its subsidiary bKash Ltd., and plans to retain all profits going ahead. We also expect loan growth to slow over the next 12-18 months, from 20% year-on-year growth in the first half of 2018.

The bank is likely to increase its franchise in Bangladesh's competitive yet underpenetrated financial services industry. We expect expansion and better

use of BRAC Bank's distribution network to drive growth. In our view, the bank will continue to invest in its branch infrastructure, cyber security and technology initiatives.

BRAC Bank's profitability is likely to decline from 2017 levels. Interest spreads are declining as funding costs rise amid fierce competition for deposits among banks and alternate saving instruments, such as the government's national savings certificates. That said, we expect BRAC bank to maintain above-industry profitability owing to higher spreads on its small and midsize enterprise and retail loans, as well as fee income from mobile banking and trade finance. The bank's ratio of core earnings to average assets averaged about 1.3% over the past five years, much better than the industry average of 0.7%. We expect BRAC Bank's credit cost to remain broadly stable, given a relatively low nonperforming loans and adequate provisioning levels.

In our opinion, industry risk for banks in Bangladesh has increased. This is because of heightened profitability pressures, given high and increasing stressed assets in the system, and generally low provisioning levels. New domestic banks will start operating in the country over the next 12 months, thereby further increasing competitive intensity.

Outlook

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

Upside scenario

We could upgrade BRAC Bank if its profitability stabilizes at a level that is higher than the industry average, and the bank improves its market share in a sustainable fashion without strategic or operational missteps. This could be shown by sustained good asset quality metrics and prudential underwriting standards over the next 12-18 months.

Downside scenario

We see no downside risk given substantial capital buffers at the current rating level.

RATING SCORE SNAPSHOT

	To	From
Issuer Credit Rating	B+/Stable/B	B+/Stable/B
SACP	b+	b+
Anchor	b+	bb-
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Moderate (0)	Weak (-1)
Risk Position	Adequate (0)	Adequate (0)

Funding and Liquidity	Average & Adequate (0)	Average & Adequate (0)
Support	0	0
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

BICRA* SCORE SNAPSHOT

*Banking Industry and Country Risk Assessment: Bangladesh

	To	From
Anchor	b+	bb-
BICRA Group*	9	8
Economic risk*	8	8
Economic resilience**	5	5
Economic imbalances**	2	2
Credit risk in the economy**	6	6
Industry risk*	9	8
Institutional framework**	6	6
Competitive dynamics**	6	5
System-wide funding**	3	3
Trends		
Economic risk trend	Stable	Stable
Industry risk trend	Stable	Stable
Government Support	Uncertain	Uncertain

*On a scale of 1 (lowest risk) to 10 (highest risk)

**On a scale of 1 (lowest risk) to 6 (highest risk)

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

Ratings List

Ratings Affirmed

BRAC Bank Ltd.

Issuer Credit Rating

B+/Stable/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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