S&P Global Ratings

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BRAC Bank PLC

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BRAC Bank PLC

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 PLC will continue to face tough operating conditions. Despite some moderation, economic growth in Bangladesh, where the bank is based, will continue to benefit from the momentum in its labor markets and export industries. Commodity inflation and external sector volatility present significant risks. Bangladesh is weathering a period of net balance of payment outflows and declining foreign exchange reserves.

BRAC Bank is likely to maintain its satisfactory franchise. The bank is among the top-15 in Bangladesh's fragmented banking industry. BRAC Bank accounts for a modest share of about 3.6% of the system's deposits. BRAC Bank has been able to establish a good branch network and online presence. It accounted for about 7.0% of the remittance inflow between July-November 2024. BRAC Bank'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. BRAC Bank 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 BRAC Bank's funding and liquidity metrics coming under stress because of the ongoing shortage of U.S. dollar liquidity in Bangladesh; or
- BRAC Bank's asset quality deteriorates sharply, due, for example, to ongoing macroeconomic economic vulnerabilities; or
- The transfer and convertibility assessment on Bangladesh is revised downward.

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 PLC--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	2022a	2023a	2024f	2025f	2026f
Growth in operating revenue	19.6	22.8	24.0-25.0	20.5-21.5	20.5-21.5
Growth in customer loans	27.9	26.3	13.0-14.0	14.0-15.0	14.0-15.0
Growth in total assets	24.6	27.9	19.0-20.0	15.0-16.0	15.5-16.5
Net interest income/average earning assets (NIM)	4.2	4.0	4.1-4.3	4.4-4.6	4.8-5.0
Cost-to-income ratio	69.6	66.1	55.0-56.0	50.0-51.0	46.0-47.0
Return on average common equity	10.2	11.9	16.0-17.0	19.5-20.5	22.0-23.0
Return on assets	1.1	1.1	1.5-1.6	1.7-1.8	2.0-2.1
New loan loss provisions/average customer loans	0.6	0.6	0.7-0.8	0.7-0.8	0.6-0.7
Gross nonperforming assets/customer loans	4.0	3.6	3.1-3.3	3.1-3.3	3.1-3.3
Net charge-offs/average customer loans	0.3	0.1	0.0-0.1	0.0-0.1	0.0-0.1
Risk-adjusted capital ratio	4.6	3.8	4.2-4.3	4.5-4.6	4.9-5.0

All figures include S&P Global Ratings' adjustments. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: Operates Predominantly In Bangladesh

Our anchor of 'b+' for BRAC Bank 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 growth in 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. Additionally, political unrest and natural calamities (floods and cyclones) have also contributed 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

BRAC Bank 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 3.5% and 3.6% of the system's loans and deposits, respectively.

Bangladesh has quite a fragmented banking industry. BRAC Bank competes with 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 and SMEs are estimated to account for about 90% of total loans on average. BRAC Bank has a larger 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 corporates (43% of loans as of Sept. 30, 2024), SMEs (41%), and retail (16%).

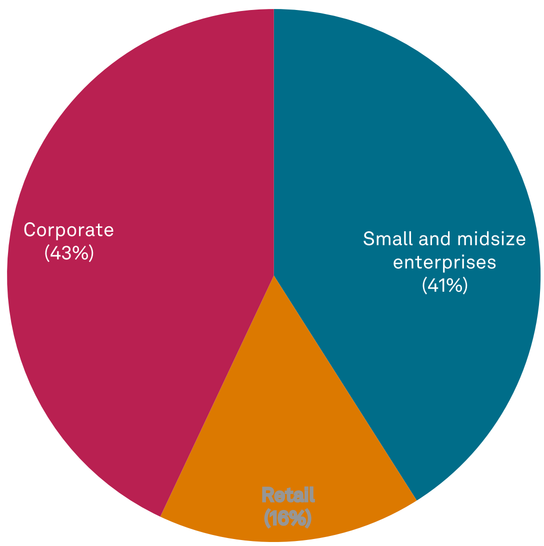
We believe BRAC Bank will maintain its fee income from mobile financial services, trade finance, and card products. Such income accounted for around a quarter of the bank's operating revenue on average in the past five years. This ratio is high compared with peers and adds to BRAC Bank's business diversity.

We consider BRAC Bank's management to be satisfactory. The management team has identified SME and retail segments as the bank's 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. BRAC Bank offers mobile financial services (through its subsidiary bKash Ltd.) to reach a sizable underbanked and unbanked population in the country.

BRAC Bank'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 during the COVID pandemic, political unrest, and the ongoing challenges from the U.S. dollar shortage. BRAC Bank is one of the liquidity providers in the central bank's interbank liquidity scheme, providing liquidity support selectively to banks in need.

Chart 1

BRAC Bank has diversified loan exposure



Data as of September 2024. Source: Investor presentation.

Capital And Earnings: Interest Rate Deregulation To Support Profitability

We expect BRAC Bank's capitalization to benefit from an improvement in its profitability and high earnings retention, coupled with a moderate pace of loan growth compared with prior years. BRAC Bank will likely have a risk-adjusted capital (RAC) ratio of about 5% over the next 24 months, versus 3.8% as of end-2023. However, the bank's capitalization, as measured by the RAC ratio, remains a neutral factor for the credit ratings.

Our RAC ratio for 2023 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 BRAC Bank absorb any unexpected losses at the bank.

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

BRAC Bank's profitability remains significantly better than the industry. The bank's return on average assets ratio has stayed at about 1% or higher, over the past several years (including the pandemic). This compares favorably to the 0.6% 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 financial services and trade finance, and competitive cost of funds (due to sizable low-cost deposits).

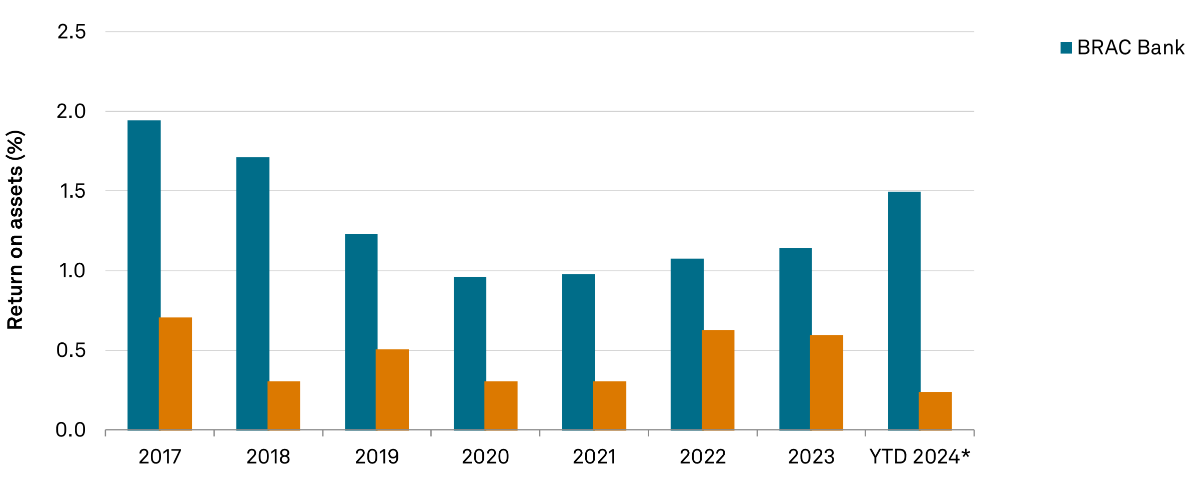
We expect BRAC Bank's NIM to benefit from the commencement of market-based lending rates regime, following the abolishment of the SMART benchmark lending rate regime (SMART--six month moving average treasury rates). Under the market-based lending rate regime, a bank has greater flexibility to price risk appropriately and benefit from higher lending rates. This compares against the earlier ceiling of 375 basis points over the SMART benchmark rate introduced by Bangladesh Bank, the country's central bank, until May 2024. An increase in the cost of funds as the central bank tries to tame high inflation will somewhat temper this benefit.

BRAC Bank's operating revenue helps 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 2024.

BRAC Bank's credit losses will likely stay stable between 0.65% to 0.75% over the next two years. This is because the bank has made adequate provisioning coverage for existing nonperforming loans (NPL).

Chart 2

BRAC Bank's profitability remains strong when compared with the industry



*Data as of September 2024. Sources: Bank reports, S&P Global Ratings' calculations.

Risk Position: Asset Quality Is Better Than The Industry Average

BRAC Bank has a more balanced loan book than peers. The book comprises corporate, SME, and retail loans. Although the bank has some corporate client concentration, this concentration is less than the industry average in Bangladesh.

Corporate loans have been a main driver of BRAC Bank's loan growth in the nine months ended September 2024. The bank's corporate loan book grew 23.1% during that period, versus 5.7% for retail and 1.5% in the SME loan book. Although the corporate segment has been a source of poor risk culture in the country's banking industry, BRAC Bank's strong underwriting standards and tight client selection criteria should keep asset quality healthy.

BRAC Bank'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. BRAC Bank's SME business caters to entrepreneurs and small businesses. The bank makes these loans to them for business expansion. BRAC Bank'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 BRAC Bank maintains close contact and monitoring of its loans. This helps to keep delinquencies in check.

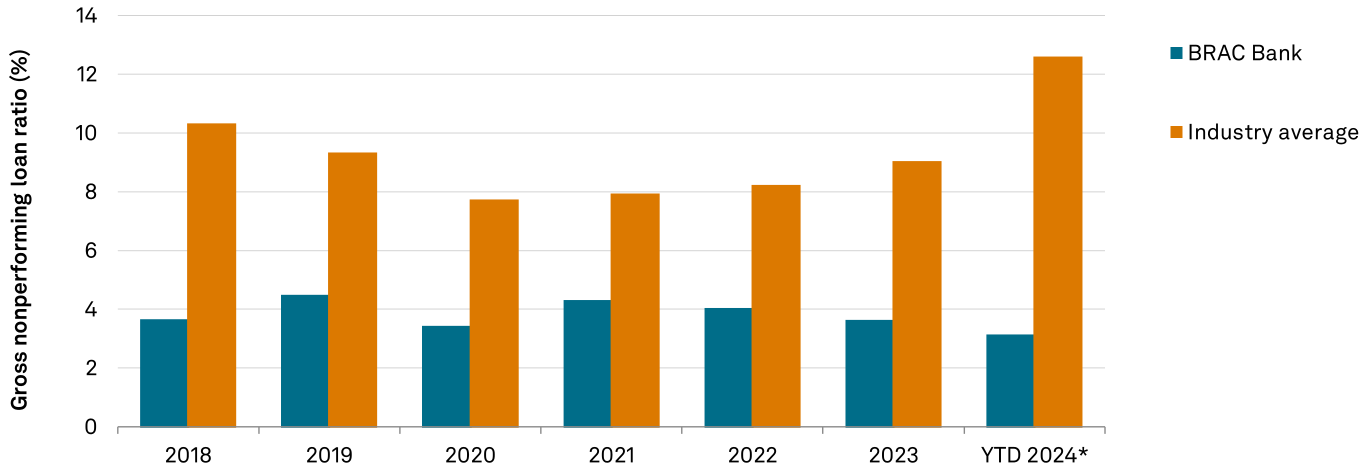
That said, the SME segment has been particularly affected by a series of flash floods that occurred in Bangladesh in 2024. This resulted in an uptick of portfolio-at-risk (30 days past due) for the segment to 3.5% in September 2024, from 3.3% as of end-December 2023.

Given persistent high interest rates and inflation, we do see some pressure on the bank's retail book, particularly on the bank's low-income borrowers. As of end-September 2024, there was a modest uptick in the reported retail loans NPL ratio and portfolio-at-risk measure to 2.92% and 5.66%, from 2.89% and 4.83%, respectively, at end-December 2023. The bank's retail loans consist of home loans, followed by personal loans and credit cards.

BRAC Bank's asset quality is likely to remain better than that of the industry, in our view. We forecast NPL ratio at 3.2%-3.3% over the next two years. The bank's gross NPL ratio was 3.0% as of end-September 2024, compared with about 3.6% at end-December 2023.

Chart 3

BRAC Bank has better asset quality than the industry



*Data as of June 2024. Sources: S&P Global Ratings, Bangladesh Bank reports.

Funding And Liquidity: Deposit Franchise Supports Funding

BRAC Bank will likely maintain its diversified deposit franchise over the next 12-18 months. BRAC Bank's deposits, particularly its sizable low-cost current and savings accounts (CASA), support its funding profile. As of Sept. 30, 2024, deposits contributed to about 85% of the bank's funding base. This was broadly in line with the industry average.

As of Sept. 30, 2024, household deposits accounted for about 48% of BRAC Bank's deposits. This was followed by corporates (32%) and SMEs (20%). The bank's CASA ratio was about 43%, which is above the industry average of about 40%. Similar to its peers, the bank witnessed continued migration in its CASA deposits to term deposits, due to rising interest rate.

BRAC Bank'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 4.3x as of Sept. 30, 2024, compared with 4.0x as of Dec. 31, 2023. This matched that of global peers.

BRAC Bank also maintains a matched asset-liability position in its foreign exchange exposure. Its foreign exchange liabilities stood at about 14% of the total liabilities, and foreign exchange assets were about 13% of the total assets at end September 2024. The bank has a slight negative net foreign exchange open position as of Sept. 30, 2024, but cumulative foreign currency inflows well exceed outflows. BRAC Bank has also been managing the issuance of letters of credit 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 the BRAC 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--Key figures

	--Fiscal year ended Dec. 31--				
(Mil. BDT)	*2024	2023	2022	2021	2020
Adjusted assets	994,293	817,812	639,178	512,958	441,021
Customer loans (gross)	574,394	520,288	412,085	322,135	273,439
Adjusted common equity	62,848	52,918	46,270	39,125	44,200
Operating revenues	45,887	46,459	37,823	31,623	28,716
Noninterest expenses	26,432	30,720	26,334	21,515	20,533
Core earnings	10,104	8,271	6,165	4,638	4,019

*Data as of September 2024. BDT--Bangladeshi taka.

Table 2

BRAC Bank--Business position

	--Fiscal year ended Dec. 31--				
(%)	*2024	2023	2022	2021	2020
Loan market share in country of domicile	3.5	3.3	2.5	2.4	2.3
Deposit market share in country of domicile	3.6	3.4	2.1	2.4	2.4
Return on average common equity	16.4	11.9	10.2	10.3	9.9

*Data as of September 2024.

Table 3

BRAC Bank--Capital and earnings

	--Fiscal year ended Dec. 31--				
(%)	*2024	2023	2022	2021	2020
Tier 1 capital ratio	16.6	17.2	17.9	19.1	13.9
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	54.5	57.0	59.6	67.5	63.7
Fee income/operating revenues	29.4	24.7	23.8	23.1	22.3
Market-sensitive income/operating revenues	3.6	6.6	8.7	4.0	7.1
Cost to income ratio	57.6	66.1	69.6	68.0	71.5
Preprovision operating income/average assets	2.9	2.2	2.0	2.1	1.9

Table 3

BRAC Bank--Capital and earnings (cont.)

(%)	--Fiscal year ended Dec. 31--				
	*2024	2023	2022	2021	2020
Core earnings/average managed assets	1.5	1.1	1.1	1.0	0.9

*Data as of September 2024.

Table 4

BRAC Bank--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	146,905,792,773.0	420,925,000,000.0	286.5	164,830,727,344.0	112.2
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	10,545,076,500.0	0.0	0.0	8,878,595,522.9	84.2
Corporate	455,023,795,074.0	0.0	0.0	791,652,599,058.6	174.0
Retail	107,179,576,038.0	0.0	0.0	161,681,684,770.0	150.9
Of which mortgage	12,270,000,000.0	0.0	0.0	11,348,523,000.0	92.5
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	44,935,850,535.2	0.0	0.0	118,965,640,427.0	264.7
Total credit risk	764,590,090,920.2	420,925,000,000.0	55.1	1,246,009,247,122.4	163.0
Credit valuation adjustment					
Total credit valuation adjustment	--	0.0	--	0.0	--
Market Risk					
Equity in the banking book	1,525,405,784.0	0.0	0.0	15,913,842,227.5	1,043.3
Trading book market risk	--	19,600,000,000.0	--	29,400,000,000.0	--
Total market risk	--	19,600,000,000.0	--	45,313,842,227.5	--
Operational risk					
Total operational risk	--	51,312,500,000.0	--	87,109,976,760.0	--

	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
Diversification adjustments					
RWA before diversification	--	491,837,500,000.0	--	1,378,433,066,109.9	100.0
Total Diversification/ Concentration Adjustments	--	--	--	473,705,691,466.5	34.4
RWA after diversification	--	491,837,500,000.0	--	1,852,138,757,576.5	134.4

Table 4

BRAC Bank--Risk-adjusted capital framework data (cont.)

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	48,931,479,591.0	9.9	52,917,669,202.2	3.8
Capital ratio after adjustments‡	48,931,479,591.0	9.9	52,917,669,202.2	2.9

*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, 2023, S&P Global Ratings.

Table 5

BRAC Bank--Risk position

	--Fiscal year ended Dec. 31--				
(%)	*2024	2023	2022	2021	2020
Growth in customer loans	13.9	26.3	27.9	17.8	3.2
Total managed assets/adjusted common equity (x)	15.8	15.5	13.8	13.1	10.1
New loan loss provisions/average customer loans	0.7	0.6	0.6	1.1	0.7
Gross nonperforming assets/customer loans + other real estate owned	3.0	3.6	4.0	4.3	3.4
Loan loss reserves/gross nonperforming assets	N/A	95.8	93.2	101.8	126.9

*Data as of September 2024. N/A--Not applicable.

Table 6

BRAC Bank--Funding and liquidity

	--Fiscal year ended Dec. 31--				
(%)	*2024	2023	2022	2021	2020
Core deposits/funding base	85.2	83.5	82.9	86.1	88.9
Customer loans (net)/customer deposits	79.6	85.8	89.1	86.1	78.8
Long-term funding ratio	93.1	92.5	89.1	90.5	92.7
Stable funding ratio	121.1	123.0	118.2	121.5	126.6
Short-term wholesale funding/funding base	7.7	8.4	12.4	11.2	8.3
Broad liquid assets/short-term wholesale funding (x)	4.3	4.0	2.7	3.3	4.4

*Data as of September 2024.

BRAC Bank--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

BRAC Bank--Rating component scores (cont.)	
Issuer credit rating	**B+/Stable/B**
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: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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
- 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

- Banking Industry Country Risk Assessment: Bangladesh, Dec. 15, 2024
- Bulletin: Bangladesh Economy Faces Fresh Risks From Political Volatility, Aug. 07, 2024
- Research Update: Bangladesh Long-Term Ratings Lowered To 'B+' On Elevated External Vulnerabilities; Outlook Stable, July 30, 2024

Ratings Detail (As Of January 21, 2025)*	
BRAC Bank PLC	
Issuer Credit Rating	B+/Stable/B
Issuer Credit Ratings History	
26-Feb-2018	B+/Stable/B
Sovereign Rating	
Bangladesh	B+/Stable/B

Ratings Detail (As Of January 21, 2025)*(cont.)

*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.