CREDIT OPINION

29 November 2024

Update

Send Your Feedback

**RATINGS**

**BRAC Bank PLC.**

| | |
|---|---|
| Domicile | Bangladesh |
| Long Term CRR | B2 |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | Not Assigned |
| Long Term Deposit | B2 |
| Type | LT Bank Deposits - Fgn Curr |
| Outlook | Negative |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

**Contacts**

Devang Rajkotia +65.6311.2698
*Analyst*
devang.rajkotia@moodys.com

Chong Jun (CJ) Wong +65.6311.2616
*AVP-Analyst*
chongjuncj.wong@moodys.com

Evan Chan +65.6398.8316
*Ratings Associate*
shixuan.chan@moodys.com

Alka Anbarasu +65.6398.3712
*Associate Managing Director*
alka.anbarasu@moodys.com

# BRAC Bank PLC.

## Update following rating downgrade, outlook negative

### Summary

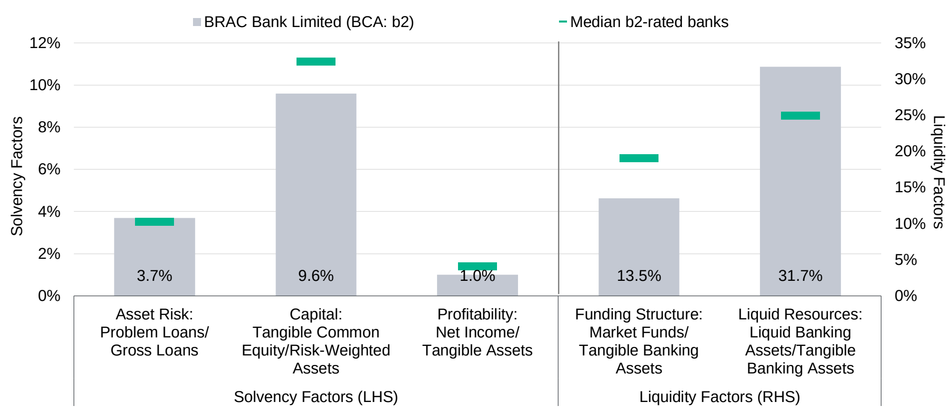
BRAC Bank PLC.'s (BRAC Bank) B2 long-term deposit and issuer ratings are at the same level as its b2 Baseline Credit Assessment (BCA) and the Government of Bangladesh's (B2 negative) rating. The outlook is negative, in line with the negative sovereign rating outlook.

BRAC Bank's b2 BCA indicates the bank's better-than-peer-average asset quality and capitalization, which balances its moderate profitability. The ratings also reflect the bank's strong deposit franchise and access to funding, and good liquidity.

The B2 ratings also incorporate our assessment of a moderate probability of support from the government in times of need, which is underpinned by the bank's modest market share, and the government's propensity and ability to support the banking system. However, BRAC Bank's ratings do not benefit from any government support uplift because the bank's BCA is already at the same level as the sovereign rating.

Exhibit 1

**Rating Scorecard - Key financial ratios**




*Source: Moody's Ratings*

## Credit strengths

» Strong funding and liquidity, with proven access to market funds and sizable holdings of government securities

» Good core capital base

## Credit challenges

» Increased asset risks because of difficult operating conditions

» Rapid loan growth, which could result in unseasoned risk

## Outlook

The negative outlook on the long-term deposit and issuer ratings of BRAC Bank is in line with the negative outlook on Bangladesh's sovereign rating and reflects our expectation that the banking sector faces increased credit risk because of the deteriorating operating environment.

## Factors that could lead to an upgrade

An upgrade of the bank's long-term (LT) deposit and issuer ratings and BCA is unlikely because they are already at the same level as the sovereign rating. We could change the outlook on the LT deposit and issuer ratings to stable if the sovereign rating outlook is changed to stable while the bank's credit fundamentals remain stable, particularly its asset quality and capital.

## Factors that could lead to a downgrade

We could downgrade the bank's ratings and BCA if the sovereign rating is downgraded or if the bank's fundamentals worsen because of a deterioration in its loss-absorption capacity. Specifically, a downgrade is likely if its tangible common equity to risk-weighted assets declines below 7% or if its funding weakens.

## Key indicators

Exhibit 2

**BRAC Bank PLC. (Consolidated Financials) [1]**

| | 06-24[2] | 12-23[2] | 12-22[2] | 12-21[2] | 12-20[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (BDT Million) | 921,278.1 | 819,184.8 | 640,563.3 | 513,915.1 | 444,326.9 | 23.2[4] |
| Total Assets (USD Million) | 7,809.1 | 7,464.1 | 6,239.1 | 5,993.2 | 5,242.8 | 12.1[4] |
| Tangible Common Equity (BDT Million) | 66,444.3 | 62,056.4 | 56,547.5 | 52,217.6 | 40,762.2 | 15.0[4] |
| Tangible Common Equity (USD Million) | 563.2 | 565.4 | 550.8 | 609.0 | 481.0 | 4.6[4] |
| Problem Loans / Gross Loans (%) | 3.1 | 3.6 | 4.0 | 4.3 | 3.4 | 3.7[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 9.6 | 10.2 | 11.6 | 13.1 | 10.7 | 11.0[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 20.3 | 23.4 | 22.9 | 20.8 | 17.6 | 21.0[5] |
| Net Interest Margin (%) | 3.9 | 3.7 | 4.0 | 4.6 | 4.4 | 4.1[5] |
| PPI / Average RWA (%) | 3.8 | 2.9 | 2.6 | 2.6 | 2.4 | 2.8[6] |
| Net Income / Tangible Assets (%) | 1.3 | 1.0 | 1.0 | 0.9 | 0.9 | 1.0[5] |
| Cost / Income Ratio (%) | 58.3 | 66.1 | 69.6 | 68.0 | 71.3 | 66.7[5] |
| Market Funds / Tangible Banking Assets (%) | 13.5 | 13.5 | 13.5 | 10.0 | 8.2 | 11.7[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 34.5 | 31.7 | 31.2 | 32.5 | 33.5 | 32.7[5] |
| Gross Loans / Due to Customers (%) | 83.6 | 88.7 | 92.3 | 89.4 | 82.0 | 87.2[5] |

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

*Sources: Moody's Ratings and company filings*

## Profile

BRAC Bank Limited (BRAC Bank) was established in 2001 as a private commercial bank based in Bangladesh, listed on both the Dhaka Stock Exchange and the Chittagong Stock Exchange in 2007. The lender has developed a competitive advantage in the small and medium-sized enterprise (SME) segment and has established a strong domestic presence, supported by 187 branches, 58 sub-branches, 1,114 agent banking outlets and 330 ATMs as of September 2024.

Moreover, the bank is a market leader in the mobile financial services industry with its subsidiary, bKash Limited (bKash), which provides electronic payment and remittance services.

As of year-end 2023, the bank was majority owned by BRAC (46%), which is the world's largest nongovernmental organization (NGO) in terms of employees, and supports various social and environmental causes. BRAC Bank is also one of the pioneers of microfinance, and its expertise provides the bank with a competitive advantage in the SME segment. As of year-end 2023, SMEs accounted for 45% of total loans, followed by corporates (39%) and consumer loans (16%).

## Detailed credit considerations

### Asset quality remains stable amid rising risks

The b3 Asset Risk score reflects BRAC Bank's moderate but stable asset quality, despite rising risks.

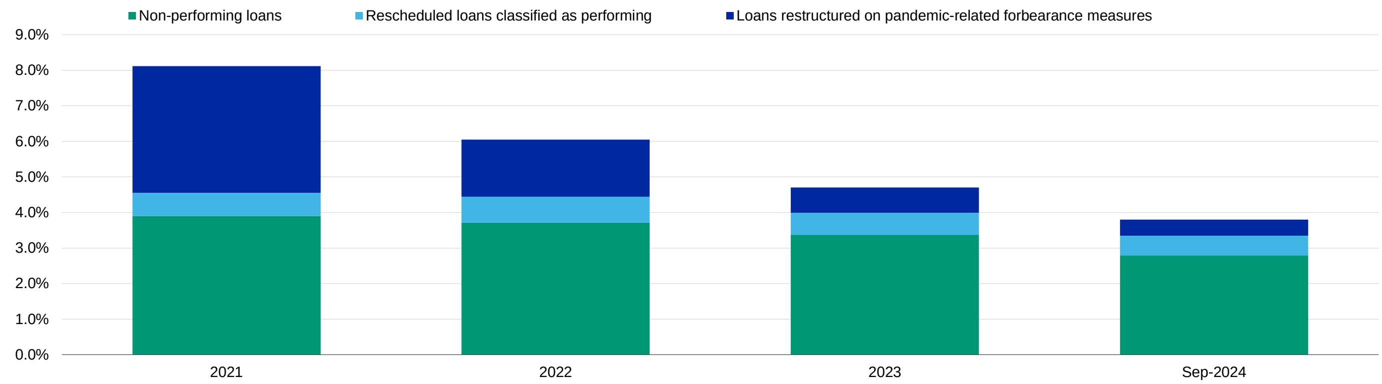
BRAC Bank's nonperforming loans (NPLs) ratio decreased to 2.8% as of September 2024 from 3.4% as of year-end 2023. However, we expect the bank's problem loan ratio to increase further over the next 12-18 months, driven by the implementation of tighter NPL recognition guidelines[1].

Performing loans with modified payment terms constituted 1.0% of gross loans as of September 2024, of which 0.5% was from loans restructured based on pandemic-related forbearance measures and 0.5% from rescheduled loans[2]. These loans will be classified as performing as long as borrowers service their loans based on the relaxed payment terms. Regulatory forbearance measures facilitating the management of NPLs mask asset risks and hamper loan recovery.

Additionally, we expect unseasoned loan risk to arise from the bank's rapid loan growth of 26% and 28% in 2023 and 2022 respectively. Spillover impact from political and social unrest in the country could also result in an increase in NPLs within the bank's large corporate and SME loan portfolio.

BRAC Bank's funded and unfunded exposures to the top 20 borrowers as a percentage of tangible common equity (TCE) was high at 218% as of year-end 2023. Its strategic focus on high-quality corporates and SMEs will limit asset risks, as indicated by its NPL ratio, which has historically been lower than the industry average. Most of its SME borrowers operate essential services focusing on the domestic market in Bangladesh and are less susceptible to demand disruptions. At the same time, the bank's strong physical presence, with 446 dedicated SME offices spanning various locations in Bangladesh, has allowed more effective monitoring of and collections from its SME borrowers.

Exhibit 3
**Stressed loans have declined**
**As a percentage of gross loans**




*Source: BRAC Bank*

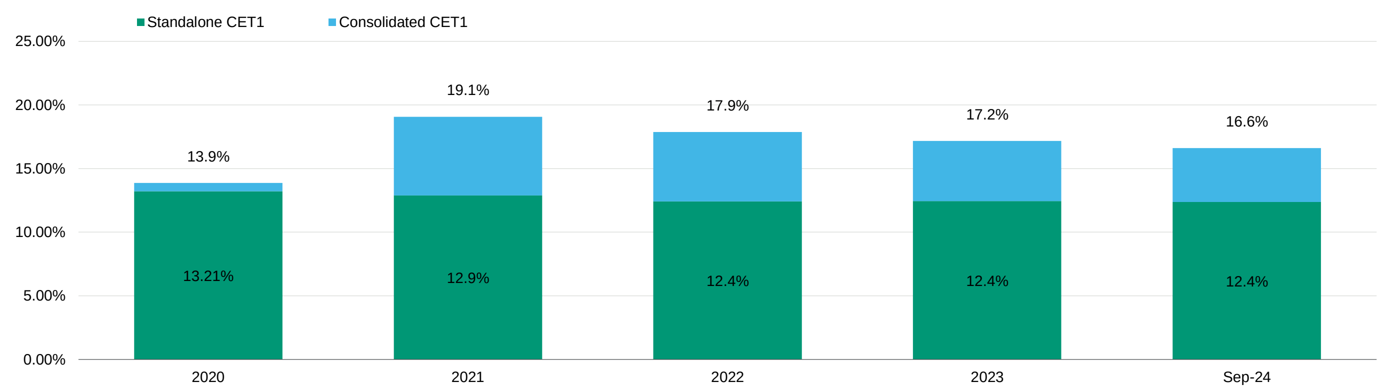
BRAC Bank's loan loss reserves over stressed loans (including NPLs and modified payment loans excluding due to forbearance measures) was 87% as of year-end 2023. BRAC Bank's NPL coverage increased to 109% as of year-end 2023 from 96% as of year-end 2022. However, its loan loss reserves to gross loans remained stable around 3.5% as of year-end 2023, compared with 3.7% a year earlier.

## Capital buffers will reduce with rapid growth

We assign a b3 Capital score to reflect its adequate capitalization. We expect BRAC Bank's capital to gradually decline in next 12-18 months.

BRAC Bank's consolidated common equity tier 1 (CET1) ratio dropped to 17.2% as of year-end 2023 from 17.9% a year earlier. Despite the decline, it remained the highest among its rated peers. In 2021, the bank's capital was boosted by its subsidiary bKash's issuance of preference shares to SoftBank, which added BDT7.4 billion to the bank's consolidated capital.

Exhibit 4
**CET1 ratio**




*Source: BRAC Bank*

BRAC Bank's gross loans increased by 28% in 2022, 26% in 2023 and 14% (annualized) in the first nine months of 2024. Because of rising asset-quality risks and attractive yields on government securities, banks have moderated their loan growth and are increasing their investments in government securities. This approach has helped maintain the regulatory capital ratio because government securities have a lower risk weight than loans.

BRAC Bank's adjusted TCE/risk-weighted assets (RWA) fell to 10.2% as of year-end 2023, compared with 11.6% as of year-end 2022. As part of our standard adjustments to banks' financials, we increase BRAC Bank's RWA by assigning a 100% risk weighting to the local-currency government securities that are zero risk weighted in the bank's regulatory capital calculations.

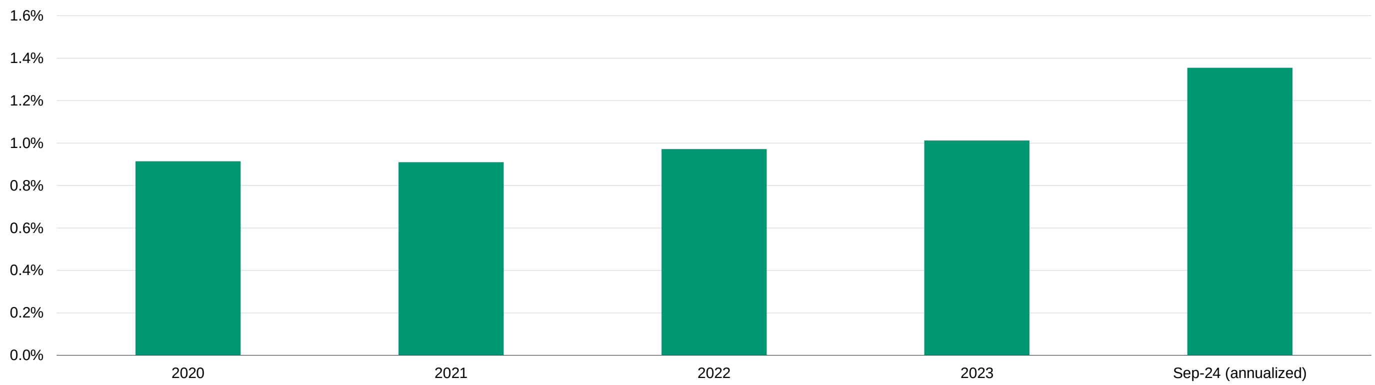
### Improving profitability but susceptible to higher volatility

The assigned score of b3 for Profitability reflects our expectation that the bank's profitability will improve but remain volatile over the next 12-18 months. Net income/tangible assets remained stable at 1.0% in 2023, compared with that in 2022.

Exhibit 5

**Profitability is improving but remains susceptible to higher volatility**

**Net income/tangible assets ratio**




*Source: BRAC Bank*

BRAC Bank's net interest margin (NIM) decreased to 3.7% in 2023 from 4.0% in 2022, as the increase in funding costs more than offset the higher interest income generated by stronger lending yields. The bank offered higher deposit rates to attract additional deposits to support loan growth. Despite this decrease, the NIM remains above the average of 1.9% for private-sector banks.

The bank's interest rate spread has traditionally been among the higher than industry, supported by the high proportion of loans to the higher-yielding SME segment. We expect the NIM to improve as lending rates rise because of the central bank's lending cap removal in May 2024 and an increase in low-cost CASA deposits.

Furthermore, banks in Bangladesh are increasing their investments in government securities, which will support interest income from investments at lower credit risk. Interest income on government securities increased to 0.7% of tangible assets in 2023 from 0.5% in 2022. The interest income contribution from government securities increased to 11.5% of total income from 8.7% over the same period.

BRAC Bank's cost-to-income ratio remains high at 66% in 2023, down from 70% last year. We expect a gradual decline in the cost-to-income ratio with increase in total income.

However, we expect the benefits arising from good core profitability to be offset by an increase in credit costs over the next 12-18 months because of higher unseasoned risk from rapid loan growth. Additional provisions may also be required to cover potential risks arising from the bank's portfolio, affected by political and social unrest in the country.

### Stable funding and liquidity, with proven access to market funds

The ba3 Funding Structure score indicates the bank's funding competitiveness, increased deposit mobilization and steady funding from the local central bank and multilateral institutions.

The bank is primarily funded by deposits, which accounted for 78% of the bank's total liabilities as of year-end 2023. BRAC Bank's deposits grew 31% in 2023, significantly higher than the industry growth of 10%. This growth continued into the first nine months of 2024, with an annualized increase of 31%. BRAC Bank experienced higher deposits inflows as governance issues at some banks in the aftermath of sociopolitical unrest resulted in flight to safety to better banks in the system.

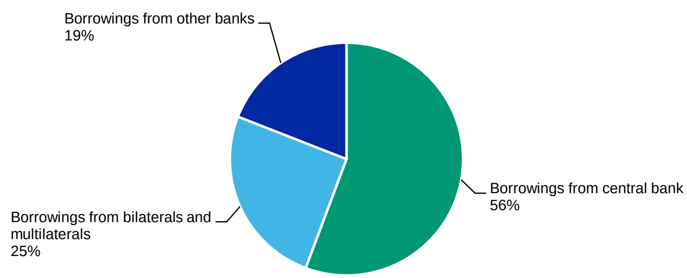
BRAC Bank's advance-to-deposit ratio improved to 83% as of year-end 2023 from 85% a year earlier, as deposit growth outpaced loan growth over the same period. BRAC Bank's strong deposit growth is supported by a sizable network of branches, subbranches and ATMs, a leading mobile platform (bKash) and a growing agent banking network.

The proportion of higher-cost term deposits increased to 44% as of year-end 2023, from 41% as of year-end 2022. The bank's management plans to increase its share of low-cost current account and savings account (CASA) deposits to reduce the cost of deposits. As of year-end 2023, BRAC Bank's deposit concentration was moderate, with the top 20 deposits constituting 10% of its total deposits.

As of year-end 2023, market funds were 13.5% of the bank's tangible banking assets, a stable level from a year earlier. Refinancing risks associated with the bank's market borrowings are mitigated by stable market funding from the central bank, bilateral and multilateral institutions. The borrowings from the central bank are mainly concessional funding, accounting for 49% of market funds as of year-end 2023, which, in turn, are lent out to domestic exporters and SMEs.

Exhibit 6

**BRAC Bank's market funds comprised mainly of stable borrowings from central bank, bilateral and multilateral institutions**

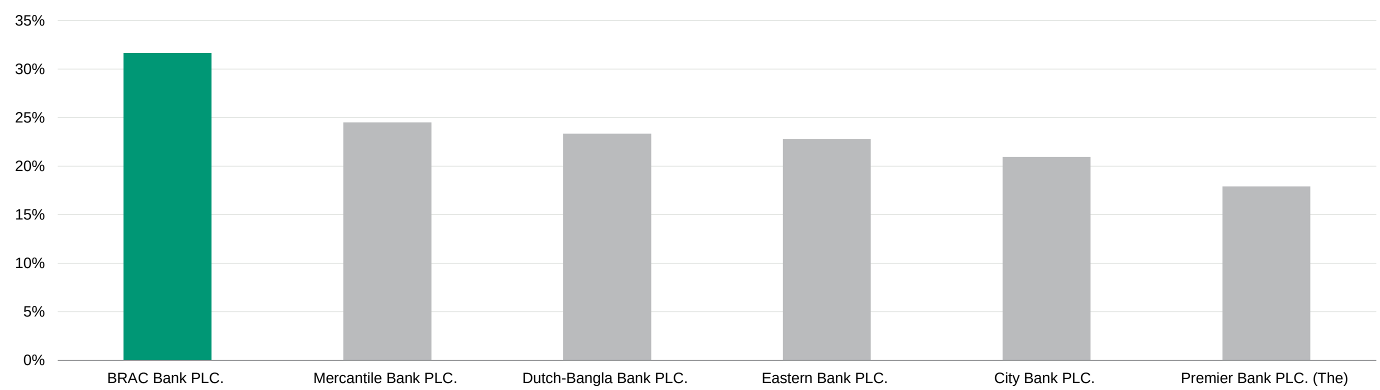



As of year-end 2023.
*Source: Moody's Ratings*

BRAC Bank maintains a robust liquidity buffer. The bank's liquid assets, excluding bKash customers' mobile wallets held in trust accounts, was 22% of tangible assets as of year-end 2023, and mostly comprised interbank assets and government securities. On a consolidated basis, BRAC Bank's liquid assets as a percentage of tangible assets accounted for 32% as of year-end 2023.

Exhibit 7

**BRAC Bank has the highest liquidity among peers**
**Liquid banking assets / tangible banking assets as of year-end 2023**




*Source: Banks and Moody's Ratings*

BRAC Bank uses export receipts for US dollar inflows to manage foreign-exchange liquidity, with a moderate remittance inflow and a market share of around 3.7% in 2023. Management expects an increase in market share for remittance inflows.

We expect BRAC bank's liquidity to remain robust over the next 12-18 months, reflected by the Liquid Resources score of b1.

### BRAC Bank's BCA is based on Bangladesh's Very Weak+ macro profile

BRAC Bank operates in Bangladesh, which has a Very Weak + macro profile, reflecting the country's weak banking system despite its robust economic prospects.

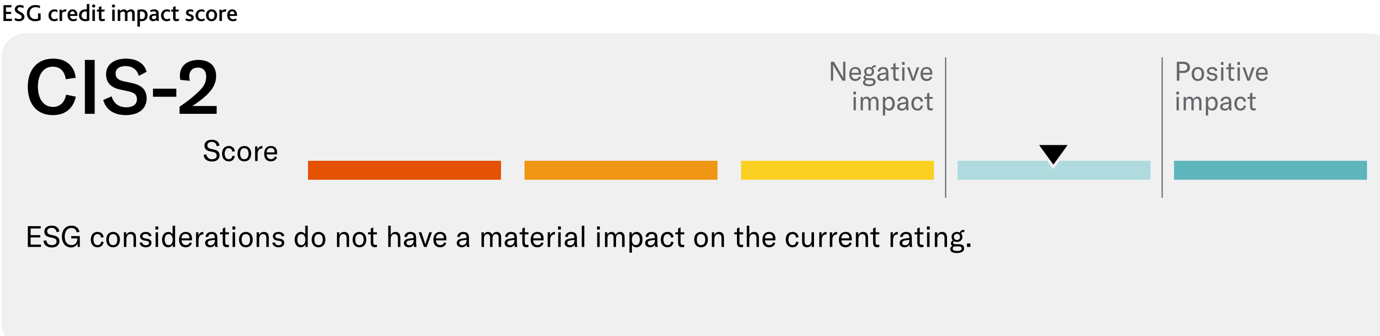
Bangladesh's credit profile balances the country's robust long-term growth prospects and moderate debt burden against its narrow government revenue base that restricts fiscal flexibility and institutional weaknesses that constrain competitiveness. While the competitive ready-made garments (RMG) industry will continue to contribute to GDP, exports, and incomes over the long term, elevated political uncertainty and weaker domestic demand, following the recent political and social unrest, increase government liquidity and external vulnerabilities.

The banking system is characterized by a high degree of market fragmentation, with persistent weaknesses in underwriting standards, high credit concentration in domestic corporates, frequent regulatory forbearance and growing governance concerns, which reflect weak credit conditions despite moderate credit growth relative to GDP.

## ESG considerations

### BRAC Bank PLC.'s ESG credit impact score is CIS-2

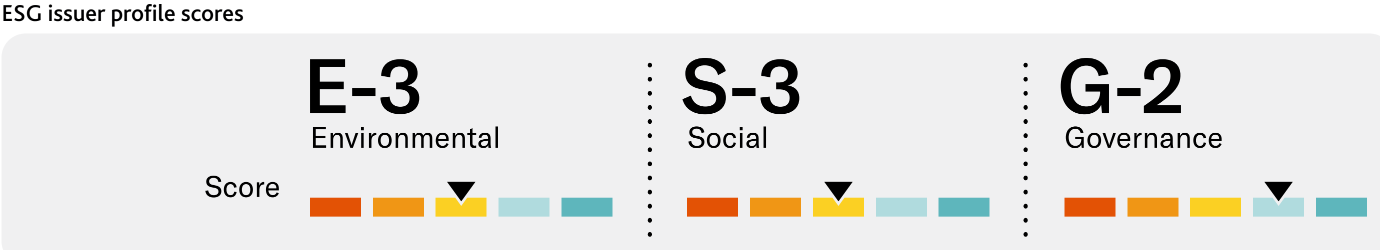
Exhibit 8
**ESG credit impact score**




*Source: Moody's Ratings*

BRAC Bank Plc's (BRAC Bank) **CIS-2** indicates that ESG considerations are not material to the rating, as well as the bank's low governance risk.

Exhibit 9
**ESG issuer profile scores**




*Source: Moody's Ratings*

### Environmental

BRAC Bank faces moderate environmental risks, specifically from carbon transition risk and waste and pollution because of its exposures to industries such as readymade garment and other manufacturing. The country's very high risk of seasonal flooding could also have negative impact on the economic activities of the bank's borrowers. However, the risks are partially mitigated by the bank's diversified loan book and efforts to expand green financing.

### Social

BRAC Bank faces moderate social risks related to customer relations, tightening regulatory and compliance standards, and the impact of potential technological disruptions associated with an increasingly digitally active customer base. However, the bank is generally focused on intermediation with simpler product ranges with few identified conduct issues and has been subject to looser regulatory scrutiny on consumer protection. Furthermore, the bank will benefit from Bangladesh’s favorable demographics.

### Governance

BRAC Bank faces neutral to low governance risks, and its risk management and compliance functions are in line with industry best practices. The bank is 46% owned by BRAC, a nongovernmental organization, and the governance risks associated with ownership concentration are mitigated by the majority presence of independent directors on the board, and the regulated nature of the bank. The bank also has a strong management credibility and track record of maintaining good capital and liquidity buffers.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Government support considerations

BRAC Bank's B2 long-term foreign- and local-currency deposits and issuer ratings are in line with the bank's b2 BCA, based on our assumption of a moderate probability of government support. Our support assumption is based on the bank's small market share, but balanced by the government's willingness and ability to support the bank.

### Counterparty Risk (CR) Assessment

**BRAC Bank's CR Assessment is B1(cr)/NP(cr)**

The CR Assessment, before government support, is positioned one notch above BRAC Bank's Adjusted BCA of b2. We then assign government support assumptions, in line with our support assumptions on deposits and senior unsecured debt. Such assignments reflect our view that any support provided by governmental authorities to a bank, which benefits senior unsecured debt or deposits, is very likely to benefit operating activities and obligations reflected by the CR Assessments as well. Such a view is consistent with our belief that governments are likely to maintain the banks' operations as a going concern to reduce contagion and preserve the banks' critical functions.

### Counterparty Risk Ratings (CRRs)

**BRAC Bank's local currency CRR is B1/NP and foreign currency CRR is B2/NP**

We consider Bangladesh a nonoperational resolution regime. For nonoperational resolution regime countries, the starting point for

CRRs is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support as applied to the CR Assessment. Consequently, the LC CRR is positioned at B1/NP, and the FC CRR is positioned at B2/NP, aligning with the foreign currency country ceiling at B2.

# Methodology and scorecard

## About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 10

**Rating Factors**

| **Macro Factors** | | |
|---|---|---|
| **Weighted Macro Profile** | **Very Weak +** | **100%** |

| **Factor** | **Historic Ratio** | **Initial Score** | **Expected Trend** | **Assigned Score** | **Key driver #1** | **Key driver #2** |
|---|---|---|---|---|---|---|
| Solvency | | | | | | |
| Asset Risk | | | | | | |
| Problem Loans / Gross Loans | 3.7% | b3 | ↔ | b3 | Unseasoned risk | |
| Capital | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in) | 9.6% | caa1 | ↓ | b3 | Risk-weighted capitalisation | |
| Profitability | | | | | | |
| Net Income / Tangible Assets | 1.0% | b3 | ↔ | b3 | Expected trend | |
| Combined Solvency Score | | b3 | | b3 | | |
| Liquidity | | | | | | |
| Funding Structure | | | | | | |
| Market Funds / Tangible Banking Assets | 13.5% | b2 | ↔ | ba3 | Market funding quality | |
| Liquid Resources | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 31.7% | b2 | ↔ | b1 | Expected trend | |
| Combined Liquidity Score | | b2 | | ba3 | | |
| Financial Profile | | | | b2 | | |
| Qualitative Adjustments | | | | Adjustment | | |
| Business Diversification | | | | 0 | | |
| Opacity and Complexity | | | | 0 | | |
| Corporate Behavior | | | | 0 | | |
| Total Qualitative Adjustments | | | | 0 | | |
| Sovereign or Affiliate constraint | | | | - | | |
| BCA Scorecard-indicated Outcome - Range | | | | b1 - b3 | | |
| Assigned BCA | | | | b2 | | |
| Affiliate Support notching | | | | 0 | | |
| Adjusted BCA | | | | b2 | | |

| **Instrument Class** | **Loss Given Failure notching** | **Additional notching** | **Preliminary Rating Assessment** | **Government Support notching** | **Local Currency Rating** | **Foreign Currency Rating** |
|---|---|---|---|---|---|---|
| Counterparty Risk Rating | 1 | 0 | b1 | - | B1 | B2 |
| Counterparty Risk Assessment | 1 | 0 | b1 (cr) | - | B1(cr) | |
| Deposits | 0 | 0 | b2 | - | B2 | B2 |
| Senior unsecured bank debt | 0 | 0 | b2 | - | B2 | B2 |

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
*Source: Moody's Ratings*

## Ratings

Exhibit 11

| Category | Moody's Rating |
|---|---|
| **BRAC BANK PLC.** | |
| Outlook | Negative |
| Counterparty Risk Rating -Fgn Curr | B2/NP |
| Counterparty Risk Rating -Dom Curr | B1/NP |
| Bank Deposits | B2/NP |
| Baseline Credit Assessment | b2 |
| Adjusted Baseline Credit Assessment | b2 |
| Counterparty Risk Assessment | B1(cr)/NP(cr) |
| Issuer Rating | B2 |
| ST Issuer Rating | NP |

*Source: Moody's Ratings*

## Endnotes

1 In April 2024, Bangladesh Bank revised its definition of overdue installments for fixed-term loans. Previously, these loans were classified as overdue six months after their expiry date and as nonperforming after an additional three months (270 days past due), except for cottage, micro and small credits, which were classified as NPLs after six months. From 30 September 2024, a loan will be overdue if an installment is not paid within three months of its due date. Starting 31 March 2025, an installment payment late by even one day will be considered overdue.

2 The central bank announced a rescheduling facility for defaulted loans in July 2022, whereby borrowers will only need to make a down payment to revert the classification of the loan status to performing. Borrowers are allowed to reschedule defaulted loans up to four times and for each rescheduling, the tenor of loans can be extended to seven to eight years. Although this measure will moderate the growth of NPLs, we expect stressed assets to increase over the next 12-18 months because of the fact that borrowers can currently reschedule their loans with easier terms.

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