Internship Report on:

Impact of Bangladesh's Transition Toward a Market-Driven Interest Rate Regime on Bank ALM Practices: A Study on BRAC Bank PLC.

By

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21204016

An internship report submitted to BRAC Business School in partial fulfilment of the requirements of the degree of
Bachelor of Business Administration

BRAC Business School
BRAC University
February 2026

Declaration

It is hereby declared that

1. The internship report submitted is my own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

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Supervisor's Full Name & Signature:

Dr. Mohammad Mujibul Haque
Professor and Dean,
BRAC Business School

Executive Summary

This report examines my experience at BRAC bank PLC during my internship, and practices applied by the organization, but majorly analyzes the effects of the change in the interest rate regime to a market-driven system on the Asset-Liability Management (ALM). It was done as part of the BBA program under BRAC Business School; I worked under the Treasury and financial institutions division, Head office BRAC Bank, for 3 months from 5 October 2025 to 5 January 2026.

The report is composed of three parts; chapter 1 provides the internship duties and learning outcomes, chapter 2 gives an overview of the organization and financial summary of BRAC Bank PLC., the third chapter, the main analytical one, focuses on the way in which the interest rate liberalization has changed the ALM risk profile, profitability and balance sheet management of the bank.

Throughout the internship, I assisted with the ALM Solutions automation project whereby I assisted in report reconciliation, coordination across different functions, and ALCO presentation support. Those activities included strategic needs of ALM, such as data inconsistency, delays in reporting, and information asymmetry, which enhanced internal governance risk. This underscored the critical role of technology and precision of data in dealing with interest rate and liquidity risk in the challenging macroeconomic environment.

The financial and organizational analysis reveals that BRAC Bank works within an effective governance model with a participative but strict hierarchical culture. The bank has a liquidity and capital adequacy ratio that is higher than the regulatory needs and this shows good balance sheet management. Although both profitability metrics, ROA and ROE have been improving thanks to the efficiency gains and control over costs, Net Interest Margin (NIM) has been on the downward trend, which points to the instability in the structure of SME-oriented banking in the environment of rising interest rates.

These performance trends are connected to ALM theory and changes in regulation in Chapter 3. When interest rate caps were eliminated, the repricing risk escalated, especially when banks had assets of SME at a fixed rate with mid-term tenor but short-term deposits. The repricing gap and

duration gap analysis show that there is increased exposure to the risk of earnings volatility and economic value. Moreover, the crawling peg exchange rate system has tightened liquidity on a regular basis, increasing the cost of funding and strengthening the importance of good liquidity buffers. The factual evidence shows that the introduction of interest rate liberalization at first exacerbated NIM compression, which is in line with financial liberalization theory.

The report suggests the improvement of dynamic duration gap monitoring, Funds Transfer Pricing (FTP) optimization, low-cost CASA mobilization, and stress testing and cross-functional coordination within the ALM structure based on these results.

To sum it up, the internship has been a great opportunity in terms of exposure to the strategic value of ALM in ensuring financial sustainability in the environment of macroeconomic uncertainty. Although BRAC Bank PLC will continue to be a solid bank, the long-term survival in a liberalized interest rate scenario will rely on the unremitting innovation of ALM practices, pricing algorithm, and information-based decision-making.

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Chapter 1:

Introduction and Internship Overview

1.1 Student Information

Detail	Information
Name	Ariana Zaima Haque
Student ID	21204016
Program	BBA
Major	Finance & Marketing

1.2 Internship Information

1.2.1 Period, Company Name, Department/Division, and Address

Detail	Information
Period	5 October 2025 - 5 January 2026
Company Name	BRAC Bank PLC
Department/Division	Asset-Liability Management (ALM) Department, Treasury & Financial Institutions (FI) Division
Address	BRAC Bank Head Office, Anik Tower, 220/B, Tejgaon I/A, Tejgaon-Gulshan Link

	Road, Dhaka-1208

1.2.2 Internship Company Supervisor's Information

Detail	**Information**
Name	Md. Mahbub Hossain
Position	Head of Asset-Liability Management

1.2.3 Job Scope, Duties & Responsibilities

The internship was designed primarily for me to provide operational and coordination support for a key ongoing project in the ALM Department. The specifics of job description, including my key duties and responsibilities within the department during my time as intern are listed below.

Project Facilitation: I played a supporting role in the ALM Solutions project, which is an ongoing initiative undertaken by BRAC Bank to automate reports concerning ALM activities. This project would highly reduce the time taken for strategic decision making by top management, as well as make day to day reporting much faster and smoother, thereby increasing efficiency as a whole for the bank.

Stakeholder Communication: As my role was focused on one project in particular, I served as the single point of contact (SPOC) on most occasions for facilitating communication between various interdepartmental stakeholders as well as the stakeholders from the vendor side. This required understanding the needs and clearly communicating them for alignment with the project.

Data Accuracy and Validation: I was taught to determine inconsistencies in balance sheets reports by comparing the data in the daily Statement of Affairs (SOA) of the bank with the data in the system generated report of the ALM Solutions software. This not only helped me in my personal knowledge on the different balance sheet items, but it also made sure that the reports generated automatically were in integrity and that the stakeholders could determine the degree of accuracy and reduce errors to a reasonable level.

Strategic Reporting Support: I helped in making presentation slides and updating the excel calculations that were needed in the Asset Liability Management Committee (ALCO) packs, which enabled me to better understand the significance of the various important ALM ratios and their calculations, and the importance of capturing each of these.

1.3 Internship Outcomes

1.3.1 Student's Contribution to the Company

My primary contribution to the company at this internship period was mainly to offer operational support to the ALM Department particularly in the ALM Solutions project throughout this final implementation leg of the project where they prepared and test a number of modules within the UAT environment.

- **Improved Project Efficiency:** I helped ensure smooth communication between internal stakeholders and the vendors, as well as cross-functional communication, in order for trouble free information exchange, which in turn increased efficiency and helped maintain deadlines.

- **Increased Data Quality Assurance:** Through daily report reconciliation between the bank's SOA and autogenerated reports, I helped in ensuring greater levels of data accuracy and my efforts aided in validating the system generated reports and their quality, which is essential for all types of automated solutions.

- **Operational Support:** I also provided general operational support to ALM team members, such as assistance in preparing ALCO presentations, which allowed senior team members to focus on more advanced and higher priority activities requiring their attention.

1.3.2 Benefits to the Student

The business banking world is extremely dissimilar to the classroom theories and this internship helped me apply my theoretical knowledge of finance to the real world.

- **Acquired Practical ALM Knowledge:** The experience of collaborating with banking professionals who have been contributing to the ALM team provided me with an opportunity to study the asset liability management practices and principles. Besides, it exposed me practically as I was working so closely with such high investment project that could have not been achieved through a mere desk job.

- **Financial Acumen and Recall:** My colleagues helped me to learn and interpret the necessary financial calculations that enabled me to relate my theoretical knowledge to their practical implementation in real life. They also made me remember crucial excel formulae using some light training resources, which also helped in remembering and application of those excel skills.

- **Strategic Understanding:** Working with such an experienced and cooperative team provided a deeper insight into bank strategy and corporate culture. Besides this, as already mentioned, it enhanced my understanding of the significance of some financial metrics over others and what is most useful for upper management decision making.

- **Professional Stakeholder Management:** By playing a role in facilitating cross-functional communication, I have developed essential interpersonal communication skills that are required for smooth information transfer between different parties and for avoiding or resolving conflict if they should arrive, as various stakeholders from different teams are involved

1.3.3 Problems Faced during the Internship Period

The major limiting factor faced during the internship that created some difficulties in carrying out my role properly was due to organizational bureaucracy and the need for multiple stakeholders from different parts of the organization.

- **Communication Delays:** one of the most noticeable issues was the time it took to receive necessary information and data from internal stakeholders, which turned out to be a slow process, and this caused delays and postponement of timelines for several modules of the project.

- **Managing Time Constraints of Stakeholders:** It was difficult to organize and manage the time of key stakeholders simultaneously due to their numerous key performance indicators (KPIs) and higher value responsibilities, which further exacerbated the communication delays. However, given the nature of the organization itself, these issues were assumed and taken as a natural part of the process by the team, although this did increase inefficiency.

1.3.4 Recommendations on Future Internships

Based on the key difficulties faced, particularly the unavailability of the Single Point of Contacts (SPOCs) and the importance of the roles each plays, some recommendations are given below which attempt to step up their availability as well as clarify operational hand-offs in their absence.

1. **Implementation of a Backup SPOC with Formal Hand Off:** A primary and secondary SPOC should be assigned for necessary reports or modules of the project. The secondary SPOC should be capable and allowed to take full responsibility of the absences of the primary SPOC due to whatever reasons, such as meetings, high workload, fulfillment of more important KPIs or travel. Formalizing this would leave little room for stakeholders to avoid the task required of them, and ensuring a secondary SPOC is a practical choice, given the reality of senior personnel having naturally busy schedules. This would also mitigate the issues regarding communication delays caused due to their absence.

2. **Implement a Digital Request Tracker for Mapping Dependency:** Implementing a shared digital tracker would greatly benefit the organization, especially in big projects like this where smooth interdepartmental communication is key to completing modules and achieving project deadlines. Simple trackers such as Microsoft Planner or JIRA can be used to keep track of project related requests. Additionally, it should be made mandatory to fill a field for "internal dependency", where the SPOC has to note whether some other internal stakeholder must be involved to solve the issue in question, and what exactly is needed for them. This action would increase transparency within the organization and reduce wait time, as it would inform project managers who is needed for what and remove delays in chasing one person to another, thereby increasing efficiency as well.

3. **Establish Weekly Sessions for Key Stakeholders:** Have a formal weekly recurring meeting with all the key project stakeholders by reserving their calendars so that all the stakeholders get on-board and updated on the project progress. Furthermore, this also enables the passing of needs and the opportunity to explain queries among each individual concerned, which also helps in the completion of modules.

1.3.5 Conclusion

In this chapter, a detailed report of my internship experience as a financial intern at BRAC Bank PLC. in their Asset-Liability Management department within the Treasury Division will be provided. The experience was mainly based on a bank internal project known as ALM Solutions, which is meant to automate internal reporting and to improve operational efficiency, in addition to hastening top management decision making.

Since some of my roles were cross functional communication with the internal and external vendors and support to the ALM team in terms of operations, this internship was a good experience as I got a practical exposure to such a large scale project. It significantly increased my financial knowledge and experience as it helped me to combine the theoretical knowledge with the practical application and enabled me to make a concrete contribution to the efficiency of the bank.

Furthermore, since BRAC Bank is among the largest and most successful banks in the country, this internship provided me with insights about the unavoidable operational complexities that exist in such large financial organizations because of its bureaucratic nature. Ultimately, in the current economic situation where Bangladesh is facing a highly unstable political environment, while undergoing changes in the market through more volatile market driven interest rates, the internship was a greatly insightful experience as I was able to see how the bank's ALM department navigated through these challenging times and ensured both compliance as well as profitability of the company.

Chapter 2:

Organizational Analysis and Practices

2.1 Introduction

2.1.1 Overview

This chapter gives a detailed internal analysis of BRAC Bank PLC. The aim of this chapter is to gain an understanding of the foundational, operational and strategic environment for the company and its specialized departments, such as marketing, finance and human resources. According to Abebe (2022), an organization's performance is highly tied to its organizational structure, leadership style, management of their human capital, and their day to day operational efficiency. Hence, it is essential to assess these core practices of the organization, including departmental analysis and analysis of their competitive environment, in order to come to an insightful analysis.

2.1.2 Objective

The aim of this chapter is to provide a critical and comprehensive analysis of BRAC Bank PLC, such as its corporate structure, mission and strategic positioning in the Bangladeshi banking industry; the management and leadership style of this organization and how effective it has been in the achievement of corporate goals, an outline of the core Human Resource, Marketing, Financial and Operations Management practices of the bank, which is solely drawn upon publicly verifiable information; a rigorous industry and competitive analysis of this bank using the established analytical framework, in this case, PESTEL Analysis, SWOT Analysis, and Porters Five Forces (Porter, 1980), in an effort to analyze macroeconomic forces.

2.1.3 Scope of Study

The area of this chapter is quite broad and highly distributed, as it considers the whole organization of BRAC Bank PLC. as a whole, examining its activities and practice in various large departments, including Treasury and Corporate to Retail and SME divisions. The report will draw on annual reports of BRAC Bank, other corporate disclosures, and various studies that have been conducted outside the company, including information of the past 3-5 years (2020 to 2025) where available.

2.1.4 Methodology

The methodology is mainly descriptive and analytical in this chapter, focusing on secondary research and analysis. Publicly available reports, such as the bank's audited annual report, financial statements, corporate governance reports, and sustainability reports, have been used to draw data and make observations and conclusions about the company's management, finances and operations. A thorough analysis of the economic and competitive environment has been conducted through theoretical frameworks such as Porter's Five Forces, SWOT Analysis, and PESTEL Analysis. Along with that, ratio analysis has been done to evaluate the company's financial performance over the past 3-5 years, limited to drawing from publicly available data.

2.1.5 Significance of the Study

This chapter contains a thorough overview of BRAC Bank PLC. as an organization to judge its capabilities and capacities, and its position in the industry against peers. This ensures that the entire report takes into account the historical data available on the company to make a fair judgement on its position, and remain true to the realities of the practices being upheld within the organization. This is essential to be abke to provide sound recommendations to the company.

2.1.6 Limitations

The most obvious limitation of this report is that it is strictly restricted in its analysis to only publicly available data from the company's audited annual reports and financial statements. Therefore, the depth of the analysis on internal practices such as the HR hiring process is limited by this constraint and the general nature of the internship. Moreover, for the financial analysis part, it was also limited to ratios derived from the audited financial statements, which provided a good interpretive analysis, although no internal reporting data was able to be utilized (CFI, n.d.). Lastly, the competitive analysis of BRAC Bank against peer companies relies on external reports and personal interpretation of market dynamics (IDLC Securities Ltd., 2024).

2.2 Overview of the Company

BRAC Bank PLC. is one of the largest commercial ventures of its parent company, BRAC. The commercial bank was established in 4 July, 2001, with a vision of fulfilling a big gap in the market - a large market segment consisting of unbanked people who were not serviced by traditional banks. So BRAC Bank decided to bridge this financing gap for what they called the "missing middle", made up of small and medium sized enterprises (SMEs). The organization's mission is highly motivated from birth by ideas of financial inclusion and sustainable growth, and they aim to achieve it by providing the people a full range of banking services while simultaneously maintaining extremely strict commitment to good corporate governance. The company's hierarchical management system and specialized divisions such as Retail, Corporate, SME, and Treasury, ensures a structured approach to business, while their strict compliance with Bangladesh Bank (BB) regulations and Bangladesh Securities and Exchange Commission (BSEC) ensures the adherence to good governance. This has been an important element of the high performance observed in the bank due to this strong system of corporate governance (BRAC Bank PLC, 2023). BRAC Bank also boasts of a wide network with physical branches, SME unit offices, and Agent Banking that allows them to reach deep into the rural and suburban regions and is a sign of their financial inclusivity.

2.3 Management Practices

2.3.1 Leadership Style and Critical Analysis:

The BRAC Bank PLC leadership style can be described as mostly Participative (or Democratic), with a degree of Autocratic hierarchy that is dictated by the extremely regulated nature of the banking setup. As it is largely aligned with the developmental mission of BRAC, the leadership creates the atmosphere of high ethical standards, accountability, and empowerment, especially in the lower and middle management levels (BRAC Bank PLC, 2023). This participative approach is vital in meeting the organizational objectives since it enhances the cross functional effort needed to manage risks effectively, which includes the collaboration of the ALM desk with the Credit divisions. Democratic dimension assists in achieving the goals by encouraging innovativeness in service delivery and high levels of employee commitment, which brings the individual performance to the social mission of the bank. On the other hand, the hierarchical/autocratic component will be assigned compliance, financial discipline, and crisis management so that a quick and decisive action should be taken to ensure compliance with regulatory standards and financial stability.

2.3.2 Recruitment and Selection Process

The need for new recruits is determined by the HR department through communication with the different divisions of the bank. Based on their needs, each division gives a headcount of how many new employees are needed. They also specify the method of recruitment, which can be either through replacement of an existing employee or by acquiring a brand new recruit. After evaluating the needs of the division, the division head communicates it with the MD for approval, after which the number is handed over to HR. Once HR receives approval from upper management, they begin hunting for new recruits. It is noteworthy that bulk recruitment occurs in mainly three divisions: the Distribution Network, the Small and Medium Sized Enterprise

(SME) Division, and the Retail Business Division. For all other divisions, a much smaller number of recruits are gathered, usually not exceeding 10 new recruits.

Recruitment for an open position is conducted both internally and externally. In case of internal recruitment, BRAC Bank has their own platform called IDP (Internal Drop Posting), within which there is an HR application. As all existing employees are connected here, the app gives them a push notification whenever there are any vacancies, and if anyone is interested in the role posted then they can drop their CVs accordingly. On the other hand, for external recruitment, the HR VP provides instructions for taking appropriate actions. First, the HR department communicates their recruitment needs in a specific format with both the Marketing team and the Communications team for vetting. Once that is approved, HR will decide what platform they want the job posting to be posted in, mainly between BD Jobs and LinkedIn. For recruiting freshers, the bank prefers posting on BD Jobs, while LinkedIn is preferred when recruiting for more experienced roles.

The initial recruitment process varies based on experience. If the candidate is a fresher with little to no prior experience at a corporate workplace, they first have to give an online iMocha exam, which is an MCQ based virtual examination where the candidate is required to score at least 25 out of 50 (50%) in order to pass and move forward with the next stage, which is the interview session with HR and the concerned department for which they are being recruited. However, for more experienced candidates applying for more higher and demanding roles, HR prepares a pool of CVs that seem like a good fit and share them with the division heads to choose from and shortlist for interview. Once the division sorts 10 to 20 people from that pool, HR prepares for the interview session, from which ultimately they choose their desired candidate.

2.3.3 Compensation System

The compensation structure at BRAC Bank consists of a Fitment analysis. In the case of a new recruit, HR compares their current salary in the company they are working in and their job grade, with the salary band of BRAC Bank in the same grade. HR also takes into account their role and responsibilities along with their experience before making their decision. This analysis also helps HR to identify underpaid or overpaid employees, as well as justify increments and promotions.

2.3.4 Training and Development Initiatives

Once an employee officially joins the bank, a seven day induction process is arranged by the Learning and Development (L&D) department. Here, the new recruits are given a full, thorough overview of the bank, including all the various divisions and departments within, irrespective of where they are specifically working. This also includes seven modules which the employees have to complete within this period. However, this entire process is only applicable for external recruitment, particularly of those who have not worked at BRAC Bank previously. For people who might have worked at the bank before, they are required to complete four out of those seven modules. In case of internal recruitment, this induction process is not required.

2.3.5 Performance Appraisal System

The performance evaluation of employees is done by the Organizational Development (OD) team. The bank follows a pan-bank module appraisal system, where the employee evaluation is conducted throughout the organization, including all employees across all branches, business units, and support units. This is composed of a standardized set of parameters which assess both qualitatively and quantitatively. As this is a standardized module for all, it assesses everyone based on standardized KPIs according to the role and grade, making it easier for monitoring and reporting. However, the bank conducts further biannual evaluation of its employees, which includes feedback taken from each head of department (HoD). This feedback reflects how the employee has performed in the past six months based on the goals that were set and how much of those were successfully achieved.

These evaluations are usually done on a Likert scale of 1 to 5, 1 being the highest and 5 being the lowest, and 3 being considered the average score employees strive to maintain. Numbers (1 through 5) are used for quantitative analysis, while letters (A through E) are used for qualitative analysis. Based on both types of evaluation, the employees are given an overall average score. If they score an average worse than 3 (i.e. 4 or 5), then they will not be eligible for any increment or promotion that year. If their score is 1 or 2, they are usually eligible for a performance bonus and can be considered for promotion. However, in order to get promoted to a more senior role, evaluation is not enough, they must already have a tenure of at least 2 years with BEAC Bank.

2.4 Marketing Practices

The marketing activities of BRAC Bank are consistent with the four pillars of marketing, that is, Product, Price, Place, and Promotion, but it is also a strategic focus on financial inclusion, dominance among SMEs and differentiation through its brand, instead of competing on price.

2.4.1 Marketing Strategy, Targeting and Positioning

The main marketing approach is differentiation and dominance in niche. Its main target customers include the SME segment, which is the core of its asset portfolio, and mass affluent and retail customers. The targeting and positioning strategy will be used to make the bank the most reliable, accessible, and socially responsible bank offering specialized financial services to the entrepreneurs and the missing middle. Its marketing messages tend to emphasise empowerment and financial inclusion, and not necessarily competitive pricing (BRAC Bank PLC, 2023).

2.4.2 Product

The product strategy of BRAC Bank focuses on underserved and niche market segments, especially the SMEs, which constitute the backbone in the asset portfolio of the company, as well as retail and mass affluent customers. The bank has an expanded product portfolio of financial services, such as SME lending, retail banking services, bespoke deposit programs, and e-banking services. Recent product innovations like the digitization of SME loan processing, the development of specialized deposit products serving rural customers testify to the efforts of the bank to make the financial sector more inclusive and efficient in its work. Digitalization and customer-specific needs are more the forces that are behind product development instead of aggressive expansion into high-risk segments.

2.4.3 Price

The bank adheres to a market oriented and risk based pricing, no price wars but value based pricing. The interest rates and service fees are set according to regulatory standards, cost of funds, and risk profile of customers. Instead of fighting over the cheapest price, BRAC Bank focuses on the quality of the service, relationship banking, and reliability, which is especially applicable in a liberalized interest rate environment where the volatility of prices has grown. (IDLC Securities Ltd., 2024).

2.4.4 Place/Distribution

The bank takes an integrated omni-channel distribution approach in order to be accessible and cost-effective. Physical channels comprise a countrywide network of physical branches and SME Unit Offices, which assist in relationship based banking. The channels of service delivery like the agent banking service channels and the ATM networks increase the geographical coverage, and lower the cost of transactions, particularly in remote areas. Digital channels, such as mobile and internet banking systems, facilitate effective service delivery to retail clients at a relatively low marginal cost, which facilitates scalability and convenience.

2.4.5 Promotion

The promotional approach used by the bank is based on the positive BRAC brand heritage, which is built on trust, integrity, empowerment and inclusion in finance. Marketing communications are geared towards social impact and customer empowerment as opposed to transactional communications. The recent years have seen a significant shift in the promotion activities in favor of digital and social media channels, as it enables the bank to reach younger and more technologically minded customers and market the digital banking services more effectively. This strategy helps in brand awareness at the lowest possible fixed cost of traditional advertising and opening branches.

Altogether, the use of the 4Ps by BRAC Bank indicates the use of differentiation-based marketing perception, in which the bank has focused more on relationship management, service quality, and social responsibility instead of price rivalry. Although this approach helps improve brand equity and customer confidence, the bank has a significant marketing gap in little use of customer data analytics to design more personalized products and risk-based pricing, a feature that is at the moment at the advantage of fintech competitors.

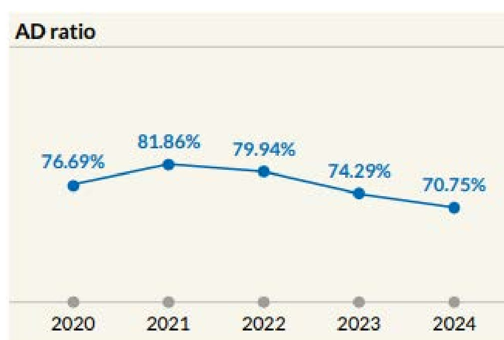
2.5 Financial Performance and Accounting Practices

2.5.1 Financial Performance Analysis Framework

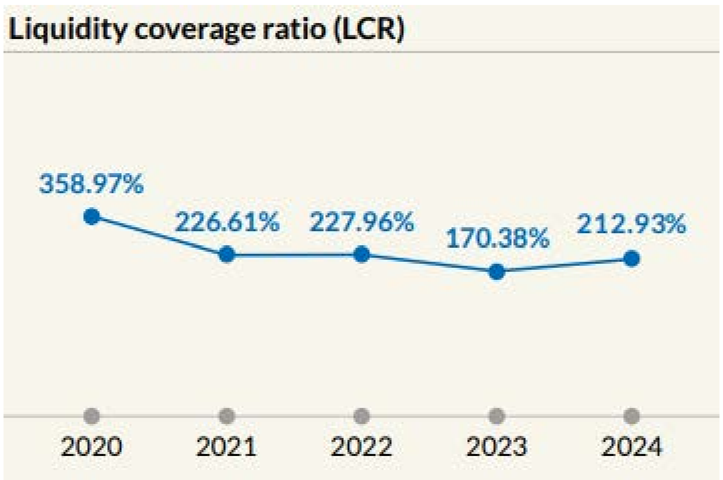
The analysis of BRAC Bank's financial performance over the last 5 years is based solely on publicly reported data within its Audited Annual Reports (BRAC Bank PLC, 2024). Some of the important ratios needed to understand the bank's financial health are discussed below.

**All diagrams are taken from BRAC Bank 2024 Annual Report*

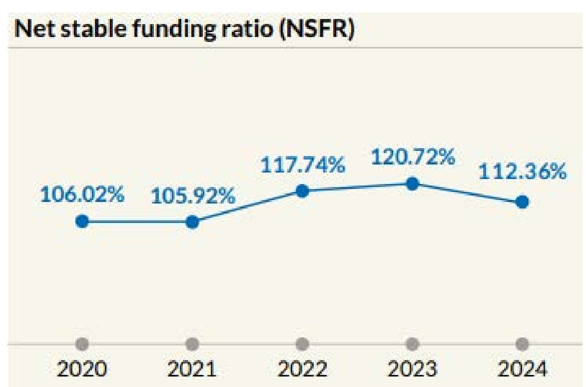
2.5.1.1 Liquidity and Solvency



Advance-to-Deposit Ratio (ADR): The AD ratio is one of the most important liquidity and solvency ratios, especially for banks, and BRAC Bank closely monitors this ratio, as it is also a mandatory regulatory requirement from Bangladesh Bank. This ratio indicates how quickly the bank can convert its deposits into loans, which means this is a good indicator of both liquidity and profitability of the bank. As can be seen from the graph, BRAC Bank has maintained a moderate range of 70-80% over the last five years, with 2024 having the lowest with 70.75%. This is within the regulatory limit of less than 87%, but this also means that in 2024 the bank had a very conservative outlook and maintained high liquidity; however, it also shows that they had excess funds which were underutilized, and therefore they had to miss out on possible interest income. However, the reason behind this conservative stance could be the increasingly volatile market of Bangladesh during the final trimester of 2024 due to political instability.



Liquidity Coverage Ratio (LCR): This ratio is essential in assessing how well the bank can work under short term liquidity stress (30 days). This depends on the bank holding a sufficient amount of high quality liquid assets (HQLA); maintaining an LCR in accordance with BASEL III guidelines and Bangladesh Bank regulations, which is that LCR must be greater than or equal to 100%, is essential. As we can see the trend of the past 5 years from the graph above, BRAC Bank has done a commendable job in maintaining liquidity well above the required amount, with 2024 ending with an LCR of 212.93%. This means, in emergency situations of sudden cash outflows of large amounts, the bank is well equipped to deal with it without disruption to daily operations.



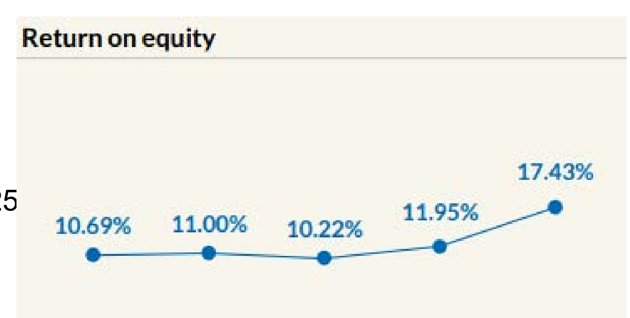
Net Stable Funding Ratio (NSFR): The regulatory requirement for NSFR is also greater than 100%. From the graph, we can see that BRAC Bank has maintained an NSFR above this for the past 5 years, which means that the bank relies on stable forms of funding such as customer deposits and long term liabilities, rather than short term wholesale funding. As a result, this strong NSFR supports that BRAC Bank has enough stable funding over a one year horizon, which reduces long term funding risks, reduces refinancing risks, and strengthens the balance sheet.

Liquid Assets to Total Deposits: This ratio indicates how much of the bank's total deposit is backed by immediate liquid assets, such as cash and marketable securities. As seen in the graph, BRAC Bank has a healthy ratio of 39.56%, which means that around 40% of their depositors can immediately withdraw cash if such a situation arises. While this shows prudent risk management by the bank, it is important to note that too high of a ratio can mean that the bank has underutilized funds which could be invested or put to use as loans, which could have generated income. The bank should keep a close eye at this ratio and maintain its stability in order to make higher profit.

2.5.1.2 Profitability

Return on Assets (ROA): This shows how efficiently the bank puts to use their assets, such as loans and investments, and how profitable they prove to be. As the trend shows, BRAC Bank has had a pretty consistent ROA for the past 5 years, ranging from 1.19-1.46, which means that they have been consistently managing their assets and keeping up the performance throughout the years, ending 2024 on a 5 year high of 1.46.

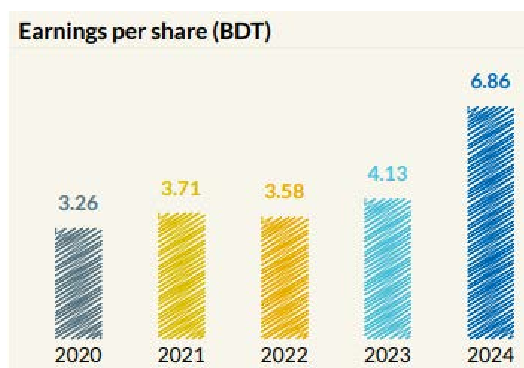
Return on Equity (ROE): This is basically an indication of the amount of profit that the bank



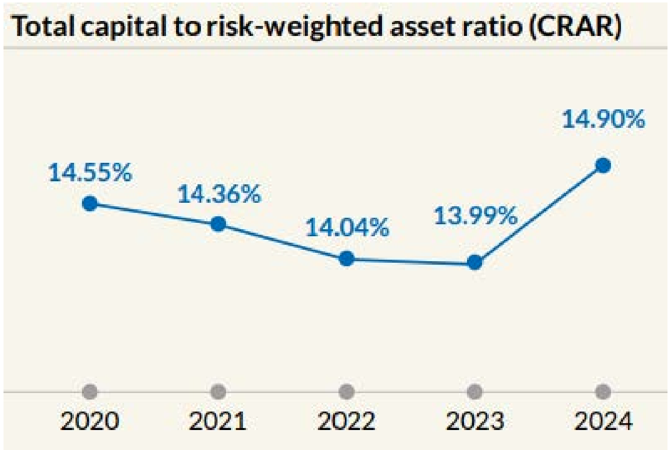
is making to its shareholders. The ratio is a particularly significant one, which not only demonstrates the profitability, but also the cost efficiency and utilization of their assets, as well as the efficiency of their capital buffer. Since the trend is upward of the ROE it is a good sign to the bank since it means that they are making competitive returns and have a good capital buffer.

Net Interest Margin (NIM): Net Interest Margin is an important indicator to the bank because it reveals the ratio of the net interest income to the earning assets. This is vital to observe because the bank mostly depends on interest income as the main source of revenue and a stable NIM is associated with proper asset-liability management and proper pricing strategy of a loan. Nevertheless the trend exhibited by BRAC Bank over the past few years is of falling NIM, which implies that although the rate of deposits is increasing, the bank is experiencing pressure on lending rates by the cutthroat competition in the industry with other banks. The other factor that led to their declining NIM rates could be the fact that the bank is focusing on investing in less risky securities such as government bills and bonds due to the rather volatile market in Bangladesh.

Earnings Per Share (EPS): It refers to the earnings of net profit that is earned per share outstanding. It is a significant measure of not only the performance of the bank in its operations, but it also contributes to the formation of the market perception and share value. As the graph demonstrates, the rising EPS means growing profit, which, in its turn, means effective capital allocation and utilization of the bank. In addition, it provides a favorable profile of the bank to investors and tries to increase investor confidence that is vital in ensuring BRAC Bank retains in this high volatility period.



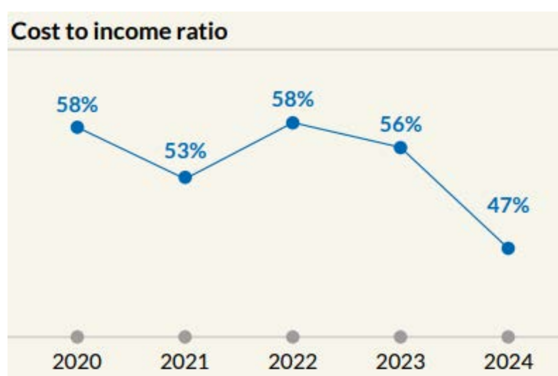
2.5.1.3 Leverage and Capital



Total Capital to Risk-Weighted Assets Ratio (CRAR): This is the same as Capital Adequacy Ratio (CAR). It shows the ratio of total regulatory capital, composed of both Tier 1 and Tier 2 capital as per BASEL III implementation, relative to the bank's risk weighted assets. It is essential for the bank to maintain a higher CRAR than the requirement from Bangladesh Bank, as it indicates their ability to absorb losses caused by crest, market, and operational risks. Therefore, this plays a major role to ensure solvency of the bank with regulatory compliance and depositor protection. While a strong and consistent CRAR is a positive indication of financial stability, as in the case of BRAC Bank, too high a ratio can indicate underutilization of capital.

2.5.1.4 Efficiency

Cost to Income Ratio (CIR): The graph shows a generally downward sloping trend, which indicates that BRAC Bank has gotten better at managing their operating expenses relative to their income over the years, thereby getting increasingly more efficient.



Operating Profit Per Employee: This is an important indicator for measuring the efficiency of the workforce of the bank throughout its branchwide network. As can be seen, the workforce has become increasingly efficient, which could be attributed to the bank's dedicated training and development programs and continuous improvement upon technical tools and software used on a daily basis.

2.5.1.5 Economic Value Added (EVA):

BDT in Mn

Particulars	2024	2023
Net operating profit	23,427	13,930
Provision for taxes	(7,455)	(3,709)
Net operating profit after tax (NOPAT)	**15,972**	**10,221**
Capital employed	69,613	76,562
Cost of equity (%) *	10.10%	10.59%
Capital charge/ Cost of capital	**7,031**	**8,105**
Economic value added (EVA)	**8,941**	**2,116**
EVA/Average Shareholders' Equity (%)	12.84%	3.46%
Dividend for the year	4,424	3,218
Capital employed as at December 31		
Average Shareholders' Equity**	69,613	61,100
Average accumulated provision for loans and advances	17,619	15,462
Total capital employed	**87,452**	**76,562**

Source: BRAC Bank 2024 Annual Report

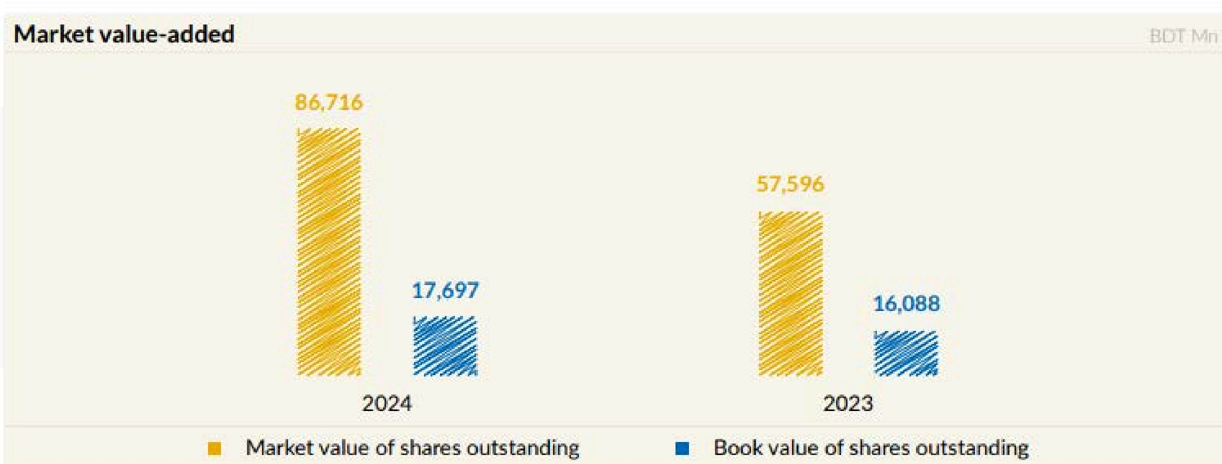
The table above shows the Economic Value Added (EVA) of BRAC Bank as per their audited annual report, comparing side by side the EVA of 2024 with that of 2023. The EVA is an important performance indicator of the bank's overall financial health, as it shows how much economic profit the bank has made after covering the cost of capital, including both equity and debt, and therefore it illustrates how much value the bank is creating for its shareholders beyond simply accounting profit.

It is observable based on the table above that BRAC Bank has experienced a healthy growth of EVA of BDT 2116 million in the year 2023 to BDT 8941 million in the year 2024. This is quite remarkable bearing in mind the political upheaval and economic unpredictability that the nation had experienced and this indicates a high level of resilience that BRAC Bank had withstood all those pressures and still managed to perform and give stable results.

2.5.1.5 Market Value Added (MVA):

BDT in Million

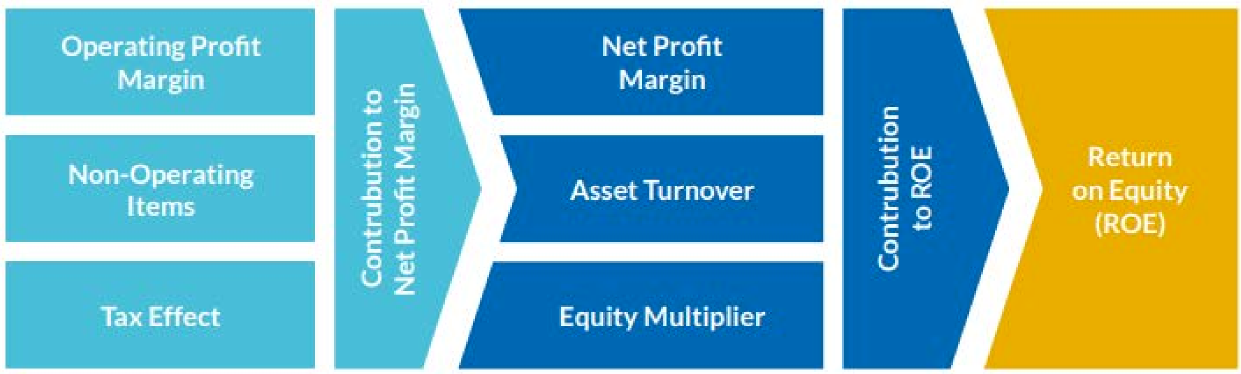
Particulars	2024	2023
Market value of shares outstanding	86,716	57,596
Book value of shares outstanding	17,697	16,088
Market value-added	**69,019**	**41,508**



Source: BRAC Bank 2024 Annual Report

The difference between the current market value of equity and the book value of equity is called the Market Value Added (MVA). It is an appropriate measure to obtain an idea about the perception of the market and the trust that investors have in the bank. As shown in the figure above, the bank has reported an increase in their MVA, from BDT 41,508 million in 2023 to BDT 69,019 million in 2024, reflecting strong investor confidence owing to its robust financial health and its capability to withstand macroeconomic challenges.

2.5.1.6 Du Pont Analysis



DuPont	Description	2024	2023	2022	2021	2020
Net Interest Income	% of Avg Assets	1.62%	2.75%	3.01%	3.31%	2.92%
Non Interest Income	% of Avg Assets	1.15%	0.98%	1.22%	0.85%	0.70%
Operating income	**% of Avg Assets**	**5.34%**	**4.90%**	**5.25%**	**5.52%**	**5.31%**
Operating expenses	% of Avg Assets	2.51%	2.74%	3.05%	2.94%	3.06%
Cost/Income	% of Operating Income	47.06%	55.93%	58.11%	53.16%	57.70%
Profit before provisons	**% of Avg Assets**	**2.83%**	**2.16%**	**2.20%**	**2.59%**	**2.24%**
Provisions	% of Avg Assets	0.46%	0.45%	0.43%	0.72%	0.49%
Profit before tax	**% of Avg Assets**	**2.36%**	**1.71%**	**1.77%**	**1.86%**	**1.76%**
Effective Tax rate	% of PBT	38.05%	33.68%	35.53%	29.69%	32.58%
NCI	% of Avg Assets	2.72%	3.18%	3.93%	4.67%	1.47%
Net Profit After Tax	**PAT(BDT in million)**	**12,136**	**7,304**	**5,763**	**5,547**	**4,541**
RoA	**Return on Avg. Assets**	**1.46%**	**1.13%**	**1.14%**	**1.31%**	**1.18%**
Assets/Equity	Avg. Assets/Avg. Equity	11.90	10.56	8.97	8.39	8.97
RoE	**Return on Avg. Equity**	**17.43%**	**11.95%**	**10.22%**	**11.00%**	**10.63%**

Source: BRAC Bank 2024 Annual Report

Du Pont analysis is a breakdown of the company's Return on Equity (ROE) to see how much the Return on Assets (ROA) and leverage affect the profitability of the company. As can be seen from the breakdown in the table above, BRAC Bank's RoA is the highest in 2024 in the last five years. This is due to the strong operational income arising from a mix of stable interest income and rising non-interest income. This is testament to strong profitability of the bank, which is also backed by a decline in their cost to income ratio to 47.06%. From here, we can infer that BRAC

Bank's profitability has shown improvement due to great operational efficiency and disciplined cost control.

We can also deduce that the bank was more actively using leverage in 2024 compared to previous years from the rise in their asset to equity ratio. Using more financial leverage increased their shareholders' returns while staying within regulatory and BASEL III limits.

Overall, the ROE of BRAC Bank jumped from 11.95% in 2023 to 17.43% in 2024, and the Du Pont analysis helps us understand the causes behind it, mainly owing to higher profitability due to greater operational efficiency, and sustainable use of financial leverage.

2.5.2 Accounting Practices

As indicated in the financial statements of BRAC Bank, it strongly adheres to Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) which are both practiced in Bangladesh. The most important principles that are being adhered to are:

- **Accrual Basis of Accounting:** This implies that revenue and expenses are recognized at the point of incurrence, and not when a cash is received or given, which is in tandem with IAS 18 or IFRS 15.
- **Going Concern Basis:** The bank does not show any termination plans and has no fears of liquidity failure.
- **Matching and Consistency:** Income and expenses are matched and the policies of depreciation and provisioning are used consistently over the years.

2.5.2.1 Method of Accounting:

BRAC Bank uses accrual basis for accounting. Interest income is recognized over the lifetime of assets and expenses are matched accordingly to the same period. Cashflow statements are made in accordance to IAS 7, classifying by operations, investments, and financing activities.

2.5.2.2 Accounting Cycle and Documentation:

The bank follows a full accounting cycle with all transactions recorded in ledgers, proper and systematic journal entries, regular preparation of trial balance, adjustments being made for depreciations, accruals, etc., which all translates into preparation of sound financial statements, along with appropriate notes and disclosures. All of these are of course audited both internally and by external auditors, and approved by the Board in order to ensure compliance.

2.5.2.3 Depreciation Methods:

As per IAS 16 Property, Plant and Equipment requirements, BRAC Bank follows a straight-line depreciation method, which aligns with industry practice and ensures that an asset is depreciated over its useful life in a way that reflects its economic value. Any residual values are considered insignificant.

2.5.2.4 Loan Loss Provisioning and IFRS 9 Implementation:

Since the mandatory implementation of IFRS 9 in 2018, BRAC Bank recognizes loan loss allowances based on the three stages of Expected Credit Loss (ECL). Detailed disclosures are also provided to ensure transparency, and it highlights a forward-looking and risk sensitive provisioning approach.

2.5.2.5 Accounting for Financial Instruments:

The bank classifies financial assets according to IFRS 9, into categories such as amortized cost, Fair Value Through Other Comprehensive Income (FVOCI), Fair Value Through Profit or Loss (FVTPL). Compliance with IFRS 7 and 13 are also ensured.

2.5.2.6 Disclosure Practices:

BRAC Bank's annual reports display thorough and comprehensive disclosures, such as Segment information, Loan portfolio quality, Provisioning and ECL roll-forward tables, Related party transactions, Risk management (credit, market, liquidity), Capital adequacy disclosures (CAR, CET1, Tier 1), etc. This meets both the regulatory requirements as well as IFRS standards, giving the bank more transparency and gaining trust of their audience.

2.6 Operations Management and Information System Practices

There are several different systems used by BRAC Bank's different functional units. The core/parent system is Finacle. It contains every single data, starting from customer data to all types of banking related data. Along with this, BRAC Bank also has several supporting systems such as ERP system, Oracle, XRider, Jasper, Corpnet, ALM Solutions, Spotlight, etc. All of these systems are used by various departments to collect, process and report customer data.

Moreover, a new platform is currently under development called Data Warehouse. This is a huge cloud system that will be used to store all information and data that the bank possesses, and data from this master cloud system will be fetched by all other separate systems such as ERP, Jasper, etc. to process separately as per the need of each functional department. This will connect all these individual MIS systems and increase overall efficiency of the bank.

To connect and share information with customers, BRAC Bank has its own website, which is the primary digital platform. Besides this, they also have their digital banking app, the Astha app, which provides not just transaction methods but also notifications to stakeholders whenever a new information is shared. BRAC Bank also has an authorized Facebook page and LinkedIn profile to share information. However, the most important is their extensive physical distribution system consisting of branches, sub-branches, agent banking networks and SME outlets in suburban and rural areas.

Internally, stakeholders use MS365 and all products available in the Microsoft Office package, such as Access, Excel, etc. to connect and share information, as well as to prepare reports for internal management and regulatory purposes. Other tools such as R-programming, Python, etc. can also be used as per the requirement of the task in hand, bank's regulations and the user's need, for daily banking operations.

Ensuring quality is a long process for the bank. The bank strictly follows Service Level Agreements (SLAs) for services such as loan disbursements and complaint resolutions. Ultimately, their activities are audited by external auditors to ensure both quality and transparency. Before the annual audit by external auditors, the bank also does internal audits. This is precursored by the bank's Maker /Checker in the system, several line managers who further check and validate the reports, resulting in plentiful layers of verifications being conducted before submitting the final report to a body. Naturally, this chain of operations is only effective due to the good governance and strict compliance of the top management to the ground level line managers of BRAC Bank. This strict management and quality control is manifested in the fact that the bank has had a good credit rating in a few consecutive years.

The high quality assurance process also contributes to the operational efficiency, as the stakeholders are expected to perform their tasks correctly with limited error, yet the validation levels are so many that all information and data are checked. It is not possible to leave everything to just one single individual to do it by himself or herself.

2.7 Industry and Competitive Analysis

This part examines the macroenvironmental environment of Bangladesh and the competitive environment of the Bangladeshi banking sector, which forms the necessary background of the strategic decisions made by BRAC Bank in three frameworks namely PESTEL Analysis, Porters Five Forces and SWOT Analysis.

2.7.1 PESTEL Analysis of the Banking Sector

The PESTEL analysis is used to analyze the external macroeconomic factors that present opportunities and threats to BRAC Bank PLC within the strictly regulated and rapidly changing financial prospects of Bangladesh.

Factor	**Influence on BRAC Bank PLC**
Political	Bangladesh is undergoing a very unstable political environment, which has only exacerbated over the past year and a half. With the upcoming elections, the situation is going to deteriorate and it will discourage investment further along with increasing credit risk. However, according to IDLC Securities Ltd. (2024), government support for Bangladesh Bank's reforms is working to strengthen the system in the long run, despite the political pressures.
Economic	Persistent high inflation rates, which are worsened by Bangladesh's shift to a market driven interest rate by abandoning the 9/6 cap and SMART rate, is creating an increasingly volatile market. Due to this, banks will initially experience a compression in NIM; however, this change should only be temporary as ALM functions learn to navigate and adjust their strategies for better risk based pricing in the long run (Bangladesh Bank, 2024). Having said that, banks should also beware of exchange rate volatility due to this, and the fact that high NPL ratios are systematic risks which need to be combatted (IDLC Securities Ltd., 2024).
Socio-cultural	Smartphones usage has significantly increased in recent years in Bangladesh, along with better network and internet penetration. Financial literacy has also increased, which drives the demand for digital tools and media, which for banks mean better digital banking and agent banking services. This aligns with BRAC Bank's model of financial inclusion, and drives their digital and IT sector for growth and improvement.

Technological	Owing to the increased demand for digitization, banks need to update and modernize their Core Banking Systems in order to maintain efficiency and competence. Moreover, they should use the opportunity to leverage Artificial Intelligence (AI) and Machine Learning (ML) into their system for competitive advantage. While BRAC Bank had a first mover's advantage with their digital banking app Astha, the rapid growth of the fintech sector such as Bkash and Rocket pose the threat of substitutes (IDLC Securities Ltd., 2024).
Environmental	The Bangladesh regulatory environment is becoming more and more conscious about sustainable finance and reporting practices, which forces banks to enhance their sustainability reporting. While this is now a regulatory requirement, it aligns well with BRAC Bank's mission and is a good strategic fit (BRAC Bank PLC, 2023).
Legal	As the regulatory environment is changing rapidly, and strict compliance has to be maintained, it means that banks need to adapt quickly with these changes, such as BASEL III, new AML guidelines, etc., and doing this will result in greater operational and training costs, and staying efficient will require greater investment in developing software for automation in the long run.

2.7.2 Porter's Five Forces Analysis

Applying Porter's Five Forces helps assess the structural competitiveness of the Bangladeshi banking industry:

Threat of New Entrants: Given the strict regulatory requirements for the formation of new banks, and the volatile nature of the industry at present, it is difficult for a new bank to enter the market and be profitable due to both the restrictions and the lack of trust among customers, which would take a long time to build. Having said that, although it is tough for new traditional banks to enter the market, the rise of fintech and Mobile Financial Services (MFS) firms like Bkash and Nagad poses a moderate level of threat, as they are offering services to smaller segments like payments and loans without needing to have a physical branch or distribution channel to reach the customers (IDLC Securities Ltd., 2024). Due to this, BRAC Bank has invested heavily in their digital banking platform, the Astha app, in order to stay relevant and protect their market share.

Bargaining Power of Customers: Customers, especially corporate and institutional customers, have a moderate to high bargaining power. This is due to active negotiating by the customer, which is possible due to low switching costs and digitalized onboarding in most banks. Moreover, with the rising interest environment in Bangladesh right now, customers can easily shift to banks offering higher deposit rates or to Treasury bills, which forces banks to manage their repricing strategy very quickly and frequently. As a result, this customer bargaining power contributes significantly to NIM compression, as deposit rates rise much more quickly than loan yields.

Bargaining Power of Suppliers: in banking, the supply comes from funding from depositors and capital from shareholders. This means that among the suppliers, while small retail depositors don't have much bargaining power, large corporate and institutional depositors have the power to negotiate and demand for higher rates. This was the case during 2024, when there was a highly tight liquidity environment and many corporate clients demanded higher Short Notice Deposit (SND) rates, threatening to withdraw their funds otherwise (Bangladesh Bank, 2024). In such a market, BRAC Bank needs to actively manage its CASA mix and reduce its dependence on high cost wholesale funding, as it is an SME intensive bank and has a high demand for loans, meaning it needs cheaper funds available to be profitable.

Threat of Substitute Products or Services: Threat of substitutes is high considering the rise in fintech firms in Bangladesh with development of mobile wallets such as Bkash and capital market instruments such as Treasury Bills, bonds, and mutual funds. As a result, BRAC Bank needs to focus now on further developing and enhancing their digital banking services and agent banking network, and work on improving customer experience and not just pricing.

Rivalry Among Existing Competitors: This factor poses a high risk as the banking industry is highly competitive, with competition coming from State Owned Commercial Banks (SOCBs), private commercial banks, as well as foreign banks. Competitors are competing based on deposit rates, SME lending rates and digital banking services. This affects profitability in a negative way, and compels banks such as BRAC Bank to invest in the continuous improvement of their digital services and invest in technology that will make their work more efficient and help them manage risks.

2.2.7.3 SWOT Analysis

The SWOT analysis below outlines the strengths, weaknesses, opportunities and threats of BRAC Bank according to the various functions as mentioned above.

Strengths (S)	**Weaknesses (W)**
S1. The participative leadership structure empowers employees and promotes accountability and good ethics. Strong governance and cross-functional coordination enhances the decision making process. This increases consumer trust and brand image.	**W1.** Centralized approval structure and strict hierarchy can slow responsiveness in the volatile market conditions. There is little room for individual innovation due to strict compliance regulations characteristic of the industry.
S2. Strong brand equity from parent brand BRAC, and high market penetration due to omni-channel presence. Emphasis on social impact rather than engaging in price wars, and dominant SME positioning gives a differentiating factor.	**W2.** Digital marketing is still not effective in rural areas, and there is limited use of advanced data analytics; too much resources in the SME segment can undermine overall profitability.

S3. Strong regulatory compliance, transparent disclosure practices, and robust profitability and leverage ratios.	**W3.** Heavy dependence on interest income, decreasing NIM, and potential underutilization of funds if too conservative.
S4. Integrated core banking system with several supporting MIS systems; layers of Maker-Checker and manual validation, along with a strong network of physical distribution channels.	**W4.** Multiple information systems may cause inefficiencies and slow responses. Manual verification also slows down, and high dependency on IT and cybersecurity.
Opportunities (O)	**Threats (T)**
O1. Expand development programs to train middle management on new data systems, and utilize available performance appraisal data for succession planning.	**T1.** Rising market volatility and economic uncertainties put pressure on upper management for strong leadership; talent poaching is a common practice among many MNCs and new fintech firms.
O2. Low cost customer acquisition opportunity through Astha, capturing young demographics.	**T2.** High competition, availability of substitutes and elastic demand encourages switching.
O3. Improvement in asset-liability repricing strategy; growth in non-interest income for diversification.	**T3.** Interest rate volatility could continue, further compressing NIM; greater competition and higher credit risk.
O4. Use of Artificial Intelligence (AI) and Machine Learning (ML) increase operational efficiency, identify fraud, etc.	**T4.** Rapidly evolving digital environment; cybersecurity risks.

2.2.8 Conclusion

BRAC bank PLC is a highly competitive and regulated market with a strategically differentiated institution. It has a good background in its governance, unique social mission and dominance in the SME sector. The management practices of the bank are democratic and up to date, with a strict HR system. There are however structural challenges that the bank is confronted with such as increased operating cost structure and intense market competition. The shift to a liberalized interest rate regime requires that the functional excellence highlighted in the following chapter, should be underpinned by the overall organizational capabilities especially in its digital innovation and risk governance.

2.2.9 Recommendations/Implications

This organizational analysis has a number of implications on the strategy of the bank; they include:

- **Digital Cost Focus:** To mitigate the increased Cost-to-Income Ratio of its broad SME, the bank needs to hasten the process of automating back-office functions and completely digitizing the customer onboarding process to achieve efficiency and safeguard the NIM.
- **Taking advantage of Organizational Culture:** The high level of brand trust and participatory leadership should be used to influence the need to introduce the new market-based pricing strategy to the clients and make the bank appear as a stable and a transparent partner as opposed to a high-rate institution.
- **Risk-Culture Alignment:** The training programs (HR) must be consistent with the new requirements of the ALM, so that all front-line employees should be aware of the idea of risk-based pricing and the time frame to be spent to minimize internal differences.

Chapter 3: PROJECT REPORT

Impact of Bangladesh's Transition Toward a Market-Driven Interest Rate Regime on Bank ALM Practices: A Study on BRAC Bank PLC.

3.1 Introduction

3.1.1 Background of the Study

Bangladesh is currently experiencing one of the greatest structural changes of its financial landscape in decades. The banking sector had a strict administrative interest rate regime, the 9/6 cap, which was in effect from April 2020. This law limited the lending rate to 9% and the deposit rate to 6% in an effort to reduce the cost of doing business and to encourage industrial development. Although this policy brought a lot of stability to the borrowers, it resulted in a distorted market in which the banks were not in a position to price the assets based on the inherent risk of the asset, and so this resulted in inefficient use of capital.

In July 2023, in an effort to get out of this strict mandate and allow banks to price more efficiently, Bangladesh Bank (BB) presented a transitional benchmark called SMART (Six-Months Moving Average Rate of Treasury Bill). This enabled the banks to mark-up by approximately 3 percent to the six months moving average of the yields of the Treasury Bills. However, this too was not enough to check the continuous inflation or to handle the balance of payments crisis. Therefore, in mid-2024, the central bank embarked on a radical change of the interest rate regime to one that is fully market-driven and implemented a system of exchange rate management known as a Crawling Peg. This shift has drastically changed the business environment of commercial banks, and it has put more pressure than ever before on Asset-Liability Management (ALM) desks to deal with volatility.

3.1.2 Problem Statement

The change in fixed or capped interest rate environment to a market-driven rate creates a lot of volatility within the banking system, largely due to the lag effect and the discrepancy in the rate of repricing of assets and liabilities. The risk of margin compression is one of the most crucial ones for banks. While corporate and institutional depositors insist on higher rates right now in a rising rate environment, the asset portfolio of a bank, especially the one that includes fixed-rate term loans, usually requires much longer time to reprice. This squeezes the Net Interest Margin (NIM), which is the main profitability indicator of a bank.

Moreover, the traditional ALM tools which worked well during the fixed regime of 9% are no longer viable. Under a liberalized regime, the compliance tools that are static do not reflect the dynamics of day-to-day market changes. This issue is compounded among the retail-intensive banks such as BRAC Bank in which the duration mismatch, which is funding long-term SME loans with shorter-term deposits, puts the banks in acute exposure to interest rate shocks. Moreover, the Crawling Peg system was introduced where the exchange rate is no longer fixed, and now the ALM desks must deal with the local currency liquidity, while at the same time they must be prepared to hedge against the risk of revaluation of foreign currencies.

3.1.3 Objective of the Study

The main aim of this report is to explore the theoretical effect of the market-driven interest rate policy in the ALM operations of commercial banks. In particular, it aims at determining the possible risks, including basis risk and margin compression, and the opportunities of the new regime. A secondary goal is to examine the strategic changes that BRAC Bank needs to make to its liability management and asset pricing in order to succeed in this environment.

3.1.4 Scope and Significance

This paper will examine the ALM practices of BRAC Bank PLC, in particular the "Banking Book" of the bank, namely loans and deposits, and not the Trading Book. It works with the period between 2018 (pre-cap) and 2024 (early post-liberalization). This study is important because it is applicable to the market leadership of BRAC Bank in financing SMEs, their major target segment. The fact that it is able to cope with interest rate risk directly affects the bank's lending capacities to the grassroots economy. This report, therefore, gives practical information to the Treasury Division on how to bolster their balance sheet against rate shocks.

3.2 Literature Review

3.2.1 Theory: ALM and Financial Liberalization.

The traditional definition of Asset-Liability Management (ALM) refers to the ongoing activity of managing the risk exposure and the structure of the bank assets and liabilities, with its main focus on liquidity and interest rate risk (CFI, n.d.). The transition to the market-driven system is known as the Interest Rate Liberalization (IRL). Two conflicting theories of the economy are the McKinnon-Shaw Hypothesis and the Financial Fragility Hypothesis that frame this transition.

The McKinnon-Shaw perspective states that financial repression, like interest rate caps, will deter savings and will allocate credit inefficiently. On the other hand, IRL is predicted to lead to increased savings, efficient utilization of capital and faster economic growth (McKinnon, 1973; Shaw, 1973). This assumption is backed up by cross country research where the Asian Development Bank discovered that an appropriately structured interest rate policy will result in the deepening and broadening of their financial sectors.

On the other hand, the Financial Fragility Hypothesis warns that the rapid liberalization, particularly in the developing economies that have a weak supervision, may cause the financial instability to increase. This is usually so because of aggressive competition for deposits, and this compels the banks to take high risks of lending to offset the high Cost of Funds (COF). Rathnayake (2022) confirms that in the context of liberalization, although efficiency may be enhanced in the long run, the early effects are usually a compression in the margin, as banks fight with the deposit rates. Along with this, some studies also indicate a more subtle result: although interest rate liberalization can lead to the increase of the likelihood of a financial crisis, the long-term developmental consequences can be more significant than the adverse consequences of financial vulnerability (Ranciere et al., 2020). Thus, the effectiveness of the transition will mainly depend on the complexity of the ALM framework of a bank (Abebe, 2022).

3.2.2 ALM Tools: Repricing Gap and Duration Analysis

The ALM desk uses two main types of tools in a volatile market to address the Interest Rate Risk (IRR), each of which deals with two areas of the balance sheet.

3.2.2.1 Repricing Gap Analysis

The most basic instrument of IRR evaluation is the Repricing Gap or Earnings Gap. It aims at how the interest rate fluctuations will affect the Net Interest Income (NII) of a bank within a given period of time, such as a quarter or a year. The difference between the Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) of certain time buckets is the gap.

A positive gap indicates that the bank possesses greater assets repricing than liabilities, therefore, an improvement in interest rates would boost the NII of the bank.

A negative gap, which is more probable in the case of BRAC Bank because of the longer-term SME lending based on short-term deposits, implies that a rate increase will cause the interest expense to rise faster than the interest revenue, and result in a compression of the margin.

It is important to note that although Repricing Gap is a crucial tool of short-term earnings management, it does not take into consideration the time value of money and the effects of long-term fluctuations in rates on the overall value of the bank.

3.2.2.2 Duration Gap Analysis (Economic Value of Equity Perspective)

The more serious tool is the Duration Gap which is concerned with the protection of Economic Value of Equity (EVE) of the bank. It takes into consideration the time value of money by determining the average weighted time preceding the receipt or payment of a cash flow.

A positive Duration gap means that the assets of the bank are more exposed to changes in rate compared to the liabilities. The long-term SME portfolio of BRAC Bank has a tendency to have longer duration of assets than the short-term liabilities (deposits). This discrepancy in duration exposes the bank to a serious loss of capital in the event of a substantial and prolonged rise in interest rates because the present value of the long-duration assets will decrease drastically (Abebe, 2022). The most essential thing is long-term financial stability which is achieved by protecting the Economic Value of Equity (EVE).

3.2.3 Regulatory Environment: Reason for Bangladesh's Liberalization

The abandonment of the SMART system was supported by the need to be economically viable and international consultation. In their technical assistance reports, The International Monetary Fund (IMF) has been eager to promote the transition of Bangladesh Bank to an Interest Rate Corridor (IRC) system (Chuiry, 2024). IRC is an essential part of the modern monetary policy frameworks whereby the standing facilities (lending and deposit rates) are applied as limits to the market-determined policy rate which increases the effectiveness of monetary transmission. This test has been failed by the previous SMART system because it responded too slowly to the soaring inflation.

The ongoing shift is characterized by two consequent contractionary policies (Bangladesh Bank, 2024):

Aggressive Policy Rate Increment: The central bank has significantly increased the Policy Rate (Repo Rate) in order to tighten the money supply and bring the inflation expectations down to the ground. This at once raises the Cost of Funds to the banks, and they have to compete over deposits, and it becomes hard to arrange the Repricing Gap.

Crawling Peg Exchange Rate: Crawling Peg Mid-Rate (CPMR) is the introduction of the exchange rate, which is partially pegged to the market forces (VDB Loi, 2024). This means that Bangladesh Bank has to control the peg by acting in the foreign exchange market. BB selling of the U.S. Dollars also causes the local currency (BDT) to be drained out of the banking system, which further tightens the money market and increases interbank borrowing rates. The ALM desk, therefore, has to deal with local liquidity risk in coordination with the exchange rates dynamics.

3.3 Methodology

3.3.1 Data Sources and Research Design

The research design used in this study is a Mixed-Method Descriptive Research Design in order to find out both the quantitative changes in the financial metrics and the qualitative changes in strategy. The quantitative component entails the gathering of secondary financial information towards the computation of ratios which include, NIM, LDR and Liquidity Coverage Ratio. The qualitative dimension is the disclosure of risks of BRAC Bank and Bangladesh Bank Monetary Policy Statements (MPS) in the form of text.

The study will span between the years 2018 and 2024 to give a comparative analysis between the past period, the Pre-Cap era, the Capped era, and the present era being the Liberalized era. The major economic indicators and Monetary Policy Statements of Bangladesh Bank are the primary sources. Specific data of the bank is obtained in the Annual Reports of BRAC Bank (2018-2024) and Quarterly Financial Statements. It obtains market information, including daily yields of Treasury Bill and Interbank Call Money through reliable brokerage reports.

3.3.2 Analytical Techniques

This analysis is based on the trend plotting to demonstrate the trend of NIM and Cost of Funds relative to the Policy rate over the six-year period. In addition, the paper makes use of theoretical stress testing to undertake the What-If analyses. To illustrate, the model approximates the effect on the interest expense of BRAC Bank on its current deposit mix in case the Call Money rate increases by 200 basis points.

3.4 ALM Challenges and Strategic Responses Analysis

3.4.1 Managing Basis Risk and Margin Compression

Under the new market-based regime, the interrelation between the lending rate and the borrowing rate is not perfect resulting in Basis Risk. When the central bank increases the repo rate, corporate depositors will instantly insist on increased interest on their Short-Notice Deposits (SND). However, the current retail and SME loan portfolio of BRAC Bank cannot be repriced until the following reset date which may be months away. Being a bank dependent on retail deposits, BRAC bank is especially dependent on sticky deposits, but high inflation prompts depositors to shift their money to high-paying investment items such as T-Bills. So the bank must increase rates to hold these deposits, which narrows the NIM. Historical evidence indicates that in the early years of liberalization in 2024, banks will have had a NIM reduction of 20-50 basis points with high levels of fixed-rate asset portfolio.

3.4.2 Duration Mismatch in the SME Portfolio

The main strength of BRAC Bank is in SME lending where the loan is usually given at longer terms (1-3 years) than the commercial overdrafts. This results in a huge discrepancy given that the bank is funding these 3-year assets by deposits which in effect have a duration of 3-6 months. When the rate is on an upward trend, the decrease in the value of the long-term assets (SME loans) is more rapid than the decrease in the value of the short-term liabilities. This poses a threat to the Capital Adequacy of the bank as the economic value of the bank equity goes down. This means that the ALM desk will no longer be able to solely depend on the liquidity ratios; it is important to ensure that the Duration Gap is actively monitored to make sure that it does not exceed the risk appetite established by the Board.

3.4.3 Challenge 3: Liquidity Management when on the Crawling Peg

The Crawling Peg exchange rate system of USD/BDT has a direct spill over effect on Taka liquidity. To avoid depreciation of the Taka beyond the crawl mark, Bangladesh Bank sells the USD to the commercial banks and purchases the BDT. This action takes BDT out of the banking system and causes a liquidity crunch and increases the interbank call money rate. The review reveals that banks that have a greater Loan-to-Deposit Ratio (LDR) are more exposed in this case. The profitability of BRAC Bank will decline in case it uses the call money market to finance its operations. As such, the bank should have a liquidity cushion of government securities to pledge as collateral on repo borrowing, instead of acquiring costly call money.

3.5 Empirical Analysis: Impact of Interest Rate Regime Change on BRAC Bank's ALM

3.5.1 Data Used and Approach

In this section, the historical data used for analysis is taken from BRAC Bank's audited annual reports, from the year 2018 through 2024. The following information has been used in particular:

- Net Interest Income (NII)
- Average Earning Assets
- Net Interest Margin (NIM)
- Loan–Deposit Ratio (LDR)
- Capital Adequacy Ratio (CRAR)
- Industry averages and general trends/behavior

3.5.2 Historical Evidence of NIM Trend from 2018-2024

Observed NIM (Actual)

Year	Regime	NIM (%)
2018	Pre-Cap	5.80%

2019	Pre-Cap	4.55%
2020	9/6 Cap	2.92%
2021	9/6 Cap	3.31%
2022	9/6 Cap	3.01%
2023	SMART (Transition)	2.75%
2024	Post-Cap	1.62%

Source: BRAC Bank Audited Annual Report 2024

From the historical data shown above, it can clearly be seen that NIM declined significantly after the 9/6 cap was introduced. While asset yields were capped at 9%, competition for deposits rose. Moveover, the cap meant that SME risk premiums could not be priced as per their risk, causing the NIM to be further compressed.

The introduction of the SMART rate should have partially restored this pricing gap in theory. However, historical data shows that even SMART proved not good enough to alleviate the situation, and the post-cap era from 2024 saw a sharp fall in NIM. From 2023 to 2024, the compression in NIM is the highest, supporting the theory that early after liberalization, the NIM of banks would fall. This means BRAC Bank entered 2025 with a weak NIM and high vulnerability to interest rate shocks.

3.5.3 Simulated Impact of Full Market Liberalization in 2025

Key ALM assumptions that are realistic for BRAC Bank:

Parameter	**Value**
% Fixed-rate SME loans	~65%

Avg SME loan tenor	2.5–3 years
Avg deposit repricing	1–3 months
CASA ratio	~45%
2025 NIM estimate	~2.0-2..1%

These assumptions have been based on BRAC Bank's core identity as an SME focused bank, along with their historical behavior and tendencies, and general industry practices.

- **% Fixed-Rate SME Loans - approximately 65%:** BRAC Bank is a highly SME focused bank. It is also important to note that the SME loan books across the industry generally have around 60-75% fixed rates and the fact that SME markets are not very rate elastic. Hence, 65% is a conservative and realistic assumption.
- **Average SME Loan Tenor of 2.5–3 years:** According to BRAC Bank annual reports, they usually have "medium term SME financing", and in Bangladesh the SME refinancing schemes usually have a tenor of 24-60 months. The range of 2.5 to 3 years is particularly chosen because Bangladeshi SMEs mostly borrow for short term financing needs and avoid long tenor debts which create higher risk for them and pressure for repayment.
- **Deposit Repricing Speed - approximately 1–3 months:** This assumption is based on Bangladesh Bank's liquidity regulations and the nature of deposits in the bank, which can be savings deposits, SNDs or institutional deposits/SNDs. These either have short maturities or can be repriced quickly in response to market changes, unlike fixed rate SME loans.
- **CASA Ratio - approximately 45%:** This is based on the fact that peer banks in the industry have an average of 40-50% CASA ratio. Moreover, BRAC Bank has had a strong CASA position, and this is essential for analysis as their CASA acts as a natural hedge against rate spikes due to its slower repricing, and hence slows down the rise in cost of funds and works to protect the bank's NIM.

3.5.4 Scenario Analysis: Interest Rate Shock & NIM Impact

Scenario 1: Further Rise in Rates

It has already been established that deposits costs rise much faster than loans in our assumptions, and this is backed by historical data as well. The NIM of BRAC Bank fell from 2.75% in 2023 to 1.62% in 2024 when interest rates rose due to the regime change, reaffirming this assumption.

In a scenario of another similar rate hike, we can make a conservative assumption that this time the NIM will also experience a fall, but only 50% of that seen in 2024. This is percentage assumed because BRAC Bank's CASA will be able to cushion some of the impact, along with the fact that the country was facing unprecedented political and economic instability in the second half of 2024, which impacted the bank's profitability.

Margin lost:

3.01% - 1.62% = 1.39%

Margin compression:

1.39% × 50% = 0.70%

Expected NIM = 1.62% - 0.70% = 0.93%

From here, we can assume in a further tightening situation, BRAC Bank's NIM might fall to around 0.9-1.1%. The point to be noted is that the bank would be facing basis risk here, and its NIM is not declining due to any drop in credit quality.

Scenario 2: Stable Rate

If the economy continues to have stable interest rates without further shocks, then it can be expected that the bank will try to decrease deposits while loans are gradually repriced. Historically, the data shows that when the 9/6 cap was in place, BRAC Bank had a stable NIM of around 3.0-3.3%. However, since now the base year for this scenario analysis is 2024, which had a much lower NIM of 1.62%, the bank can expect to recover somewhat under a period of interest rate stability but not completely to what it had in 2022.

We can reasonably assume that loan repricing in the next 6-12 months will recover 25% of the margin that was lost from 2022 (stable era) to 2024 (liberalized era).

Margin lost:

3.01% - 1.62% = 1.39%

Margin recovery:

1.39% × 25% = 0.35%

Expected NIM = 1.62% + 0.35% = 1.97%

Therefore, under a stable interest rate, BRAC Bank can expect its NIM to recover to around 1.9-2.1%.

Scenario 3: Easing Rate

In this scenario, it is expected that deposit costs will fall faster than loan yields, which means that CASA will become more valuable and NIM will increase.

Although this situation would be a positive outcome for BRAC Bank, a conservative assumption should still be maintained. So, it is assumed that 50% margin recovery is possible in this case.

Margin lost:

3.01% - 1.62% = 1.39%

Margin recovery:

1.39% × 50% = 0.70%

Expected NIM = 1.62% + 0.70% = 2.32%

Hence, under easing interest rates, BRAC Bank is expected to have a NIM of around 2.2-24%.

3.5.5 Duration Gap Impact: Economic Value of Equity (EVE)

Duration Gap Variable Assumptions:

Variable	**Value**	**Reasoning**
Asset duration (DA)	2.8	Medium tenor SME heavy loans
Liability duration (DL)	1.2	Short term deposits
L/A ratio	0.7	Based on average of BRAC Bank's last two years' loan-to-asset ratio

Duration Gap Calculation:

Duration Gap = DA - (L/A × DL)

DG = 2.8−(0.70×1.2)
DG = 1.96 years

This positive duration gap indicates that the bank's assets are more sensitive to changes in interest rates than its liabilities, as assets have a longer duration than the liabilities. This means that a rise in interest rates will negatively impact the value of equity of the bank, and conversely a fall in interest rates can have a potential positive impact on its equity value.

Equity Sensitivity (EVE)

This can be calculated using the formula:

%ΔEVE ≈ − Duration Gap × Δr

The following scenario shows that an interest rate shock of 200 basis points will deplete the economic capital of the bank, even if its CRAR stays within regulatory limits.

+200 bps Shock
ΔEVE ≈ – Duration Gap × Δr
ΔEVE ≈ −1.96 × 2 ≈ −3.92%

3.5.6 Probabilistic Outcome Matrix

From the scenario analysis conducted in this section, the following probabilistic matrix can be drawn up and used to calculate the expected NIM of BRAC Bank in 2025.

Scenario	Probability	Expected NIM	Weighted NIM
Rate Hike	25%	1.05%	0.26%
Stable	50%	1.97%	0.99%
Easing	25%	2.32%	0.58%

Expected NIM = 0.2625 + 0.9850 + 0.5788 = 1.8263%

Therefore, BRAC Bank can expect to have a net interest margin of around 1.8-2.0%, considering all possible scenarios. This is a realistic expectation because the scenario analysis has been done considering conservative figures, not optimistic, so as not to overstate the profitability.

3.5.7 Impact on Other Profitability & Risk Measures

ROA: The table below shows the values and assumptions made to showcase the possible change to be expected in ROA (theoretically) due to the change in NIM. It has been assumed that the growth rates of all the variables remain the same as that of 2023 to 2024. All values are expressed as a percentage of total assets.

ROA≈NIM+Non−interest margin−Costs−Provisions		
Variable	**Value***	**Reasoning**
NIM	1.80%	Expected value from scenario analysis
Non-interest margin	1.21%	Approximation taken from 2024 balance sheet
Costs	2.06%	Approximation taken from 2024 balance sheet
Provisions	0.45%	Approximation taken from 2024 balance sheet
ROA	0.49%	

**Note: All values are expressed as a percentage of assets.*

The ROA of 0.49% is quite low and a sharp fall from BRAC Bank's usual range of 1.0-1.5%. However, as this is a scenario analysis only and not a forecast, this value shows consistency with the theoretical logic being applied. It shows that the bank is profitable, but its profitability is very compressed compared to its historical trend. This is due to the compression in NIM caused by the liberalized interest rate shock that the economy is undergoing. The assumptions that provisions and operating costs also increase year-on-year have also caused ROA to be much lower; if these variables were considered to be the same as 2024, then ROA would have had a higher value. It is important to note that the ROA of 0.49% is a reflection of temporary compression of profitability, as theoretically predicted, and would be expected to return to a more realistic and sustainable figure in the long term.

ROE:

ROE=ROA × Equity Multiplier
ROE = 0.49% × 13.41

ROE = 6.63%

The equity multiplier is calculated by assuming the same year-on-year growth from 2023 to 2024. The calculated ROE is much lower than what BRAC Bank has experienced historically, but it is consistent with the logic applied in the scenario analysis. It shows that while the bank remains solvent and compliant with regulatory requirements, its earnings capacity is temporarily hindered and compressed owing to factors such as greater funding costs.

3.5.8 Key Findings

Net Interest Margin (NIM): The analysis reveals that the shift to a market-based interest rate regime has the main impact on BRAC Bank by compressing its Net Interest Margin. Rates in the deposits are repriced at a faster rate than the loans, especially when the lending rates in the SME portfolio are not completely flexible. Consequently, NIM diminishes in the short term under all stress conditions, and this is followed by the NIM improving slowly as the repricing of assets moves slowly. This substantiates the fact that the transmission of interest rate liberalization has the greatest effect through margins and not liquidity.

ROA: The scenario-based ROA results show that the value of ROA has dropped significantly compared with the historical levels, which demonstrate less effectiveness in making earnings in the transition period. Although ROA is still positive in the base case, it is lower than the long-run average of the bank because of compression of the margin, and high cost of funding. This implies that the low profitability of assets is a temporary problem rather than a long term structural problem in the adaptation to the new interest rate environment.

Return on Equity (ROE): The decrease in ROA leads to a low ROE, meaning there is less returns to shareholders despite the constant level of leverage. The analysis indicates that BRAC Bank has a strong balance-sheet and regulatory compliance focus and does not prioritize maximizing returns in the short term. As much as ROE compression can be observed during the transition period, capital buffers are still high and thus can absorb the profitability shock without posing a solvency risk.

Duration Gap and Economic Value of Equity (EVE): The duration gap of the bank means that it suffers loss on its valuation in a higher interest rate regime. Scenario analysis shows that the internal value of equity is moderately decreased, because the length of the SME assets compared to the deposits that turnover very fast. Nevertheless, the effect is not too excessive, which proves that the high-risk factor is long-term value sensitivity and not liquidity stress in the short term.

Liquidity and Funding Stability: Although BRAC bank is faced by profitability pressure, it has good liquidity ratios, such as LCR and NSFR which are significantly higher than the regulatory requirements. Having a large CASA base will serve as a natural hedge, as it will slow the repricing of deposits and decrease the volatility of funding. These results underscore the fact that the liquidity status of the bank is still strong despite the unwanted interest rate conditions.

Probabilistic Scenario Outcomes: Probability-based outcome matrix indicates that the most probable scenario is a moderately compressed margin that gradually levels off, as opposed to an extreme case of financial distress. There are high chances of extreme downside outcomes which demonstrate diversified funding base, high level of capital position, and flexibility of price adjustments over time of the bank.

General Strategic Observation: The general implication of the findings is that the transition to a market-driven interest rate regime does not present a solvency risk to BRAC Bank, but it creates a much greater significance of advanced ALM practices. Profitability is no longer administratively cushioned and should be done actively by using dynamic repricing, optimization of funds and risk monitoring.

3.6 Conclusion and Recommendations

3.6.1 BRAC Bank ALM Strategy Strategic Recommendations

The current basis of BRAC Bank ALM framework, namely, operation Funds Transfer Pricing (FTP) system and quarterly Duration Gap reporting is sound. But the shift to a market-oriented setting requires the change of periodic compliance into continued and dynamic risk management. The recommendations below address the improvement of the current systems and strategic position.

3.6.1.1 Funds Transfer Pricing (FTP) Volatility Optimization

Although there is an FTP system, its methodology needs to be enhanced so that it would reflect the instant volatility and scarcity premium of the liberalized market. It is necessary to make the current FTP curve more responsive and dynamically related to the high-frequency market indicators, i.e. daily Treasury Bill yields, interbank borrowing rates, etc., instead of being smoothed on the basis of the past data. This modification is to ensure that charging the lending units with an FTP rate is able to completely cover the increasing marginal cost of funds in the bank. In particular, the FTP rate to be paid by the SME division should clearly incorporate a longer-term liquidity premium and a Basis Risk charge to reflect the lack of alignment between the repricing schedules of the fixed-rate SME assets and the floating-rate liabilities to finance them.

3.6.1.2 Growing Frequency and Scope of Duration Gap Analysis

The present quarterly reporting cycle of Duration Gap analysis though in compliance is inadequate in a fast changing rate environment. Since the core SME asset portfolio has a long maturity, the ALM desk will need to switch to monthly (or bi-weekly) Duration Gap reporting on the core banking book. Also, the analysis should incorporate the rigorous Scenario and Stress Testing of the standard parallel shifts. This should include:

Non-Parallel Yield Curve Shifts: Testing the effects of short term rates increasing at a significant pace than the long-term rates (twisting) which is a direct challenge to the negative duration position of the bank.

Reverse Stress Testing: Determining the precise combination of interest rate and withdrawal shocks (e.g. a 250 basis point increase and a 10 per cent non-maturity deposit run-off) that would cause the bank to violate its capital adequacy or EVE constraints.

3.6.1.3 Management of Dynamic Liquidity and Repricing Gap.

The bank needs to change Repricing Gap analysis that is a static periodic compliance exercise to a dynamic, almost real-time decision support tool. The ALM desk is to pay attention to intraday and short-term (0-30 days) liquidity and repricing buckets that are the most influenced by the immediate policy rate increases and the BDT liquidity drain through Crawling Peg. This system must also give early signals when the short-term negative gap is coming towards the predetermined limit of tolerance triggering instant tactical action like selective increase of the term deposit rates or conditional repo facilities.

3.6.1.4 Enhancing Low-Cost CASA Mobilization

The strategic need of raising low-cost funding is therefore of upmost priority in order to deal with the unrelenting pressure of increasing market-driven deposit rates. A good foundation of Current and Savings Accounts (CASA) is the best hedge against high interest rates. BRAC Bank ought to take advantage of its core competence of agent banking, and its extensive rural network to motivate the mobilization of granular low cost deposits that are less responsive to marginal changes in wholesale interest rates. It is an important defensive mechanism of ensuring the Net Interest Margin is not eroded.

3.6.1.5 Financial Derivatives (Future Outlook) Preparedness

With the market maturity and the Bangladesh Bank probably relaxing regulation on hedging instruments, BRAC bank should be in a position to use the Interest Rate Swaps (IRS). IRS would enable the bank to hedge its heavy fixed-rate SME book against its floating-rate debts. The bank is able to match the cash flow properties of its assets and liabilities by paying a fixed rate and receiving a floating rate on a notional principal and thus stabilize its NIM regardless of changes in rates.

3.6.2 Conclusion

The change of the banking industry in Bangladesh to a market-driven regime is irreversible. Although this change is incredibly difficult, namely, compression of margins, duration, and tightness of liquidity, it is also a chance to distinguish oneself, which sophisticated banks can take advantage of. In the case of BRAC Bank, the spread cap safety net is no longer there. The ALM desk has been compelled to rely solely on its capacity to predict interest rate trends and place the balance sheet at the right positions. BRAC Bank can easily overcome this volatility by shifting away as a matter of compliance to dynamic risk management, by using its well-developed SME and Agent Banking network to create stable funding. It will be the integration of risk knowledge of the Treasury and pricing discipline of the business units that will determine the success of this transition.

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Appendix

ROA≈NIM+Non-interest margin−Costs−Provisions		
Variable	**Value**	**Reasoning**
NIM	1.80%	Expected value from scenario analysis
Non-interest margin	1.21%	Approxiimation taken from 2024 balance sheet
Costs	2.06%	Approxiimation taken from 2024 balance sheet
Provisions	0.45%	Approxiimation taken from 2024 balance sheet
ROA	**0.49%**	

	2024	2023	Growth	2025	% of Assets
Non-interest income	9,524	6,317	0.51	14,359	1.21%
Costs	20,823	17,680	0.18	24,525	2.06%
Provisions	5,227	5,082	0.03	5,376	0.45%
Asset	930,133	726,723	0.28	1,190,478	100.00%
					0.49%

Assumption	**Value**	**Reasoning**
Interest rate shock	+2% (200 bps)	
A/E (leverage)	12x	Based on average asset-to-equity ratio of BRAC Bank in 2024
Discount rate	10.87%	Based on 10 year Treasury Bond

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September 28, 2025

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Sub: Letter of Internship

Dear Ms. **ARIANAZAIMAHAQUE Zaima Haque**

We are pleased to offer you an internship program with BRAC Bank Limited for a period of 3 months in **ALM and Banking Institution Department** of **Treasury and Financial Institutions Division** from **October 5, 2025.** You will be provided an honorarium of Taka [redacted] per month.

Please note that any information and data collected by you during the course of your internship should be kept confidential at all times.

You are required to respond to this offer by October 5, 2025. We appreciate your interest in BRAC Bank Limited.

With Regards

Farhana Sharmin Sumi

Head of Human Resources

Human Resources Division
BRAC Bank Limited

In case of any queries, please connect with us @ recruitment@bracbank.com (mailto:recruitment@bracbank.com).

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