

Report On  
Analyze the SME Performance and Policy of Dhaka Bank Limited

By

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An internship report submitted to the [BRAC Business School] in partial fulfillment of  
the requirements for the degree of  
Bachelor of Business Administration

BRAC Business School  
Brac University  
December 2021

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## **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/We have acknowledged all main sources of help.

**Student's Full Name & Signature:**

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**Student Full Name: Md. Moyeen Uddin**  
Student ID: 17304011

**Supervisor's Full Name & Signature:**

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**Supervisor Full Name**  
Designation, Department  
Institution

## Letter of Transmittal

Full name of Supervisor

Designation,

Department

BRAC University

66 Mohakhali, Dhaka-1212

Subject: [Internship report submission on completion of the course BUS400 in Fall 2021]

Dear Sir,

With due respect, I am submitting my report titled “Analyze the SME Performance and Policy of Dhaka Bank Limited” for the partial fulfillment of the requirements of BBA Program.

I have put a lot of effort and time to prepare this report and tried to make the report clear and comprehensive with the essential data and recommended proposition in a significant compact and comprehensive manner as possible.]

Sincerely yours,

  
\_\_\_\_\_

Name: Md. Moyeen Uddin

Student ID: 17304011

BRAC Business School

BRAC University

Date: December 18, 2021

## **Non-Disclosure Agreement**

[This page is for Non-Disclosure Agreement between the Company and The Student]

This agreement is made and entered into by and between [Dhaka Bank Limited.] and the undersigned student at BRAC University .....

Moyeen

Name: Md. Moyeen Uddin

Student ID: 17304011

BRAC Business School

BRAC University

## **Acknowledgement**

First, I would like to express my gratitude to almighty to give me the strength to complete the report in time.

I am grateful to my supervisor Mr. Saif Hossain, Assistant Professor, BRAC Business School, Brac University for his thoughtful advice and guidance. Without his considerate guidance this report would have been far from complete.

Lastly, I like to give special thanks to Mr. Mohammad Ashiqur Rahman, FVP & Head of Branch, Dhaka Bank Ltd, Shahjahanpur Branch, Dhaka, and others officials for giving me advice, inspiration and support.

## **Executive Summary**

[Generally private banks prefer larger companies than SMEs for lending due to the extra risk of SMEs not being successful attempts. This often makes it harder for small and medium size companies to borrow money for their potential businesses. Even women entrepreneurs that is we are giving more emphasis for improvement fall under the criteria. To solve this many banks have taken steps with governments' encouragement to ensure that SMEs are provided with reasonable fund exposure and services to finance their businesses more smoothly. Dhaka Bank Limited has always been active and responsive with several products and services for SMEs along with the government. The reports' purpose is to find out and analyze the SME financing policy and performance of Dhaka Bank Limited. At present, Dhaka Bank Limited has disbursed 26,717 million BDT for SME financing with the NPL of 3.13%]

**Keywords:** SME; SME Financing; Woman Entrepreneurship; Disbursement; NPL.

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## List of Acronyms

DBL	Dhaka Bank Limited
SMEs	Small and Medium enterprises
ROI	Return on Investment
ROA	Return on Assets
ROE	Return on Equity
NPL	Non-Performing Loan
EPS	Earnings per Share
NAV	Net Asset Value
L/Cs	Letter of Credit
OD	Over Draft
SOD	Secured Over Draft

# Chapter 1

## Overview of Internship

### 1.1 Student Information

Name	Md. Moyeen Uddin
Student ID	17304011
Program	Bachelor of Business Administration
School/Department	BRAC Business School
Major	Finance
Minor	Accounting
Email	md.moyeen.uddin@g.bracu.ac.bd

### 1.2 Internship Information

#### 1.2.1 Organizations' Information:

Period	Three months
Company Name	Dhaka Bank Limited.
Department	Credit
Address	937 Outer Circular Road, Dhaka 1217

### 1.2.2 Company Supervisors' Information:

Name	Mohammad Ashiqur Rahman
Position	Senior Vice President & Branch Manager

### 1.2.3 Job Responsibilities

I was assigned to assist my seniors with all sorts of loan documentation, that is needed in the Credit Department. Creating CIB files for new and existing clients. Receiving the CIB report and checking clients' credit history. Asking the clients about necessary information and documents for taking loans like. Scanning and saving loan files, LC forms and cheque leaves in desktop was another regular routine.

## 1.3 Internship Outcomes

### 1.3.1 Students' contribution to the company

Maintained the company rules and regulations under the supervisors' proper guidance. Tried my best to perform any task assigned to me wholeheartedly and assist my department in charge with any kinds of documentation needed while maintaining an amicable environment.

### 1.3.2 Benefits to the students

First hands on learning about corporate work. Getting accustomed with corporate culture and environment. Being mentored by experienced Officials of the Credit department. Getting practical knowledge about Loan documentation procedure. Experiencing on how to behave with clients and providing them necessary information. Learning about how to comply with discipline and regulations

### 1.3.3 Difficulties

There were no difficulties at all during the whole internship period. It was a very pleasant experience to complete the internship under the supervisors' guidance. All of the officials were very considerate and helpful.

### 1.3.4 Recommendation

The corporate culture is strictly maintained and everyone complies with the company code of conduct. To get practical and direct experience of corporate life along with hands on training, doing an internship in Dhaka Bank Limited is one of the best options. It will certainly have its plus points and an exciting experience.

## Chapter 2

### Organization Part

#### 2.1 Introduction

Dhaka Bank Limited started its journey in 1995. From the beginning, Dhaka Bank has tried to cherish and bring into focus the heritage and history of Dhaka and Bangladesh from Mughal outpost to modern metropolis. At the moment, Dhaka Bank Limited is renowned for providing excellent service, simplicity, proximity and fast execution. With its financial strength and capable human resource, it can hold its own ground against other competitors.

Dhaka Bank Limited (DBL) is a second generation Private Commercial Banks of Bangladesh listed as a public limited company under the Companies Act in 1994.

#### 2.2 Overview of the company

The bank has 23017 number of shares as on 31/12/2020 and Sponsors and Directors are holding 41.1171% of the total. As on December 30, 2020 the Bank serves its customers through 105 Branches, 12 sub-branches and 3 SME Service Centers all over the country. Some important facts about Dhaka Bank Limited are given below:

<b>FACTS ABOUT DHAKA BANK LTD</b>	
Date of Incorporation	April 6, 1995
Commencement of Banking Business	July 5, 1995
First Dividend Declared	March 16, 1996
Initial Public Offering:	

Publication of Prospectus	November 25, 1999
Subscription Opened	December 5, 1999
Subscription Closed	December 19, 1999
Listing with Dhaka Stock Exchange (DSE)	April 10, 2000
Listing with Chittagong Stock Exchange (CSE)	June 6, 2000
First Right Issue	March 11, 2001
Launching of Retail Banking	March 29, 2002
Introduction of ATM	February 24, 2002
Commencement of Islamic Banking	July 2, 2003
Going On-line	April 1, 2004
Transition to Centralized Banking System (Flexcube)	April 1, 2004
Launching of Brokerage Business	February 5, 2005
Celebrating First Decade of Excellence in Banking	July 5, 2005
Launching of Off-shore Banking Unit	May 22, 2006
Launching of Credit Card	March 1, 2007
Launching of Internet Banking	September 5, 2007
Centralization of Trade Operations	April 1, 2009
Centralization of Credit Operations	April 1, 2009
AAA Guarantee Accorded by ADB under TFFP	December 17, 2009
Celebration of Glorious 15 Years of Banking Maturity & Leadership	July 5, 2010
Basel-II Compliance Issuance of Subordinated Bond	December 6, 2010



Opening of 72nd Branch	December 23, 2010
Launching 'DBL Securities Limited'	February 13, 2011
Formation of Research & Development Unit	December 28, 2011
Hosting Credit card in own software and go live Visa card	September 30, 2012
Introduction of Automated Deposit Machine (ADM)	April 29,2013
SME Manufacturing Sector-friendly Bank of the Year Award	November 12,2014
Celebrating 20 years of Banking Excellence	July 5, 2015
Moving to own Corporate Head Office	July 5,2015
Basel-III Compliance Issuance of 2nd Subordinated Bond	April 17,2016
Opening of 100th Branch	December 27,2017
The Banker Award - 2018 OSCAR of the Banking Industry	December 3,2018
The Best Issuing Bank in South Asia 2019	June 12,2019
Opening of 1st Sub-Branch	December 29,2019
Ui Path Automation Excellence Awards 2020	January 12,2020
Celebrating 25 years of Banking Excellence	July 5,2020
New Registered Head Office at Gulshan-1	December 9,2020

## 2.3 Management Practices

### 2.3.1 Human Resource Management

The bank recruit employees every year within certain criteria and has a training institute to ensure the new comers nurturing and then positioning. They also have comprehensive policies for the human sources with adequate benefits.

### 2.3.2 Risk Management Committee

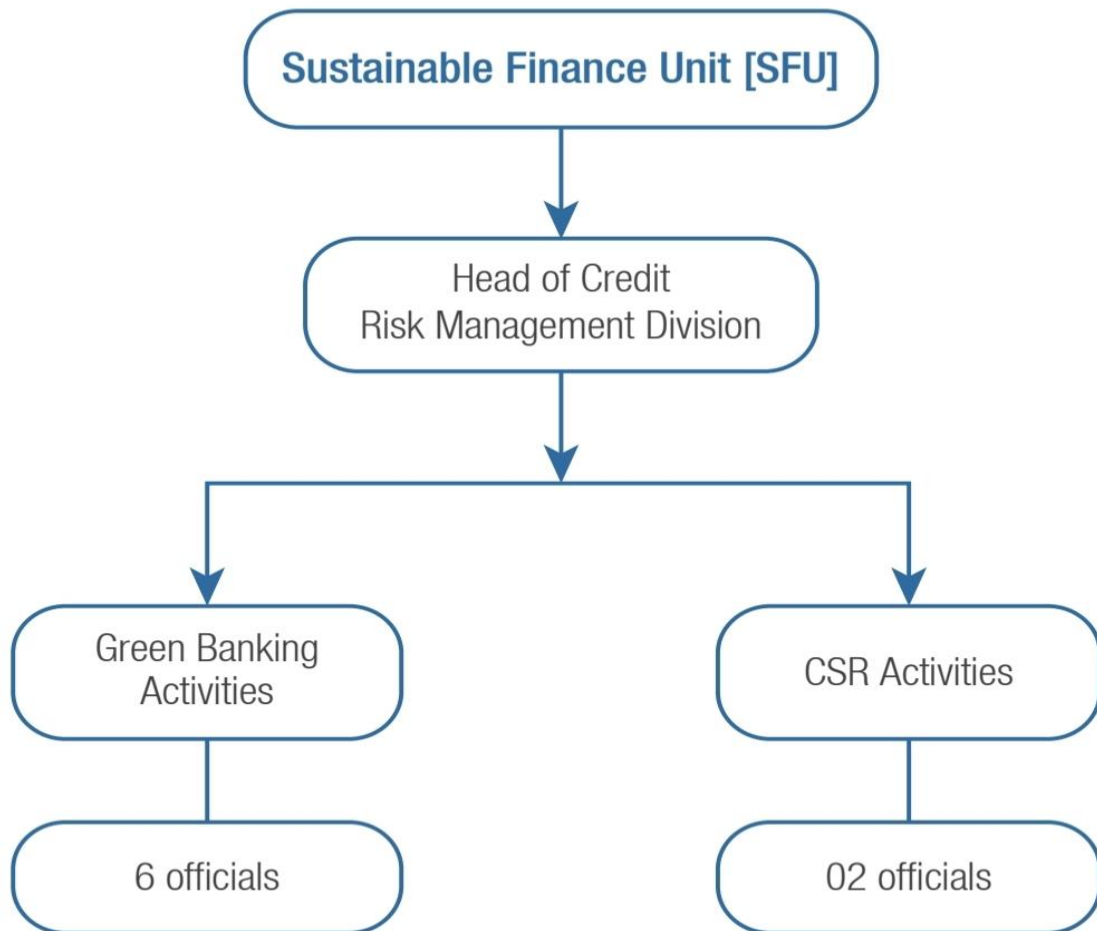
The bank is totally focused on its risk management. From board members to officials a certain part of them are involved in to proper checkup to execution of necessary steps to solve any problem that might arose.

Board Risk Management Committee	Strategic Level
Executive Risk Management Committee	Management Level
Sub Risk Committee	Managerial level
Business Units	Operational level

*Figure 1 Risk Management Framework*

### 2.3.3 Sustainability Management

#### Organogram of Sustainable Finance Unit



*Figure 2 Sustainability Unit Framework*

Sustainability is an important factor for any organization. To strengthen the sustainability management they have an unit to work on this part.

## 2.4 Marketing Practices

### 2.4.1 CORPORATE BANKING

Dhaka Bank Limited offers variety of product to satisfy various needs of Corporate Customers. It has customized advisory, financing and operational services along with trade, treasury, investment and transactional banking activities for its corporate client groups.

The bank provides service for Project Finance, Term Loan, Import or Export Deal, Working Capital Requirement or Forward Cover for a Foreign Currency Transaction and more on.

#### 2.4.2 ATM/DEBIT CARDS

Dhaka Bank offers the facilities of ATM/Debit Card to account holders. Clients can issue for ATM card while opening an account and enjoy one year of service without any fees. Customers can withdraw maximum amount of TK. 50,000.00 per day.

#### 2.4.3 Shariah Based Islamic Banking

Dhaka Bank Limited also offers fully Shariah based, interest free Islamic Banking Services. It has availed online banking for clients to operate their accounts and transaction without directly going to the bank.

#### 2.4.4 CAPITAL MARKET SERVICE

Capital Market operation along with investment in Treasury Bills, Prize Bonds and other Government Securities constitute the investment basket of Dhaka Bank Limited.

#### 2.4.5 GTS

They have Financial Institutes and Remittance unit for Global trade services

Dhaka Bank Ltd. mainly provides the following services:

- Import Letter of credits
- Export Letter of credits, negotiation & documentary collection

To further enhance the capacity to support trade transactions, Dhaka Bank Limited signed up with Asian Development Bank (ADB) to avail credit guarantee facility from ADB under its Trade Finance Facilitation Program (TFFP) for confirmation of the L/Cs issued by itself.

#### 2.4.6 CENTRALIZED TRADE OPERATIONS

There are 15 authorized dealer branches for trade business and foreign exchange. Trade Operations are centralized operates on import and export LCs.

### 2.5 Financial Performance & Accounting Practices

**Credit Rating;** Dhaka Bank Limited was rated AA for Long Term, ST-2 for Short Term and Developing for Outlook by Emerging Credit Rating Limited.

#### 2.5.1 Performance & Profitability

Year wise Performance

Profitability & Performance Ratio	2018	2019	2020	% Change over 2019

Return on Assets (ROA) (%)	0.54	0.56	0.7	25%
Return on Equity (ROE) (%)	8.18	9.28	11.28	22%
Return on Investment (ROI) (%)	8.66	7.99	9.34	17%
Operating Profit per Employee	3.42	3.11	2.75	-11%
Assets per Employee	145.41	145.41	156.26	7%

*Table 1*

#### ROA:

Return on Assets ratio shows the relationship between earnings and asset base of any company. The higher the ratio the better it is. As higher ratio indicates the company can produce relatively higher earning in comparison to its asset. The bank's ROA is on the rising side which is a positive sign.

#### ROE:

Indicates how the management is managing the shareholders capital. Higher ratio means efficient management and the banks' ROE is also increasing every year indicating the shareholders' capital is being managed efficiently.

#### ROI:

Evaluates potential return on an investment. Higher ratio indicates the return on particular investment is favorable to costs. From the table above it is clear that their return on invests is also favorable with higher percentage than previous year.

Shareholders' Value	2018	2019	2020	% Change over 2019
Earnings per Share (EPS)	1.59	1.75	2.27	29%
Price Earnings Ratio (Times)	8.91	6.84	5.25	-23%
Net Asset Value (NAV)	16616	17211	18792	9%
NAV per Share	19.47	19.21	20.98	9%

Table 2

#### Net Asset Value per share

Net asset value is on the rise and increasing NAV means the investments done by the bank are generating more profit. The higher the value the better. So, investments were done well.

#### Earnings Per Share

EPS is used for estimating corporate value so the higher the value the better for a company. In the year 2020 their EPS has increased as a positive sign for more value for stock share price.

#### Capital to Risk-weighted Asset Ratio (%)

Well managed This ratio is used for understanding the sustainability and the higher the ratio the riskier the asset. So, the 10% decrease in 2020 from the previous year indicates that the assets were well managed.

Profitability & Performance Ratio	2018	2019	2020	% Change over 2019
-----------------------------------	------	------	------	--------------------

Net Interest Margin	3.79	3.06	2.97	-3%
Liquidity Ratio	13.6	16.01	18.2	14%
Gross Profit Ratio	45%	39%	42%	8%

*Table 3*

#### Liquidity Ratio:

High liquidity means the company can easily meet its short-term obligations. The banks' liquidity is on the rise and on the year 2020 it was 18.20 which is quite good.

Gross Profit Ratio: Measures the performance and efficiency of a company, dividing its gross profit by net sales. The higher the ratio the better it is. The banks' gross profit ratio on the year 2020 is 42% with an 8% increase from the year 2019.

#### Operating Income

In 2020, the Bank had an Operating Income of Tk. 10,165 million. Their total assets increased 2% from the previous year. This is a positive point. As more operating income the company is generating more revenue

#### Net Interest Income

Net Interest Income decreased in the year 2020 compared to previous year. This means interest rate has gone down and thus generating less profit from loan services.

#### 2.5.2 Accounting Practices

The bank is committed to ensure proper handling documentation and business transaction. Regarding this Bangladesh laws and regulation along with standard accounting practices are maintained.



## **2.6 Operations Management and Information System Practices**

### 2.6.1 Business Operations

#### **Business Operations**

Following wings are working under Operations Division:

- Money Market Operations
- Forex Back Office Operations
- Cash Management Operations
- FI Operations
- NRB Remittance Operations
- Inward & Outward Remittance Operations
- SWIFT Operations
- Branch Operations

### 2.6.2 Information System Practices

Dhaka Bank Limited (DBL) has compatible resources for information technologies. They have IT Infrastructure & Application Core Banking System (CBS) DBL. DBL uses Flexcube Universal Banking Solution (FCUBS), a product of Oracle Financial Service Software Limited (OFSS). FCUBS 12.0.3 has numerous features to confront the ongoing market demand. It is one of the best CBS in the world used by countless banks.

## **2.7 Industry Competitive Analysis**

### 2.7.1 SWOT Analysis

#### Strengths

- Experienced and intellectual Board of Directors.
- Robust capital foundation.
- Better and efficient management.
- Futuristic and viable management policies.
- Cutting-edge tools and technologies to support real time on-line Banking.
- Better risk management and focused quality control.
- Strong and connected human resource

#### Weakness

- Not all employees of sales department are permanent while competitors might implement aggressive marketing full force
- Certain areas where they have branches but competitors positioned sub branches with low cost easily making difference in cost funding
- Centrally control of credit management and executing instructions is good for monitoring but competitors might implement ad banking
- Lowest NPL comes with thorough inspection of loan documentation which sometimes may take slightly more time for disbursement than competitors with easy going documentation procedures

#### Opportunities

- With better liquidity and higher provision cover opportunities to benefit from the upsurge in predicted credit demand in the years ahead.
- To target more clients at home with eazy banking app, Dhaka Bank go app, WhatsApp interactive banking.
- With the growth of Net Asset Value better investment opportunities.
- Infrastructural development like the construction of Padma Bridge definitely will create path in the investment situation in coming days

#### Threats

- Changes of commodity price can be assumed as threat for the financing practice of clients
- Money laundering and terrorist financing hidden in the guise of normal business transaction may cause unwanted consequences
- New online banking apps at their primary stages could be easily picked by competitor thus, losing clients from early market access

## **2.8 Summary and Conclusion**

The Bank is maintaining its status as one of the leading banks of the country. They are playing important role for the development of our country's economy and yet to bring out more success.

To stay at top of the competition they need to keep close attention to the new trends and changes in business financing by clients.

## **2.9 Recommendation**

The number of permanent sales employees could be increased for competing with other banks to target more clients. More small booths could be positioned in sub-urban areas. Sub-branches could be increased instead of branches to lower human resource cost. With large liquidity ratio, more investment on woman entrepreneurships could be made.

## **Chapter 3**

### **Project Part**

#### **3.1 Introduction**

SMEs are regarded as the best option for quick and fast development for developing countries. They require less capital and cheaper labor cost to start and in return can provide employment to a large number of people. When more people are getting employed the economy of the country runs more smoothly. The percentage might be lower than large scale businesses but we cannot deny the important role SMEs are playing for our overall development. To run these SMEs without getting main obstacles like lack of capital resources and financing with the help of Banks, extra focus is given by the Government too. Like others our government is encouraging the bank to pay more attention to them.

The manufacturing sector provides 11% employment of the civilian labor force. Two thirds of this are estimated to be provided by the small and cottage industries sector. In fact, development of small industries can facilitate effective mobilization of capital and labor resources. They also help in raising standards of living of people in rural areas. To highlight the progress, presently it raised to 5%. Furthermore, 25% of the total labor force is employed by SME sector. This, indicates the scope of job creation through this sector.

The contribution of SME is robust for employment generation which resulted in the wide practice of it in the developing countries of Africa and Asia-Pacific region. Bangladesh's SMEs also had been influenced by globalization along with liberating industrial and trade regimes. Despite this, almost all the banks in our country are serving large enterprises rather than SMEs. Which is not a positive sign when a study in ADB shows that the contribution of SME is estimated to be 25% of total GDP of Bangladesh in 2015

### 3.1.1 Literature Review

According to the European Union (2003) SMEs are defined as enterprises which have at most 250 employees and an annual turnover not exceeding 50 million Euros. Further there is the distinction of small enterprises — they have fewer than 50 staff members and less than 10 million Euros turnover — and micro-enterprises (less than 10 persons and 2 million Euros turnover) (Islam & Mia, 2016, p. 4).

According to the World Bank (2006) medium enterprises are defined as enterprises which have at most 300 employees and an annual turnover not exceeding 15 million US dollars. Further there is the distinction of small enterprises — they have fewer than 50 staff members and up to 3 million US dollars turnover — and micro-enterprises have up to 10 persons and \$100,000 turnover ( Islam & Mia, 2016, p. 4).

SME in Bangladesh; Islam and Mia mentioned that, As different countries and organizations define SME differently. The Government of Bangladesh has categorized SME into two broad classes: a) Manufacturing enterprise b) Non-Manufacturing activities ( Islam & Mia, 2016, p. 4).

Manufacturing enterprise: Manufacturing enterprises can be divided into two categories;

a) Small enterprise: an enterprise would be treated as small if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc, excluding land and building, were to up to Tk. 15 million;

b) Medium enterprise: an enterprise would be treated as medium if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example),

etc, excluding land and building, were to up to Tk. 100 million (Islam & Mia, 2016, p. 4).

Non-manufacturing activities (such as trading or other services);

Nonmanufacturing activities can be divided into two categories;

a) Small enterprise: an enterprise should be treated as small if it has less than 25 workers, in full-time equivalents;

b) Medium enterprise: an enterprise should be treated as small if it has between 25 and 100 employees. According to Bangladesh Bureau of Statistics different enterprises are defined as; Size No. of employees, Micro 0-9; Small 10-49; Medium 50-99 and Large Above 99 ( Islam & Mia, 2016, p. 4)

To explain the importance of SMEs, Islamic and Mia (2016) also stated that;

The role of SMEs sector is immense to alleviate the poverty from the country as well. Small and Medium enterprises are particularly suitable for the densely populated countries like Bangladesh where SME sector can provide huge employment opportunity with much lower investment. They are expected to create jobs, reduce poverty, and drive a resilient national economy. The International Monetary Fund (IMF) Country Report (2015) indicated that SMEs in Bangladesh accounted for more than 99% of private sector industrial establishments and created job opportunities for 75%–85% of the nonagricultural labor force ( Islam & Mia 2016, p.1).

Another study mentioned that

the sequence of our analysis it seems that for the economic development of Bangladesh SMEs can play a vital role. Small and medium Enterprises act as the most cost-effective and worthwhile means of providing employment and injecting dynamism into industrial growth, both for poverty alleviation From and for contribution to the GDP (Alauddin & Chowdhury,2015 p. 3).

Alauddin and Chowdhury (2015) further stated tha;

The Industry sector plays an important role in the socio-economic development of Bangladesh. According to BBS estimates (base year: 2005-06), the contribution of the broad industry sector to real GDP stood at 31% in FY 2014-15, which increased to 31.41 percent in FY 2015-16. Among the fifteen sectors of GDP, the broad industry sector includes four sectors namely mining and quarrying; manufacturing; electricity and gas and water supply; and construction. The contribution of the manufacturing sector is the highest in GDP. In FY 2014-15, the contribution of manufacturing sector in GDP was 21 percent which reached to 21.45 percent in FY 2015-16 ( Alauddin & Chowdhury, 2015, p. 3).

### 3.1.2 Objectives

The Objective of this report:

To evaluate the performance of SME loan of Dhaka Bank Ltd.

To find out the inherent problem of SME loan of DBL.

To recommend some solution to overcome the problems those are faced by the bank right now.

### 3.1.3 Significance

This report contains the outcome of completing an internship with Dhaka Bank Limited, Shahjahanpur a SME oriented branch. It was prepared based on a continuous experience in the host organization.



The main intention of this is to analyze the SME financing performance of Dhaka Bank, pointing out the advantages and disadvantages of it and comparing it with other Competitor. Lastly, some recommendations were mentioned to accelerate the growth of Dhaka Bank SME financing

### **3.2 Methodology**

Both primary and secondary data were used for preparing the report.

Sources of data: Data was collected from different primary and secondary sources and analyzed to get the general overview of SME sector. Primary sources are relevant file study as provided by the SME Financing Policies and Practices of DHAKA BANK LTD. concerned officer, practical desk work, and face to face conversation with the officers. The information regarding the characteristics of SMEs in Bangladesh, growth & various aspects of SME finance, constraints to SME growth in Bangladesh were collected from various secondary sources. The various secondary sources include project reports, presentations, booklets, journals, web sites, annual reports & brochures of Financial Institutions, etc.

In addition, to learn about SME Banking activities, policy, and procedures, the Credit Manual and Credit Policy and different circulars, Product Program Guide (PPG) of Dhaka Bank limited were thoroughly analyzed. Different SME Product features of the Bank were analyzed. For overall scenario of SME financing various publications were reviewed and several discussion meetings were conducted with persons related to SME financing. This report contains analysis of the primary data and information; the collection of the primary data regarding the overview of SME financing, details of the SME products being offered, current status of SME financing,

benefits & advantages realized, problems faced by SME financing unit, the scope for improving the products, etc. of Dhaka Bank Limited and other Financial Institutions.

### **3.3 Findings and Analysis**

#### 3.3.1 Findings

Dhaka Bank Limited has several SME products under its SME finance unit. These products cater to the need of different SME client according to their needs.

First the clients need to be eligible to borrow from the bank and provide necessary documents along with fulfilling certain conditions. There is an important issue about security. Securities are two types. Primary security includes Personal Guarantee of the owner and fixed assets.

Collateral security includes lien on fixed deposit and corporate guarantee.

Document like Trade License and Registration Certificate, Tax Identification number, certificate of incorporation required to make any loans. The client need to have an account with the bank and needs to be well known by the bank.

With all the documents submitted to the bank, the loan documentation and process if approval begins.

Under SME Banking Program, Dhaka Bank Limited is currently offering 6 (six)/ (9) types of products all of which has different subcategories.

Most of these products have mainly offered to meet either of the following **two purposes** or both:

Working Capital

Procurement of Fixed Assets

The bank provides different term loans on hypothecation and pledge basis for purposes like trade finance, import and export, working capital for supplying and manufacturing units, etc. Other than this the bank also provides General Overdraft (OD), Secured Overdraft (SOD), and Working Capital for industries. The basic features of these products are given below:

### *Continuous Credit*

Dhaka Bank Limited (DBL) offers Continuous Credit in order to help the SME borrowers with the financing of working capital especially. It caters the need of entrepreneurs who are operating mainly in the trading and manufacturing industries. It also provides financing facilities for working capital to the agriculture, service, non-farm activities, agro-based industries and other sectors of the economy.

### Classifications

The financing facility for working capital provided through Continuous Credit program is divided into the following sub categories: General Overdraft; Overdraft for Working Capital; Requirements; Secured Overdraft (SOD); Overdraft (Pledge).

All these categories have more or less the same features except for the different types of borrowers, the security requirements and to some extent the purpose.

General Overdraft and Overdraft for Working Capital Requirements provide the regular working capital facilities for the trading and manufacturing industries mainly and all other general types of business as well. Secured Overdraft (SOD) meets the urgent requirement of the working capital by the traders & manufacturers. Overdraft (Pledge) provides working capital facility mainly for the traders against goods as security.

Work order finance: Dhaka Bank Limited offers Work Order Finance in order to help for the execution of work order received by an organization or an order created within the

organization. It is also called the Contractors' Finance or the Suppliers' Finance. It also accommodates the need of contractors and suppliers who participate in tenders for acquiring work orders. It also provides non-funded facility like giving Bid Bonds or Security Bonds in favour of the contractors or suppliers to acquire work orders. In order to avail the facility of Work Order Finance (Funded Facility), the work order must be assigned to the Bank.

Lease finance: Dhaka bank Limited offers Lease Finance to the SME borrowers in order to procure capital machineries and commercial vehicle. With the help of this funding facility, manufacturers acquire capital machineries on a relatively short-term basis, traders take lease or acquire commercial vehicles for the transportation hauling of their goods. Traders and manufacturers also lease commercial space for business purpose with the help of this funding facility.

Term loan: Dhaka Bank Limited provides Term Loan financing facility to the SME borrowers in order to help them with their fund for short-term working capital (mainly). It caters to the need of entrepreneurs who are operating in the trading, manufacturing and private home building industries. It provides funding facility for Expansion of Business, Working Capital, Capital Machinery Procurement, Commercial Space, Development and Construction of Building etc. For the manufacturing unit, Term Loan financing facility provides fund for the procurement of capital machineries. Manufacturers get their funding for purchasing fixed assets from the Term Loan facility. Traders get their funding for purchasing stock of goods they sell.

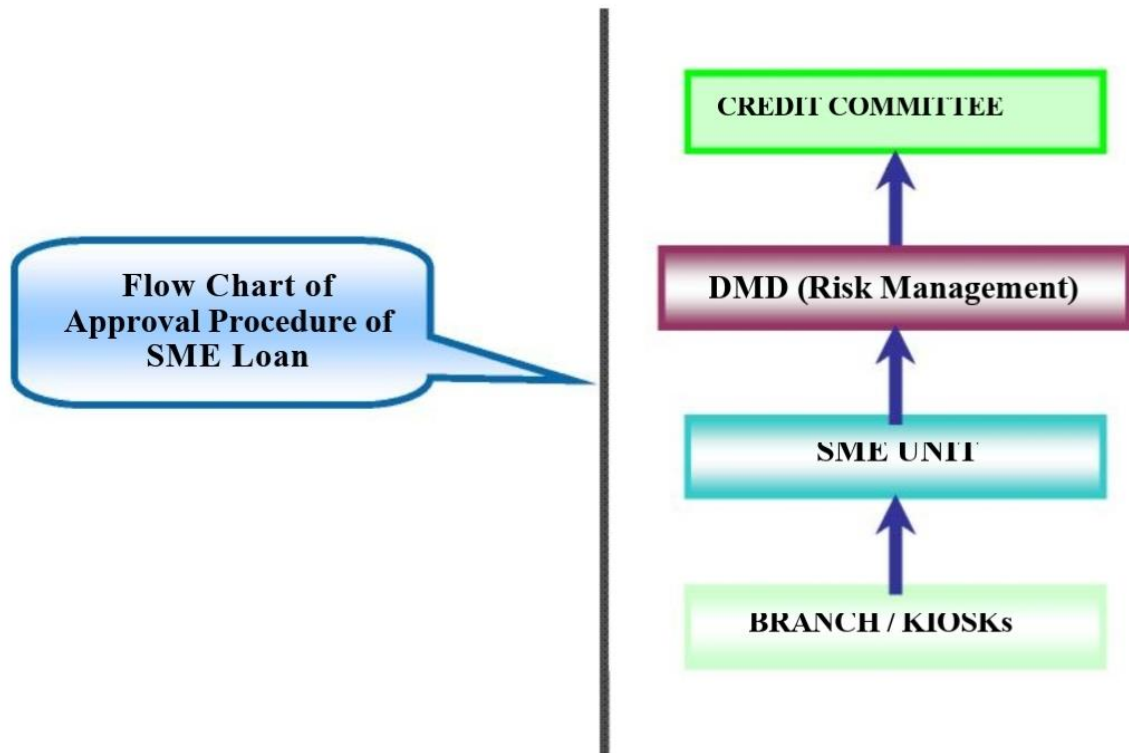
Trade finance: The Trade Finance facility of the SME Unit of Dhaka Bank Limited provides the fund required by the SME borrowers for the purpose of importing goods, raw materials and capital machineries. It fulfills the need of entrepreneurs who are operating mainly in the trading and manufacturing industries. The small and medium scale manufacturers import capital

machineries and raw materials for their factories with the help of the fund provided by the Trade Finance facility. It also makes the required fund available to the traders or suppliers for the purpose of importing their stock of goods.

The financing facility for the import of raw materials, goods and machineries through Trade Finance program is divided into the following sub categories: Letter of Credit (L/C) Limit/Specific; Loan against Trust Receipt (LTR); Loan against Imported Merchandise (LIM).

All these categories have the same features except for the different types of security

Letter of Credit (L/C) Limit/Specific is a non-funded facility that the Bank provides to the manufacturers and traders for importing machineries, raw materials, and goods. The Bank prefers 100% cash margin as security from the client in this case. If the client provides cash margin that is less than 90% of the L/C value, the branch manager is required to take approval from the Head Office in order to provide L/C facility to the client. DBL charges a commission of 0.40% of the L/C value for the first quarter and 0.30% of the L/C value for subsequent quarters.



*Figure 3 SME Loan Approval*

The operational structure of the workflow of SMEs are given below to get an overall idea of how the loans get verified and disbursement is done at last. Each of the SME products have same conditions, varying in the duration, amount and type of business eligible for them.

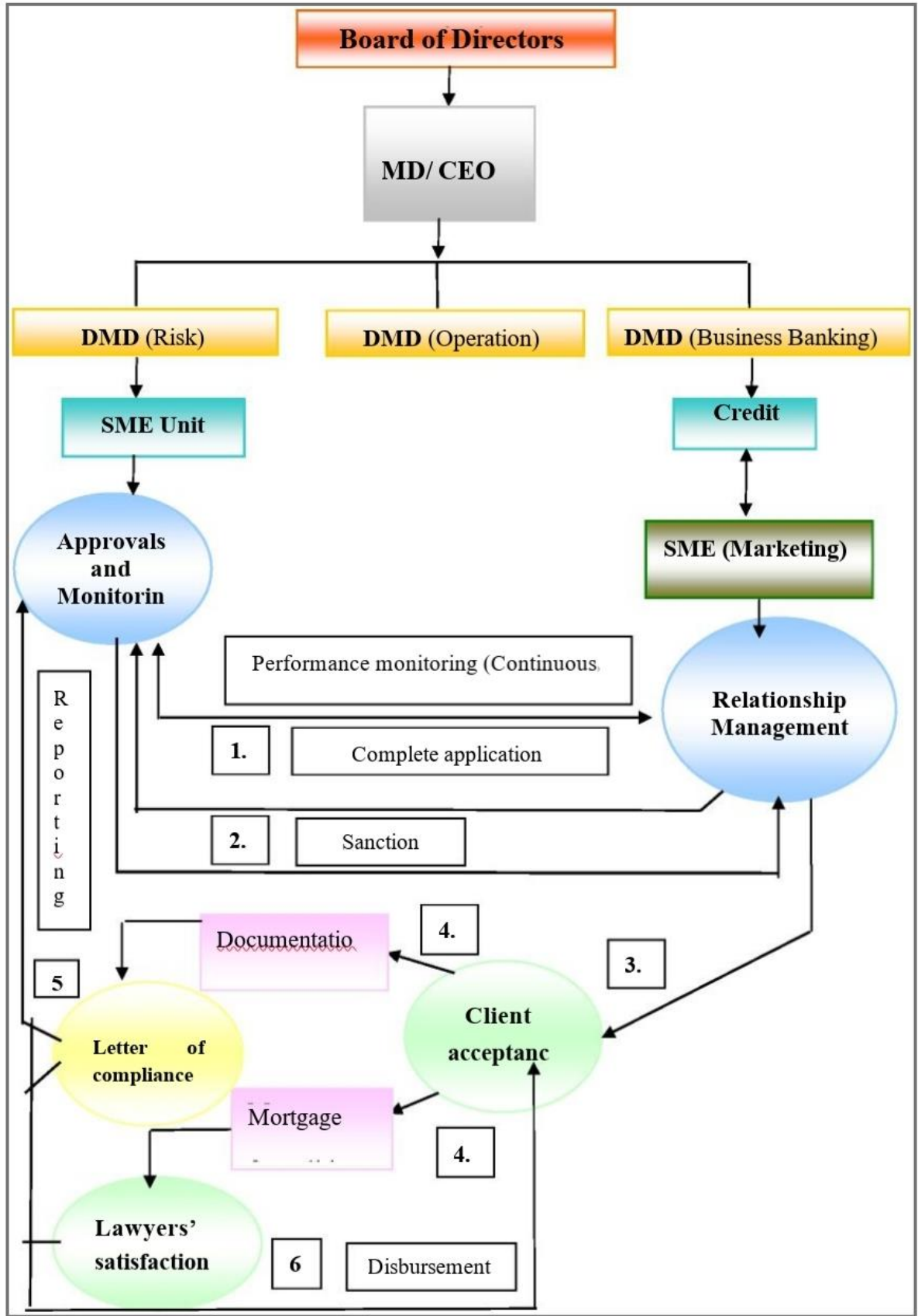


Figure 4 SME Overview

### 3.3.2 Analysis

The followings are some overviews of the current status of SME financing in Dhaka Bank Limited. Its performance report clearly shows that SME is growing.

#### *Loan Performance for 2021:*

Since the inception of the SME Financing Program of Dhaka Bank Limited, the total loan outstanding and percentage of non-performing loan have been increasing in an alarming rate.

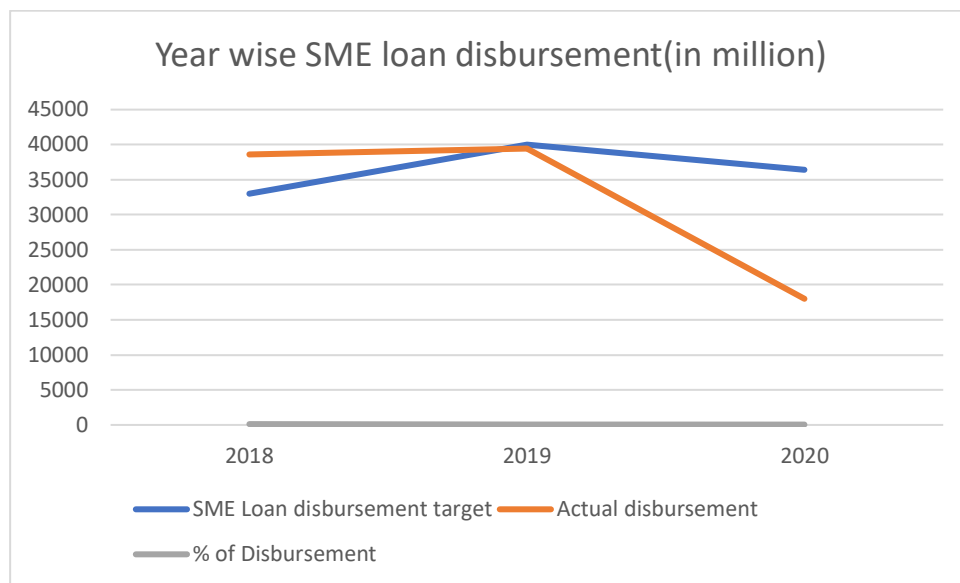
The scenario of loan outstanding under SME is as follows:

Year wise SME loan disbursement:

	2018	2019	2020
SME Loan disbursement target	33000	40000	36421
Actual disbursement	38635	39440	18000
% of Disbursement	117.76	98.6	49.42
Non-Performing Loan (%)	4.99	4.74	3.13

*Table 3 SME loan disbursement*





*Figure 5 disbursement chart*

From the above table, it is clear that concluding that the portfolio of SME is increasing every year but actual disbursement is slower downed. In 2018 actual disbursement is done more than target but later in 2019, though the amount increased it got trimmed down. As for the amount in 2020, the obvious reason for less amount the pandemic obstruction. But it is estimated to raise again in 2021.

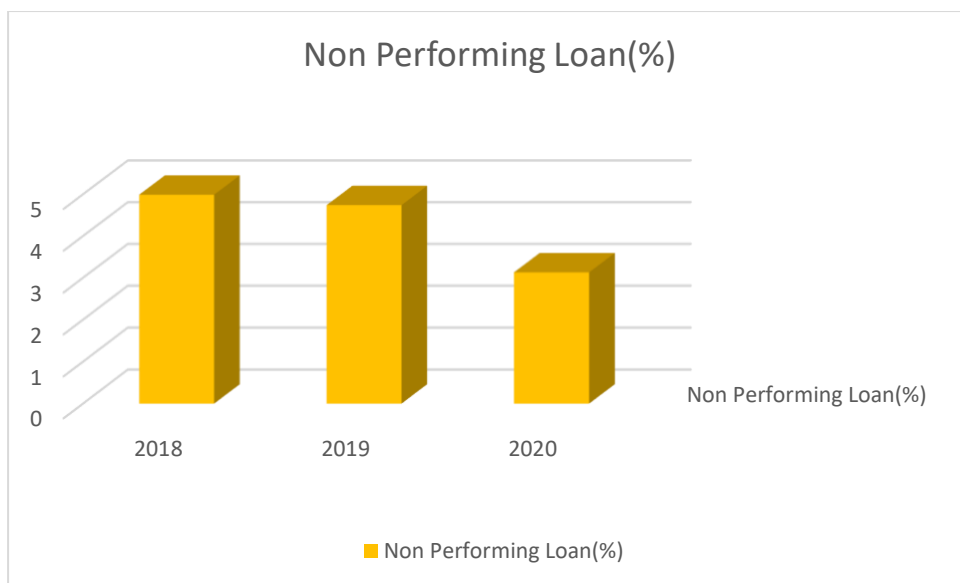


Figure 6 NPL chart

Major drawback in SME is the percentage of Non-Performing Loan. But from the above the results shows that NPL is decreasing in every year and it's become 3.13% which is very positive as percentage to NPL in DBL is 7%. The percentage decreased even during the pandemic period only because of the continuous efforts of the officials. As there was separate monitoring and recovery unit for cred and the management already segregated the front office and back office of the SME unit of Dhaka Bank Limited. In addition, the management has also decided to establish a separate credit disbursement and monitoring unit, so that the excess over limit will be checked and the volume of NPL loan will be reduced.

*Loan Exposure of SME loan for 2020:*

**Small Enterprise:**

Particular	BB Requirement	DBL Position		
		2018	2019	2020
SME exposure of the total loan	$\geq 25$	20.32	25.11	12.36

Women Entrepreneur loan of total SME loan	$\geq 15$	2.59	2.76	2.81
Small, Micro and Cottage Enterprise Exposure	$\geq 50$	63.95	65.13	55.17
Manufacturing segment exposure	$\geq 40$	46.63	34.93	50.2
Trading segment exposure	$\leq 35$	33.52	41.6	28.57
Service segment exposure	$\geq 25$	19.85	23.48	21.16

Table 4 SME loan exposure

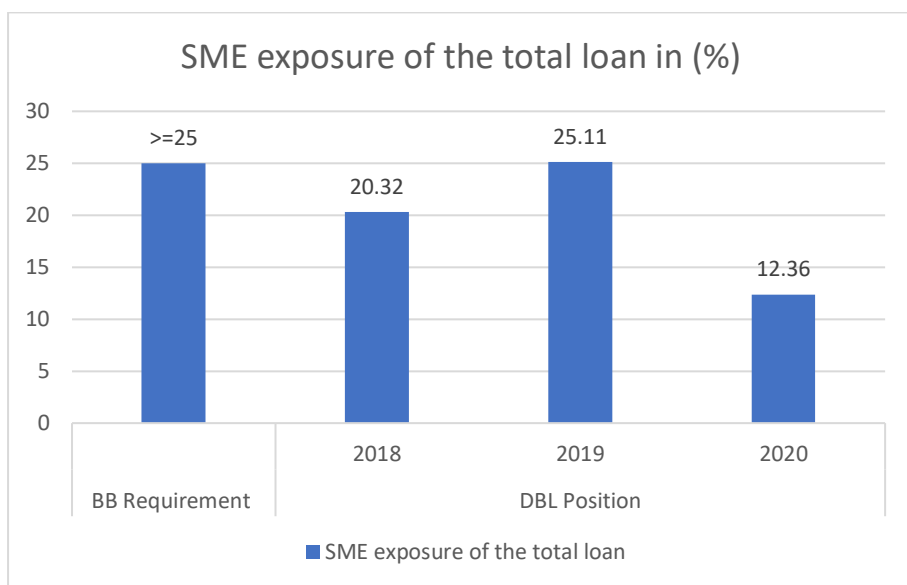


Figure 7 total loan exposure chart

The loan exposure for percentage for SME out of total loan is decent but is still not reaching the requirements. Though it is on the raise it needs to catch up with Bangladesh bank's requirement. For the manufacturing sector and trading sector the percentage is up to the requirement. As for the service sector it continuously on the raise.

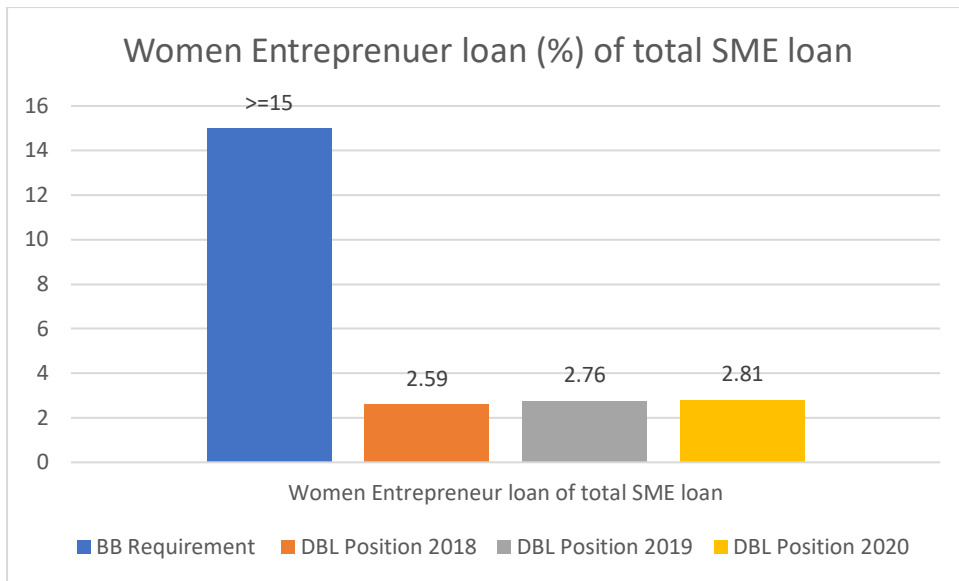


Figure 8 woman entrepreneurship exposure

In Woman enterprises the of percentage loan exposure of total SME loan is not satisfactory compare to other small enterprises. To solve this DBL has taken steps for several new products like Oditiya loan for women entrepreneur. Even Bangladesh bank has come up with extra seminars and scheme for its improvement.

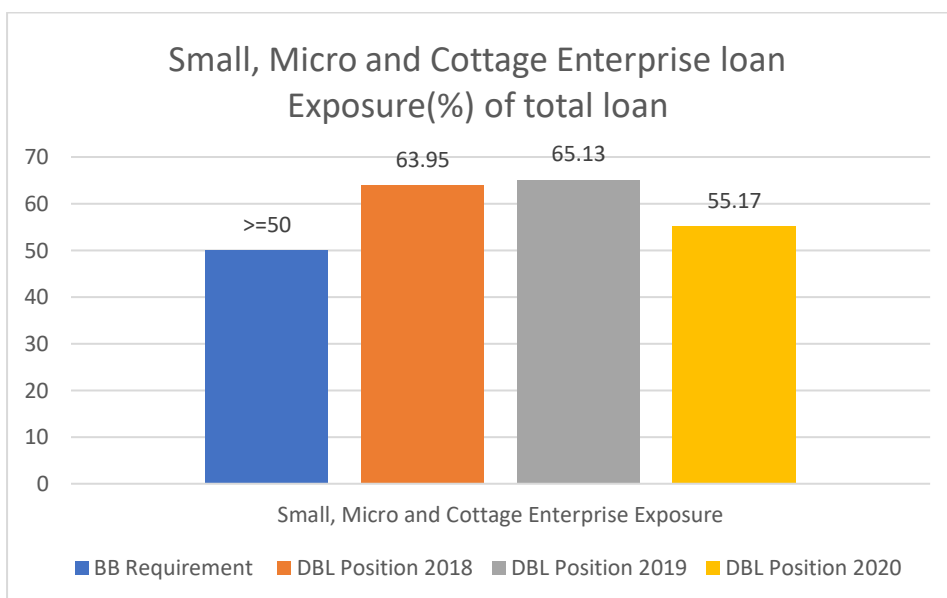
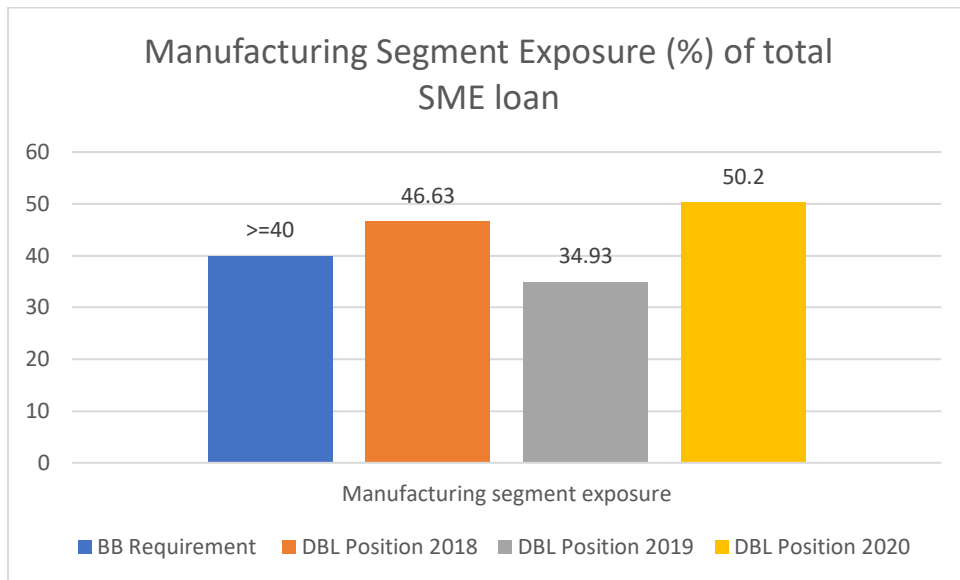


Figure 9 small, micro, cottage exposure

For Small, Micro and Cottage enterprises the loan exposure is more than the requirement and it continues raise much higher. This is a positive side for encouraging small size Entrepreneurship to take on challenges.



*Figure 10 manufacturing segment*

The manufacturing segment percentage for loan exposure is in on the raise as shown in the table and already fulfilled the required percentage. New product strategies focused with particular need of the clients made it possible to attain this.

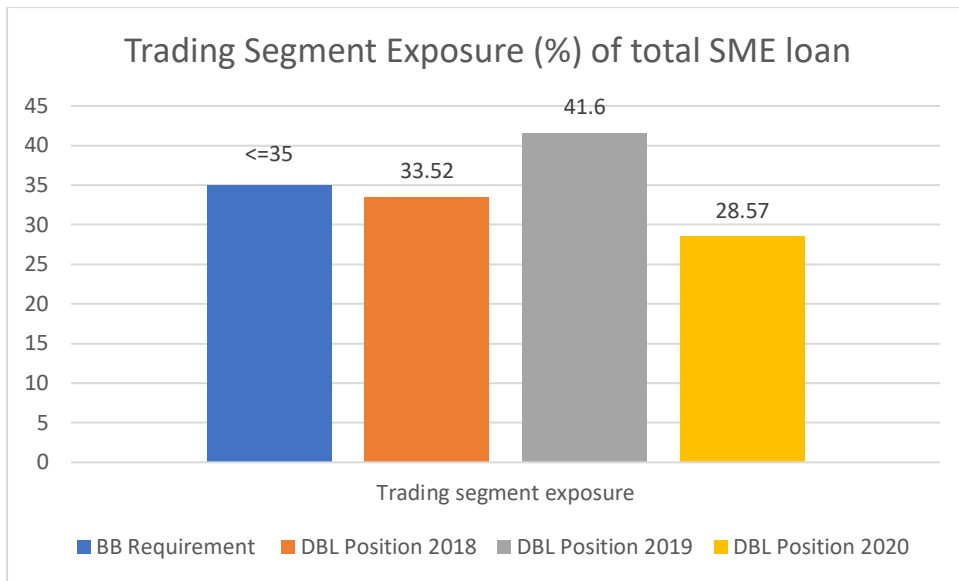


Figure 11 trading segment

Regarding the trading sector loan exposure of SME loan part, things are long positive aside for the obvious decrease in 2020. The bank has undertaken multiple new products for both the manufacturing and trading sectors for them to get much benefit of SME establishment.

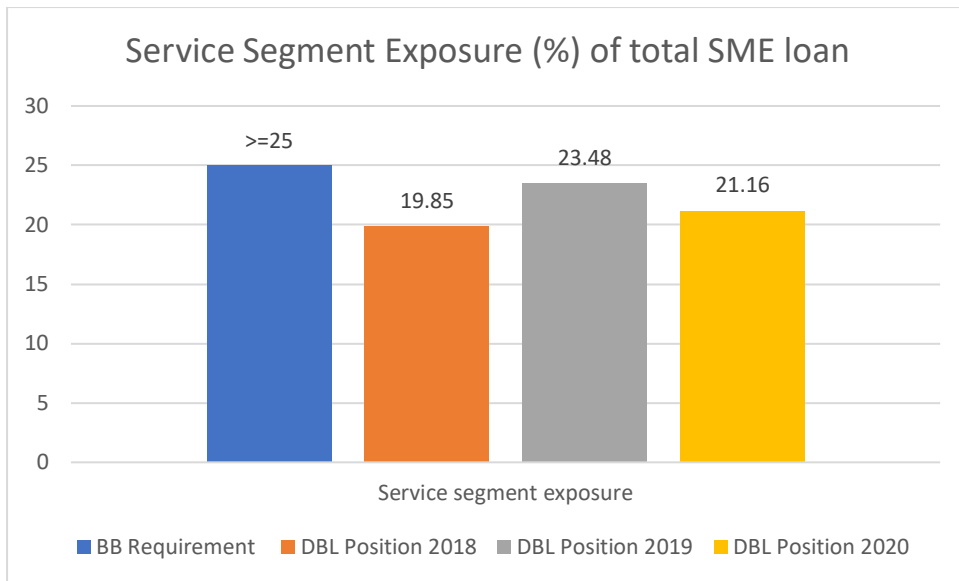


Figure 12 service segment

The SME loan exposure for service segment is also quite decent. As SME enterprises focused on service is coming through the years, they will reach their requirement with one or two years.

The benefits that the Small and Medium Enterprise (SME) Financing Unit of Dhaka Bank Limited enjoys are the positive aspects of SME financing by the bank. There is a very high demand of SME loans so their exit a solid client base. It is easy to process a single SME loan compare to corporate loan and also compare other competitor in the industry. SME financing is very helpful for achieving the business target of the bank as under corporate credit it required different details information which is not required under SME. SME financing enables diversification of the loan portfolio. SME loan per client is Tk.60 lac that indicates lower credit risk. Since the interest rate is comparatively higher, the profitability of SME loans is higher than that of the other loan services provided by the Bank. The Head Office is co-operative and encouraging towards branches regarding SME financing.

SME Refinance Program of Bangladesh Bank:

In order to mitigate these problems, Bangladesh Bank (BB) has been conducting the SME refinancing program for the banks. In this refinancing program, Bangladesh Bank refinances a major portion of the fund that the commercial banks disburse through their SME financing programs. Usually, funds provided to the manufacturing and service organizations are refinanced by Bangladesh Bank at bank rate (5% per annum). BB generally discourages funds provided to the trading organization.

#### Profitability Aspect of SME Financing in DBL

SME finance is considered very profitable for the Bank because of the following reasons:

Increased Interest Income - The average rate of interest on the corporate loan is 13% - 15% in the Bank where as the rate of interest for SME is 18% - 19%. This clearly indicates greater interest income for the bank from SME financing than from corporate loan financing.

Extended Interest Rate Spread through Refinancing - Besides higher interest rate the Bank enjoys higher spread due to the presence of the Refinancing Program of Bangladesh Bank.

Bangladesh Bank refinance on SME loans at an interest rate of 5% (bank rate) to the Banks.

Due to this attractive refinance interest rate, the bank can enjoy a much higher spread in interest rate in the following way (approximate cost of fund):

Facility Interest Rate	18.00%
Cost of Funds	11.00%
Gross Spread	7.00%
Investment Rate on Refinance	11.00%
Refinance Expense	5.00%
Additional Spread	6.00%



Total Gross Spread on SME Loans (9.00+7.00)	13.00%
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Table 5

Risk Management - As it finances a diverse group of business and industry, SME financing diversifies the Portfolio Risks from the Banks' perspective. Through this it reduces sectorial concentration of the corporate banking.

Lastly, SME is small size loan. The maximum loan amount is Tk.1.00 Crore and the average loan size is about Tk.40.00 Lac to Tk.60 Lac. So, it does not need to assign higher ranked executives to monitor the loans at branch level. The job can be done by an officer or senior officer ranked official.

### 3.4 Summary and Conclusion

To conclude the report, the bank maintained a leading role for over 26 years. To continue on this success story the Bank needs to remain unrivalled among new generation banks, overcoming new challenges. The bank has to make a positive attempt to be more outward looking while reaching their goals and aware of the development of the surroundings. The SME section might as well be one of the prime focuses where they can boost up sustainable development. They also need to process fast understanding on the domestic scenario catching on to certain trends and strategies of their competitors and stay ahead with the analysis and counter operation part. This is a must for them to have in order to keep on their critical role in our economy

### **3.5 Recommendations**

Dhaka Bank Limited can be considered the best options for entrepreneurs to finance their SMEs for its commitment and responsibility towards their clients. But there is always room for improvement to carry on providing that the future days will be much smoother for SME financing.

They could enhance their sub-urban branches with more sales employees for expansion with more clients. There could be more small booths for both large busy areas in need of extra service and remote urban areas without any branch or sub-branches for cottage or micro businesses. Another step could be increasing the number of permanent sales employees for aggressive marketing to counter competitors who have already taken this option. They could focus more on women entrepreneur to increase credit portfolio under this sector. One sure benefit from this is getting refinance from the Bangladesh Bank. Moreover, they could open more SME service centers.

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## **Appendix A.**

### Questionnaire

1. Why the clients choose DBL for SME loans?
2. What are the benefits of doing SME financing?
3. Why the NPL percentage is decreasing?
4. How do the loans get approved and disbursed?