Report On

Management of Non-Funded Credit Facilities: Study on Dhaka Bank Limited.

By

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Student ID: 17204004

An internship report submitted to the Brac University in partial fulfillment of the requirements for the degree of
Bachelor of Business Administration

Brac Business School
Brac University
October 2021

Declaration

It is hereby declared that

1. The internship report submitted is my/our 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:

Aditi Biswas
Student ID: 17204004

Supervisor's Full Name & Signature:

Riyashad Ahmed
Assistant Professor, Brac Business School
Brac University

Letter of Transmittal

Riyashad Ahmed
Assistant Professor,
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of Internship Report

Dear Sir,

With due respect, it gives me immense gratification to present my internship report on "Emphasis of Dhaka Bank Limited on their Non-Funded Credit Facilities." This report was prepared based on a three-month-long internship program at Dhaka Bank Limited, Dhanmondi Model Branch.

The following report consists of all the observations, interviews, and knowledge pursued through working in the corporate world. I have tried to give my utmost effort to fulfill the objectives of my internship program. Therefore, I am hoping you will take my report into consideration.

Sincerely yours,

____

Aditi Biswas
Student ID: 17204014
BRAC Business School
BRAC University
Date: October 2nd, 2021

Non-Disclosure Agreement

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

……………Aditi Biswas, Student ID: 17204004………………….

Acknowledgment

To begin with, I would thank Almighty for providing me with the capacity and perseverance to complete this report by the due time.

I would then want to convey my gratitude to my internship supervisor Mr. Riyashad Ahmed, Assistant Professor at BRAC University, for his constant support and valuable guidance throughout the internship period. I am wholeheartedly grateful to him for mentoring me and providing me with insightful advice whenever I encounter difficulties.

I am also immensely grateful to the operation manager and Senior Assistant Vice President, Ms. Humaira Halim, for helping me gather sufficient information for my report. Moreover, I would like to express my heartfelt appreciation to all the Principal Officers and Senior Officers for being cooperative and assisting me in gaining knowledge to implement in my report despite their immense, busy schedule.

Lastly, I want to convey my appreciation towards my university for making me knowledgeable throughout this four years' journey, as this assisted me complete this report as per the standards.

Executive Summary

The report consists of extensive primary and secondary research on Dhaka Bank's emphasis on their non-funded credit facilities as sufficient research about this issue was not conducted beforehand. From the analysis, it was identified that there are some significant benefits for emphasizing non-funded credit facilities, like fewer restrictions, less risk, no requirement of fund cost, and less chance of NPL. Also, in comparison to some other renowned local banks, it was found out that Dhaka Bank has the highest non-funded credit income, and the ratios analysis relevant to non-funded credit income also supported the findings. However, due to the COVID-19 pandemic, the income from non-funded credit was affected. Despite that, Dhaka Bank's net profit did not reduce, unlike other banks during the pandemic, as their non-funded income was still more than other banks. Also, despite the setbacks the income has again started to rise due to the necessary measures taken by Bangladesh Bank and for some other factors.

Keywords: Dhaka Bank Limited; Letter of Credit; Bank Gurantee; Non-Funded Credit Facilities; Non-Performing Loans.

Table of Contents

List of Tables

List of Figures

List of Acronyms

AD	Authorized Dealer
BG	Bank Guarantee
BIBM	Bangladesh Institute of Bank Management
BTP	Bangladesh Trade Portal
CPC	Central Processing Centers
DBL	Dhaka Bank Limited
HR	Human Resource
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LC	Letter of Credit
NPL	Non-Performing Loans
SME	Small Medium Enterprises
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UPAS	Usance Payable at Sight

Glossary

Central Processing Center Trade	The area from which central disbursement of funded and non-funded credit facilities takes place.
Letter of Credit	Letter of credit is a guarantee provided by issuing bank on account of its client in favor of the supplier of goods or services for payment of goods subject to fulfillment of terms and conditions of LC.
Non-Funded Credit Facilities	It indicates the bank’s obligation towards a third party on behalf of the client.

Chapter 1: Overview of Internship

1.1 Student Information

- Name - Aditi Biswas
- ID - 17204004
- Major - Accounting
- Minor - Finance

1.2 Internship Information

1.2.1 Company Information

- Company Name - Dhaka Bank Limited.
- Internship Period - 1st June - 31st August.
- Department/Division - General Banking, Credit and Trade Department.
- Address - Ground Floor, Holding No.275/G, Road No.27(Old), Sohid Shekh Kamal Soroni, Dhanmondi R/A, Dhaka-1205.

1.2.2 Internship Company Supervisor's Information

- Name - Humaira Halim
- Position - Senior Assistant Vice President, Operation Manager, Dhanmondi Model Branch.

1.2.3 Job Duties and Responsibility

I started my internship by working in the General Banking department and spent most of my time in that department. My duties were to assist the senior officers by providing them with the various types of forms required by the clients—for instance, Transaction profile form, Declaration form, Dormant activation form etc. I also assisted clients with account opening forms. Informed customers via text or phone calls to receive their ATM cards, cheque books and pay their DPS installments dues. Then, organized dormant account forms.

In the Credit and Trade department, I worked for a short period. There I helped with the procedure to open a student file to send remittance abroad. Moreover, I wrote about all the clients who received and sent remittances for various purposes in the register book. In the trade division, my duty was to assist in providing Letter of Credit Authorization Form to the clients.

1.3 Internship Outcomes

1.3.1 Student's Contribution to the Company

My contribution during the three-month internship in the bank are as follows:

- ❖ As I regularly called the clients, distribution of their cards and cheque books was faster.
- ❖ Organized dormant account forms serially and filed them to help auditors check quickly whenever those are required.
- ❖ Assisted the senior officers in handling clients and answering their queries, which helped the officers focus on other work on hand.

1.3.2 Benefits to the Student

Through this internship program, I was able to experience the corporate working environment. For instance- the kind of professional behavior and ethics that I should follow in any workplace. Then, I gained confidence by talking to the clients while assisting them with their various queries. I have also understood and learned about some internal working mechanisms in the banking industry. Such as getting the opportunity to know about different documents required to keep in the bank, procedures to transfer money, etc. Also, I gained knowledge about handling difficult clients with patience and maturity. This experience has also given me the scope to seek advice about my future career path from my supervisors.

1.3.3 Problems/Difficulties (faced during the internship period)

There were some challenges I came across while doing my internship in the bank. The difficulties are listed below:

- ❖ Due to the COVID-19 lockdown, I could not attend office for many days. As a result, I lost the opportunity to learn more new tasks to enhance my knowledge and implement that in my report.
- ❖ Gathering information from the employees about the report was challenging because of their busy schedules. As work pressure in banks is high due to which it was tough to collect data.

- ❖ The tasks I was assigned to perform were not much challenging as in order to maintain the bank's confidentiality, I was not given access to their software data.

1.3.4 Recommendations (to the company on future period)

In my opinion, Dhaka bank tries its utmost to help the interns. However, they can take some steps to improve the experience of interns further. For instance, some interactive training sessions can be conducted for interns as this will enable officers to give more challenging tasks to their interns, which will enhance the interns' critical thinking skills. Also, regular feedback can be provided to the interns for their performance which can help them improve their shortcomings for future endeavors.

Chapter 2: Organization Part: Overview, Operations and Strategic Audit

2.1 Introduction

This chapter aims to provide an overall idea about Dhaka Bank Limited in terms of various functional categories. A comprehensive financial and strategic analysis will be conducted in this chapter to give an overview of the bank's current position in our country.

2.1.1 Objectives

The main objective of this segment is to provide insight into the different types of practices that take place in Dhaka Bank. This extensive study aims to explore answers to the following objectives:

- ❖ Overview of the Dhaka Bank to know about its background, vision, core values.
- ❖ Management practices and Marketing Practices are used to ensure growth.
- ❖ Financial Performance analysis and implementation of accounting practices.
- ❖ Operation Management and Information System practice to increase productivity and customer satisfaction.
- ❖ Explore the industry competitiveness of Dhaka bank and analyze the bank's situation using SWOT.

2.1.2 Methodology

Information was collected by using both primary and secondary data to complete this chapter. Preliminary data about the management practices was gathered from the HR team of Dhaka bank. By conducting interviews with retail department employees, various kinds of information about marketing strategies were gathered. However, for financial and accounting concepts, secondary data was collected from the annual reports of Dhaka bank. Website and previous research work like journals and articles were also used to gather knowledge about operation management and industry analysis.

2.1.3 Limitation of the Study

In order to conduct this research, I had to encounter various constraints which caused problems in writing the report. Those Limitations are as below:

- ❖ Gathering information from the employees about the report was challenging because of their busy schedules. Work pressure in banks is high. As a result, having long conversations with employees to collect data was tough.
- ❖ During the data collection process from the employees, some of the information was withheld in order to maintain confidentiality from the outsiders.
- ❖ The topic for my project was a completely new subject for me. As a result, organizing all the findings in a reporting standard was challenging.
- ❖ Managing to write reports and work for internships side by side was a real struggle. As this was my first time working in corporate life, preparing a report on that within three months was difficult. As a result, comprehensive, thorough research was not possible to accomplish.

2.2 Overview of the Company

2.2.1 Vision, Mission and Core Values

Figure 1: Dhaka Bank Limited

Vision

The vision of Dhaka Bank is connected with their tagline, "Excellence in Banking." They aim to ensure a delightful customer experience by providing superior service via precision, dependability, prompt delivery, and customized solutions for clients' needs using the latest technology. Also, offer a higher return on funds invested. All the employees and management of Dhaka Bank are committed to providing quality services to their customers to fulfill the vision of Excellence in Banking.

Mission

Dhaka Bank Limited's mission is to be the country's Leading Financial Institution by providing superior products and services using the latest technology to achieve banking excellence.

Core Values

Dhaka Bank consists of six corporate values, which are as follows:

(i) Customer Focus - Maintain strong customer focus and create superior customer service based on trust and mutual interest.

(ii) Integrity - All the transactions will be based on transparency, honesty and incorporated with a high level of ethics

(iii) Quality - Maintaining the highest level of customer service and serving clients by ensuring excellent banking activities.

(iv) Teamwork - Efficient and collaborative team is created to ensure tailored products and services are provided to the customers and always make client's interest and happiness as utmost priority.

(v) Respect for the Individual -Everybody is respected and valued, also on the basis of merit choices are made.

(vi) Responsible Citizenship - Focused on environmental sustainability by going green.

2.2.2 About Dhaka Bank Limited

In the year 1995, Dhaka Bank was founded by Mr. Mirza Abbas Uddin Ahmed. Initially, it was established as a public limited company in accordance with the Company Act 1994. Then, in the year 2000, the company became a Private Limited Company and was listed under Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Dhaka Bank Limited has expanded its countrywide presence by opening 105 branches which include Islamic Banking Branches (2), Off-Shore Banking Units (2), SME Service Centers (3), Sub Branches (12), ATMs (63), and ADMs (20). Dhaka Bank Limited also has two subsidiaries active in the market and known as Dhaka Bank Securities Limited and Dhaka Bank Investment Limited.

Moreover, online banking along with traditional banking services are provided across all of their branches for clients' convenience. Customers prefer Dhaka Bank for their pleasant and customized services as per client's requirements. As per the audited Financial Statement of 2020, Dhaka Bank Limited has been rated as AA in 2020 for long-term by Emerging Credit Rating Limited (ECRL).

2.3 Management Practices

2.3.1 Leadership Styles

From Dhaka bank's perspective, the leadership style is not fixed to one type. Here both autocratic and participative styles are used to run the bank. This is because for some particular work the decisions are solely taken by Head Office and by consulting the Central bank which needs to be followed by all the employees involved in the work. After all, those are some crucial decisions that are required to take by the higher authority. However, after every short period of time, the branch managers conduct meetings with the employee before making any significant decisions to know their perspective. This motivates employees and increases their productivity.

2.3.2 Human Resources Planning Process

For the betterment of the employees there is a particular division in the bank which is the HR department. Here the team conducts job analysis to determine the types of employees required to fulfill the objective and vision of Dhaka Bank Limited. Based on the knowledge requirements, the team prepares the Job Description and Specification.

2.3.3 Recruitment and Selection

After the preparation of the job description and specification, the recruitment and selection procedure takes place. Dhaka Bank offers online platforms like BD Jobs, Facebook job vacancy groups, and different newspaper advertisements to seek potential candidates. There are three levels in recruitment. They are entry-level, mid-level, top-level. For entry-level, Dhaka Bank mainly prefers candidates from renowned universities such as Dhaka University, BRAC university, etc. In case of recruitment in mid-level or top-level, Dhaka Bank looks for internal candidates first as they believe the internal employee is more aware and knowledgeable about the bank’s objectives compared to a freshly hired employee. However, external candidates are employed if the existing employee cannot handle the vacant designation. Entry-level candidates are required to sit for a written exam as well as an interview before the final selection. On the other hand, for senior-level candidates’ previous performance rating is taken into consideration.

2.3.4 The Training and Development Process

Dhaka Bank Limited has its training institution where regularly their employees are trained to develop their skills and knowledge. The HR team also sends employees to external training institutions such as the Bangladesh Institute of Bank Management (BIBM) and provides online training through an e-learning module. Different types of training are provided like coaching, mentoring, role-playing, lectures etc., as per the needs of the employees. Feedback is taken from the employees to analyze the effectiveness of the program and for further improvements.

2.3.5 Performance Appraisal

Dhaka bank reviews its employee performance by using the Key Performance Indicator (KPI). This enables the bank to check whether all the employees are working efficiently or not to progress towards their goal. Dhaka Bank ensures to provide annual KPI of each employee as this helps individual staff be aware of their strengths and weaknesses over the course of a year. Moreover, on the basis of KPI the HR head makes decisions regarding promotions, increments or further training requirements of the employees.

2.4 Marketing Practices

2.4.1 Marketing Strategies, Segmentation, Target Customers

Marketing Strategies

The marketing strategy of Dhaka bank Limited is to provide the best services through their software Uniform Business Solution. In addition the bank gives their customer needs first priority in order to increase customer satisfaction and maintain good relationship. Then, the bank provides cash management/payroll accounts to their customers and provides products for corporate and retail customers through traditional banking and online banking services.

Segmentation

Firstly, segmentation is done based on the eligibility of people who can purchase the product or service. In the case of Dhaka Bank, they have income segment, age group segment, corporate client segment, retail client segment, payroll segment.

Target Customers

Dhaka Bank Limited generally targets good SME clients and good corporate clients who have a good past track record, better business performance, and sufficient cash flow to repay the loan and interest.

2.4.2 *Products and Services of Dhaka Bank*

The products of Dhaka Bank are divided into various segments, which are as below:

- Retail Banking products such as Savings account, current account, Kotipoti Deposit plan, Fixed Deposit Receipt etc.
- Corporate Products such as funded facilities (Loans, Cash credit, overdraft), non-funded facilities (LC and Bank guarantee), Trade Finance, Cash management Solutions etc.
- Islamic Banking products such as Mudaraba Hajj saving scheme, Mudaraba Deposit Double Scheme, etc.
- Digital Banking products such as Ezy banking, Dhaka Bank GO, Dhaka Bank Direct etc. During the pandemic, demand for digital banking increased more as this was more convenient for customers.
- Offshore Banking Services.
- Locker services etc.

2.4.3 *Advertising and Promotional Strategies*

Dhaka Bank implements various promotional and advertising strategies to promote their existing and newly launched products. In a frequent manner, Electronic Direct mail and SMS are sent to customers to keep them updated about new offers and products. In front of public places like hospitals, hotels, etc., banners promoting Dhaka bank are present. Moreover, Dhaka bank heavily emphasizes promoting their service through their Facebook page where various offers such as discounts on a hotel night stay, buy 1 get three complimentary buffet dinner offers are posted for people who will pay using credit cards of Dhaka bank. Additionally, they promote each product with beautiful and relevant captions to capture the client's attention, for example, "Solution of busy life needs Dhaka bank Ezy banking." Through Ezy banking, busy people can open their accounts through an app instead of coming to the bank.

2.5 Financial Performance and Accounting Practices

2.5.1 Financial Analysis of Dhaka Bank

The following table collected from the anuual reports of Dhaka Bank provides an overview of the significant ratios over the five years.

Ratios	**2016**	**2017**	**2018**	**2019**	**2020**
Capital Adequacy					
Capital Adequacy Ratio	13.6689%	11.9617%	13.8387%	16.1180%	14.5200%
Debt-to-Equity Ratio	12.9966	14.0508	15.4887	15.5601	14.7160
Asset Quality					
Non-Performing Loans	6.0018%	8.8651%	7.2821%	6.8913%	4.4816%
Total Loans-to-Total Assets	44.523%	45.272%	45.155%	47.238%	47.047%
Allowance for Loan Loss	6.9332%	7.4891%	7.1840%	8.5690%	9.3670%
Management Efficiency					
Total Advance-to-Total Deposits	26.4321%	27.2092%	27.3611%	28.5425%	27.8297%
Business per Employee	10,906,493.10	11,130,341.14	12,668,637.22	14,204,061.22	12,783,373.23
Profit per Employee	878,853.74	844,365.81	708,988.20	801,715.32	1,074,069.08
Earnings Capacity					
Return on Assets (ROA)	0.7250%	0.6517%	0.4961%	0.5513%	0.6873%
Return on Equity (ROE)	10.1478%	9.8088%	8.1797%	9.1302%	10.8023%
Net Interest Margin	1.4725%	2.0355%	1.5964%	1.4725%	2.0355%
Liquidity Management					
Credit Deposit Ratio	0.5728	0.6109	0.6274	0.6583	0.6756
Liquidity Ratio	0.9812	0.9646	0.8830	0.9330	0.8714

Table 1: Financial Analysis of Dhaka Bank

Capital Adequacy

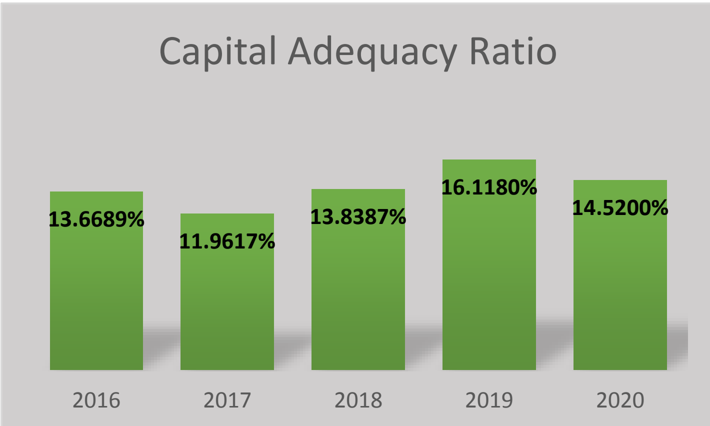

Figure 2: Capital Adequacy Ratio

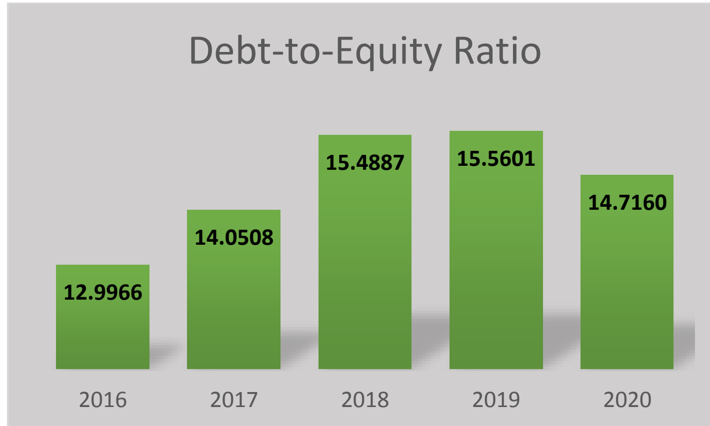

Figure 3: Debt-to-Equity Ratio

The objective of the capital adequacy ratio is to show a bank's internal strength and its ability to survive the downturn. According to the Central bank of Bangladesh, the minimum capital adequacy standard is 10%. From the above table it can be observed that DBL's ratio is above the standard over the five years. This means DBL has the ability to deal with losses.

On the other hand, Debt Equity Ratio's purpose is to determine the financial leverage of the bank. That means how much a firm relies on debt compared to its capital to run the organization. In the case of Dhaka Bank, dependency on debit increased over the years, however in 2020, it reduced.

Asset Management

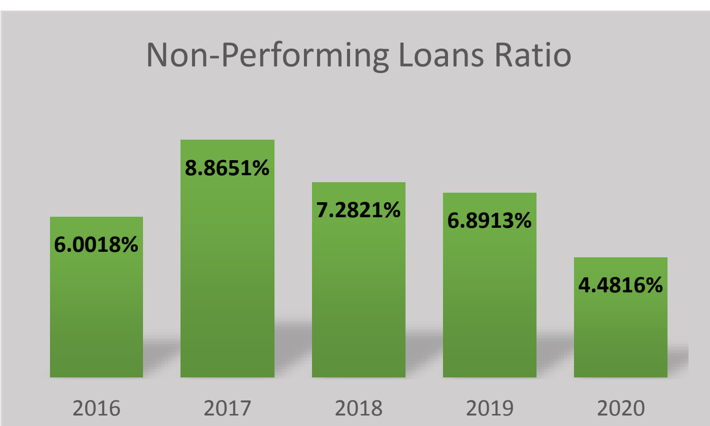

Figure 4: Non-Performing Loans Ratio

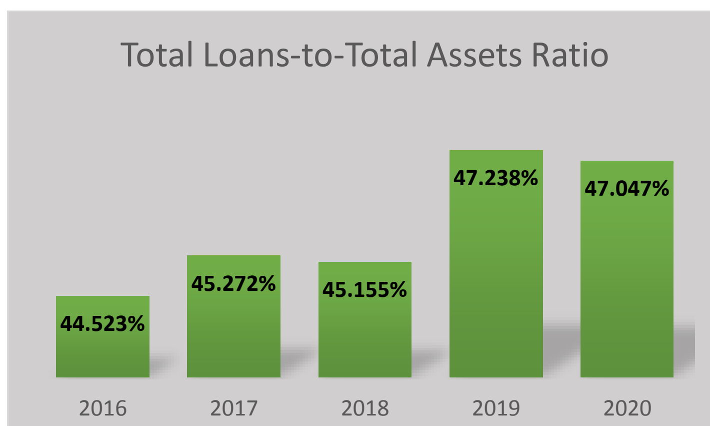

Figure 5: Total Loans-to-Total Assets Ratio

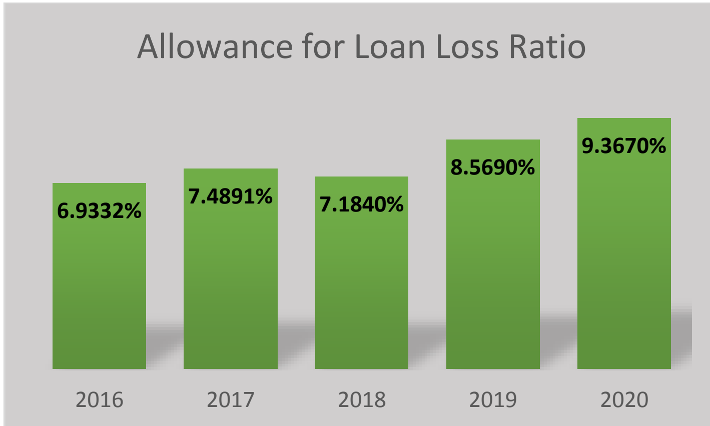

Figure 6: Allowance for Loan Loss Ratio

Banks aim to keep lower Non-performing loans because having a lower ratio indicates fewer loan default chances, which is suitable for banks. It can be observed that the ratio of Dhaka bank improved over the period of time from 2017 to 2020. This reduction of NPL ratio means that DBL needs to maintain less provision as a result, their profit also increases.

In the case of the Total loan to Total Assets Ratio, it analyzes the amount of money the bank has lent out to its clients in relation to its assets. The level of financial risk and leverage of Dhaka Bank can be assessed through this ratio. The above data shows that over the five years, the ratio increased, which means there is a chance of default risk, which can lead to liquidity problems.

The allowance for loan loss ratio indicates whether Dhaka Bank has held enough reserve to tackle their non-performing loan. Throughout the five years it can be observed the ratio increased, which means Dhaka Bank is maintaining enough adequate reserves to cover up for their losses from NPL.

Management Efficiency

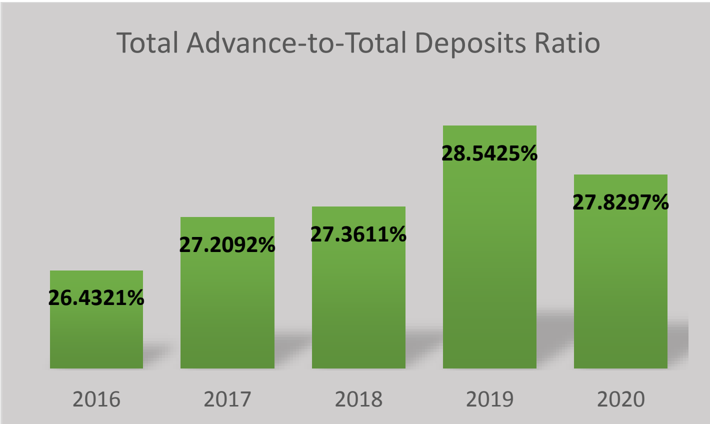

Figure 7: Total Advance-to-Total Deposit Ratio

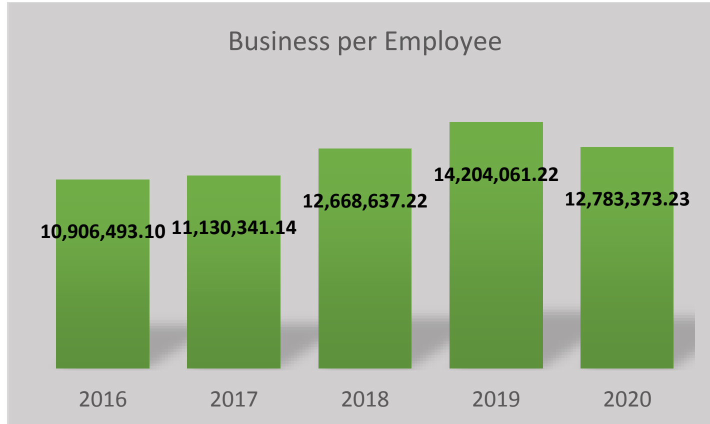

Figure 8: Business per Employee

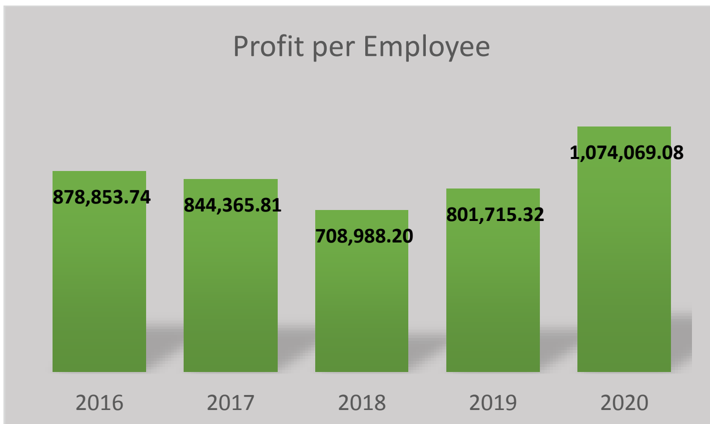

Figure 9: Profit per Employee

These three respective ratios can measure the efficiency of banks.

The purpose of the total loan to deposit ratio indicates how well a bank invests its deposits by giving loans. From Dhaka Bank's ratio calculation, it can be seen that from 2016 it has been increasing except for 2020 due to the pandemic. However, the reduction was minimal thus, it can be said that the management of Dhaka Bank has successfully utilized the funds of depositors.

The objective of both the other two ratios is to figure out the revenue earned by utilizing the employees of Dhaka bank. In business per employee, the ratio increased from 2016 to 2019. However, it reduced in 2020 due to the pandemic as the disease infected many employees. However, the profit per employee ratio showed a fluctuating trend. This may be because management was facing difficulties in managing the operation cost and improper utilization of resources. In 2020 the ratio was the highest because the management efficiently managed to improve their lacking.

Earnings Capacity

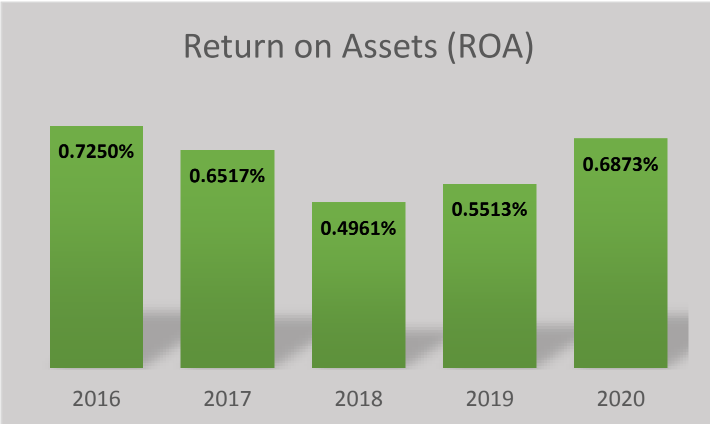

Figure 10: Return on Assets

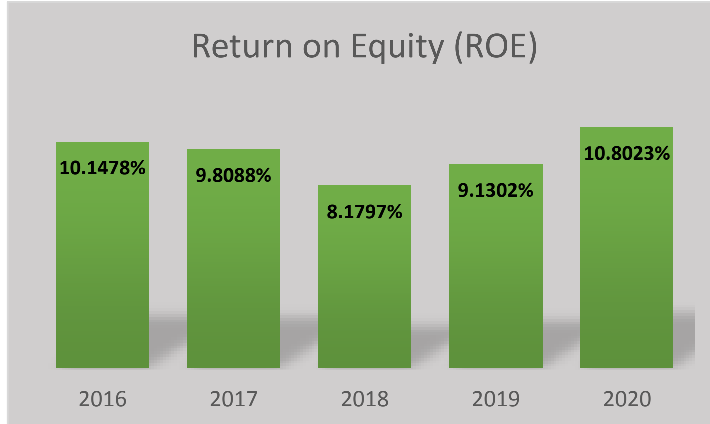

Figure 11: Return on Equity

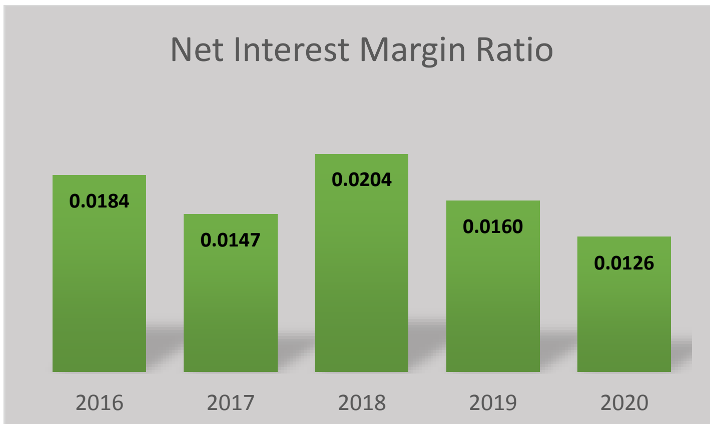

Figure 12: Net Interest Margin Ratio

The ratios under earnings management show whether a bank can earn revenue and consistently sustain its profit.

Firstly, the return on Asset Ratio demonstrates how well the assets are being utilized to produce a profit. The ratio decreased till 2018, but from 2019 it again started to increase, which means Dhaka Bank is gradually utilizing its assets efficiently. Similarly, in the case of return on equity from 2016 to 2018 Dhaka bank could not earn a good return from their equity. Then, from 2019 the ratio improved due to proper utilization of equity to make a profit. On the other hand, the Net Interest margin shows whether its earnings from interest are more or less than cost. Then that is compared against the bank’s assets. Dhaka Bank’s ratio was falling throughout the years except for 2018.

Liquidity Management

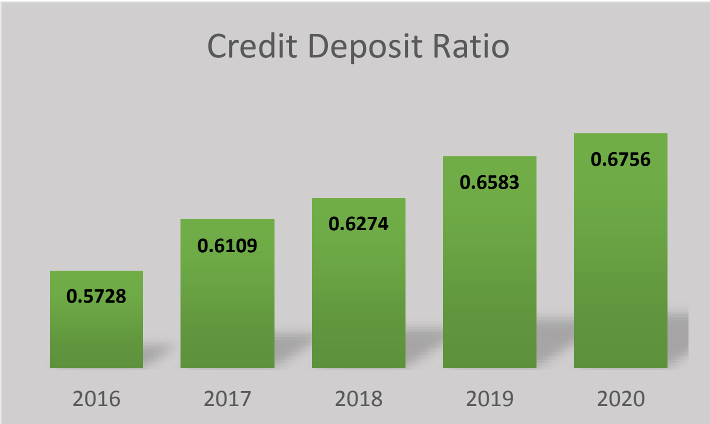

Figure 13: Credit Deposit Ratio

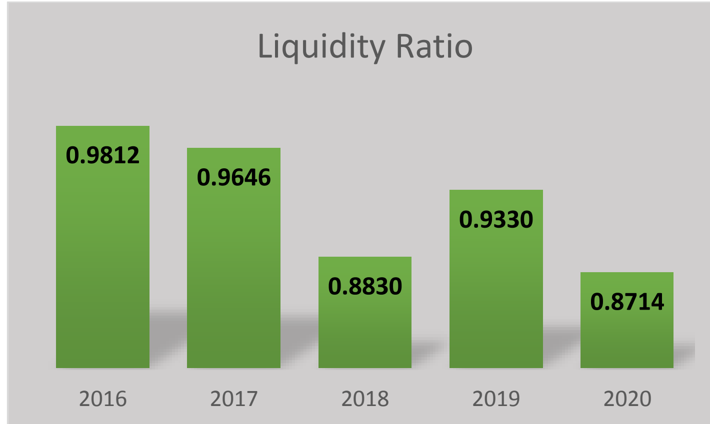

Figure 14: Liquidity Ratio

For banks, the ratios under Liquidity Management are significant. This can indicate whether or not a bank will face any liquidity crisis that can lead to bank failure, based on their adequacy of liquidity management. The credit deposit ratio shows the amount the bank gives to the borrowers from fixed deposits. In the case of Dhaka Bank, it can be observed that the ratio has increased over the five years, which means they are properly investing the deposits to generate revenue. On the other hand, the condition of their liquidity ratio is not that good apart from the year 2019. The ratio kept on decreasing, which might lead to difficulties in paying short-term liabilities.

Market Value Added

Market Value Added (MVA) for the year 2019:

Market value - Book Value = {(812,582,685 + 40,629,134) * Tk.12)} - (TK.8,532,118,190)
= TK. 1,706,423,638.

Market Value Added (MVA) for the year 2020:

Market value - Book Value = {(853,211,819 + 42,660,590) * Tk.11.90)} - (TK.8,958,724,090)
= TK. 1,702,157,577.

The data of MVA was gathered from the respective years annual report of Dhaka Bank.From the above calculation, it can be observed that from 2019 to 2020, the market value added (MVA) has reduced by TK.4266061. This means that the substantial wealth for the shareholders declined, maybe due to the pandemic situation.

2.5.2 *Accounting Practices of Dhaka Bank*

Accounting Concepts

Dhaka Bank Limited complies with both IFRSs and IASs. In addition, DBL follows the criteria of Bank Company(amendment) ACT,2013 along with the instructions and rules given by the central bank (Bangladesh Bank) and maintains the Company Act, 1994. The preparation of financial statements also follows the prescribed format of the Bank Company Act 1991 and instruction of Bangladesh Bank. Further specific compliance of IFRS and IAS by Dhaka Bank is shown in the following two tables.

Compliance with Accounting Standards

The accounting standards as per International Accounting Standard and International Financial Reporting Standard, which Dhaka Bank complies with as per mentioned in their annual, has been provided below:

Compliance in accordance with IFRS:

Name of the Standards	**IFRS Ref.**	**Implementation Status by the Bank**
Financial Instruments: Disclosures	IFRS-7	Applied with some departure (note 2.1)
Operating Segments	IFRS-8	Applied with some departure (note 2.30)
Financial Instruments	IFRS-9	Applied with some departure (note 2.1)
Consolidated Financial Statements	IFRS-10	Applied
Disclosure of Interest in Other Entities	IFRS-12	Applied
Fair Value Measurement	IFRS-13	Applied with some departure (note 2.1)
Revenue from contracts with customers	IFRS-15	Applied
Leases	IFRS-16	Applied

Table 2: Compliance with IFRS

Compliance in accordance with IAS:

Name of the Standards	**IAS Ref.**	**Implementation Status by the Bank**
Presentation of Financial Statements	IAS-1	Applied with some departure (note 2.1)
Statement of Cash Flows	IAS-7	Applied with some departure (note 2.1)
Accounting Policies, Changes in Accounting Estimates and Errors	IAS-8	Applied
Events After the Reporting Period	IAS-10	Applied
Income Taxes	IAS-12	Applied
Property, Plant and Equipment	IAS-16	Applied
Employee Benefits	IAS-19	Applied

The Effects of Changes in Foreign Exchange Rates	IAS-21	Applied
Related Party Disclosures	IAS-24	Applied
Separate Financial Statements	IAS-27	Applied
Financial Instruments: Presentation	IAS-32	Applied with some departure (note 2.1)
Earnings Per Share	IAS-33	Applied
Interim Financial Reporting	IAS-34	Applied
Impairment of Assets	IAS-36	Applied
Provisions, Contingent Liabilities, and Contingent Assets	IAS-37	Applied
Intangible Assets	IAS-38	Applied

Table 3: Compliance with IAS

Accounting Practices

Dhaka Bank maintains the accounting assumptions and principles in their organization which is given as below:

a. ***Assumptions****:* The preparation of DBL's financial statement is based on the **Going Concern** concept. This is because Dhaka bank does not plan to discontinue its business operation and is not under any legal obligation to do so. Instead, it wants to continue operating for the foreseeable future. Moreover, for several years the bank has maintained a positive trend in its key financial ratios such as capital and provision adequacy, asset quality, profitability etc. Moreover, Dhaka Bank Limited keeps their company's activities separate from their owners and other business activities by not including owner's activities in the financial statement as they follow the **Economic Activity** assumption. Then, Dhaka Bank only records those transactions that can be expressed in local or foreign currency money because they maintain the **Monetary unit** assumption. The bank always prepares and publishes its financial reports within specific time frames known as the accounting period. This helps DBL measure the performance after each period and their financial statements are prepared based on 12 months from 1st January to 31st December. This shows that they implement the **Periodicity** assumption.

b. ***Principles***: Dhaka Bank Follows the **Revenue Recognition** principle by recording interest income when that is earned, regardless of the fact that cash is collected or not. Moreover, their fixed assets such as premises, furniture, and fixtures are recorded in cost price as they follow the **Historical cost** principle. Moreover, **Expense Recognition** states that expenses are recorded in the same period as their revenues. Dhaka Bank records their costs, such as salary and allowances, in the same period they earned income through those. Lastly, Dhaka Bank properly follows the **Full Disclosure** principle as they publish their annual reports with all necessary information required to help stakeholders in the decision-making process.

The bank also properly maintains all the eight steps of the **accounting cycle,** and by using accounting software, transactions are recorded and maintained to increase accuracy. This enables Dhaka Bank to portray correct activities and operations in the financial statements, providing true and fair values for the stakeholders. Then, the bank uses a straight-line method approach for their fixed assets to calculate depreciation, and as per asset type, the depreciation rates are given.

2.6 Operational Management and Information System Practices

2.6.1 Operational Management

The objective of operation management is to make sure that in a correct and proper manner, customers transaction are executed. Using the latest technology, Dhaka bank ensures payments and transactions are performed quickly without any hassle. The primary duties of this department are Foreign Remittance settlement, Local funding Operation, Bond Market Operation, Treasury risk assessment, and management, etc. Moreover, there are some wings under the operation division of Dhaka Bank. For example- Inward and Outward Remittance Operations, Branch Operations, SWIFT Operations, Money Market Operations, etc.

2.6.2 Information System Management

Dhaka Bank uses various types of software which can increase employee productivity and customer satisfaction. However, information about all the software was not disclosed by the management. One of the significant software used by Dhaka Bank is known as Scaled, where employee information database is stored. Through that software employees' attendance, leave approval, performance apparel can be done. Moreover, to store information about customers and other necessary information Dhaka Bank uses Oracle Server. In order to transfer money from Dhaka bank to other banks faster, two software are used, which are known as Real Time Gross Settlement (RTGS) and Electronic Funds Transfer Networking (EFTN).

2.7 Industry and Competitive Analysis

2.7.1 SWOT Analysis

The purpose of conducting SWOT analysis is to enable Dhaka Bank Limited to emphasize more on their strengths, then try to improve their weaknesses, reduce risk as much as possible and utilize all the possible opportunities to increase the bank's prosperity.

Figure 15 - SWOT Analysis

Strengths

- **Ensure proper risk management -** Controlling risk and earning more income is one of the objectives of banks. Similarly, to control the bank’s core risks, an efficient team is allocated in the Risk Management Department, who are responsible to mitigate risk as much as possible.
- **Amicable Corporate Culture -** Interaction between juniors and seniors in the bank is participative, encouraging proper teamwork and increasing commitment towards work.
- **Usage of Modern Technology -** Dhaka bank uses modern software to increase work efficiency and customer satisfaction.

Weaknesses

- **Small Businesses are less Emphasized -** Mostly, loans are offered to financially sound businesses. However, small businesses should also be given more loan opportunities as they really need loans for further growth.
- **Fewer Branches in Rural Areas -** Although Dhaka bank has successfully opened 105 branches by now, however in the rural areas the number of branches is not adequate.

Opportunities

- **Increase Marketing activities -** Dhaka Bank achieved two awards for properly dealing with the crisis and ensuring clients' safety during the pandemic. These should be promoted to encourage potential customers to avail themselves of more services from Dhaka bank.

- **Emphasis on foreign Earnings -** Dhaka bank has plenty of opportunities to generate revenue from Remittance activities from the overseas market by pursuing that target customer group to avail services from Dhaka bank.
- **Increase Demand for LCs -** Due to Pandemic, exporters now prefer trade supported by LC rather than other types of financing terms due to the threat of non-payment of prepaid goods increased in the pandemic. Thus, Dhaka bank has more opportunities to earn commission income.

Threats

- **Market capture by other local and international Banks -** The number of banks in Bangladesh has increased over the years that provide similar products and services like Dhaka bank. As a result, there is a high risk of other banks capturing the market share of Dhaka Bank by delivering even better services.
- **Handling NPL -** Bangladesh has a higher NPL compared to other Asian countries. As a result, this is a big concern for Dhaka Banks to minimize their NPL. Chances of default loans are more if NPL cannot be minimized.
- **Reduction in deposits due to Pandemic -** Due to the ongoing pandemic, many people are becoming unemployed, salaries are being reduced. As a result, people are withdrawing their savings and are discouraged from saving further. This is reducing the source of funds of Dhaka Bank, which might impact the bank's profitability.

2.7.2 Porter's Five Forces Model

The competitive environment of Dhaka Bank can be assessed through Porter's Five Forces model. It can also be helpful to gain a competitive advantage. The five forces analysis of Dhaka Bank is as follows:

- **Threat of New Entrant -** The number of banks in Bangladesh has increased over the years, making the sector strained and overcrowded. Also, according to the guidelines of Bangladesh Bank, at least TK.400 crore is required as initial investment capital to start a bank. It is pretty challenging to manage this huge sum of money and enter into a saturated market. Therefore, the threat is low for Dhaka Bank.
- **Threat of Substitute Product and Services -** Non-bank financial institutions (NBFI) such as United Finance Limited, IDLC Finance Limited provide similar products and services

like Dhaka Bank. Moreover, NBFIs are required to follow fewer rules and regulations than banks to offer loans. Also, NBFIs can provide higher loans than banks as they are not bound to maintain 70:30 debts to equity ratio. These privileges make the threat of substitution high for Dhaka Bank.

- **Rivalry among Existing Competitors -** Rivalry among existing competitors is high because as the market is already saturated, all the competitors are coming up with innovative products and services to capture the market share. Thus, Dhaka Bank also needs to develop better quality services and products than the rivals constantly.
- **Bargaining Power of Suppliers -** Depositors are the leading suppliers of banks. In the case of Dhaka Bank, the bargaining power of depositors is low. This is because Dhaka Bank has a good brand image and is a trustworthy institution therefore, depositors feel secure to save their money even if the interest rate is low.
- **Bargaining Power of Buyers -** For banks, the borrowers are the buyers of their products and services. From Dhaka Bank's perspective, their clients who take loans or other benefits have moderate bargaining power because the bank provides excellent services for their clients as per their needs and maintains good customer relationships. This discourages clients from switching to other banks even if the interest rate is high because the facilities are worth that extra cost.

2.8 Summary and Conclusion

The purpose of this chapter was to give insights about the various functional categories of Dhaka bank. Firstly, an overview of Dhaka Bank was discussed to know about the visions and goals of the bank. Then, management practices were explained in order to understand the leadership style followed by DBL and the Human resource management strategies for their employee recruitment. Dhaka Bank’s marketing strategy to promote their products and services was also discussed to show how they maintain a strong brand image and customer relationship. Moreover, accounting concepts applied in the bank were also pointed out along with the financial analysis of the past five years to know the financial position trend of Dhaka bank limited. Operation Management was also discussed as well as the implementation of modern software was mentioned, which enables to improve the service quality. Lastly, the industry competitiveness of Dhaka Bank was analyzed along with SWOT analysis to be aware of their competitive environment and their position in the market.

In brief, from the above analysis it can be concluded that Dhaka Bank has successfully implemented the various functional practices to ensure customer satisfaction. Also, maintained an amicable corporate culture to motivate employees to achieve their vision.

2.9 Recommendation

From the above analysis, it can be seen that Dhaka Bank is a reputed private bank in Bangladesh with a strong brand image. However, there is still scope for further improvement to increase profitability and customer satisfaction. The recommendations for further improvement are given below:

- Dhaka Bank is a highly corporate-focused bank. However, more loans should also be offered to SMEs and retail customers.
- More market surveys can be conducted to know about customer demand as this can help develop interpersonal relationships.
- Employees who have frequent interaction with customers can be given more training to improve customer interaction. This can be done by keeping clients updated on new products and encouraging them to avail themselves of those services for their further convenience and satisfaction.
- More product and service displays in the branch can be implemented to help customers notice and get attracted to purchase them.
- Branches in rural areas can also be increased as the number of branches in rural areas is insufficient to reach all the potential customers.

Chapter 3: Project Part: Emphasis of Dhaka Bank Limited on their Non-Funded Credit Facilities

3.1 Introduction

3.1.1 Background of the Study

The two main components under non-funded credit facilities are the Letter of Credit and Bank Guarantee. Letter of Credit refers to the commitment given by the financial institution on behalf of one party to make payments when specific conditions are fulfilled. For international trade, this commitment is significant (Segal, 2020). On the other hand, Bank Guarantee is a pledge by banks to repay debts to the lender only if the borrower is unable to pay their obligation (Segal, 2020). The author also mentioned that bank guarantees are frequently employed by the borrower in real estate contracts and infrastructure projects.

In the Financial Express Newspaper, the article Modernizing the bank guarantee system in foreign exchange (2017) mentioned that the economy of Bangladesh had developed considerably over the last two decades. As a result, this leads to an increase in international trade and more investment in our country. According to Jain (2014), the significance of letters of credit and bank guarantees enhanced has also increased complications in trade and new investments projects in Bangladesh. In the case of both the non-funded credit facilities, financial institutions such as banks intervene to pay back the debts to the third party on behalf of the borrower if the borrower is unable to pay back its debt (Segal, 2020). As a result, this eliminates the risk of not being paid when the trade takes place in credit (Tahera & Nasim, 2014). The authors also pointed out when the two unknown parties are doing business, in such cases, the involvement of the bank as a guarantor to repay debts gives confidence in trade.

The above-given information portrays the significance of non-funded credit facilities. However, proper research has not been done yet on the reason for emphasizing these non-funded credit facilities from a particular bank's perspective. Therefore, the report will be based on the emphasis of Dhaka Bank Limited on their non-funded credit facilities.

3.1.2 Objectives

When it comes to providing credit facilities, financial institutions generally offer two types of credit facilities. These are funded and non-funded credit facilities. Although banks provide these facilities to clients to generate revenue, Dhaka Bank Limited emphasizes their non-funded source of income alongside the usually funded facilities. However, proper research about this issue has not been conducted. Therefore, this research aims to address this issue to determine the benefits of focusing on non-funded credit facilities.

Moreover, this research will also compare other local banks' focus on non-funded credit facilities and Dhaka Bank Limited. Furthermore, the challenges of non-funded credit facilities due to the pandemic will also be discussed in this research. After proper analysis, this study will answer the following objectives:

- The Impact for focusing on Non-Funded Credit Facilities.
- A Comparison of Dhaka Bank's Non-funded credit facilities with other banks.
- Portray the challenges on non-funded credit activities due to COVID-19 and the response against those threats.

3.1.3 Significance of the Study

The motives of all private banks are to maximize profit by minimizing cost and risk. As the economy of Bangladesh is expanding and developing, this has led to an increase in the activities of both foreign and local trade finance and project finance such as development works. This can give banks more opportunity to earn more profit by emphasizing non-funded credit facilities like Letter of Credit and Bank Guarantee services where no cost of funds is involved. The primary purpose of this study is to focus on the emphasis on non-funded credit facilities of Dhaka Bank Limited. Here, the research will show the benefits Dhaka Bank Limited has for concentrating on non-funded credit facilities and why this should be given importance to earn more profit in banks.

3.2 Methodology

In order to gather information about the research, both primary and secondary data are included about the bank. Preliminary data was collected through various sources, such as by interviews of the employees in the trade department who dealt with non-funded items. Through these interview sessions, information about the impact on Dhaka Bank due to emphasis on non-funded credit facilities was accumulated. Also, through an interview, first-hand information was gathered which were not available as a secondary source, such as information about challenges faced by Dhaka Bank Limited due to Covid19 and their responses towards it. Moreover, observations on the bank's non-funded credit items operations were regularly recorded and used in the research. The interaction with the supervisor and my working experience in the field of trade operation was significantly helpful in collecting primary information and completing the study.

Further findings for the research were accumulated using secondary information. Particularly, for the purpose of comparison between the banks, the financial data of Dhaka Bank Limited and other banks were obtained from their annual reports which were provided on their respective websites. In addition, the Bangladesh Bank website was a significant source of information that provided the guidelines and circulars on the non-funded credit items for all the financial institutions, and these documents were collected to address the research issue. Moreover, second-hand data was obtained by gathering previous research work like journals and articles conducted on non-funded credit facilities. Updates about banks from renowned and reliable newspapers were also considered to know about the impact of COVID-19 on non-funded credit facilities.

3.3 Findings and Analysis

3.3.1 Overview of Non-Funded Credit Facilities

Non-Funded Credit

In the book "Credit Operations and Risk Management in Commercial Banks," Matin (2020) stated that the term non-funded credit facilities indicated the bank's obligation towards a third party on behalf of the client. To further clarify, whenever a particular client of the bank is involved in a trade with another party, the bank takes the risk of a guarantor to pay back the supplier on behalf of their client if the client fails to payback. This facility does not require an outflow of funds from banks. As a result, these facilities have no fund cost. Dhaka Bank Limited offers two types of non-funded facilities, which are Letter of Credit and Bank Guarantee.

Letter of Credit (LC)

Letter of credit is a guarantee given by issuing bank on account of its client in favor of the supplier of goods or services for payment of goods subject to fulfillment of terms and conditions of LC.

Parties Involved in the Letter of Credit

Multiple parties are engaged in the LC transaction who have different names and purposes. The parties name is given as follow:

- Importer/Buyer - A importer/buyer can also be addressed as opener or applicant because according to his request and instruction, the issuing bank opens an LC.
- Opening/Issuing Bank - Issuing bank creates the LC upon the request of the importer and has the responsibility for making the payment only if the beneficiary receives proper documentation.
- Exporter/Seller/Beneficiary - Beneficiary refers to the seller of the product in whose favor the LC is issued and allows his correspondent bank to receive money if required documents are submitted and adhere to the policies of LC.
- Advising/Notifying Bank - The purpose of advising the bank is to advise LC to the exporter.s It is also responsible for issuing bank to forward the required documents given by the beneficiary. This bank is usually located in the beneficiary country.
- Confirming Bank - This bank's duty is to verify the credit which the issuing bank created.
- Negotiating Bank - The purpose of this bank is to thoroughly examine the documentary credit to check if everything is as per requirement or not. Then the bill of the goods is negotiated by the bank and the money is paid to the exporter. Moreover, there is a possibility that the advising and negotiating bank can be the same bank or the confirming bank.
- Paying/Reimbursing Bank - In order to fulfill the payment, the negotiation bank must submit a reimbursement claim to the reimbursing bank. It is usually the bank with whom the issuing bank is connected and makes the payment. The payment is transferred to the negotiating bank.

The Procedure of Letter of Credit

The applicant of LC applies to the issuing bank to open LC to import goods from the exporter/supplier. The applicant submits duly accepted indent (issued by an authorized agent of exporter/supplier) or proforma invoice issued by directly exporter/supplier. After receiving a duly accepted indent/proforma invoice and an acceptable credit report of the exporter/supplier, the bank opens LC by getting the necessary security(margin/mortgage) from the client.

The bank opens LC through SWIFT (Society for Worldwide Interbank Financial Telecommunication) then messages and transmits it to its correspondent bank abroad. The correspondent bank advises the LC to the beneficiary (exporter/supplier). After getting the LC, the exporter exports the goods within the stipulated time by complying with the terms and conditions of LC. Following the shipment of goods, the exporter submits shipping documents such as Bill of lading, Commercial Invoices, Packing Lists, etc. Then, other documents as per terms of LC to the negotiating bank for releasing the payment of LC. If the exporter submits documents by complying with all terms and conditions of LC, the negotiating bank of the exporter may make payment of LC by negotiating the documents. Afterward, to fulfill the payment, the negotiation bank must submit a reimbursement claim to the reimbursing bank. It is usually the bank with whom the issuing bank is connected and makes the payment. The payment is transferred to the negotiating bank. Otherwise, banks may send the documents to the LC opening bank on a collection basis (the exporter bank pays after collecting the LC payment from the LC opening bank).

After receiving LC documents from the exporter bank, the LC opening bank informs the opener of LC to collect the documents by paying the remaining/total value of goods by availing post-import credit facility from the bank. Then, the bank endorsed the document in favor of the opener of LC only after getting full payment/extending the post-import credit facility. The client (opener of LC) releases the goods from the port through his clearing forwarding agent by paying necessary duty, taxes, and other charges.

Types of LC

- *Sight/Cash LC:* In this type of LC, payment is made to the seller immediately (maximum within 7 days) upon submission of required documents and if all the terms and conditions of LC are complied with.
- *Deferred/Usance LC:* When the payment of LC is deferred, in such case the payment is made after a particular period like 30/60/90/180/360 days upon receipt of documents/acceptance of documents is called deferred/usance LC. In this type of LC, the opener of LC gives acceptance to the LC opening bank for payment of LC within the due date of payment. Accordingly, the LC opening bank gives acceptance to the exporter bank to make payment within the due date of payment.

- *Usance Payable at Sight (UPAS):* In this type of LC payment is made to the exporter at sight if all documents are as per terms and conditions of LC. Importer pays the import bill within a certain period like 30/60/90/180/360 days. For this importer has to pay interest, acceptance commission and other charges in addition to the import bill.
- *Back-to-Back LC:* When an import LC is opened to purchase raw materials to execute the supply of goods of an export LC is known as back-to-back LC. For example- A garment factory receives an export LC for the collection of 10000 pieces of shirts with a value of US $100,000 to the USA. It opened import LC for US $ 60,000 to supply the shirts to import clothes, accessories, and raw material. This import LC is called Back-to-Back LC.
- *Revolving LC:* When a single LC revolves up to particular times, like 3 or 4 times, it is called revolving LC. It is issued covering multiple transactions instead in place of issuing separate LC for each transaction. For instance, an LC for US $ 10,000 opened with the condition that it revolves four times. It means the supplier can have shipped goods up to US $ 10,000×4 = the US $ 40000.
- *Red Clause LC:* It is a type of LC where payment is made to the exporter before the shipment of goods or services is provided. The advance is made against the written confirmation of the exporter.
- *Green Clause LC:* In an LC where payment is made in advance against proof of warehousing of the goods.
- *Confirmed LC:* When the payment of LC requires confirmation from the second bank, it is treated as confirmed LC. This type of guarantee/confirmation is taken to avoid the risk of non-payment of the first bank.
- *Unconfirmed LC:* The confirmation of a second bank is not required. It is called unconfirmed LC. Here, confirmation of the first bank is enough for the exporter.
- *Irrevocable LC:* In this type of LC, approval of all parties is required for any kind of change.
- *Revocable LC:* Here, the buyer/issuing bank can make any type of change without the consent of the seller.
- *Non-transferable LC:* In this type of LC, the beneficiary cannot allow the transfer of money to a third party.

Bank Guarantee

Bank Guarantee is a guarantee given by a bank on its client's account to pay a certain amount of money if the bank's client fails to meet its obligation if they fail to make payment. Most bank guarantees have an expiry, and the beneficiary has to claim in writing within the expiry of the bank guarantee. After the expiry of the bank guarantee, the bank has no obligation to pay the guarantee amount. In addition, to reduce risks associated with business transactions, the guarantee acts as an essential tool (Luhar, 2014).

Types of Bank Guarantee

- *Bid Bond:* For participating in a tender of different Government/non-government or private authorities, the participant must submit a bid bond. A bid bond is a kind of guarantee given by a bank on account of the client to make payment of the guarantee amount if the tenderer fails to make an agreement with the authority and fails to submit a performance bond within the stipulated time/expiry of the bid bond.
- *Performance Bond:* A performance bond is a guarantee given by the bank on account of its client to the beneficiary to make payment of the guarantee amount if the contractor fails to do the job as per the terms and conditions of the contract. The claim must be made within the validity of the bank guarantee.
- *Payment Guarantee:* In a payment guarantee, a bank gives a guarantee on account of its client to make payment of the guarantee amount if the purchaser fails to make payment to the seller.
- *Advance Payment Guarantee:* Sometimes, the purchaser/ the authority who calls tender pays money in advance against the supply of goods. In that case, the bank provides an Advance payment guarantee to the purchaser to make payment of a certain amount if the supplier fails to supply goods within the stipulated time and terms and conditions of the contract.
- *Foreign Guarantee:* A foreign Guarantee where a bank guarantees the beneficiary of a foreign country on account of its client.
- *Counter Guarantee:* When a foreign bank provides a guarantee to a local bank to issue a bank guarantee in favor of the local beneficiary on account of foreign banks, it is called counter-guarantee. Each counter-guarantee has an expiry and has a claim period.

- *Open-ended Guarantee:* When a guarantee has no expiry, it is called an open-ended guarantee. Generally, the customs authority releases goods of disputed custom duty as per instruction of the court.
- *Retention Money Guarantee:* The authority/purchaser retains a certain amount of money up to the guarantee period of goods. Sometimes the authority/purchaser pays the retention after getting a bank guarantee. In a retention guarantee, the bank makes a guarantee to pay a certain amount if the seller fails to meet the terms and conditions of the contract.

3.3.2 Impact for Emphasis on Non-Funded Credit Facilities

There are some significant impacts on Dhaka Bank Limited for emphasizing non-funded credit facilities. Focusing on Letter of credit and bank guarantee facilities are beneficial for Dhaka bank in the following ways:

- ***Involve no fund cost:*** To provide facilities such as a letter of credit or bank guarantee, the bank requires no fund cost. Thus, these facilities do not require any cash outflow from the bank. As a result, commission income can be earned without any involvement of fund cost. As per the Master Circular on Schedule of Charges of Bangladesh Bank, the commission rate for LC per quarter should be between 0.25% to 0.50%. In the case of bank guarantee, it is mentioned to be between TK.1,000 to 0.5%. Dhaka Bank earns commission from their clients within this given rate without any additional cost. Only overhead costs are incurred for providing this kind of facility. Moreover, additional charges such as stamp duty, letter of credit form, swift, and other communication charges are taken from the client. This ensures higher income from non-funded credit facilities than the credit facilities as the bank's total income can be kept, unlike funded facilities where lenders need to be paid by the bank along with interest.
- ***Face no restriction from the lenders of fund:*** To provide credit facilities in the form of funded credit such as loans, cash credit, overdraft, etc., banks often use foreign funds from International Finance Corporation (IFC) or World Bank. However, to use these funds, the bank has to fulfill some terms and conditions imposed by the foreign firms. Foreign firms impose several policies and restrictions regarding the usage of funds by the bank, also to whom the bank can lend the fund. As a result, it becomes difficult for Dhaka Bank to disburse the funds because often, borrowers do not want to borrow funds if there are too many rules and restrictions. This creates a hindrance in fund sanction. On the other hand,

in non-funded credit, there are no such restrictions or policies as no fund is involved in this credit facility. Therefore, it is a benefit of non-funded credit facilities to earn income without facing conditions from lenders.

- ***Involves less risk:*** There is comparatively less risk from non-funded credit facilities because Dhaka Bank checks the creditworthiness of their clients by collecting reports from international credit agencies such as Dun & Bradstreet. Their objective is to create a detailed credit profile by gathering private and public data of the clients (Glover, 2020). Moreover, Dun & Bradstreet offers credit scores of the firms(clients) to understand their creditworthiness. This reduces the clients' chance of default and helps banks earn commission income without much risk at a higher yield.

  In Bangladesh Trade Portal (BTP), it is mentioned that banks can only issue LC if the proper Harmonized system code (H.S code) number is written on LC. This is because Bangladesh bank can regulate whether banks have complied with all their policies and know the current status of the trade through the code number. In addition, Bangladesh Bank's permission is also required to issue a foreign guarantee or any special kind of guarantee. Dhaka Bank maintains rigid compliance with the given guidelines from Bangladesh Bank. It also follows all the rules of import policy orders before issuing the LC or giving bank guarantees on behalf of its client. As this ensures that the client is not importing any illegal products. For instance, the Bill of entry overdue is checked properly because banks are not permitted to issue LC if it is overdue. All these measures reduce the risk of non-funded credit facilities.

- ***Less chances of Non-Performing Loan (NPL):*** Non-funded facilities do not become NPL. However, it has been observed that in Dhaka Bank, few non-funded credits are often converted into funded facilities. Then, among the funded facilities, only less amount turns into NPL. For example- if Dhaka Bank has funded the facility of TK. 20,000 crore, and NPL is 3%. The total NPL of funded facilities is TK. 600 crore. On the other hand, if a bank has TK.1400 crore non-funded credit and if 2% becomes funded credit, then TK.280 crore will become funded credit. Therefore, NPL, in this case, will be around TK. 8.1 crore (280crore*3%). This shows that the amount of NPL in non-funded credit will be lower as chances are less to turn into funded credit and to default.

This less chance of NPL in non-funded credit facilities is a really beneficial and significant factor to emphasize because banks of Bangladesh face high levels of NPL from the funded credit (Mujeri, 2018). As a result, banks' profit shrinks, and it also has a negative impact on economic growth because Bangladesh is heavily reliant on banks (Mujeri, 2018). These losses can be covered by emphasizing non-funded credit facilities.

3.3.3 Comparison of Dhaka Bank's Non-Funded Credit Facilities with Other Bank

Comparison of Dhaka Bank Limited with other Banks					
		2017 (TK)	**2018 (TK)**	**2019 (TK)**	**2020 (TK)**
Dhaka Bank Limited	**Letter of Credit**	563,340,360	792,008,831	809,926,864	615,510,609
	Letter of Guarantee	320,970,818	303,203,786	262,947,471	252,572,109
	Total non-funded income	**884,311,178**	**1,095,212,617**	**1,072,874,335**	**868,082,718**
BRAC Bank Limited	**Letter of Credit**	330,506,942	326,583,209	300,375,589	284,519,104
	Letter of Guarantee	48,018,027	66,606,792	78,816,403	66,711,236
	Total non-funded income	**378,524,969**	**393,190,001**	**379,191,992**	**351,230,340**
Mutual Trust Bank Limited	**Letter of Credit**	261,414,416	269,532,164	268,155,288	269,532,904
	Letter of Guarantee	104,768,942	120,642,802	162,705,485	207,943,981
	Total non-funded income	**366,183,358**	**390,174,966**	**430,860,773**	**477,476,885**
One Bank Limited	**Letter of Credit**	359,717,776	347,809,356	299,542,090	275,510,086
	Letter of Guarantee	115,283,495	148,872,903	122,301,450m	111,217,287
	Total non-funded income	**475,001,271**	**496,682,259**	**299,542,090**	**386,727,373**
Trust Bank Limited	**Letter of Credit**	301,272,976	317,630,738	339,446,286	264,610,915
	Letter of Guarantee	250,538,666	190,226,290	322,896,412	246,352,433
	Total non-funded income	**551,811,642**	**507,857,028**	**662,342,698**	**510,963,348**

Table 4: Comparison of Dhaka Bank Limited with other Banks

The above table collected from annual reports, showed that Dhaka Bank has the highest amount of total non-funded income than the other banks shown in the table. However, Mutual Trust bank's income increased gradually over the years, but still, it was way less than Dhaka Bank Limited. From 2018 to 2019, the income of Dhaka Bank fell by TK. 22,338,282, and from 2019 to 2020, it fell by 204,791,617. This drastic fall was mainly due to the COVID-19 pandemic. All the banks' non-funded income was declined due to the pandmic, except Mutual Trust Bank and One Bank. Nevertheless, the income increased from 2019 to 2020 of Mutual Trust Bank and One Bank was by a small amount. Therefore, despite the decline in income, Dhaka bank still managed to maintain better income than other banks from their non-funded credit facilities.

Ways in which Dhaka Bank maintains more LC and Bank Guarantee compared to other banks:

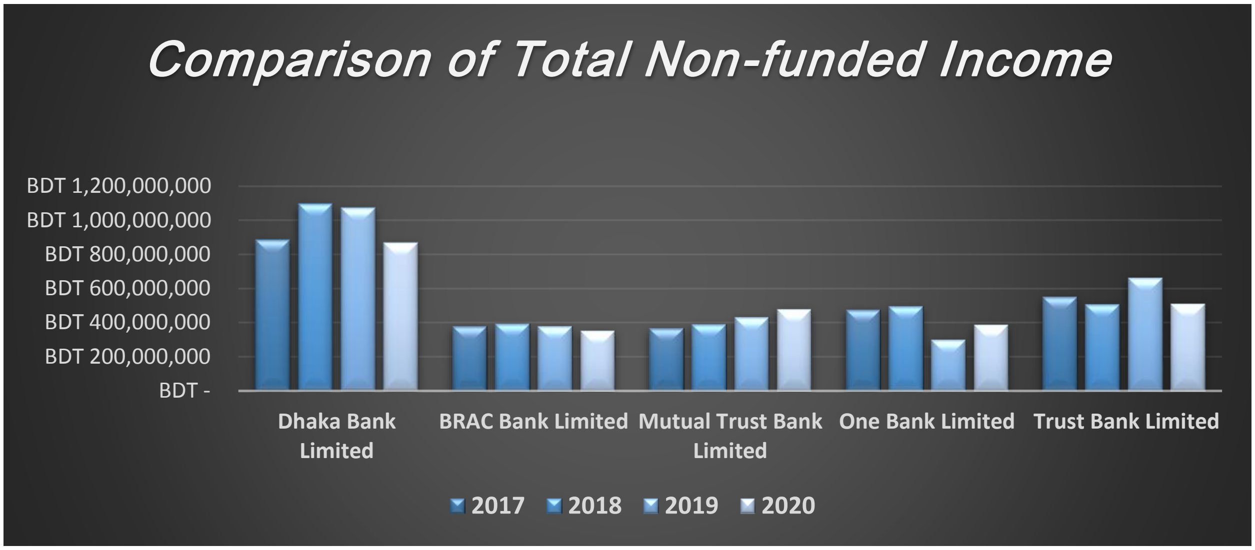

Figure 16: Comparison of Total Non-Funded Income

From the above chart as per the annual report data, showed that Dhaka Bank Limited has the highest amount of total non-funded income compared to all other banks from the year 2017 to 2020.

Ways in which Dhaka Bank maintains more LC and Bank Guarantee compared to other banks banks are discussed below:

Dhaka Bank keeps on investing in effective advertising and marketing campaigns about their services to the public. This encourages new potential clients to take services from them. Also, as Dhaka Bank is a Corporate Client-focused bank rather than retail-focused thus, they have more clients, and the employees always encourage them to avail the bank's service. Moreover, one of the significant reasons for Dhaka Bank to be able to get more clients for non-funded credit facilities is their ability to maintain good customer relationships by providing fast service. Their processing is very fast because Dhaka Bank offers non-funded facilities for the client through the Central Processing Centre (CPC) trade unit. The most experienced, talented, and skilled workforce are posted in the CPC trade unit. The clients submit the necessary papers directly or indirectly through branches to the CPC trade unit. CPC workforce quickly checks the papers, obtains the Credit Report of sellers/buyers, and sends LC to the Corresponding bank for ultimate advice to the beneficiary. After getting import documents directly from the exporter bank, the CPC trade unit checks the documents and handover the documents directly to the importer or through the branch. In the case of Export LC, the CPC trade unit opens necessary back-to-back import LC on account of the Clients. The Clients submit export documents to the CPC trade unit, and the CPC checks the documents and negotiates the documents or sends the documents for collection. After realization of export proceeds, the CPC trade unit adjusts the related Back-to-Back import liabilities and other liabilities. Then, credit the rest of the amount to the client's account. As the CPC trade unit provides direct services to the client through their experience and skilled workforce, the clients get faster service, enabling Dhaka Bank to maintain and build a good customer relationship.

Moreover, to make the service for LC and Bank Guarantee swifter and more convenient for clients, Dhaka Bank was the first local bank to introduce a service named Dhaka Bank Trade Cloud. Here, all documents could be submitted in the digital platform, which is cost-effective and secured. This process included automated delivery of statements, SWIFT Messages. Even client's queries are answered in a faster manner which increases customer satisfaction.

In the case of Bank Guarantee, the client approaches Dhaka Bank to issue a bank guarantee in favor of the tenderer/purchaser in a prescribed format acceptable to both beneficiary and the bank. There are not many steps required to issue bank guarantees, unlike LC. Therefore, the service is provided to the client even faster, and all necessary documents are collected quickly, and proper guidance and advice are also provided to the respective clients. This encourages previous clients to get more non-funded credit facilities from Dhaka Bank. Also, through their word of mouth, more potential clients are encouraged for the service from Dhaka Bank.

Comparison of Ratio Analysis among Banks

Capital Adequacy Ratio

Capital Adequacy Ratio					
Details	**2017**	**2018**	**2019**	**2020**	**Average**
Dhaka Bank	11.96%	13.84%	16.12%	14.52%	**14.11%**
Brac Bank	12.72%	13.67%	15.07%	14.55%	**14.00%**
Mutual Trust Bank	13.80%	12.82%	12.86%	12.75%	**13.06%**
One Bank	11.54%	11.93%	12.80%	13.02%	**12.32%**
Trust Bank	12.95%	13.87%	14.35%	13.73%	**13.72%**

Table 5: Capital Adequacy Ratio among Banks

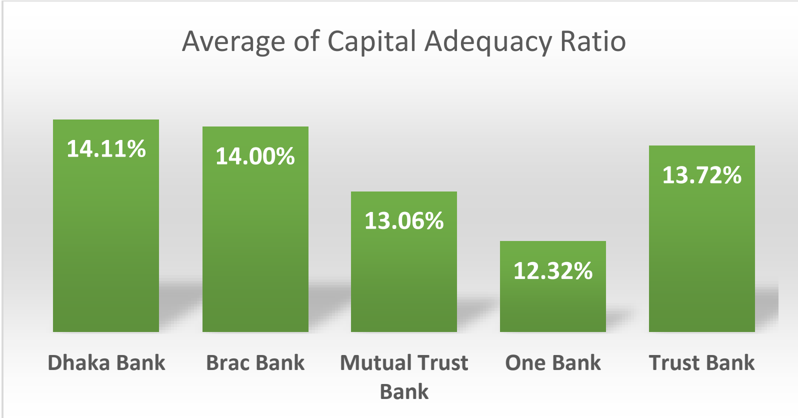

Figure 17: Average of Capital Adequacy Ratio

From the above information collected from annual reports, it can be deduced that Dhaka bank has the highest average CAR ratio over the last four years in comparison to other banks. A higher CAR ratio refers to Dhaka Bank having a better ability to deal with any losses than other banks. One of the reasons for this is due to focusing on non-funded credit facilities. In non-funded assets, the risk weight is around 20% in Cash LC and 50% in Bank Guarantee.

On the other hand, all funded assets such as Overdraft, Term Loan, Time loan, etc., consists of around 100% risk weight. Therefore, increasing emphasis on non-funded credit facilities helps to improve the CAR ratio and prepares banks to handle crises as the risk associated with non-funded credit is less.

Non-Permoning Loan Ratio

Non-Performing Loan Ratio					
Details	**2017**	**2018**	**2019**	**2020**	**Average**
Dhaka Bank	8.87%	7.28%	6.89%	4.60%	**6.91%**
Brac Bank	6.79%	6.07%	8.29%	9.37%	**7.63%**
Mutual Trust Bank	10.98%	28.55%	12.91%	7.58%	**15.01%**
One Bank	7.25%	9.71%	12.39%	11.19%	**10.14%**
Trust Bank	4.69%	10.96%	7.30%	6.05%	**7.25%**

Table 6: Non-Performing Loan Ratio among Banks

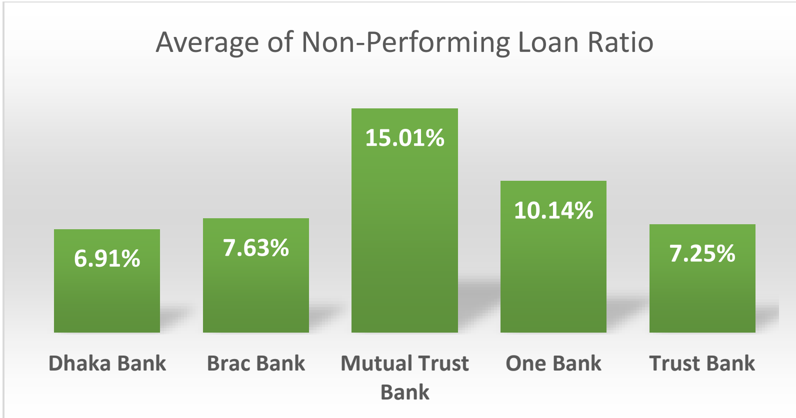

Figure 18: Average of Non-Performing Loan Ratio

In the case of Non-performing loans, having a lower ratio indicates that the chances of loan default are less, which is suitable for banks. Dhaka Bank has the lowest average ratio compared to the other banks as per the data accumulated from annual reports, and it can also be observed that the ratio improved over the period of time from 2017 to 2018. One of the causes for this improvement is Dhaka Bank's emphasis on non-funded credit. The probability of non-funded credit turning into classified items is less than the funded credit. The default can only take place in classified credit items. Thus, the ratio of the Non-performing loan decreases if more income is generated through LC and Bank guarantee rather than only focusing on funded credit facilities.

Allowance for Loan Loss Ratio					
Details	**2017**	**2018**	**2019**	**2020**	**Average**
Dhaka Bank	7.49%	7.18%	8.57%	9.62%	**8.22%**
Brac Bank	7.51%	6.23%	6.87%	9.57%	**7.55%**
Mutual Trust Bank	7.74%	16.59%	8.58%	5.63%	**9.63%**
One Bank	4.87%	5.25%	5.80%	5.93%	**5.46%**
Trust Bank	4.28%	5.21%	6.08%	6.97%	**5.64%**

Table 7: Allowance for Loan Loss among Banks

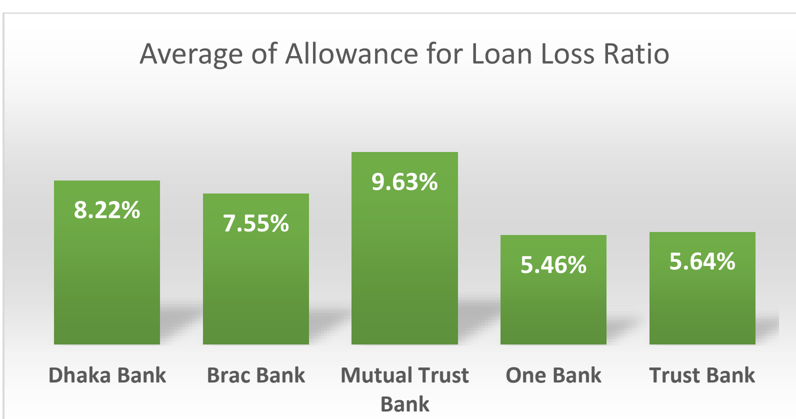

Figure 19: Average of Allowance for Loan Loss Ratio

The objective of the allowance for loan loss ratio is to determine the amount of reserve kept by the bank to cope with Non-performing loans. As Dhaka Bank has less Non-performing ratio for focusing on non-funded credit facilities, they are only required to maintain provision as per the requirement of Bangladesh Bank. An adequate level of this ratio strengthens the position of the bank to deal with the Non-performing loan. From the above chart based on annual report data, it can be depicted that Mutual Trust Bank has to maintain high provision. However, Dhaka Bank is able to maintain an adequate average percentage of 8.22 rather than a much higher ratio because their NPL ratio is less due to their emphasis on non-funded credit facilities, which means that their requirement to keep allowance for loan loss is not too high. On the other hand, Trust Bank and One Bank maintain a low ratio, but Dhaka Bank does not maintain too low as that might not match as per the requirement of Bangladesh bank. Also, this can increase the risk of insolvency as reserves might not be enough to cope with unexpected loan defaults.

Comparison of Profits among Banks

Comparison of Net Profit Among Following Banks					
		2017 (TK)	**2018 (TK)**	**2019 (BDT)**	**2020 (TK)**
Dhaka Bank Limited	**Net Profit After Taxes**	1,495,371,858	1,359,130,376	1,571,362,018	2,029,990,568
BRAC Bank Limited	**Net Profit After Taxes**	5,250,120,046	5,547,303,999	5,645,802,388	4,540,831,949
Mutual Trust Bank Limited	**Net Profit After Taxes**	1,916,223,589	1,582,400,985	1,263,706,056	899,322,753
One Bank Limited	**Net Profit After Taxes**	2,181,326,932	1,393,036,144	1,659,847,018	1,313,022,407
Trust Bank Limited	**Net Profit After Taxes**	1,729,605,800	1,892,582,035	2,031,562,601	1,788,197,339

Table 8: Comparison of Net Profit among Following Banks

From the above table as per annual report data, it can be observed that the amount of profit of Dhaka Bank Limited is comparatively less than other banks. However, unlike other banks, Dhaka Bank did not experience a decline in their net profit after tax during the ongoing pandemic as Dhaka Bank Limited emphasized their non-funded credit facilities. During the pandemic, Net Interest income was reduced for all the banks as NPL increased. From the ratio analysis conducted previously, it can be deduced that other banks focused more on funded income. Thus, their NPL ratio was also higher than Dhaka Bank. This means the chances of not being paid are much higher than that of Dhaka Bank Limited. As a result, the net income of other banks was reduced as they mainly focused on only funded sources of income during the pandemic. However, in the case of DBL, despite their interest income being reduced, they managed to cover their shortcomings by focusing on the non-funded income while raising their interest income in the following year. Thus, their overall profit after tax did not reduce rather increased despite the pandemic situation.

3.3.4 Challenges on Non-Funded Credit Facilities due to Covid-19

		2017(BDT)	2018(BDT)	2019(BDT)	2020(BDT)
Dhaka Bank Limited	**Letter of Credit**	563,340,360	792,008,831	809,926,864	615,510,609
	Letter of Guarantee	320,970,818	303,203,786	262,947,471	252,572,109
	Total Non-Funded Income	**884,311,178**	**1,095,212,617**	**1,072,874,335**	**868,082,718**

Table 9 - Total non-funded income

From the above table collected from the annual reports data, it can be seen that there was a drastic fall in non-funded income from the year 2019 to 2020. The reason behind this income reduction was the COVID-19 pandemic. Emerging nations like Bangladesh, which are highly dependent on banks, suffer from profound implications when the economic progression slows down (Barua & Barua, 2020). Due to the pandemic to ensure social distance, the governments worldwide imposed lockdown in their countries. As a result, this declined the demand for goods and services.

Moreover, as many people's salaries were reduced or became unemployed in the pandemic, this led to the suspension of production as consumption was declining. Thus, global trade reduced, and imports also declined (Barua & Barua, 2020). In the Financial Express, Islam (2021) mentioned that as per the statistics computed by the Bangladesh Bank, it was found that in April 2021, total imports fell by 10% or $ 509.03 million due to pandemics. As a result, the settlement of the Letter of credit also fell from $4.86 billion to 4.36 billion (Islam, 2021). In addition, the author also mentioned that by 14%, the opening of a Letter of credit fell and became $ 5.02 billion from $5.82 billion due to a decrease in demand for imports. According to Demir and Javorcik (2020), due to COVID-19, more protectionist policies and measures have been introduced to ensure safety in the production of goods. As a result, the ordering cost also increased, which discouraged trade from a foreign land, and demand for a letter of credit issuance also declined. Even investment was reduced due to numerous losses faced by the businessman, which forced them to close down businesses.

The number of new government projects for infrastructure declined, resulting in less demand for bank guarantees. In addition, exports in our Ready-Made Garments sectors declined due to pandemics, this resulted in a reduction for back-to-back LCs for fabrics, raw materials. This reduction lessened the income of Dhaka Bank, which was reflected in their annual report.

3.3.4.1 Responses against Covid-19

COVID-19 pandemic has discouraged many importers from importing goods and services. Thus Bangladesh Bank introduced "Policy Measures in Response to the COVID-19 Pandemic". These measures are given as below:

- Supplier's/Buyer's credit for importing industrial inputs, back-to-back LCs for garments or others, agriculture inputs, chemical fertilizer, and fuel, for their credit for import extended to 360 days from 180 days.
- Bangladesh Bank permitted to make payment of back-to-back import LC after realization of export proceeds. Previously, it was not permissible because there is a risk of late payment, which can ruin the Bank's reputation and the country's as well. However, due to the pandemic, this was allowed to help the importers to survive the crisis.
- Rather than using Bangladesh Bank Clearing accounts, Authorized Dealer's (AD) Nostro account can be used to make payments against inland LCs in different currencies. This step by Bangladesh Bank can make the payment procedure faster because often, foreign currency is not available in the account from where BB clearance is performed. However, in the ADs Nostro account, foreign currency is always functional. As a result, payment can be made without any delay. This can improve the relationship between the buyer and seller and lead to more trade.
- In order to import life-saving drugs, the usance period under supplier's/buyer's credit has been increased from 90 days to 180 days. This will give more time for the buyer to handle the losses faced due to the pandemic and refrain them from going out of business.

These measures can encourage business people to survive the pandemic crisis and continue trade and open further LCs from banks to do business. Moreover, the Trade in charge of Dhaka Bank Limited of Dhanmondi model branch mentioned that the income from Non-funded credit facilities is again increasing (Sakib, 2021). Foreign exporters now prefer trade supported by LC rather than other financing terms due to the threat of non-payment of prepaid goods increased in the pandemic. Moreover, Demir and Javorcik (2020) stated in their research that the present crisis involving banks as a guarantee lowers the risk of non-payment of prepaid goods. Also, the authors mentioned that bank instruments such as letters of Credit or Bank Guarantee are considered better than other financing instruments used for trade in the present pandemic situation. Thus, demand for non-funded credit facilities started to increase from June of 2021 and is now on an upward trend.

3.4 Summary and Conclusion

This study aimed to analyze the purpose of Dhaka Bank Limited for emphasizing their non-funded credit facilities. The research identified that non-funded credit facilities such as Letter of Credit and Bank Guarantee give banks further opportunities to earn more profit. There are some significant benefits for banks from these services. As Dhaka Bank only takes the risk as a guarantor to pay back the supplier on behalf of the client, if the client fails to pay back, thus there is no cash outflow of funds from the bank. Therefore, this ensures higher income for banks as commission income can be earned without any fund cost.

Moreover, as no funds are involved in these facilities thus, Dhaka Bank does not need to face any restriction from lenders regarding usage of funds. Even the risk from non-funded credit facilities is comparatively less because from international credit agencies, the creditworthiness of the clients is checked, and Dhaka Bank maintains rigid compliance with the given guideline given by Bangladesh Bank. Also, Bangladesh Bank regulates the current trade status through Harmonized System Code which reduces the risk involved in non-funded credit items. Another significant benefit in non-funded credit items is less chance of Non-Performing Loans, which is beneficial for Dhaka Bank as all banks of Bangladesh face high levels of NPLs compared to other Asian and Pacific countries. Therefore, Dhaka Bank emphasizes their non-funded credit facilities for the above benefits and to increase profit.

This research also compared other local banks’ focus on non-funded credit facilities along with Dhaka Bank Limited. Data collected from respective banks' annual reports showed that Dhaka Bank has the highest total non-funded income compared to the other respective banks. This is mainly because Dhaka Bank maintains strong customer relationships by providing fast service through the Central Processing Unit and has Dhaka Bank Trade Cloud, which gives them a competitive advantage. Even the analysis from the three relevant ratios with the non-funded income showed that Dhaka Bank is in a better position compared to other banks. However, due to the pandemic, the non-funded income of Dhaka Bank fell drastically as import and export declined due to a reduction in demand for goods and services. Policy measures by the Bangladesh bank helped businesses and importers to survive the pandemic. Also, demand for bank instruments such as LC and Bank Guarantee started to increase again as foreign exporters now preferring them more than any other financing instruments to reduce the risk of non-payment in trade.

In brief, it can be concluded based on the above analysis that emphasis on non-funded credit facilities help Dhaka Bank Limited to earn additional income with lesser risk, restriction, cost and can help to cover the losses incurred from NPLs or loan defaults.

3.5 Recommendation

Recommendations for Dhaka Bank Limited on ways to increase non-funded credit income

Although from the comparison with other banks, it was found that Dhaka Bank has the highest total non-funded income. However, foreign banks such as Standard Chartered Bank have way more income from non-funded credit facilities than Dhaka Bank. Therefore, Dhaka Bank should improve its non-funded credit facilities even more.

To improve non-funded credit income, Dhaka Bank should promote their better-quality facilities to clients with more foreign trading or infrastructure project-based business or real estate contract business. For example- export-oriented garments/other products producing entities who require back-to-back LC facilities. Then reach out to the contractors who need Bid Bond, Performance Guarantee, Advance Payment Guarantee. Moreover, Dhaka Bank can also maintain good relationships and promote their facilities to distributors or General Travel Agents who require payment Guarantees. Dhaka Bank should pursue their foreign correspondent to route more counter-guarantee business through them and make them aware of the privileges from Dhaka Bank's services. In addition, Dhaka Bank should ensure that their employees pursue their clients to use their Trade Cloud Software more. This is because many of the clients are not aware of the Trade cloud software. Even Dhaka Bank should develop the software more as this is a unique selling point for them and can give them further competitive advantage from their competitors. Usage of Trade Cloud would make processing done much faster and ensure better quality services.

Thus, more satisfaction due to less hassle will encourage the clients to get non-funded credit facilities from Dhaka Bank Limited, which will increase the income of the bank.

Recommendations for other Banks to emphasize on non-funded credit Facilities

Due to high non-performing loans (NPLs), the baking sector of Bangladesh is already in serious trouble (Ghosh & Saima,2020). According to Dey (2019), Bangladesh's NPL percentage is significantly higher compared to other Asian and Pacific countries. Therefore, all the banks should emphasize increasing their focus on non-funded credit facilities as chances of NPL from that source of income are less, and it can also help deal with the losses from NPLs and increase profit. Moreover, due to the pandemic, the banks' depositors are withdrawing more money rather than saving in banks as they are suffering from the financial crisis. Also, banks are not getting timely interest income from business loans as due to lockdown, businesses are also suffering losses. Income from funded credit facilities will suffer from the consequences. Thus, banks should focus on their non-funded credit facilities as demand for those is increasing to reduce risk in the trade.

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