



**DHAKA BANK**  
L I M I T E D

**SME FINANCING OF DHAKA BANK LIMITED:  
AN ENDEAVOUR TO ENCOURAGE ENTREPRENEURSHIP**

Internship Report

**SME Financing of Dhaka Bank Limited:  
An Endeavour to Encourage Entrepreneurship**

**Submitted to**

Tasneema Afrin

Lecturer

BRAC Business School

**Submitted by**

Shehinta Sabin

ID: 10104129

BRAC Business School

BRAC University

January 16<sup>th</sup>, 2014

## LETTER OF TRANSMITTAL

January 16<sup>th</sup>, 2014

Tasneema Afrin

Lecturer

BRAC Business School

BRAC University

**Subject:** Submission of for Internship Report

I, Shehinta Sabin, am submitting my internship report on “**SME Financing of Dhaka Bank Limited: An Endeavour to Encourage Entrepreneurship**”. The internship period and the subsequent effort in writing this report has been a highly enriching learning experience for me. I have tried my level best to produce as well written an informative report as possible. However, because of the confidentiality policy of Dhaka Bank Limited regarding some of the topics I have covered, this study has not been as probing as I would have desired.

I have given my utmost effort to reflect experience, skill and knowledge, which I acquired at the time of orientation in Bank through this report. All of my efforts will be successful if the report can serve its purpose.

Hope you will enjoy your perusal of the report as much as I enjoyed writing and working for it.

Thank you very much for your kind cooperation and guidance.

Warm Regards and Thanks.

Sincerely Yours,

Shehinta Sabin

ID: 10104129

BRAC Business School

BRAC University

## **ACKNOWLEDGEMENT**

At the instigation of preparing this report, I would like to convey gratitude to the Almighty Allah for special blessing in completing this report. This internship report is an accrual of many people's effort. For this, I am obliged to a number of people who helped me to organize this report and for their kind opinion, suggestions, instructions and support and appropriate guidelines for this.

I have received endless support and guidance in preparation of this report from numerous sources. I would like to take this opportunity to thank them all.

First of all, I would like to thank my Internship Supervisor Mrs Tasneema Afrin, Lecturer, BRAC University for her continuous guidance and assistance in preparation of this report. Her invaluable advice has helped me a lot in writing this report. I am immensely thankful to her for the supports she has provided during my Internship period.

Next, I would also like to express heartfelt gratitude to my organizational supervisor at Dhaka Bank Limited, Mr. Mohammad Bazlul Kabir, AVP & Manager, Dhaka Bank Limited, Moghbazar Branch. He directed me towards the right information and regularly reviewed my progress in preparation of this report. I would also express heartfelt gratitude to Mr. Shahed Mahmud, AVP & Manager (In-charge) who always supported me in all ups and downs throughout the internship period.

In addition, I am also indebted to Mr. Jonhy Mazumder MTO & Credit Officer, Dhaka Bank Limited, Moghbazar Branch. He provided me with valuable information, guidelines and, most importantly, acquainted me with the overall SME Financing services that are in practice locally.

I would also like to extend my gratefulness to the following persons: Ms. Sadia Jahan, Ms. Nawreen Khan, Mr. S.K Ashik, for guiding me on General Banking. Mr. A.K.M Iftekhar Amin for guiding me Accounts tasks, Mr. Arifuzzaman and Sarfaraz Islam for guiding on Cash department as well. Also Mr. Palash Basu, Principle Officer, Local Office, Dhaka Bank Limited, Head Office, for the suggestions and information I have received from their end.

Their valuable contribution has facilitated the successful completion of this report to a great extent.

## List of Figures

	Page No.
Figure 1: Credit Rating Report of Dhaka Bank Limited	10
Figure 2: The Service Star	13
Figure 3: Process Flow Chart of SME Loan Processing	25
Figure 4: Types of Facilities under DBL SME Financing	31
Figure 5: Customer Segment for DBL SMEF	40
Figure 6: sectors Identified by DBL and MoI	42
Figure 7: Flowchart of Management Structure for SME Financing	51
Figure 8: SME Financing Scenario of DBL in 2011	55
Figure 9: Sector-wise SME Loan Disbursement by DBL in 2011	56
Figure 10: SME Financing Scenario of DBL in 2012	56
Figure 11: Sector-wise SME Loan Disbursement by DBL in 2012	57
Figure 12: Sector-wise Loan Disbursement Comparison in 2011 and 2012	57

## **List of Abbreviation and Acronyms:**

- 1. DBL : Dhaka Bank Limited**
- 2. SME : Small and Medium Enterprise**
- 3. CA : Credit Approval**
- 4. CIB : Credit Investigation Bureau**
- 5. MoI : Ministry of Industries**
- 6. RM : Risk Manager**
- 7. BDBL : Bangladesh Development Bank Limited**
- 8. FDR : Fixed Deposit Receipt**
- 9. SOD : Secured Overdraft**
- 10. DPDC : Dhaka Power Distribution Centre**
- 11. IGPA : Irrevocable General Power of Attorney**
- 12. ALCO : Asset Liability Committee**
- 13. WCF : Working Capital Fund**
- 14. FAP : Fixed Asset Purchase**
- 15. NRWC : Net Requirement of Working Capital**
- 16. MOA : Memorandum of Association**
- 17. AOA : Article of Association**
- 18. COI : Certificate of Incorporation**
- 19. RJSC : Registered Joint Stock Company**
- 20. BRPD : Banking Regulation and Policy Department**
- 21. PAD: Portable application description**

## Table of Contents

Contents	Page No.
Executive Summary	01
<b>1.Introduction</b>	<b>02</b>
1.1. Background of the Study	02
1.2. Origin of the Report	02
1.3. Rationale of the study	02
1.4.Research Objectives	03
1.4.1. Primary Objective	03
1.4.2. Specific Objectives	03
1.5. Methodology of the study	03
1.5.1. Data Collection	03
1.6. Scope of the report	04
1.7.Limitation of the Report	04
<b>2. Organization Overview</b>	<b>05</b>
2.1. Historical Perspective of Dhaka Bank Limited	05
2.2. Mission & Vision of Dhaka Bank Limited	06
2.3. Goals of the Bank	06
2.4. Values	07
2.5. Objectives of the Bank	07
2.6. Management System	08
2.7. Correspondent Relationship	08
2.8. Departments of DBL	08
2.9.Current Performance	09
2.10.Policies and Strategies of the bank	09
2.11.Environment of Dhaka bank	10
2.12.Corporate Banking	10
2.13. Credit rating report of Dhaka bank limited	10
2.14 Banking System and Financial Structure In Bangladesh	11
2.15 Commercial Banking in Bangladesh	11
2.16 SWOT Analysis of Dhaka Bank Limited	14
2.16.1 Strength	14
2.16.2 Weakness	14

2.16.3 Opportunity	14
2.16.4 Threat	15
<b>3. Working experience at Dhaka Bank Limited</b>	<b>16</b>
3.1 Working Experience	16
3.1.1 General Banking	16
3.1.2 Credit Division	16
3.1.3 Cash	16
3.1.4 Accounts	17
3.2 .Products of Dhaka bank limited:	18
<b>4. SME Financing</b>	<b>24</b>
4.1 Prudential Guidelines for Small and Medium Enterprise Financing	26
4.2 Product Program Guide under DBL SME Financing	31
4.2.1 Types of Facilities under DBL SME Financing	31
4.2.2 Details of the Business Credit Lines and Business Loans under DBL SMEF	32
4.3. Customer Type	39
4.4. Purpose for SMEF	39
4.5. Customer Segment	40
4.6. Eligibility Criteria for Enjoying DBL SME Financing Facilities	40
4.7. Target Clusters and Sectors under Clusters	41
4.8. Restricted Areas	43
4.9. Loan approval process	44
4.9.1. De Duplication Check	44
4.9.2 Risk Management	45
4.9.3. Credit administration	47
4.9.4. Documentation	47
4.9.5. Disbursal	47
4.9.6. Custodial Duties	48
4.9.7 Maintenance of Documents & Securities	48
4.9.8 Recovery	48
4.10. Management Structure for SME Financing	50
4.11. DBL SME Financing Scenario in Recent Years	52
4.11.1 Objectives for SME Financing by DBL	52
4.11.2 Sound Principles of Lending Maintained by DBL	52



4.11.3 Salient Features of DBL SME Financing	53
4.11.4 Key Progress	53
4.11.5 Successful Entrepreneurial Growth with the Help of DBL SME Financing	54
4.11.6 SME Financing Scenario of DBL in 2011 and 2012	55
4.11.7 Loan Outstanding as on December 31, 2012	58
<b>5. Findings and analysis of the study</b>	<b>59</b>
5.1.Data analysis	59
5.2.Findings	59
5.3.SWOT Analysis of DBL SME Financing	60
5.3.1 Strengths	60
5.3.2. Weaknesses	60
5.3.3. Opportunities	60
5.3.4 Threats	61
<b>6. Recommendation</b>	<b>62</b>
<b>7. Conclusion</b>	<b>63</b>
<b>Bibliography</b>	<b>64</b>
<b>Appendix</b>	<b>65</b>

## **Executive Summary**

As a commercial consideration, the banks used to concentrate their lending mainly on large customers having enough resources that could easily provide adequate coverage of the exposure through offering high value security. A substantial portion of bank's lending was thus security oriented and that too to a few large and corporate clients. But experience with large customers was not that much pleasant as was thought to be. So changes in the concept of bank's lending became necessary. Financing in Small & Medium Enterprises (SME) have become a major focus of the commercial banks as an effective means of stimulating economic activity for overall development of a country like Bangladesh. Dhaka Bank Limited is pretty aware of this lending concept and has already stepped into the field by extending finance to this sector. From the very beginning of its inception, DBL is endeavoring to encourage entrepreneurship within the country. This report is a small attempt to focus on that endeavor DBL has adopted to encourage entrepreneurship.

The report consists seven chapters. Chapter one talks about the origin, objective, scope, methodology and limitations of the report.

In chapter two, the author has briefly discussed about Dhaka Bank Limited's Historical Perspective, Mission & Vision, Goals of the Bank, Values, Objectives of the Bank, Management System, Correspondent Relationship, Departments of DBL, Current Performance, Policies and Strategies of the bank, Environment of Dhaka bank, Corporate Banking, Banking System and Financial Structure In Bangladesh, Commercial Banking in Bangladesh, SWOT Analysis of Dhaka Bank Limited, Credit rating report of Dhaka bank limited.

Chapter three consists of the working experience of the author in different departments.

The whole SME financing, Product Program Guide under DBL SME Financing where the author discussed about the types of facilities under DBL SME and their features, eligibility criteria to enjoy the facilities, customer segments, purpose for DBL SME financing, restricted areas under SME Financing etc. SME loans and advances procedure has been discussed in chapter four. Each and every step from loan application receiving to loan disbursal and loan recovery has been elaborately described in this chapter also DBL SME Financing Scenario in recent years.

Chapter five contains findings and analysis of the study respectively.

Finally, the author has made her recommendations and conclusion in chapter six and seven respectively. Several suggestions to develop the SME Financing System of Dhaka Bank Limited have been given in this part.

# **Chapter 1: Introduction**

## **1.1 Background of the Study**

Bangladesh economy has experienced a rapid growth since the '90s. Industrial and agricultural development, international trade, inflow of expatriate Bangladeshi workers' remittance, local and foreign investments in construction, communication, power, food processing and service enterprises ushered in an era of economic activities. Urbanization and lifestyle changes concurrent with the economic development created a demand for banking products and services to support the new initiatives as well as to channelize consumer investments in a profitable manner. A group of highly acclaimed businessmen of the country grouped together to respond to these needs and established Dhaka Bank Limited in the year 1995.

## **1.2 Origin of the report**

This report was assigned as a requirement for the successful completion of the Internship Program, which is itself a partial requirement of the BBA Program, BRAC Business School. In accordance with the specifications of the Program, the author has completed 12 week period of attachment with Dhaka Bank Limited.

The report was prepared under Ms. Tasneema Afrin, Lecturer, BRAC Business School acting as the Academic Advisor and Mr. Mohammad Bazlul Kabir AVP & Operation Manager, Dhaka Bank Limited, Moghbazar Branch, acting as the organizational advisor. Also acting as the Special organizational advisor Mr. Shahed Mahmud, AVP and Manager.

## **1.3 Rationale of the study**

The banking sector is one of the strongest sectors in our country. Banks provide necessary funds for executing various programs underway in the process of economic development. They collect savings of large masses of people scattered throughout the country, which in the absence of banks would have remained idle and unproductive. These scattered amounts are collected, pooled together and made available to commerce and industry for meeting the requirements. Economy of Bangladesh is in the group of world's most undeveloped economies.

One of the reasons may be its undeveloped banking system. Government as well as different international organizations have also identified that undeveloped banking system causes some obstacles to the process of economic development. So, one country must be efficient in banking if it wants to be developed. My study on the bank has created an edge on my professional learning. In today's globalised world, one of the most important banking activities is SME

(Small and Medium Enterprise). So, the importance of my study on “**SME Financing of Dhaka Bank Ltd**” is beyond description.

## **1.4 Research Objectives**

My primary objective behind this report is to get acquainted with the different issues of SME. Without the specific objectives, any study cannot become the fruitful one. Before preparing the report, I would like to set up objective of my study as:

### **1.4.1 Primary Objective**

- To get acquainted with the different issues of SME Financing.

### **1.4.2 Specific Objectives**

- To understand the SME loan processing
- To understand the guidelines for SME financing in Dhaka Bank Limited.
- To understand the legal formalities required in SME financing
- To understand the importance of eligibility criteria for enjoying SMEF
- To understand the facilities of SME financing
- To understand the types of customers and purpose of SME financing
- To get to know about the loan approval process
- To learn the recent scenario of SME financing

## **1.5 Methodology of the Study**

The study is performed based on the information extracted from the different sources collected by using a specific methodology. The details are given below:

### **1.5.1 Data Collection**

The **Primary sources** are:

- Practical desk work
- Conversation with the officers
- Conversation with the clients
- Appropriate file study as provided by the concerned officer.

The **Secondary sources** are:

- Annual reports of Dhaka Bank Limited
- Different “Procedure Manual” published by the Dhaka Bank Limited
- Publications obtained from different libraries and from the internet.

## **1.6 Scope of the report**

The main objectives of my short time practical learning were basically to get introduced with related laws, principles, documentations, procedures & practical knowledge regarding SME Financing in Bangladesh. Since it was a very short period of time, I wasn't able to collect more data to acquire deep understanding.

## **1.7 Limitation of the Report**

There are some specific limitations that I faced while doing my internship. These are as follows:

- The data and information related to the topic was not easily available.
- Supply of more practical and up to date data was another shortcoming.
- Many officers have not been interviewed as they are whole day busy with their works.
- Though the employee of the Dhaka Bank tried to assist, sometimes there working pressure could not give me proper assistance.
- Another limitation of this report was the Bank's policy of not disclosing any data and information for obvious reasons, which could have been very useful.

## **Chapter 2: Organization Overview**

### **2.1 Historical Perspective of Dhaka Bank Limited**

Dhaka Bank Limited (DBL) is the leading Private Sector Bank in Bangladesh offering full range of Personal, Corporate, International Trade, Foreign Exchange, Lease Finance and Capital Market Services. Dhaka Bank Limited is the preferred choice in Banking for Friendly and Personalized Services, cutting edge Technology, tailored solutions for Business needs, Global reach in Trade and Commerce and high yield on Investments, assuring Excellence in Banking Services.

DBL is a Scheduled Bank that was incorporated as a public limited company on April 06, 1995 under the Companies Act, 1994. The Bank started its commercial operation as a Private Sector Bank on July 05, 1995 with a target to play the vital role in the socioeconomic development of the country. Aiming at offering Commercial Banking Service to the Customers' door around the country, the DBL established 74 branches up-to this year. This organization achieved Customers' confidence immediately after its establishment.

Within this short time the bank has been successful in positioning itself as progressive and dynamic financial institution in the country. This is now widely acclaimed by the business community, from small entrepreneur to big merchant and conglomerates, including top rated corporate and foreign investors, for modern and innovative ideas and financial solution.

The Bank was incorporated as a public limited company under the Companies Act. 1994. The Bank started its commercial operation on July 05, 1995 with an authorized capital of Tk. 1,000 million and paid up capital of Tk. 100 million. The paid up capital of the Bank stood at Tk. 4,668 million as on December 31, 2012. The total equity (capital and reserves) of the Bank as on December 31, 2012 stood at taka 9,786,311,177. The Bank has 74 Branches, 3 SME Service Centers, 8 CMS Units, 4 offshore Banking Unit across the country and a wide network of correspondents all over the world. The Bank has plans to open more Branches in the current fiscal year to expand the network.

The Bank offers the full range of banking and investment services for personal and corporate customers, backed by the state-of-the-art technology and highly motivated Professionals.

As an integral part of our commitment to Excellence in Banking, Dhaka Bank now offers the full range of real-time online banking services through its all Branches, ATMs and Internet Banking Channels.

Dhaka Bank Ltd. is the preferred choice in banking for friendly and personalized services, cutting edge technology, tailored solutions for business needs, global reach in trade and commerce and high yield on investments.

## **2.2 Mission & Vision of Dhaka Bank Limited**

### **Mission Statement:**

The Mission of the Dhaka DBL is to be the Premier Financial Institution in the country providing High Quality Products and Services backed by Latest Technology and a Team of Highly Motivated Personnel to deliver Excellence in Banking.

### **Vision:**

At Dhaka Bank they work as a team, committed to assuring a standard that makes every banking transaction a pleasurable experience. They endeavor to offer the razor sharp sparkle through accuracy, reliability, timely delivery, cutting edge technology, tailored solutions for business needs, global reach in trade and commerce and high yield on customers' investments.

Their people, products and processes are aligned to meet the demand of their discerning customer. Their goal is to achieve a distinction like the luminaries in the skies. Their prime objective is to deliver a quality that demonstrates a true reflection of their vision - Excellence in Banking.”

## **2.3 Goals of the Bank**

### **Long-term Goal:**

To be the Market Leader both in terms of Deposits and good advances among Private Commercial Banks in Bangladesh by the year 2015.

### **Short-term Goal:**

To increase Current Market Shares at least 0.35% by 2012.

### **Financial Goal:**

To reduce the existing Cost of Fund by 1%, this currently stands at 11.06%

## **Other Goals:**

- To be one of the best Banks of Bangladesh.
- To achieve Excellence in Customer Service next to none and superior to all competitors.
- To cater to all differentiated segments of Retail and Wholesale Customers.
- To be a High Quality Distributor of Product and Services.
- To use state of the Art Technology in all spheres of Banking.

## **2.4 Values**

- Customer Focus
- Integrity
- Team Work
- Respect for Individual
- Quality
- Responsible Citizenship

## **2.5 Objectives of the Bank:**

1. DBL has the objectives to conduct transparent and high quality business operation based on market mechanism within the legal and social framework spelt in their mission and reflected in their vision.
2. Their greatest concerns are their customers to provide them continually efficient, innovative and high quality products with excellent delivery system.
3. Their motto is to generate profit with qualitative business as a sustainable ever-growing organization and enhance air returns to their shareholders.
4. They are committed to the community as a corporate citizen and contributing towards the progress of the nation as their corporate social responsibility.
5. Their employees are their backbone. DBL promote their well being through attractive compensation package, promoting staff morale through training, development and career planning.



6. They strive for fulfillment of their responsibility to the government through paying entire range of taxes and duties and abiding the other rules.
7. DBL is cautious about environment & climatic change and dutiful to make their homeland a green and clean soil.

## **2.6 Management System**

Since its journey as Commercial Bank in 1995 DBL has been laying great emphasis on the use of improved Technology. It has gone to Online Operation System since 2003. And the new Banking Software **FLEXCUBE** is newly installed. As a result the Bank will be able to give the services of international standards.

## **2.7 Correspondent Relationship**

The Bank established correspondent relationships with a number of Foreign Banks, namely American Express Bank, Bank of Tokyo, Standard Chartered Bank, Mashreq Bank, Hong Kong Shanghai Banking Corporation, CITI Bank NA-New York, AB Bank Ltd etc. The Bank is maintaining Foreign Exchange Accounts in New York, Tokyo, Calcutta, London, Germany etc.. The Bank has set up Letter of Credit on behalf of its valued Customers using its Correspondents as advising and reimbursing Banks. The Bank maintains a need based Correspondent Relationship Policy, which is gradually expanding. The number of Foreign Correspondents is now 406.

## **2.8 Departments of DBL**

If the jobs are not organized considering their interrelationship and are not allocated in a particular Department it would be very difficult to control the system effectively. If the departments are not fitted for the particular works there would be haphazard situation and the performance of a particular department would not be measured. DBL has does this work very well. Different Departments of DBL are as follows:

- Human Resources Division
- Personal Banking Division
- Treasury Division
- Operations Division
- Computer and Information Technology Division

- Credit Division
- Finance & Accounts Division
- Financial Institution Division
- Audit & Risk Management Division
- Foreign Trade Division

## **2.9 Current Performance**

DBL is committed to deliver better service to our valuable customers. Customers are their first priority and driving force. Superior quality customer service through the integration of the latest state-of-the-art technology is their motto. Customers come from all walks of life. They are professional, businessmen, public servants, entrepreneurs, homemakers, men & women, residents and non-residents maintaining local & foreign currency accounts. Introducing new products and developing the quality of the existing products is the strategies adopted by the Bank to serve the customers. They are always committed to sustain the commitment "**Excellence in Banking**".

They are aware of the natural consequences of globalization, liberalization, privatization, reforms, foreign investment, economic policy and infrastructure development. They assure a long-term sustainable relationship with strong bondage of caring and sharing with their customers.

## **2.10 Policies and Strategies of the bank**

1. DBL seeks to build long-term, sustainable beneficial relationships with all its customers based on the service- commitments and on the underlying values of mutual respect.
2. The primary concern of DBL is to understand and satisfy customers' needs and expectations. DBL promises to use all means open to them to establish and understand these needs, which are both mutually beneficial and respectful to their values and principles.
3. DBL promises to deal quickly, courteously and accurately with all correspondences.
4. Should disagreements arise between DBL and its clients, DBL undertakes speedy and equitable solutions, which takes into account rights and obligations, of both parties and is framed in the context of a long- term and enduring relationship.

5. DBL believes in openness, integrity, transparency and accountability and provides high standard of services to its valued customers.

## 2.11 Environment of Dhaka bank

Quality of working life is easy, fast, durable, safe, furnished, updated. Environment of the workplace is fully air condition, computerised equipment, on lining each branch, mobile network facilities etc. Politics & practice are unseen in working environment. A proper hygiene is maintained.

Sustainable economic, ecological and social developments of the surroundings are the key elements of business decisions of DBL. Our environmental management policy stipulates adherence with environmental health and safety regulations and guidelines, refraining from businesses that impairs the ability of our future generations to meet their own needs. The policies with regard to safety, health and environment management are being observed in our lending decisions; several steps have also been taken within the Bank such as declaring all Dhaka Bank Branches and offices smoking free zones.

Internal Control System are processes designed by the management and effected by the board of directors on all tiers of management to provide reasonable assurance regarding the reliability of financial reporting, operation and risk management and the preparation of financial statements.

## 2.12 Corporate Banking

Dhaka Bank offers a full range of tailored advisory, financing and operational services to its corporate client groups combining trade, treasury, investment and transactional banking activities in one package. Whether it is Project finance, Term Loan, Import or Export Deal, Working Capital Requirement or Forward Cover for a Foreign Currency Transaction, our Corporate Banking Managers will offer you the right solution. You will find top-class skills and in-depth knowledge of market trends in DBL's Corporate Banking Specialists, speedy approvals and efficient processing fully satisfying your requirements - altogether a gratifying experience.

## 2.13. Credit rating report of Dhaka bank limited

Dhaka Bank Limited was rated by Credit Rating Agency of Bangladesh Limited (CRAB) on the basis of audited Financial Statements as on December 31, 2011. The rating has improved significantly this year. The summary of Rating is presented as follows:

Status	2012	2011
Long term	A1	AA3
Short term	ST-2	ST-2

**Figure 1: Credit Rating Report of Dhaka Bank Limited**

## 2.14 Banking System and Financial Structure In Bangladesh

Banks are within the financial system working as financial intermediaries. Banking has placed a very important role in the economic development of all the nations of the world. In fact, banking is the lifeblood of modern economy. There seems to be no unanimity amongst the economists about the origin of the word “Bank”. According to some economists the word Bank has been derived from German word Banc, which means a joint stock firm. Others believe that the word “Bank” has been derived from Greek word “Banque” which means a bench.

### Financial System

The financial system is a set of institutional arrangements through which financial surpluses in the economy are mobilized from surplus units and transferred to deficit spenders. Bank deposits, post office savings deposits, life insurance policies, provident fund contributions, bonds, bills, corporate shares etc. are the vehicles through which the savings of surplus unit are mobilized and allocated among the deficit units. Money goes from savers to borrowers mainly through banks.

### Components of Financial System

The main constituents of any financial system are:

1. Financial institution or intermediaries
2. Financial Instruments
3. Financial Markets

A financial intermediary does this by borrowing funds from the lenders-savers and then, in turn, makes loans to borrowers-spenders.

Financial Institutions are generally classified under two main heads:

1. Banks
2. Non-Bank financial intermediaries

Banks accept deposits from individuals and institutions and make loans. This group includes Commercial Banks and Specialized Financial Institutions.

Specialized Financial Institutions provide medium and long-term finance to private entrepreneurs and perform various promotional roles conducive to economic development.

Specialized Financial Institutions of Bangladesh: Bangladesh Development Bank Limited (BDBL), Bangladesh Krishi Bank, BASIC Bank Ltd, Rajshahi Krishi Unnayan Bank.

## 2.15 Commercial Banking in Bangladesh

Commercial Banking may be retail or wholesale on the basis of amount of transactions and nature of clients. When banking services are provided to individuals and volumes of transactions are smaller, then it is called retail banking. On the other hand, when banking services are provided to corporate clients and volume of transactions are bigger, then it is called wholesale banking or Corporate Banking.

Functions of Commercial Bank:

1. Acceptance of money on deposit from the public
2. Grant of credit to all sectors of the economy ( loan and advances, discounting of bills, investments in open-market securities)
3. Collection of cheques, draft, bills and other instruments for their depositors
4. Issue of performance and financial guarantees
5. Provision of remittance facilities by issue of drafts.
6. Provision of facilities of safe custody of deeds securities and safe deposit vaults
7. Purchase and sale of securities for their constituents
8. Granting consumers loans
9. Providing financial advisory services
10. Offering equipment leasing
11. Making venture capital loans

It should be noted that most banks offering a wide array of financial services today, the bankers' service menu is growing rapidly. Now, commercial banks are considered as "Financial Super Markets".

There are different types of commercial banks. Dhaka Bank is under second generation Private commercial banks.

# The Service Star

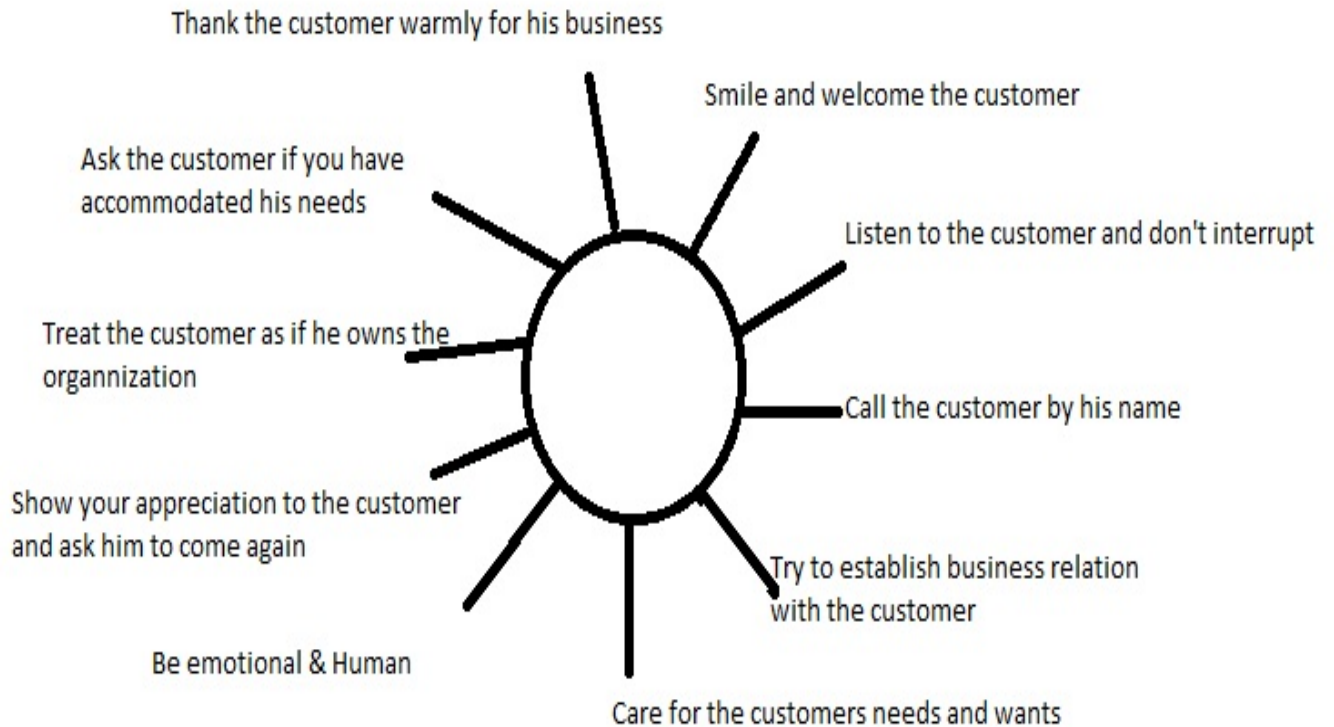


Figure 2: The Service Star

## **2.16 SWOT Analysis of Dhaka Bank Limited**

### **2.16.1 Strength**

The employees of the Dhaka Bank Limited think that Dhaka banks Strengths are

- Dynamic and vibrant Board of Directors
- Strong and resilient team of management professionals
- Forward looking strategies and management policies
- Cutting-edge tools and technologies to support real time on-line banking
- Well-diversified line of business
- A good risk management and compliance culture
- Deep focus on quality control
- And a dedicated line of human resources.

A good amount of salary is given to the employee of the Dhaka Bank Limited. For example- Management Trainee officer (MTO) of Dhaka Bank Limited get the highest salary (48,000 taka) from the other bank's post of MTO.

- Dhaka Bank has lower amount of Bad debts
- To create sustainable shareholder DBL has solid business growth
- Employee turnover rate is very low

### **2.16.2 Weakness**

- Junior employees get the less amount of concentration though their ideas are distinctive. It creates demoralization in them
- Technology used by the bank are not sufficient
- Dhaka Bank focuses on the small sectors like- SME loan, Microcredit. This might be the reason of loosing sufficient profit in the future.

### **2.16.3 Opportunity**

- Now a day, SME is an emergent sector and government is giving priority to this sector. It would be a beneficial to DBL to be the focused in this sector.
- Strong compliance of the laws and regulations of the state and regularity bodies which will change the activity of this bank.

- Government favoring the private banks development.

#### **2.16.4 Threat**

- Private Banks are increasing day by day so, the deposits competition is also increasing.
- Dhaka Bank does not have diversified products
- Technological changes may become the threat for the bank.
- Dhaka bank has 71 branches all over the country but mainly in the urban areas .In rural area they have very few branches whereas other banks have created muscular network in the rural area like Dutch-Bangla Bank and BRAC bank.



## **Chapter 3: Working experience at Dhaka Bank Limited**

### **3.1 Working Experience**

During the three months of my internship I was placed at Moghbazar branch under Mr. Mohammad Bazlul Kabir, Assistant Vice President and Operations Manager, Dhaka Bank Limited. I heavily enjoyed the working environment of this office. The working experience gave me a good idea of the overall banking system and taught me the professionalism of the working place.

During the internship period in Dhaka Bank Limited, I was placed in different departments. At first, I was in General banking section and Accounts for one month, then in Credit Department rest of the time.

#### **3.1.1 General Banking**

- Helping clients to fill up account form and pay order form
- Provide customers' product related information
- Provide assistance support according to the need of the customers
- Dealing with daily vouchers
- Issuing FDR

#### **3.1.2 Credit Division**

- CIB request form fill up both hard copy and soft copy.
- Writing draft copy of mortgage deed IGPA ( Irrevocable General Power of Attorney)
- Assisting branch authority to prepare the branch budget 2014.
- SOD proposal writing
- Writing forwarding letter regarding different proposal send to the head office.

#### **3.1.3 Cash**

- Receiving DPDC bills
- Receiving Deposits, DPS
- Receiving School Fees
- Posting DPDC bill with bill no., CD, Vat and amount to be paid.

### **3.1.4 Accounts**

- Joining Cash, General Banking and Credits voucher all together and writing the total no. on the top of the voucher packet.
- Maintaining voucher register.
- Packing pending vouchers.
- Rechecking all departments daily vouchers
- Helping clients filling remittance form

## **3.2 .Products of Dhaka bank limited:**

### **Liability Products**

#### **1. Deposit Pension Scheme**

Deposit Pension Scheme (DPS) is an installment-based savings' scheme of Dhaka Bank for a single individual. Dhaka Bank DPS offers competitive interest rates and installments that are affordable for their customers.

#### **Monthly Deposit:**

The scheme offers the flexibility of tailoring the amount of monthly deposit based on monthly cash flow position. The minimum monthly deposit is BDT 500 and maximum of BDT 20,000.

#### **Number of DPS Accounts:**

An individual can maintain maximum 5 no. DPS accounts in a single name or in joint names, with any of your family members. If you maintain any other account with Dhaka Bank, along with DPS account, you have the option to put a standing instruction (Auto Debit) tagged with the account, to be executed as per your own instruction, without any hassle of not missing any due DPS installment.

#### **Who can apply:**

- Any Bangladeshi Citizen, 18 years or over, is eligible to avail the facility of Dhaka Bank DPS scheme.
- A minor operated by a legal guardian may also open the account.

#### **Closure of Account:**

The account will immediately cease to operate in case of the followings:

- Death of the account holder.
- Failure to pay 5 consecutive installments

## **Documentation:**

To open a DPS account, it is required to do/submit the followings:

-Fulfilling Account opening formalities

-Filling in DPS application form

-2 copy passport sized Photograph of the applicant

-1 copy passport sized photograph of the nominee attested by the applicant

**2. FDR (Fixed Deposit Receipt):** They offer competitive rates for FDR's of various tenures. Loan is also available against Dhaka bank's FDR at a very attractive pricing.

Minimum Required Deposit : Tk. 50,000.00

Tenure : Minimum 1 months and Maximum 1 year  
(provision for auto renewal)

Interest rate : 10.75% (will be as per ALCO revision)

**3.SDS (Special Deposit Scheme) :** This is a special monthly earning scheme which helps earn steady income every month.

Minimum Required Deposit : Tk. 1.00 Lac

Maximum Deposit : Tk. 100.00 Lac

Interest rate :

Tenure : 1,2,3 years

Added Advantage : OD up to 90%

Free ATM Cards

Free Cheque Book

Free M Banking solution

Free registration in "ibanking"

Mode of Payment : Transfer to Savings Account

**4.Gift Cheque :** A special gift voucher arranged by the bank for many occasions.

Denomination : BDT 100.00, BDT 500.00 & BDT 1000.00

En-cashed facility : After three months from date of issuance

Interest rate : 7.00% subject to encashment after 3 months

8.00% subject to encashment after 6 months

9.00% subject to encashment after 12 months  
Issue and en-cash : From any branch

**5. Deposit Double Scheme:** This is a scheme which will make investment double in five years and ten months.

Minimum required deposit : Tk. 50,000.00  
Maximum deposit : Tk. 100,00,000.00  
Tenure : 5 years 10 months  
Loan facility : SOD & Term loan facility up to 90%  
Added benefits : OD up to 90% of initial deposit  
: Free ATM Cards to link accounts  
: Waiver of credit card renewal charge may be given to client for deposit for Tk. 25.00 Lac & above  
Tax : 10% govt. tax deduction upon matured value (if have TIN Certificate)  
: 15% govt. tax deduction upon matured value (if do not have TIN Certificate)

## 6. Bundle Savings Accounts

Dhaka bank provides salient features of their bundled savings accounts.

### Silver:

Minimum required deposit : Tk. 30,000.00  
Maximum withdrawal : 4 times  
Yearly service charge : BDT 2500 + Vat  
Interest rate : 7% per annum  
Interest pay : monthly (Calculated on daily balance)  
Facility : Free ATM card  
: Free credit card ( up to Tk. 50,000.00)  
Cheque Book : 1 free book with 50 leaves per annum  
SMS & internet banking : Free  
Eligible : Only individuals salaried & professionals & entrepreneurs

### Gold:

Minimum required deposit : Tk. 50,000.00  
Maximum withdrawal : 8 times  
Yearly service charge : BDT 3500 + Vat  
Interest rate : 7.5% per annum  
Interest pay : monthly (Calculated on daily balance)

Facility	: Free ATM card : Free credit card ( up to Tk. 90,000.00)
Cheque Book	: 2 free book with 100 leaves per annum
SMS & internet banking	: Free
Eligible	: Only individuals salaried & professionals & entrepreneurs

### **Platinum:**

Minimum required deposit	: Tk. 100,000.00
Maximum withdrawal	: 12 times
Yearly service charge	: BDT 5000 + Vat
Interest rate	: 8.5% per annum
Interest pay	: monthly (Calculated on daily balance)
Facility	: Free ATM card : Free credit card ( up to Tk. 500,000.00)
Cheque Book	: 3 free book with 150 leaves per annum
SMS & internet banking	: Free
Eligible	: Only individuals salaried & professionals & entrepreneurs

### **7.Shopno Jatra (Student Service)**

File opening deposit	: Tk. 2500.00
Yearly service charge	: BDT 600+ Vat
Non Cheque NRB account	
Student file processing fee	: Tk. 4500.00 + Vat
FDD Issuing charge	: Tk. 700.00 + Vat
FTT Issuing charge	: Tk. 1400.00 + Vat
Student loan facility	
Interest rate	: 17% per annum on loan amount
Processing fee	: 2%
Cash security	: Deposit 25% of total loan amount as cash collateral
Maximum Loan Limit	: Tk. 40. Lac

### **8.Edu Savings Plan**

Minimum required deposit	: Tk. 500.00
Maximum deposit	: Tk. 20,000.00
Tenure	: 4,6,8,10,12 years
Maximum maturity value	: Tk. 6454000.00
Eligibility	: 4-16 years school going students and parents mature age 65

Loan facility	: up to 90% on total deposited amount
Deduction	: Income Tax, Excise duty to be realized as per govt. rules
Added benefits	: Accidental ( death/ disability insurance protection)
	: Free ATM Cards
	: Free cheque book
Insurance covered by	: MetLife Alico

## 9.M Banking Solution

Mobile banking facility: 15 facilities

1. Balance inquiry
2. Recent 3 transactions
3. Alert on withdrawal
4. Statement request
5. Cheque book request
6. Stop payment
7. Outstanding EMI loan installment query
8. Request for block lost cards
9. New PIN number
10. Inward remittance Inquires
11. Branch location inquiries
12. ATM location inquiries
13. Foreign exchange rate inquiry
14. Customer product inquiry
15. Corporate product inquiry

Registration fees : Tk. 180 + Vat

Recently more 5 products have been added to Dhaka banks liability product.

1. Tawfeer Mudaraba Deposit Pension Scheme
2. Tawfeer Mudaraba Savings Bond
3. Tawfeer Mudaraba Remittance
4. Kotipoti Deposit Scheme
5. Lakhopoti Deposit Scheme

## Asset Product

### 1. Credit Card

Brand	: VISA
Duel currency facility	: under travel quota and against RFCD a/c an EQR a/c
Registration fee	: 1 <sup>st</sup> year free
Renewal fee	: Local Classic Tk. 1000 Local Gold Tk. 2000 Duel Classic Tk. 2000 Duel Gold Tk. 3000 (15% VAT applicable)
Cash Advance fee	: 2.5%
Cash Advance limit	: 50%
Interest rate	: 2.5% per month
Interest fee period	: Maximum 45 days (for purchase only)
SMS notification	: Only monthly due amount is notified

### 2. Personal loan

Interest rate	: 21.5%
Processing fee	: 2%
Range of credit limit	: 25,000 to 10.00 Lac
Early settlement fee	: 1%
Tenure	: 1 to 5 years
Loan ratio	: 30:70

### 3. Car loan

Interest rate	: 19.5%
Processing fee	: 2%
Range of credit limit	: 3 Lac to 10.00 Lac
Early settlement fee	: 1%
Tenure	: 1 to 5 years
Loan ratio	: 30:70

### 4. Home loan

Interest rate	: 17.5%
Processing fee	: 1.5%
Range of credit limit	: 5 Lac to 75.00 Lac
Early settlement fee	: 1%
Tenure	: 5 to 15 years
Loan ratio	: 30:70



## **Chapter 4: SME Financing**

SME Finance is the funding of small and medium sized enterprises and represents a major function of the general business finance market – in which capital for different types of firms is supplied, acquired and cost/priced.

Capital is supplied through the business finance market in the form of:

- ❖ Bank loans and overdrafts
- ❖ Leasing and hire-purchase arrangements
- ❖ Equity/ corporate bond issue
- ❖ Venture capital or private equity and
- ❖ Asset-based finance such as factoring and invoice discounting

However, it should be noted that not all business finance is commercially supplied through the market. Much finance is internally generated by business out of their own earnings and supplied informally as trade credit.

The economic and social importance of the small and medium enterprise (SME) sector is well recognized in academic and policy literature. It is also recognized that these actors in the economy may be underserved, especially in terms of finance. This has led to significant debate on the best methods to serve this sector.

There have been numerous schemes and programs in markedly different economic environments. However, there are a number of distinctive recurring approaches to SME finance.

- Collateral based lending offered by traditional banks and finance companies are usually made up of a combination of:
  - ❖ Asset based finance
  - ❖ Contribution based finance and
  - ❖ Factoring based finance, using reliable debtors or contracts
- Information based lending usually incorporates financial statement lending, credit scoring and relationship lending.
- Viability based financing is especially associated with venture capital.

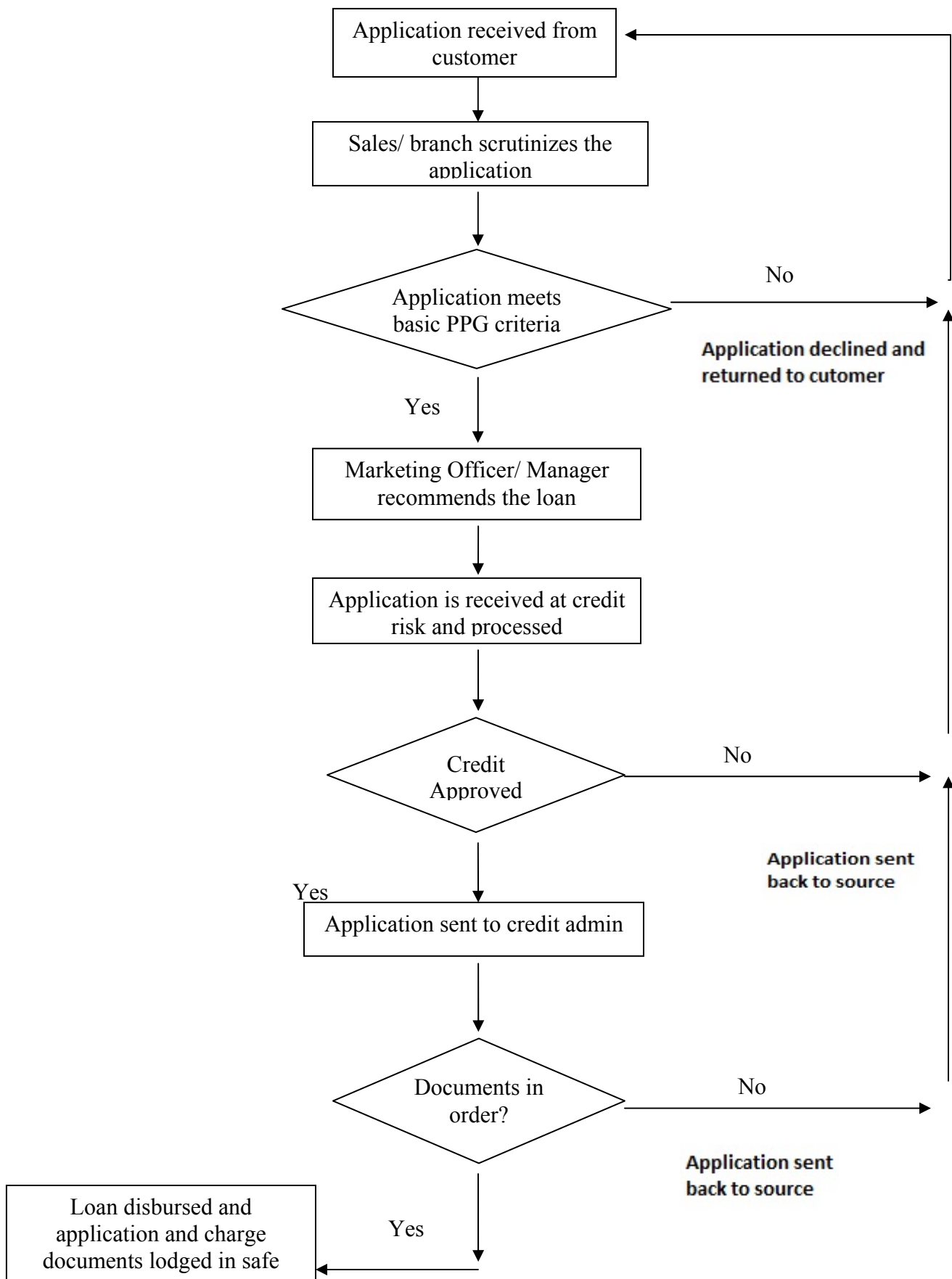


Figure 3: Process Flow Chart of SME Loan Processing

## 4.1 Prudential Guidelines for Small and Medium Enterprise Financing

There are 13 prudential guidelines for small and medium enterprise financing. These are:

1. Source, capacity of repayment and cash flow backed lending Banks are required to:

- Identify the sources of repayment and assess the repayment capacity of the borrower on the basis of assets conversion cycle and expected future cash flows.
- Assess conditions in the particular sector they are lending to and its future prospects.
- Document the rationale and parameters used to project the future cash flow and annex the same with the cash flow analysis undertaken by the Bank.
- Assist the borrowers in obtaining the required information future cash flows since a large number of SME's will not be able to prepare the same due to lack of sophistication and financial expertise.

2. Personal Guarantees:

All facilities to SME's shall be backed by:

- Personal guarantees of the owners
- Spouse guarantee

In case of limited companies, guarantees of all guarantors other than nominee directors shall be obtained.

3. Per party exposure limit

The minimum and maximum exposure of a bank on a single SME shall remain within Tk. 0.50 lac subject to following:

In case of WCF - Maximum up to 100% of the NRWC or 75% of the sum total of inventory and receivables is lower.

In case of FAP – Maximum up to 90% of the purchase price

4. Aggregate exposure of a bank on small and medium enterprise sector

The aggregate exposure of a bank on SME sector shall not exceed the limits as specified below:

- Below 5% 10 times of the equity
- Below 10% 6 times of the equity
- Below 15% 4 times of the equity
- Up to and above 15% up to the equity

5. Limit on clean facilities

For facilitating growth of smaller loans, banks are free to determine security requirements for loans less than Tk. 10.00 lac.

6. Securities

For loans from Tk. 0.50 to less than Tk. 10.00 lac

As a minimum, Banks must take charge over assets being financed.

For loans from Tk. 10.00 lac to 50.00 lac

- Hypothecation on inventory, receivables, advance payments, plant and machineries.
- Registered mortgage over immovable properties with registered power of attorney.
- Personal guarantees of spouse or parents or other family members
- One third party personal guarantee
- Post dated cheques for each installments
- One undated cheque for full amount including full interest

7. Loan documentation

For all facilities, Banks must obtain and not limiting to the following documents before disbursement of loan can be made:

- Loan application duly signed by the customer
- Acceptance of the terms and conditions of the sanction advice
- Trade license

In case of Partnership Firm

- Copy of registered partnership deed duly certified as true copy or a partnership deed on non-judicial stamp of Tk. 150.00 duly notarized.

#### In case of Private Limited Company

- Copy of MOA and AOA including COI duly certified by RJSC and attested by the MD accompanied by an up-to-date list of directors.
- Copy of board resolution for availing credit facilities and authorizing Managing Director or Chairman or Director for execution of documents and operation of accounts.
- An undertaking not to change the management and the MOA and the AOA of the company w/o prior permission of the bank.
- Copy of last 3 years audited financials.
- Personal Guarantees of all directors including the Chairman and the Managing Director.
- Certificate of registration of charges over the fixed and floating assets of the company duly issued by RJSC.
- Certificate of registration of amendment of charges over the fixed and floating assets of the company duly issued by RJSC in case of repeat loan or change in terms and conditions of sanction advice regarding loan amount, securities, etc.
- Demand Promissory note.
- Letter of Hypothecation of stocks and goods.
- Letter of Hypothecation of book debts and receivables.
- Letter of Hypothecation of plant and machinery.
- Charge (Deed of mortgage) on fixed assets.
- Personal Letter of Guarantee
- Whenever practical, insurance policy for 110% of the stock value covering all risks with Bank's mortgage clause in joint name of the Bank and client.

#### 8. Margin requirements

Banks shall adhere to minimum margin requirement as prescribed by Bangladesh Bank.

#### 9. Credit information Bureau clearance

While considering proposals for any exposure, Banks should give due weight to the credit report relating to the borrower and his group obtained from a Credit Information Bureau (CIB) of Bangladesh Bank.

#### 10. Minimum conditions for taking exposure

- Except loans backed by 100% cash collateral, Banks shall, as a matter of rule, obtain a copy of financials duly audited by a practicing CA, relating to the business of the every borrower who is either a private limited company or where exposure of a bank exceeds Tk. 40.00 lac

- In case where enterprises like proprietorship and partnership concerns do not have proper books of accounts due to lack of sophistication and expertise, Banks shall assist the borrowers in obtaining or developing such books of accounts as per forms or formats prescribed by each bank.
- Each Bank shall develop their own loan application form and 'Borrower's Basic Fact Sheet'. Banks shall not approve and take any exposure until and unless the prescribed loan application form is accompanied by 'Borrower's Basic Fact Sheet' under the seal and signature of the borrower.

#### 11. Proper utilization of loan

The Bank should ensure that the loans have been properly utilized by the SME's and for the same purposes for which they acquired.

#### 12. Restriction on facilities to related parties

Banks shall not take exposure on as SME in which any of its directors, shareholders, employees or their immediate family members are holding 5% or more share of the SME.

#### 13. Classification and provisioning for loans or advances, submission of Returns, Timing of creating provisions, Reversal of provision and verification by the auditors

##### Classification and provisioning for loans and advances

- Banks shall observe the prudential guidelines and BRPD Circulars relating to classification and provisioning in the matter of classification of their SME asset portfolio and provisioning their against.
- In addition to the time based criterion, subjective evaluation of performing and non-performing credit portfolio shall be made for risk assessment and where considered necessary, any account including the performing account will be classified and the category of classification determined on the basis of time based criterion shall be further downgraded.
- Apart from specific provisioning requirement, Banks will create adequate general provision over the entire credit portfolio of SME business at 1%.

##### **Submission of Returns**

Banks shall submit the borrower wise annual statements regarding classified loans and advances to the Banking Inspection Department.

## **Timing of creating provisions**

Banks shall review, at least on a quarterly basis, the collectability of their loans and advances portfolio and shall properly document the evaluations so made. Shortfall in provisioning, if any, determined, as a result of quarterly assessment shall be provided for immediately in their books of accounts by the banks on quarterly basis.

## **Reversal of Provision**

The provision held against classified assets will only be released when cash realization starts exceeding:

- The net book value of assets ( in case of BL category)
- 50% of the net book value of assets ( in case of DF category)
- 25% of the net book value of assets ( in case of SS category)

Further, the provision made on the advice of Bangladesh Bank will not be reversed w/o prior approval of Bangladesh Bank.

## **Verification by the auditors**

The external auditors shall verify that all requirements of regulation- 12 for classification and provisioning for assets have been complied with, Bangladesh Bank shall also check adequacy of provisioning during their on-site inspections.

## 4.2 Product Program Guide under DBL SME Financing

### 4.2.1 Types of Facilities under DBL SME Financing

Types of facilities under DBL SME Financing are classified into following criteria:

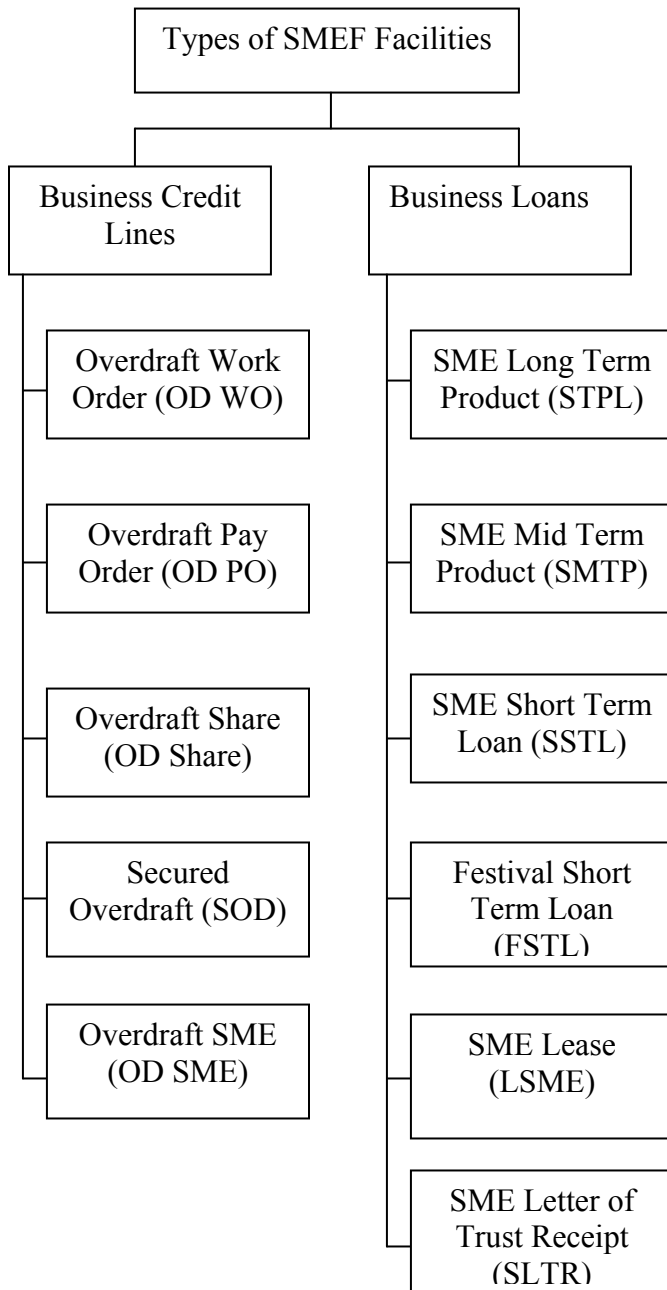


Figure 4: Types of Facilities under DBL SME Financing



## 4.2.2 Details of the Business Credit Lines and Business Loans under DBL SMEF

### 1. Overdraft Work Order

DBL OD WO is a line of credit under assignment of receivables (under the awarded work) and lien/mortgage of collateral. It is for contractors/suppliers and can be availed on one off basis for financing the working capital requirement in business against specific work order or the same under a revolving line with renewal option.

Features:

- Credit max up to 35%-40% of net work order value
- Single facility limit max up to Tk. 50.00 Lac for small enterprise and Tk. 100.00 for medium enterprise
- Repayment through deduction up to 40%-45% from each running bill Interest charged only on the utilized amount
- Competitive interest rates
- Low Processing fee
- Validity max up to work completion date + 3 months for one off limit and max up to 1 year for revolving limit

Charges:

- Interest rate: Small- (Men- 13%-17%; Women- 10%); Medium- 13%
- Overdue interest: 3%
- Processing fee: 0.50% to 1.00%
- VAT: 15% of the processing fee

### 2. Overdraft Pay Order

DBL OD PO is also a revolving and renewable line of credit against lien/mortgage of collateral. It is for contractors/suppliers as well and can be availed at a pre-determined margin to meet the obligation of pledging pay order(s) with the work order awarding authority as earnest money/security deposit.

Features:

- Credit max up to 90% of the amount of pay order

- Single facility limit max up to Tk. 50.00 Lac for small enterprise and Tk. 100.00 for medium enterprise
- Interest charged only on the utilized amount
- Competitive interest rates
- Low Processing fee
- Validity max up to 1 year

Charges:

- Interest rate: Small- (Men- 13%-17%; Women- 10%); Medium- 13%
- Overdue interest: 3%
- Processing fee: 0.50% to 1.00%
- VAT: 15% of the processing fee
- Documentation: At actual

### 3. Overdraft Share

DBL OD Share is a readily liquiditable revolving line of credit against pledge of stocks/bonds of reputed public limited companies enlisted with and traded on the country's two authorized bourses viz. DSE and CSE. It is renewable and can be availed on a continuous basis to support the day-to-day operations and/or sudden escalation of financial requirement in a business.

Features:

- Credit max up to 50% of the last 6 months' average market price of the stocks/bonds.
- Single facility limit max up to Tk. 35.00 Lac for institutional investors (including SE members) under Small enterprise and Tk. 100.00 Lac for SE members only under Medium enterprise.
- Interest charged only on the utilized amount
- Competitive interest rates
- Low Processing fee
- Validity max up to 1 year

Charges:

- Interest rate: Small- (Men- 13%-17%; Women- 10%); Medium- 13%
- Overdue interest: 3%
- Processing fee: 0.50% to 1.00%
- VAT: 15% of the processing fee
- Documentation: At actual

#### 4. Secured Overdraft

DBL SOD is a readily liquidatable revolving line of credit against cash/quasi-cash instruments, i.e. FDR, DPS, ICB Unit Certificate, Life Insurance Policy etc. It is renewable and can be availed on a continuous basis to support the day-to-day operations and/or sudden escalation of financial requirement in a business.

Features:

- Credit max up to 90% of cash/current encashment value of quasi-cash instruments
- Single facility limit max up to Tk. 100.00 Lac
- Interest charged only on the utilized amount
- Competitive interest rates
- Low Processing fee
- Validity max up to 1 year

Charges:

- Interest rate: 3% above the deposit interest rate
- Overdue interest: 3%
- Processing fee: NIL
- VAT: NIL
- Documentation: At actual

#### 5. Overdraft SME

DBL OD SME is a revolving line of credit against hypothecation of stocks insured (covering all risks) under bank's mortgage clause and lien/mortgage of collateral. It is renewable and can be availed on a continuous basis to support the day-to-day operations and finance growth of a business.

Features:

- Credit max up to 100% of net working capital or 75% of the sum total of inventory and receivable whichever is lower
- Single facility limit max up to Tk. 50.00 Lac for Small enterprise and Tk. 100.00 Lac for medium enterprise
- Interest charged only on the utilized amount
- Competitive interest rates
- Low Processing fee

- Validity max up to 1 year

Charges:

- Interest rate: Small- (Men- 13%-17%; Women- 10%); Medium- 13%
- Overdue interest: 3%
- Processing fee: 0.50% to 1.00%
- VAT: 15% of the processing fee
- Documentation: At actual

## 6. SME Long Term Product

DBL SLTP is a long-term facility which can be avail to finance the cost of acquiring/erecting factory land, building and long lasting capital machinery & equipment for production of goods or rendering of services.

Features:

- Non-revolving and non-renewable
- Credit max up to 70% of the purchase price for land and building and 75% of the purchase price for plant, machinery & equipment
- Single facility limit max up to Tk. 50.00 Lac for Small enterprise and Tk. 100.00 Lac for medium enterprise
- Competitive interest rates
- Low Processing fee
- Validity max up to 7 years

Charges:

- Interest rate: Small- (Men- 13%-17%; Women- 10%); Medium- 13%
- Overdue interest: 3%
- Processing fee: 0.50% to 1.00%
- VAT: 15% of the processing fee
- Documentation: At actual

## 7. SME Mid-Term Product

DBL SMTP is a mid-term loan facility which can be availed for the same purpose as SLTP.

Features:

- Non-revolving and non-renewable
- Credit max up to 70% of the purchase price for land and building and 75% of the purchase price for plant, machinery & equipment
- Single facility limit max up to Tk. 50.00 Lac for Small enterprise and Tk. 100.00 Lac for medium enterprise
- Competitive interest rates
- Low Processing fee
- Validity max up to 7 years

## 8. SME Short-Term Loan

DBL SSSL is a short-term loan facility which can be availed to overcome temporary shortfall/mismatch in liquidity for meeting genuine business requirements only.

Features:

- Non-revolving and non-renewable
- Credit max up to 100% of net required working capital or 75% of the sum total of inventory and receivables whichever is lower
- Single facility limit max up to Tk. 50.00 Lac for Small enterprise and Tk. 100.00 Lac for medium enterprise
- Competitive interest rates
- Low Processing fee
- Validity max up to 1 year

Charges:

- Interest rate: Small- (Men- 13%-17%; Women- 10%); Medium- 13%
- Overdue interest: 3%
- Processing fee: 0.50% to 1.00%
- VAT: 15% of the processing fee
- Documentation: At actual

## 9. Festival Short Term Loan

DBL FSTL is also a short-term loan facility which can be availed to overcome the shortage of liquidity arisen out of additional demand for goods and services in the wake of festivals like Eid-ul-Fitr, Eid-ul-Azha, Durga Pooja, and Christmas etc.

Features:

- Non-revolving and non-renewable
- Credit max up to 100% of net required working capital or 75% of the sum total of inventory and receivables whichever is lower
- Single facility limit max up to Tk. 50.00 Lac for Small enterprise and Tk. 100.00 Lac for medium enterprise
- Competitive interest rates
- Low Processing fee
- Validity max up to 6 months

Charges:

- Interest rate: Small- (Men- 13%-17%; Women- 10%); Medium- 13%
- Overdue interest: 3%
- Processing fee: 0.50% to 1.00%
- VAT: 15% of the processing fee
- Documentation: At actual

## 10. SME Lease

DBL LSME is a mid/long term lease finance facility which can be availed at a predetermined down payment to enjoy the services of any commercial/industrial plant, machinery & equipment, vehicle etc. against payment of a specified amount of rental per month.

Features:

- Non-revolving and non-renewable
- Lease finance max up to 75% of the acquiring cost
- Single facility limit max up to Tk. 50.00 Lac for Small enterprise and Tk. 100.00 Lac for medium enterprise
- Competitive interest rates
- Low Processing and other fees
- Validity max up to 7 years

Charges:

- Lease rental rate: Small- (Men- 13%-17%; Women- 10%); Medium- 13%
- Overdue rental rate: 3%
- Processing fee: 0.50% to 1.00%
- Supervision and Monitoring fee: 0.50% to 1.00%
- Risk Fund: 0.50% to 1.00%
- Option Value: 0.50% to 1.00%
- Documentation: At actual

## 11. SME Loan against Trust Receipt

DBL SLTR is a short-term loan facility which can be availed against execution of a “Letter of Trust Receipt” to retire shipping documents under L/C (evidencing import of goods or service from overseas) by settlement of

Features:

- Non-revolving and non-renewable
- Credit max up to bill value (net off margin)
- Single facility limit max up to Tk. 50.00 Lac for Small enterprise and Tk. 100.00 Lac for medium enterprise
- Competitive interest rates
- Low Processing and other fees
- Validity max up to 120 days

Charges:

- Lease rental rate: Small- (Men- 13%-17%; Women- 10%); Medium- 13%
- Overdue rental rate: 3%
- Processing fee: 0.50% to 1.00%
- Supervision and Monitoring fee: 0.50% to 1.00%
- Risk Fund: 0.50% to 1.00%
- Option Value: 0.50% to 1.00%
- Documentation: At actual

### **4.3. Customer Type**

An eligible customer for DBL SMEF could be of any of the following except a Public Limited Company:

- Proprietorship Firm having valid trade license issued by any City Corporation/Municipal Corporation/Regional Office of City or Municipal Corporation/Upozilla Parishad/Union Parishad.
- Partnership firms formed under the Partnership Act- 1932 and registered with the Registrar of Firms or notarized with the Notary Public.
- Private Limited Companies formed under the Companies Act- 1913/1994 and registered with the RJSC.

### **4.4. Purpose for SMEF**

Generally DBL SMEF facilities are granted for the following purposes:

- Acquisition of capital goods (including second hand fixed assets, vehicles and plant & machinery), purchase of land, construction of building etc.
- Purchase of raw materials, components, stores, spares and maintenance of these items at minimum level and stock-in-progress and finished goods.
- Financing against receivables including received challans/invoices.
- Meeting marketing expenses where the units have to incur large-scale expenditure towards marketing of their products.
- Hiring capital machinery, commercial/industrial vehicle etc.
- Retirement of import documents.
- Clearing of imported consignment.
- Execution of work/supply orders.
- Performance, advance payment, security deposit against tender, guarantees for getting orders, procurement of raw materials etc.



## 4.5. Customer Segment

The customer segment for DBL SMEF comprises of each small and each medium enterprise that has the ability to satisfy all/any of the following criteria:

Segment				
Small			Medium	
Parameter	Cost of Fixed Assets (excluding land & building) to be within:	Manpower Employed not to be:	Cost of Fixed Assets (excluding land & building) to be within:	Manpower Employed not to be:
Trade & Service	Tk. 0.50 Lac- Tk. 50.00 Lac	>25	Tk. 50.00 Lac- Tk. 10.00 Crore	>50
Industry	Tk. 0.50 Lac- Tk. 150.00 Lac	>50	Tk. 1.50 Crore- Tk. 20.00 Crore	>150

Figure 5: Customer Segment for DBL SMEF

## 4.6 Eligibility Criteria for Enjoying DBL SME Financing Facilities

- To enjoy DBL SMEF facilities, a client needs to meet the following eligibility criteria:
- Must be an affiliate of any valid cluster under any broad sectors of Trade, Service and Industry.
- Must be a firm (like, proprietorship and partnership) or a private limited company incorporated in Bangladesh.
- Must meet the criteria of either Small or Medium Enterprise.
- Sponsor's age has to be within 21-60 (for female) and 23-65 (for male).
- Sponsor's experience in the present line of business has to be 2 years (for female) or 3 years (for male).

- Must have a minimum average monthly income of BDT 35,000.
- Must have a TIN
- Must be able to provide last 3 years' financial report (audited/unaudited), i.e. Income Statement, Balance Sheet, Cash Flow Statement etc.
- Must have adequate A/C turnover during the last 2 or 3 years.
- Must be able to provide fresh/offer existing lien or mortgage of first/third party collateral (in the form of quasi cash/duly demarcated non-agricultural high land/land & building/most, if not all) against the credit facility.

#### 4.7. Target Clusters and Sectors under Clusters

Target clusters for SME Financing by DBL are-

- Trade
- Service
- Industry

Ministry of Industries (MoI) has identified some booster sectors for SMEF. These as well as some other sectors Identified by DBL are furnished as follows:

Sectors Identified by	Trade	Service	Industry
MoI	Electronic and Electrical Goods	Health & Education	Agro Industry, Tannery, IT Hardware & Software, Light Engineering & Metal Works, Woven & Knit Garments, Plastic & Synthetics, Design and Fashion ware

<p><b>DBL</b></p>	<p>Grocery, Poultry, Fresh &amp; Frozen Fish, Meat, Liquid &amp; Powder Milk, Milk Products, Rice &amp; Flour, Sweetmeats, Bakery, Fast Food, Ice-cream Parlor, Cloth &amp; Fabrics, Perfumes &amp; Cosmetics, Boutique, Drug &amp; Chemist, Books &amp; Stationery, Jewelry, Electronic &amp; Electrical Hardware, Computer Hardware, Fertilizer, Motor Parts, Aluminum Items, Rod-Cement, Shoes, Furniture, Plastic &amp; Synthetic, Fresh Flower, Raw Hides and any other socially acceptable and eco-friendly business.</p>	<p>Hotel, Restaurant, Metal &amp; Engineering Workshop, Motor Garage, Tailoring, Saloon, Parlor, Laundry, Private Clinic &amp; Hospital, Diagnostic Center, Kindergarten School, Private College, Private University, Private Technical Institute, Architecture &amp; Civil Engineering, Auditing, Law Practicing, Tax Counseling, Printing &amp; Publication, Cyber Café, Travel &amp; Tourism, Contracting, Amusement Park, CNG Filling &amp; Conversion Plant, Transport &amp; Communication, Ice Factory, and any other acceptable service related business.</p>	<p>Textile, Knitting, Spinning, Jute, Silk, Local Garments, Rice Mill, Flour Mill, Saw Mill, Small &amp; Cottage, Light Engineering, Foundry, Tannery, Leather Goods, Agro Processing, Dairy, Poultry, Aquaculture, Fish Processing &amp; Freezing Plant, Meat Processing, Milk Processing, Nursery, Feed Meal, Tea Production &amp; Processing, Flower Growing, Brick Field, Furniture Making, Rubber Production, Agro Equipment Manufacturing, Cotton Mill, Fishing Net Manufacturing, Garment Accessories, Washing Plant, Packaging Industry, LPG Industry, Ceramic Industry, Melamine Industry, Tiles Manufacturing, Glass Mirror Production, Pesticide Production, Bio-Pesticide Production and any other valid industrial activity.</p>
-------------------	---	--	---

Figure 6: sectors Identified by DBL and MoI

## 4.8. Restricted Areas

- Any prospective client engaged in any of the following activities cannot be selected for SME lending under Loan Portfolio Guarantee:
- Production, processing or marketing of sugar, palm oil, cotton or citrus for export
- Purchase, manufacture, importation, distribution or application of pesticides
- Production, processing or marketing of luxury goods including such items as gambling equipment, alcoholic beverages, jewelry and furs
- Activities related to abortion or involuntary sterilization
- Police, other law enforcement or military activities
- Production, processing or marketing of materials for explosives, surveillance equipment or weather modification equipment
- Any activity which would result in any significant loss of tropical forests or involve the extraction of commercial timber in primary tropical forests
- Purchase of goods or services which are shipped from or produced in Brazil, Cuba, Iraq, Iran, Liberia, Libya, Nigeria, Serbia, Somalia, Sudan, The Gambia, and North Korea or are produced by corporations or other entities that are more than fifty percent (50%) owned by nationals or permanent residents or Governmental Authorities of those countries
- Any activity the purpose of which is the establishment or development of any export processing zone or designated area where the labor, environmental, tax, tariff and safety laws of the country would not apply
- Purchase or lease of motor vehicles manufactured outside the United States
- Moreover, Branches should ensure that the borrower is not engaged in any activity which is not permitted under the regulation of Bangladesh Government & Bangladesh Bank.

## 4.9. Loan approval process

Credit approval authority is delegated in writing from the In-charge of SME unit, acknowledged by the recipients and records of all delegations retained. The credit approval function is separate from the sales & marketing function. Approvals are evidenced in writing or by electronic signature. Approval records are kept on file with the credit applications.

Credit approval is centralized within the credit function. Regional credit centers may be established, however, all large loans (as defined in the PPG) gets approved by the Head of Credit or delegated Head Office credit executive. Any credit proposal that does not comply with Lending Guidelines, regardless of amount, is referred to Head Office for approval. Any breaches of lending authority are reported to the MD, Head of ICC and HOC.

It is essential that executives assigned to approve loans get relevant training and experience to carry out their responsibilities effectively. As a minimum, approving executives must have:

- At least 5-year experience in Branch or Sales Team as RM or account executive
- Training and experience in financial statement, cash flow and risk analysis
- A good working knowledge of accounting
- A good understanding of the local market

A monthly summary of all newly approved, renewed and enhanced facilities, and a list of declined proposals stating the reasons gets reported by the Credit Team to the Head of Business Banking.

### 4.9.1. De Duplication Check

All approved applications must be checked against bank's database to identify whether the firm or company is enjoying any other loan in another account apart from the declared loans. Executives take help from CIB in this regard.

## 4.9.2 Risk Management

### 1. Credit Risk

Credit risk is managed by the Credit Risk Unit which is completely segregated from business and sales. Following elements contribute to the management of credit risks:

- Loans and advances are given only after proper verification of customer's static data and proper assessment and confirmation of income related documents which will objectively ascertain customer's repayment capacity.
- Proposals are assessed by Credit Risk Unit.
- Every loan and advance is secured by hypothecation over the asset(s) financed and customer's authority, i.e. IGPA taken for re-possession of the asset(s) in case of loan loss.
- The CA system is made parameter driven, (i.e. it will use a Credit Scoring Matrix to pick up desired customers) as much as possible which subsequently eliminates the subjective part of the assessment procedure.
- There is a dedicated collection force that will ensure time monitoring and follow up of loans and advances.
- The Credit & Collection activities are managed centrally and credit approval authorities are controlled centrally where the branch managers or sales people will have no involvement.

### 2. Contact Point Verification

Contact point Verification is done by branches and/or third party CPV agencies whichever is convenient for the applicants. The external CPV may inter alia include residence, office and telephone verifications. All verifications are done to seek/verify/confirmed the declared/undeclared information of the applicant.

### 3. Third Party Risk

In case of third party deposits/security instruments, the SME Unit/branches verify third party's signature against the specimen attached to the original instrument. They also send the instrument to the issuing office (Branch in case of a bank) as well as the Head Office for their verification and written confirmation and reconfirmation (in case of Head Office) on lien marking and encashment of the instrument. Therefore, any inherent risk emanating from accepting third party deposits/security instruments is minimal.

## 4. Fraud Risk

There is an inherent fraud risk in any lending business. The most common fraud risks are as follows:

### Application Fraud

The applicant's signature may not be verified for authenticity. However, the applicant's identity is confirmed by way of scrutiny of identification and other documentation. A CPV agency gets in place to verify inter alia applicant's residence, office and contact phone numbers etc.

There always remains the possibility of application fraud by way of producing fraud documents. Considering the current market practices and operational constraints, it may not always be feasible to validate the authenticity of all documentation. However, DBL SME Unit is aware of this threat and considers validating the bank statement (the most important and commonly provided income document) through Branch(s)/CPV agencies.

## 5. Liquidity and Funding Risk

This risk is managed and the position monitored by the Asset-Liability Committee headed by the MD of the bank.

## 6. Political and Economic Risk

Political and economic environment of a country play a pivotal role behind the success of a business. DBL SME Unit always keeps a close watch in these areas so that is able to position itself in the backdrop of any changes in country's political and economic scenario.

## 7. Operational Risk

Like consumer credit (where the activities of front line sales and behind-the-scene maintenance and support are clearly segregated), separate Credit Risk, Collections and Credit Administration units have been formed. These units report to different Heads of Divisions and manage the following aspects of the product:

- Inputs and approvals
- Monitoring and collections

- Operational jobs (disbursal in the system including raising debit standing orders and the lodgment and maintenance of securities and customer file maintenance)

Since all of the above three aspects are handled by separate units, therefore, the risk of compromising loan/security documentation is minimal. It will ensure uncompromising checking, quick service delivery, uncompromising management of credit risks and effective collections & recovery activities.

### 4.9.3. Credit administration

After approval, Credit Team forwards the approved application along with the security and other documents to the Credit Administration Department under Operations Unit for processing. The Credit Administration function is critical in ensuring that proper documentation and approvals are in place prior to disbursal of loan facilities. Under Credit Administration, there are two sub-units- Documentation Unit and Disbursal Unit who process the document and disburse the loan.

### 4.9.4. Documentation

Documentation Unit is responsible:

- To ensure that all security documentation comply with the terms of approval.
- To control disbursements only after all terms and conditions of approval have been met and all security documentation as per the checklist of approved PPG is in place.
- To maintain control over all security documentation.
- To monitor borrower's compliance with agreed terms and conditions and general monitoring of account conduct/performance.
- Upon performing the above, Documentation Unit forwards the limit insertion instruction to the Disbursement Unit for limit and other information to input into the bank's main system.

### 4.9.5. Disbursal

Disbursal Unit disburses the loan amounts under loan facilities only when all security documentation is in place and CIB report is obtained as appropriate and clean.



#### 4.9.6. Custodial Duties

Disbursal and the preparation and storage of security documents are centralized in the Corporate/Regional credit centers. Security documentation gets held under strict dual control, in locked fire-proof storage.

#### 4.9.7 Maintenance of Documents & Securities

The applications and other documents related to SME loans and advances are held in safe custody by Credit Administration or Operations Unit. All these documents go under single credit file per customer developed before the launching of the product.

The physical securities and the security documents are held elsewhere inside fire-proof cabinets under Credit Administration's or operation's custody. The dual-key system for security placement and retrieval has been implemented in this regard.

#### 4.9.8 Recovery

The collection process for SME loan and advances starts when the borrower has failed to renew its facilities within 3 months from expiry or to meet one or more contractual installment. It therefore, becomes the duty of the Collections Unit to minimize the outstanding delinquent receivable and credit losses. This procedure enables the collection staff to systematically recover the dues and identify and prevent potential losses while maintaining a high standard of service and retaining good relations with the customers. It is therefore critical and essential for the collection people to be familiar with the computerized system (where applicable), procedures etc and to maintain effective liaison with other departments within the bank.

##### 1. Delinquent Accounts Identification and Classification

The delinquent accounts can be classified into three categories as follows:

- Front-end (1-29 DPD)
- Mid-range 30 & 60 DPD (30-89 DPD)
- Hard-core 90 & 120 DPD (90-149 DPD)

## **Front-End (1-29 DPD)**

Front-end is the first collection bucket in which delinquent accounts are defined and at this stage the customers will be contacted by telephone and letter, which will serve as a reminder of his/her obligation to pay the overdue amount to the bank.

Any account that is past due by one day from the payment date is assigned to respective collectors at the beginning of the month and given one month time to recover the dues. Telephone call is conducted in a soft and tactful manner in consistency with the customer service level. Collector must always do an inquiry through the system to confirm if payment has been received before commencing with telephone calling to avoid causing misunderstanding with the customer.

Initial telephone contact is directed at the office. If the customer cannot be contacted, telephone call is then made to the residence telephone number. Upon successful contact with the customer, the collector tactfully inquires about the reason for not paying the minimum payment due. The collector then proceeds to obtain a promise to pay for the overdue installment along with the penal interest.

If collection letter or statement bounces back because of change of address, it is the responsibility of the respective collectors to collect the new address and telephone number and in some cases they can use the external agency to update the same. The collectors ask the customer to provide written instruction of address change to the customer services department and at the same time record the new address and telephone number into bank's database system.

## **Mid-range 30 & 60 DPD (30-89 DPD)**

Mid-range is the bucket in which the account is considered to be seriously delinquent and thus collection efforts must be more intensive since the account has threatened the bank's asset. When the front-end delinquent collection effort fails to obtain installment, the account will automatically age into the 30 DPD and subsequently 60 DPD delinquent categories.

These accounts flow down from front-end. Collectors must exercise a more aggressive approach at this stage as the customer fails to submit a payment even after Front-end efforts. Collection letters also have to be sent to the customers to remind them to pay the overdue within due date. The collector must review and analyze the reason(s) for the delay in payment. Upon successful contact with the customer, the collector must secure a payment date. Constant telephone calls have to be made to those customers who have given

numerous promises that have been breached. Seeking assistance letter to the guarantor or on some extent to the employer is an effective instrument at this stage.

### **Hard-core 90 & 120 DPD (90-149 DPD)**

90+ DPD accounts are considered hard-core delinquency and collection efforts are to be more intensified than 30 DPD and 60 DPD accounts. Interest gets suspended at this stage of delinquency (90 DPD). Extra telephone calls and letters are mandatory. Final reminder letter & guarantee call-up letter must be sent to the customers and guarantors informing the consequences and demanding the payments. Intensive visits are also conducted on accounts for immediate settlements. Requests for waiver are entertained in case of settlement at one go payment. Rescheduling can also be offered in some cases as an exception. When recovery opportunities are considered good through legal notice, collectors make recommendations for legal notices if necessary but not as mandatory.

## **4.10. Management Structure for SME Financing**

An appropriate structure for credit must be in place to ensure the segregation of the sales & marketing function from approval/risk management where administration functions will be under Operations umbrella. Credit approval is centralized within the Credit Risk Unit or regional credit centers where reporting is central. The concerned level(s) of SME Credit Committee or the EC must approve all applications. The following chart represents the preferred management structure for SME Financing:

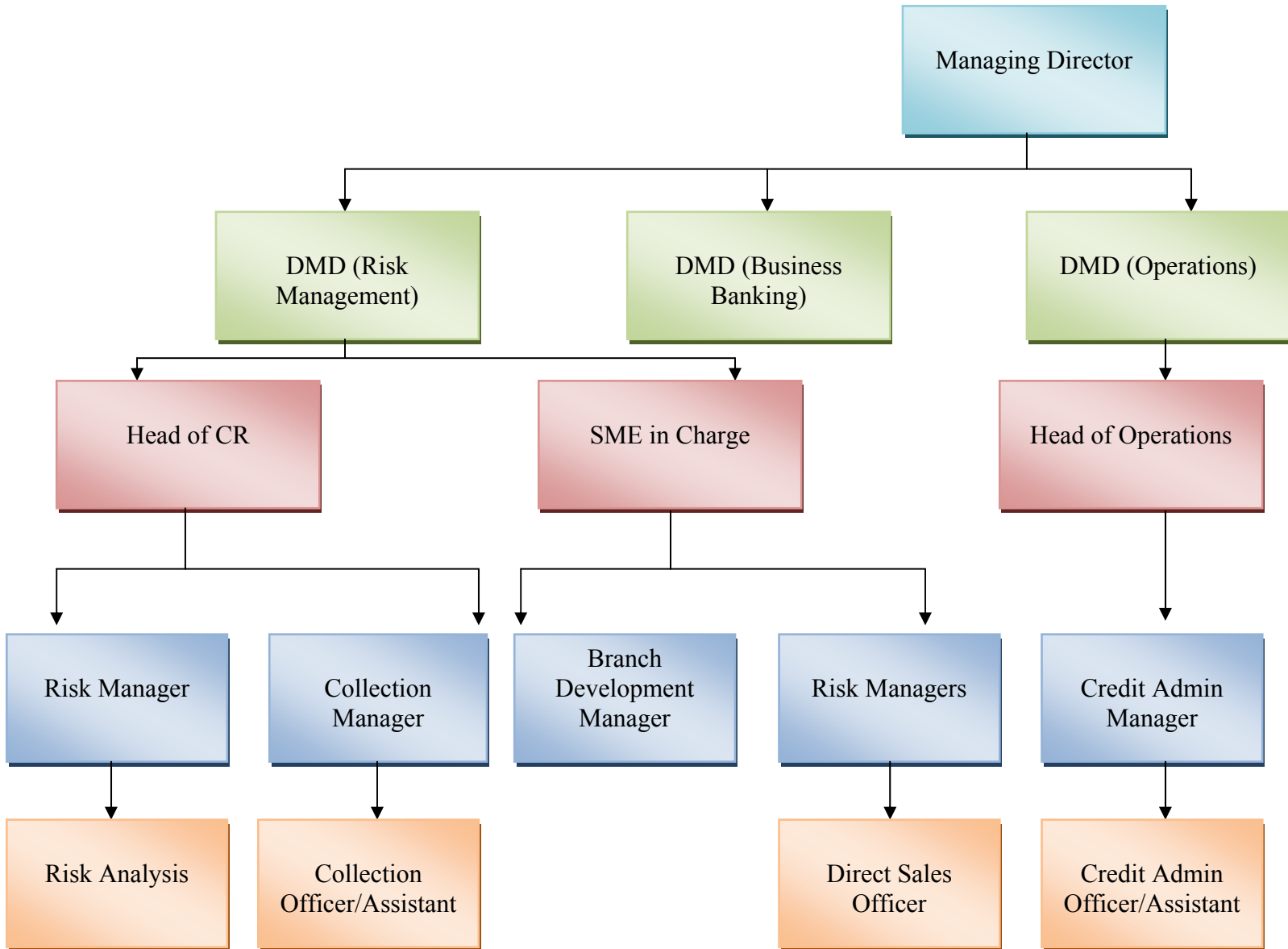


Figure 7: Flowchart of Management Structure for SME Financing

## **4.11. DBL SME Financing Scenario in Recent Years**

Dhaka Bank Limited formally stepped in the financing of Small & Medium Enterprise (SME) in the country back in 2003. The Bank has established a separate SME unit with specific allocation of responsibilities. DBL has a very strong SME network across the country as suitably as possible in harmony with growing needs and demands. The Bank is catering SME finance and services through 65 (sixty five) regular Branches in collaboration with 5 (five) SME service centers. Dhaka Bank's current SME portfolio stands at Tk.4,129.30 million as on December 31, 2011. Bank's exposure to SME business is well diversified among a total of 2,240 clients cum entrepreneurs in varied sectors. Bank's disbursement to SME sector during 2011 aggregated Tk.5,704.40 million against the budgetary target of Tk.6,007.20 million. The Bank also extended cluster finance to SME clients amounting Tk. 500 million in pursuance of a total target of Tk.350 million during 2011. Percentage of Non Performing Loans to total SME portfolio has been comparatively low at 3.93% at the close of December 2011. Over the years, the Bank has remained an active participant in various refinance schemes funded by Bangladesh Bank, ADB, WB, EGBMP and so forth.

### **4.11.1 Objectives for SME Financing by DBL**

The SME Loan Policy of DBL is framed with the following objectives:

- To improve the flow of credit to SME sector so as to double the credit to the sector within next five years.
- To formulate liberal norms of lending to SME sector.
- To ensure availability of adequate and timely credit to the sector.
- To devise an organizational structure at all levels for handling SME credit portfolio in a more focused manner.
- To comply with the terms of Policy Package announced by the government and further guidelines received from Bangladesh Bank from time to time for implementation of the Policy Package.

### **4.11.2 Sound Principles of Lending Maintained by DBL**

- Assess the entrepreneur's integrity and willingness to repay the loan.
- Approve loan only if the entrepreneur has the capacity and ability to repay.
- Extend credit facility of the entrepreneur only if the bank can sufficiently understand and manage the risk.

- Use common sense and experience in conjunction with thorough evaluation and credit analysis.
- Do not take decisions only on the basis of customer's reputation, accepted practice, other lender's risk assessment or the recommendations of other officers.
- Be proactive in identifying, managing and communicating credit risk.
- Be diligent in ensuring that credit exposures and activities comply with the requirement set out in product program.

### 4.11.3 Salient Features of DBL SME Financing

- Hassle-free easy access to SME Loan
- SME loan commitment up to Tk. 1.00 crore
- Repayment choice within convenient time frame or expedient installment schedule
- No hidden fee
- Competitive rate of interest
- Relatively low processing fee
- Quick approval of SME loans

### 4.11.4 Key Progress

- The Bank has taken up the responsibilities for the development of Weaving Industry in Belkuchi, Sirajgonj as advised by Bangladesh Bank as a part of its commitment to cluster finance. A feasibility study is in progress to see the prospects of weaving factories in Belkuchi on different parameters.
- DBL arranged a Special Meeting with Export Oriented Small Garments Manufacturers at Saidpur in collaboration with Bangladesh Bank to tap the opportunities under the sector. Fresh finance is going to be made in order to boost the promising industry there.
- Till date, the Bank has disbursed loan of Tk.45.70 million approximately to 42 Women Entrepreneurs under Women Entrepreneur Refinance Scheme by Bangladesh Bank. Total outstanding in WE Finance was around Tk.38.90 million. Products and services offered by Dhaka Bank Women Entrepreneurs include boutiques, ready-made garments, cookery items, embroidery and designing, fisheries, agro.

- Products, Training Centre and so forth. Bank's Woman Entrepreneur Mrs. Yeasmin Moshed Chowdhury has been accorded „BWCCI – EBL Progressive Award 2011“ for her outstanding achievement in SME business.

#### 4.11.5 Successful Entrepreneurial Growth with the Help of DBL SME Financing

The long expecting dream came true in the year of 2006 when Ms. Yeasmin Morshed Chowdhury opened the first outlet “Muhua Naksha” at Nasirabad in Chittagong. Being trained on crafting diverse handicraft items, Ms. Yeasmin could not start her own venture in the early nineties because of inadequate finance. Nevertheless, nothing would prove to hold her back. Shrugging off all the drawbacks, the 40 year old women entrepreneur from Chittagong focused on training aspiring women on handicrafts since 1998. About thousand novices have successfully completed their trainings from her training centers. In this way Ms. Yeasmin saved some money & looked for bank finance to set up a fashion house. Considering the management skill & future prospect of the business, DBL financed the client for the first time in 2006, which got the dice rolling and the concern started to rise. Besides her all out effort, DBL has provided continuous support to fly the business all the way. Now Ms. Yeasmin has four showrooms in Chittagong, employing 15 people directly and several hundred indirectly. She also runs a factory to supply goods to the outlets. Ms. Yeasmin designs saris, salwar kameezes, fatuas, and panjabis and also takes orders to make these items. Yeasmin had participated in a number of training programmes on fashion designing, handicrafts, embroidery and other related areas. The business is already standing on a sound foundation; even still, she spends plenty of time providing training on stitching, handicrafts and making boutique items to other women entrepreneurs. As a member of BWCCI, Ms. Yeasmin has been playing an active part in encouraging others and creating awareness on different women entrepreneurship issues. She won the, “BWCCI-EBL Progressive Award” for her contribution to entrepreneur development. Ms. Yeasmin, a BA degree-holder, also eyes to build a training institute and a display center where the other women entrepreneurs, who are unable to set up their own outlet, will be able to display their items. She believes that it may take time but would not be impossible if Banks extend their support in time.

#### 4.11.6 SME Financing Scenario of DBL in 2011 and 2012

The SME Financing scenario of DBL in 2011 and 2012 has been given in the following figures:

##### 1. SME Financing as on December 31, 2011

As on December 31, 2011, the total annual loan disbursement target in SEF was Tk. 368.59 crore and the disbursed amount against the target was Tk. 429.56 crore. In case of MEF, the annual loan disbursement target was Tk. 232.13 crore and the disbursed amount against the target was Tk. 140.88 crore.

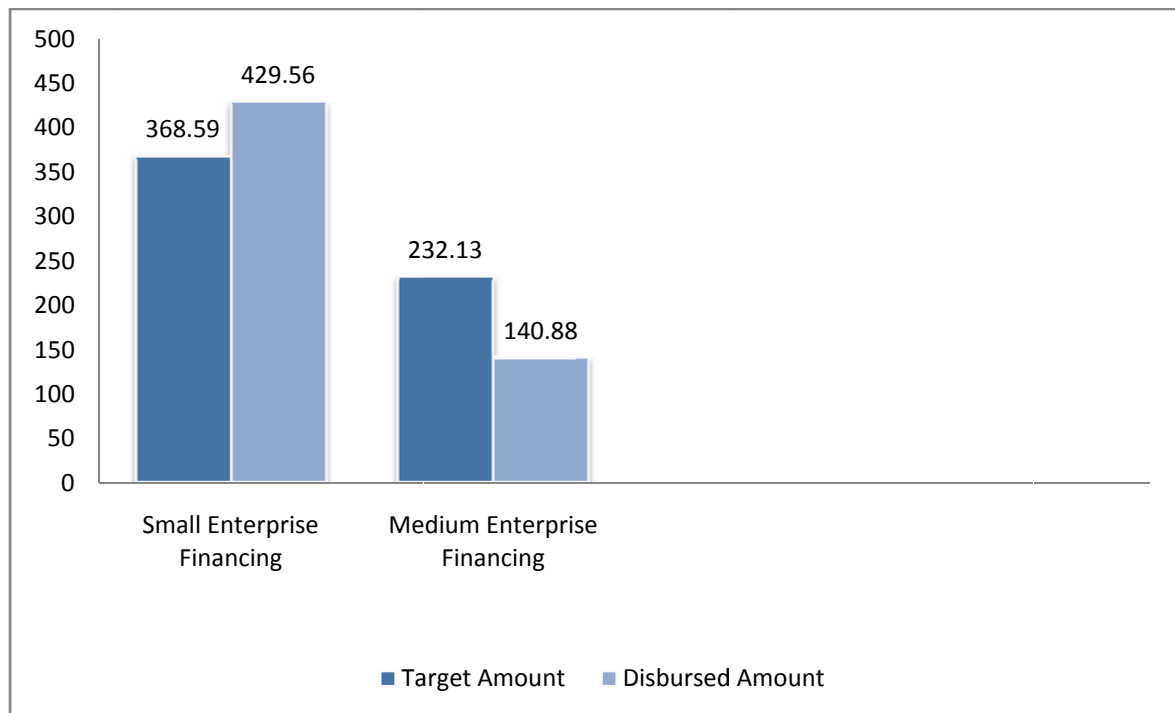


Figure 8: SME Financing Scenario of DBL in 2011

Of the total amount of loan disbursed under SME in 2011, Tk. 78.69 crore was disbursed in Service sector, Tk. 377.92 crore was disbursed in trading sector and Tk. 113.83 crore was disbursed in manufacturing sector.



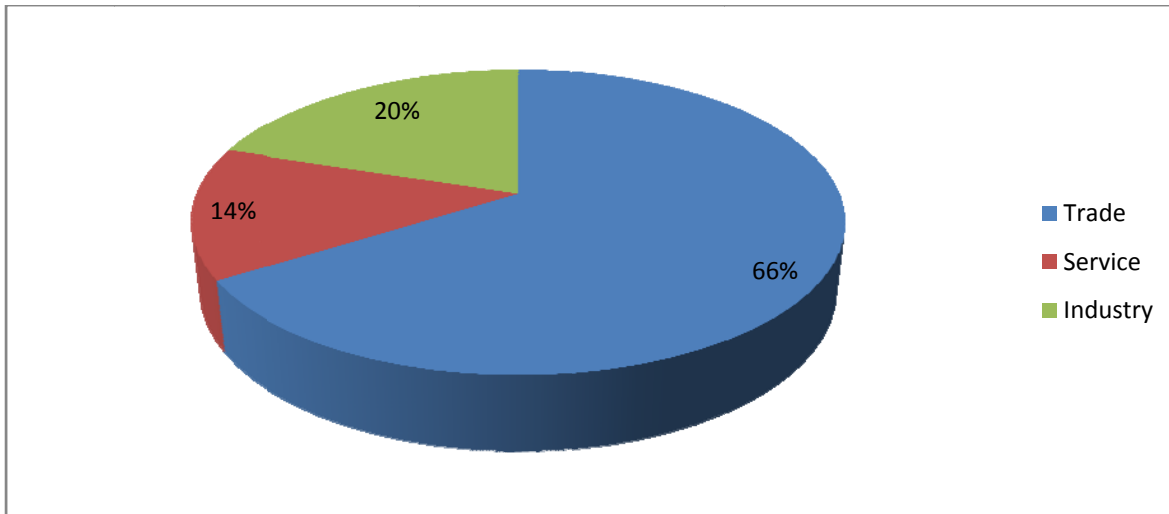


Figure 9: Sector-wise SME Loan Disbursement by DBL in 2011

## 2. SME Financing as on December 31, 2012

As on December 31, 2012, the total annual loan disbursement target in SEF was Tk. 384.61 crore and the disbursed amount against the target was Tk. 442.78 crore. In case of MEF, the annual loan disbursement target was Tk. 265.39 crore and the disbursed amount against the target was Tk. 142.69 crore.

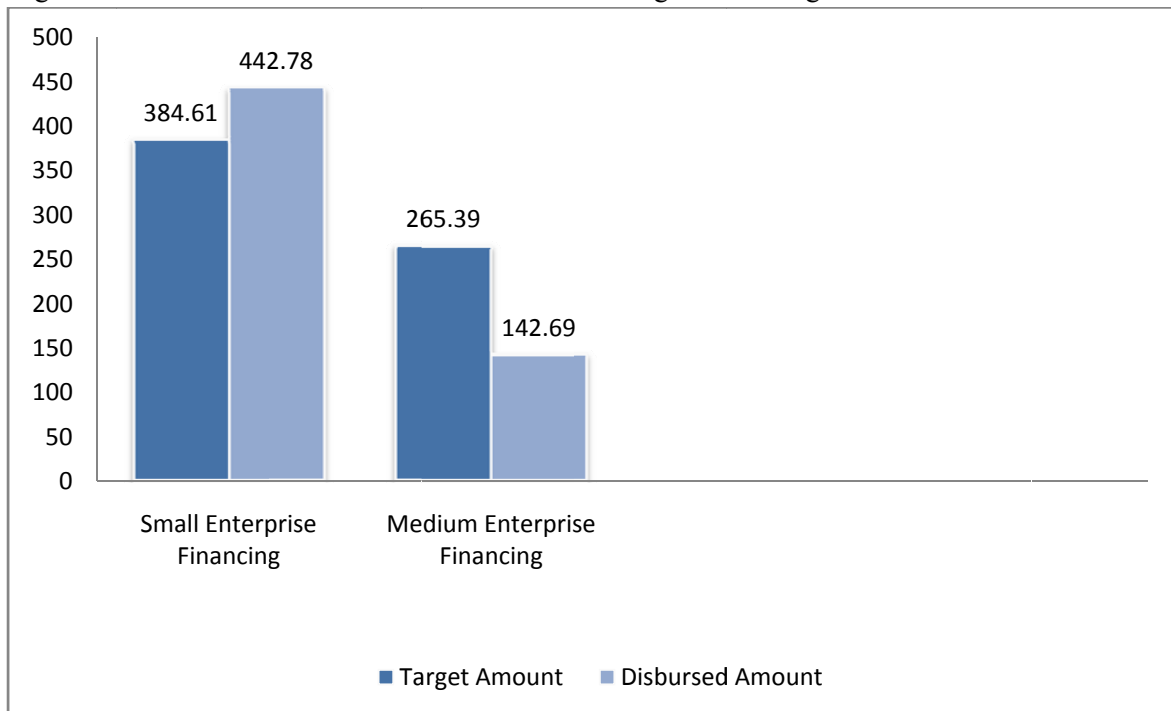


Figure 10: SME Financing Scenario of DBL in 2012

Of the total amount of loan disbursed under SME in 2012, Tk. 58.547 crore was disbursed in Service sector, Tk. 386.41 crore was disbursed in trading sector and Tk. 140.5128 crore was disbursed in manufacturing sector.

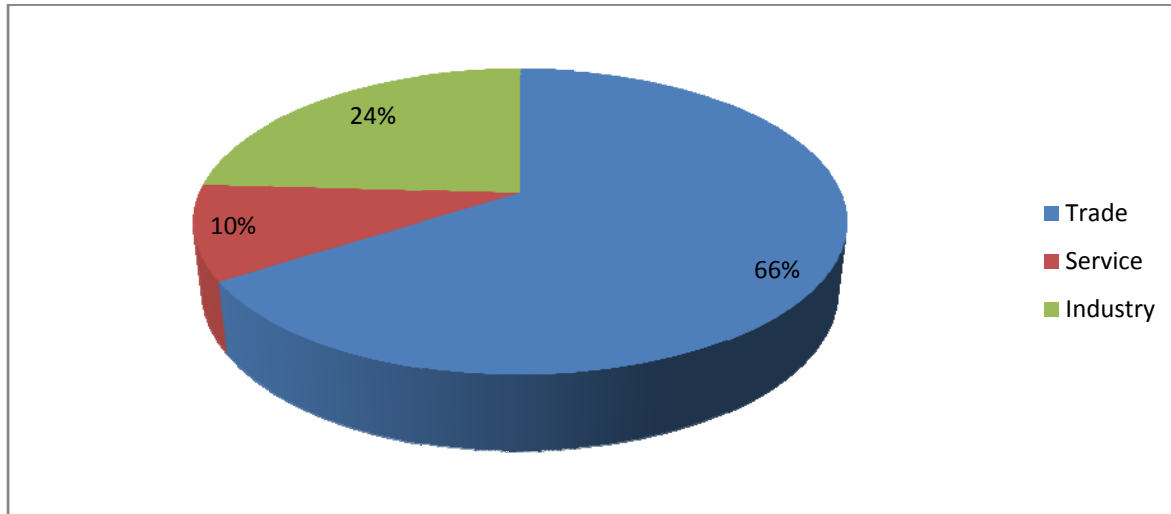


Figure 11: Sector-wise SME Loan Disbursement by DBL in 2012

### 3. Sector-wise Loan Disbursement Comparison in 2010 and 2011

The disbursed amount in Service sector was Tk. 78.69 in 2011 and Tk. 58.547 crore in 2012. The disbursed amount in trading sector was Tk. 377.92 crore in 2011 and Tk. 386.41 crore in 2012. The disbursed amount in manufacturing sector was Tk. 113.83 crore in 2010 and Tk. 140.5128 crore in 2011.

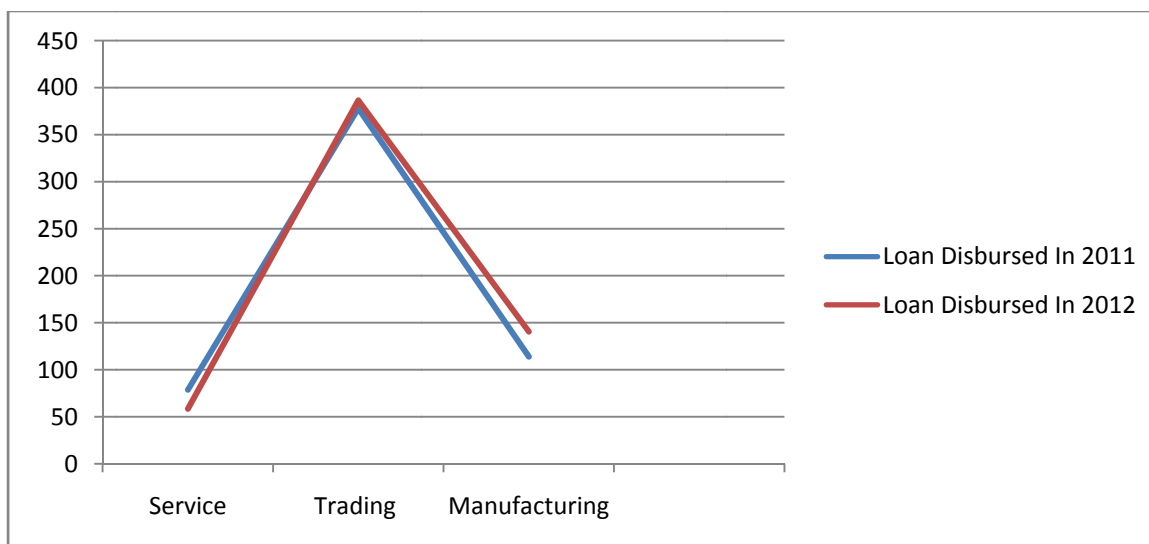


Figure 12: Sector-wise Loan Disbursement Comparison in 2011 and 2012

#### 4.11.7 Loan Outstanding as on December 31, 2012

Since the inception of the SME Financing Program of Dhaka Bank Limited, the total loan outstanding and loan outstanding per client under SME has been increasing in an alarming rate. The number of clients has increased significantly in both 2011 and 2012, which is a positive sign. But the total loan outstanding has increased in a much greater ratio in both years. As a result the average loan outstanding increased quite significantly.

Since there was no separate monitoring and recovery unit for credits earlier, it was obvious that this number would be growing. As there is a separate credit disbursement and monitoring unit, so that the excess over limit can be checked and the volume of outstanding loan gets reduced. However, the volume of outstanding loan apart the non-performing loans clearly indicates the income prospect for the Bank.

<b>Particulars</b>	<b>As on December 2012</b>
Total Outstanding	477.03
Total Number of Clients	4050
Percentage of Non-performing loan	3.31%

## Chapter 5: Findings and analysis of the study

### 5.1.Data analysis

From the data regarding SME Financing by DBL in 2010 and 2011, we can clearly see the amount of loan disbursement under SME has significantly increased in 2011. The percentage of disbursed amount in Service, Trading and Manufacturing sectors in 2011 compared to the amount disbursed in 2010 are as follows:

- Service- 197.61%
- Trading- 142.97%
- Manufacturing- 107.29%

From the data regarding SME Financing by DBL in 2011 and 2012, we can clearly see the amount of loan disbursement under SME has significantly increased in 2012. The percentage of disbursed amount in Service, Trading and Manufacturing sectors in 2012 compared to the amount disbursed in 2011 are as follows:

- Service- 74.4%
- Trading- 102.24%
- Manufacturing- 123.44%

### 5.2.Findings

From the above analysis, we see the Service sector is the most blooming sector among these three sectors because the percentage change in the amount disbursed in this sector is higher than the two other sectors in case of 2011 but in terms of 2012 most blooming sector is manufacturing sector as it is higher than the other two sectors. From the above analysis we can see that the bank achieved the targeted loan disbursement and as we know service sector includes hotels, restaurants, automobile servicing, architecture and civil engineering etc. on which DBL focused more in 2011. But in 2012 bank's focused shifted from manufacturing to service more. Now the question arises why it shifted from manufacturing to service. Because of the unstable political situation and more prospective sectors like textile, knitting spinning, rice mill, flour mill, tannery, agro processing, dairy were more focused by the bank as it was ensured that hotel, restaurants, automobile servicing sectors will not be a blooming sector for the political instability. Basically bank focused more in manufacturing sector in 2012 like textile, knitting spinning, rice mill, flour mill, tannery, agro processing, dairy due to rapid growth of this industry and for huge economic potentialities. As these sectors are the core business sectors of our country. For this reason export was increased in 2012 than 2011. As Bank invested more in core export oriented industry like leather, textile, garments, knitting, weaving etc. DBL has always

endeavored to encourage entrepreneurship within the country and as a result, we have seen the success story of Ms. Yeasmin Morshed earlier. This is just one single case of success among numerous others backed by Dhaka Bank Limited.

### 5.3. SWOT Analysis of DBL SME Financing

#### 5.3.1. Strengths

Dhaka Bank offers a wide variety of loans for the SMEs to meet specific needs of the customers. The products include Overdraft, Term Loan, Work Order Finance, Lease Finance, Trade Finance, etc. The Bank is flexible in terms of security against the facilities. They also offer bundle of products at lower interest rate and this becomes possible because interest rate is very low. Dhaka Bank experienced SME management team which not only sanction loan but also provide operational advice to the clients. This becomes possible because the value of non-performing loan is very low and that leads a small amount for provisioning.

#### 5.3.2. Weaknesses

There is no fixed sales force in the Bank for the marketing of SME finance. Many people who are now working in SME financing in the branch level have lack of in-depth knowledge in this line. At Dhaka most of the branches are corporate customer oriented and there is no sufficient number of SME booths in the city. So marketing and expanding the SME loan products in the city area has become very difficult.

#### 5.3.3. Opportunities

Dhaka bank has many rural and semi urban branches where there are many business communities which are yet to be penetrated by the formal financial institutions. So there is a huge scope for expanding the business in these areas. It has good relation with various multinational organizations like South-Asia Enterprise Development Facility (SEDF), USAID, World Bank, etc. that can provide assistance for developing and expanding this sector. It can open KIOSKs (small booths) around its branches in the areas like Islampur, Bangshal, Gulshan, Karwanbazar, etc. for the marketing and processing of SME loans. As the bank already has its presence in these areas it will enjoy some advantages as a known and reputed financial institution.

#### 5.3.4 Threats

Other commercial banks like BRAC Bank Limited, Eastern Bank Limited and foreign Bank like Standard Chartered Bank are aggressively marketing the SME financing products and services. Nationalized banks very often offer the loans at lower cost in the form of corporate loan without properly distinguishing the loan type and business aspect. Most of the SMEs are proprietorship concerns and in many cases they lack in ready successors. So in the case of the death of the proprietor the recovery of the loan will be in jeopardy. Sometimes these business firms borrow excessively without properly analyzing the business scenario and need. For this reason the highly leveraged firms may collapse at any time.

## **Chapter 6: Recommendation**

Considering the findings of this report and present market scenario the following methods can be recommended to catalyze the expansion of SME finance in Dhaka Bank Limited: Considering the risk involvement and net profit aspects in terms of input and output ratio from a single unit the SME loan is really feasible and attractive for the small, semi-urban and rural branches. So the Bank should expand more SME finance through these branches in order to make them profitable for the Bank. To reduce the high cost and time of processing, the unit should do the following:

- Develop various delivery channels and thus decentralizing the delivery channels, so that branches can process and deliver SME loans by themselves.
- Use multiple channels to collect necessary information of the client before the processing of loan.
- Develop KIOSKs (small booths) and establish more SME Centers to process and deliver SME loan facilities, especially in the rural and semi rural areas of the country.

It can reach the customers in the rural and semi-urban areas through SME booths. In the big city like Dhaka and Chittagong where the Branches are focused to the corporate clients, the Bank can service the SME loans by setting up the booths. Places like Islampur, Bangshal, Aminbazar have huge unexploited demand for SME loan that can be met easily by establishing booths in these areas.

Setting up alternative channels of distribution like booths are therefore essential to market penetration and as a competitive advantage over other institutions. It may be mentioned that the Booths will not be worked as branch and will be operated with minimum investment and operational cost. As the loan size is small it does not require assigning higher ranked officials for marketing and operating the Loan. The officers to Principal Officer level officials are good enough for this purpose so the administrative cost will also be low for this product.

Marketing effort (sales force) should be increased. Aggressive marketing strategies should be developed to compete with other banks or financial institutions that provide SME financing facilities. DBL is lagging behind in aggressive marketing strategy. The bank should assign fixed sales force for marketing and hunting SME loan application for the SME finance. Private Banks like BRAC, Eastern Bank Limited and other foreign Banks have already established their sales force in this regard. The sales force could be contractual in nature that will lessen the administrative cost. The Bank has already this type of sales force for marketing and expanding the personal loan, Home Loan and Car Loan products. The Bank should also assign specific officers in the branches for monitoring and maintaining the SME finance. In other way the concept for Relationship Officer for the SME loan to be built up who will not only look after the portfolio but also mix closely with the SME business community to understand their need and make them aware of the benefit of SME loan in the Bank.

## **Chapter 7: Conclusion**

The SMEs play dominantly important role in the national economy of Bangladesh by making up over 90 per cent of industrial enterprises, providing employment to 4 out of 5 industrial workers and contributing to over one-third of industrial value-added to GDP. The relative SME share in manufacturing value-added is much higher and estimated to vary between 45 to 50 per cent of total value-added generated by the manufacturing industries sector. Further as important sources of new business creation and developing new entrepreneurial talents, these industries provide the much needed dynamism and vitality to the national economy. However, as is well known, the SMEs because of their scale barriers and liquidity problems suffer from various operational constraints of which technological backwardness, low technical efficiency, low labor productivity and limited market access are most serious. These in turn impede their competitive strength and sustainable growth. These problems are likely to be further aggravated by the competitive challenges globalization and the freer trading regime which throw the SMEs in the midst of risks and uncertainty of the fiercely competitive national and global markets. It is thus imperative that these industries achieve a reasonable level of technological standards and competitive strength to withstand challenges of the global market and survive and grow in a much more uncertain and unstable business environment both at home and abroad. Dhaka Bank Limited is pretty aware of this responsibility and has already stepped in to the field by extending finance to this sector. The SME unit has to run through various limitations. But the Bank is keen to expand this product and like to improve it gradually in a short period.



## **BIBLIOGRAPHY**

1. SME Financing Manual (2012). Dhaka Bank Limited
2. Chowdhury, L.R. (2012). A Textbook on Bankers' Advances
3. Chaudhury, Abdul Jalil (BIBM, 2002). Financing of Small Enterprises: Experience from Abroad and Some Innovative Tools for Finance
4. Dhaka Bank Limited Annual Report (2011, 2012)
5. Dhaka Bank Limited Official Website (<http://www.dhakabankltd.com>)

# Appendix

## SME Credit Application Form

<b>Credit Facility Required</b>  (put 'X' mark in the proprietor box)	Nature of Facility		<input type="checkbox"/> Total
	Amount (in Taka)		
	Period (in year)		
	Purpose		

01.	Name of the Client					
02.	Nature of Organization  (put 'X' mark in the appropriate box)	Proprietorship Concern	<input type="checkbox"/>	Partnership Concern	<input type="checkbox"/>	
		Private Limited Company	<input type="checkbox"/>	NGO	<input type="checkbox"/>	
03.	Business Address (as per Trade License/ Certificate of Incorporation)				<u>Telephone No.</u>	
04.	Current/Corresponding Address				<u>Telephone No.</u>	
05.	Factory Address (if any)				<u>Telephone No.</u>	
06.	Nature of Business					
07.	Name of Product(s)/Service(s)					
08.	Status of Business Premise	Office	Own	<input type="checkbox"/>	Rental	<input type="checkbox"/>
		Factory/Ware House/Outlet	Own	<input type="checkbox"/>	Rental	<input type="checkbox"/>
09.	Trade License no., date & expiry	No.	Issue Date:	Exp. Date:		
10.	ERC / IRC no.	No.	Issue Date:	Exp. Date:		
11.	Tax Identification Number (TIN)					
12.	Amount of Income Tax paid for the last year					
13.	Date of Incorporation					
14.	Date of Commercial Operation					
15.	Authorized Capital (in case of Limited Company)					
16.	Paid-up Capital (in case of Limited Company)					
17.	Total Investment					
18.	Total Fixed Asset					

19.	Total Fixed Asset (excluding Land & Building)				
20.	Total Fixed Asset (excluding Land, Building & Machinery)				
22.	Total no. of Employee				
	Male	Full Time		Part time	
	Female	Full Time		Part time	

**Financial Information:**

23.	Total Assets (in Taka) (as on 30 June 2010)		Year 3 (latest year)	Year 2	Year 1
			Year-2010	Year-2009	Year-2008
	Total Current Assets				
	Cash/Bank				
	Marketable Securities* (please specify)				
	A/Cs Receivable/S. Debtors				
	Stocks/Inventory				
	Others (Advance, Deposits, Prepayments)				
	Total Fixed Assets				
	Furniture & Fixtures				
	Plant & Machinery				
	Land & Building				
	Others (Vehicle)				
24.	Total Equity & Liability (in Taka) (as on 30 June 2010)		Year 3 (latest year)	Year 2	Year 1
			Year - 2010	Year - 2009	Year - 2008
	Owners Equity				
	Total Current Liability				
	A/Cs Payable/ S. Creditors				
	Bank Liability (payable within one year)*				
	Bank 1:				
	Bank 2:				
	Bank 3:				
	Loan from Other Sources (payable within one year)*				
	Source 1:				

		Source 2:			
	Total Non Current Liability				
	Bank Loan (payable after one year)*				
		Bank 1:			
		Bank 2:			
		Bank 3:			
	Other Long Term Loan (payable after one year)*				
		Source 1:			
		Source 2:			
			Year 3 (latest year)	Year 2	Year 1
25.	Net Income (in lac Taka) (for the year ended 30 June 2010)		Year -2010	Year -2009	Year -2008
		Before tax			
		After tax			
	Sales Volume (for the year ended 30 June 2010)		Year - 2010	Year -2009	Year -2008
		Cash Sales			
		Credit Sales			
	Cost of Goods Sold				
	General, Administrative & Selling Expenses				
	Financial Expenses				
	Income Tax				
26.	Cash Flow (for the year ended 30 June 2010)		Year - 2010	Year -2009	Year -2008
	Net Cash Flow				
	Opening Cash Balance				
	Net Cash Flow from Operating Activity				
	Net Cash Flow from Investing Activity				
	Net Cash Flow from Financing Activity				
	Closing Cash Balance				

**Security Information:**

27.	Proposed Security*		
		Description of Security	Value (in Taka)
	Quasi-Cash Securities		
	Stocks of Goods		
	Furniture & Fixtures		
	Plant & Machinery		
	Land & Building		

	Others (please specify)		
	Total Security Value		

Documents to be provided with this application form:

- i) Copy of valid Trade License
- ii) Copy of valid ERC / IRC (in case of Export/Import)
- iii) Latest Income Tax Certificate
- iv) Copy of the latest Income Tax Return
- v) Copy of Certificate of Incorporation from RJSC/F (in case of limited company / partnership firm)
- vi) Memorandum and Articles of Association (in case of ltd. co.)/Partnership Deed (in case of partnership firm) certified by RJSC/F
- vii) Copy of **Form XII** duly certified by RJSC (in case of limited company)
- viii) Audited Financial Statements (Income Statement, Balance Sheet & Cash Flow Statement) for the last three (3) years
- ix) Project Profile with a projection of at least three (3) years
- x) Bank Statement for last one year (at least 6 months)

Signature of the :  
Client/Authorized  
person(s)

Counter Signature of :  
the Credit Officer/  
Credit Manager/  
Branch Manager

Name :

Name :

Address :

Designation :