Effects of SME Loan on Net Income of BRAC Bank Limited

by Israt Zaman

Preface:

This internship report is the part of internship program for the degree of Bachelor of Business Administration of United International University, Dhaka. This report has been set up as par the academic instruction of UIU after completing 3 months of internship program at BRAC Bank Limited, Gulshan head office with a view to relate my theoretical knowledge with practical aspects.

As a moderator of this report I have attempted my level best to make this report with adequate data while working at SME division in BRAC Bank. It was a very interesting experience for me to work in this area.

However there might have some issues regarding this report because of some mistakes and limitations. I beg your pardon for mistakes and errors.

Acknowledgement:

During this internship period I am very much grateful to my honorable academic supervisor Nusrat Farzana who has instructed and directed me to complete my internship report.

I am also grateful to my immediate supervisor Tazkia Habib associate manager of BRAC Bank Limited for providing me accurate information's and learning opportunities which is related with my internship topic.

Moreover I am obliged to the authors, researchers and article writers which helped me to prepare my report successfully.

Letter of Transmittal

20th May, 2018

Nusrat Farzana

Assistant Professor

School of Business & Economics

United International University

Subject: Submission of internship report on effects of SME loan

Dear Madam,

Here is the internship report that I have assigned to prepare as a part of BBA program of United International University. The internship report has been prepared on the basis of the knowledge which I have gathered during my internship at BRAC Bank Limited.

This is the first time that I have prepared this type of study in a formal manner and I have tried my level best to prepare an effective and commendable report on SME banking of BRAC bank by comparing with other financial institutions. To fulfill the requirements of the report I have followed your instruction and guidelines.

I would like to thank you for giving me the opportunity to prepare this report and I will be happy if you assess my report by considering the limitations.

Yours Sincerely

Israt Zaman

ID: 111133072

United International University

School of Business and economics

Letter of Acceptance

This is to confirm that Israt Zaman, ID: 111133072, an understudy of Bachelor of Business Administration United International University work under my supervision. Her internship appointment is at BRAC Bank Limited, Gulshan head branch. I am satisfied to express that Israt Zaman has worked hard in preparing this report and represented a good picture of the organization. The information and findings of the report displayed very authentically.

So far I know, Israt Zaman has a decent good character and satisfying personality. I wish her success.

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Executive Summary

SME (Small and Medium Enterprises) currently has become a popular sector for every developing country and its economy. A country's economy largely depends on SME and its loan. For this reason Bangladesh Bank has given great concern to the SME sector. As a result every commercial banks are now disbursing SME loan as par the guideline of Bangladesh Bank. As we know BRAC Bank Limited is the largest organization in providing SME loans so that this report is focuses on the SME loan of BRAC Bank Limited. To fulfill the requirement of my BBA program I have prepared the report on **"Effects of SME Loan on Net Income of BRAC Bank Limited"**. I have done multiple regression analysis to show the effects of SME loan on net income and to justify my analysis I have presented some graphical interpretation to make comparison among BRAC Bank and other financial institution. I have collected data from all the secondary sources as SME is a very confidential sector of BRAC Bank they did not provide me any primary data during my internship in BRAC Bank Limited. Here I have taken net income as my dependent variable and SME loan, total asset and net interest income as my independent variable. From the result of regression analysis I have found that net income of BBL has impact of SME loan. In the graphical presentation sector I have shown that how net income increases as SME loans are increases by comparing with other organizations. To make this report I have tried my level best to interpret each and every sector of my analysis including company overview, presenting the SME loan growth and comparing with other financial institution in our country. During preparing of this report I have faced some difficulties because as I have mentioned earlier that SME is very confidential sector of BRAC Bank that's why they did not disclose any primary data to me so I have to rely on secondary data source. At the last part of my report I have concluded it with recommendations about the SME sector of BBL. After all the findings it can be easily said that BRAC Bank Limited is the largest organization in SME and it is creating lots of opportunities to the young entrepreneurs and also making a huge impact in our economy.

1. Introduction:

Banking sector is one of the most auspicious industries in any country. The word bank represented the financial institution that deals with different financial products. Nowadays for developing country SME banking is very important. SME banking means the funding to the small and medium enterprises to raise capital. Especially as a developing country like Bangladesh Small and Medium enterprises are very important for overall economic development even our neighboring countries have also given significance on SMEs. At present Bangladesh Bank has introduced many SME banking schemes to embellishment of the SME enterprises. On this note BRAC Bank has started practicing this SME banking policy very effectively.

1.1. Background of the report:

In this report I have tried to emphasis on the SME banking sector of BRAC Bank Limited by comparing with other financial instruction and also tried to show how SME loan effect on net income of BRAC Bank. Here I have tried to elaborate the effects of SME loan. In first section of the report is a introductory part and I have explained the background of the organization in next section, on the third section of the report I have represented my analysis part on SME baking of BRAC Bank Limited. Lastly I ended the report with findings and recommendations.

1.2. Origin of the report:

As a compulsory part of BBA program I have to submit an internship report which reveals the work I have done during my internship period at BRAC Bank Limited. For this reason I have prepared my report on SME banking of BRAC Bank Limited which assigned by my academic supervisor Nusrat Farzana.

1.3. Objective of the report:

The main objective of this report is to identify how SME loan affects the income of the organization and how BRAC Bank Limited is best in SME sector than other organizations.

1.4. Scope of the report:

The scope of the report is very clear because I have worked in SME division of BRAC Bank. Here I have observed the core values of SME banking and how they deal with it. I have other opportunities to learn how SME banking influences income structure of bank.

1.5. Methodology of the report:

Both qualitative and quantitative data's are collected and analyzed in this report by acceptable standards practiced. Here in this report I have done regression analysis to show the effect of SME loan on net income and used graph chart to compare SME banking with other financial institutions.

1.6. Limitations of the report:

I have faced some barriers to complete this report, which are-

- Data of SME banking in BRAC Bank is highly confidential so that I have to rely on secondary data source.
- I have collected data's from annual report and web based sources which were not arranged in structured way.
- As I have done regression and some graphical interpretation it took me to assume many things.

2. History of BRAC Bank Limited:

BRAC (Bangladesh Rural Advancement Committee) established by Fazle Hasan Abed in 1972 is a renowned Non-governmental organization that helps a lot of poor people to become economically powerful and one of its affiliates is BRAC Bank. BRAC Bank was instituted on 4thJuly 2001 as a private commercial bank focused on SME means Small and Medium Enterprise. BRAC Bank has faith in supportable banking philosophy to uphold its 3P agenda: Planet, People and Profit. As part of the supportable banking initiative BRAC Bank has launched a green initiative quoted as 'Go Green with e-statement' for its value. BRAC Bank initiates to return as much green to the planet as possible against the tree fallen for paper statements. BRAC Bank established Green Banking Unit (GBU) under Risk Management Division for designing, evaluating and administering related to green banking issues.

2.1. CSR Activities of BRAC Bank:

- Young leadership
- Community Development
- Culture and Heritage
- Environment
- Health
- Education

2.2. Vision and Mission of BRAC Bank:

2.2.1. Vision:

The corporate vision of BRAC Bank Limited is to build profitable and socially responsible financial organization that focuses on market and business growth by this means of assisting BRAC and stakeholders to build a progressive healthy democratic poverty free Bangladesh.

2.2.2. Mission:

Their missions' are-

- Rapid growth in SME banking
- Increasing low cost deposit growth
- Commercial assets will be funded though self-liability enlistment
- Manage various sector of business in a full controlled environment
- Keep various motivated flung team to turn up the banks vision into reality

2.3. Core Values:

BBL holds the subsequent values to eminent their strength-

- Treat everyone as a member of BRAC family
- Generating honest and open environment
- Focus on customers and build strong customer relationship
- Seeking for profit and rapid growth
- Work as a team
- Insistent in quests of business innovation and improvement
- Focuses on recognition and reward on performance
- Give value and respect to every people and make decision based on qualities

2.4. Company Values:

Company values of BBL is an employee needs to be CRYSTAL in every step which means-

- **C-Creative:** An employee needs to be creative and innovative in ideas to solve different issues and reach the destination.
- **R-Reliable:** A person needs to be reliable on his/her work so everyone can rely on him/her
- **Y-Youthful:** Youthful, energetic and a person of vibrant characteristic is always encouraged
- **S-Strong:** Be a person with strong will power disciplined and dedicated to work.
- **T-Transparent:** It is important to be transparent at work and show transparency in communication.
- **A-Accountable:** Need to be accountable for own work and responsibilities to show the results.
- **L-Loyal:** It is very important to be loyal to the organization to create ownership and belongingness to carry a brand pride.

2.5. Subsidiaries of BRAC Bank:

BRAC EPL Stock Brokerage Limited

BRAC EPL Stock Brokerage Limited is one of the leading stock brokers in the country. BRAC EPL Stock Brokerage Limited has membership at both of the country's stock exchanges; the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE).

BRAC EPL Investment Limited

BRAC EPL Investment Limited delivers a whole range of Investment Banking services including traditional merchant banking activities such as Issue Management, Corporate Advisory, Corporate Finance, Underwriting and Portfolio Management.

BRAC SAAJAN Exchange Limited

BRAC Saajan Exchange Limited mainly provides remittance services to the large Bangladeshi Communities living in UK. Apart from its remittance services the Company also caters to the investment needs of the NRBs through its parent organization BRAC Bank.

bKash

bKash Limited (a subsidiary of BRAC Bank) operates with an objective to ensure access to a broader range of financial services (mobile fund transfer facility) for the people of Bangladesh. It has a special focus to serve the low income masses of the country to achieve broader financial inclusion by providing services that are convenient, affordable and reliable.

BRAC IT Services Ltd. (biTS)

BRAC IT Services Ltd. (biTS) is an IT Solution and Services company and is a subsidiary jointly owned by BRAC Bank and BRAC. biTS has been formed in 2013 through the merger of a subsidiary IT company. It strives to become the most trustworthy company in Bangladesh providing technology solutions and managed IT Services.

biTS provides end-to-end solutions for industries like Banks, Non-Banking Financial Institutes, Educational Institutes, Micro-Finance, NGOs, FMCG etc. It has a team of highly capable and professional individuals committed to deliver high productivity, efficiency as well as creativity. We are committed to help our customers to achieve operational efficiency through transforming their existing operations using our best value solutions and services.

2.6. LOGO meaning:

Here is the logo of BRAC Bank Limited-

The blue part of upper portion indicates the sky with indefinite opportunities and golden part in lower portion means the golden Bangladesh and its lands. The white colored curve indicates about the growth and the white circle means sun that gives light to everyone.

2.7. Company Slogan:

The slogan of BRAC Bank is **"Astha Obichol"** which means the reliability and dependable friendly banking system.

2.8. Departments of BRAC Bank:

There are five different departments generated in BRAC Bank, which are-

- **Small and medium enterprises**
- **Retail Banking**
- **Whole Banking**
- **Probashi Banking**
- **E-Banking**

2.8.1. SME Banking of BRAC Bank:

The SME department of the bank plays a very vital role for the bank and economy. More than 300 unit offices of SME division work all over the country and sell different types of loan products. This department provides loans and also monitors the recovery rate of the loan.

2.8.2. SME products:

Loan Products	Deposit Products
Anonno	Prapti current account
Apurbo	Prachurjo fixed deposite
Tara	
Durjoy	
Shamriddi	
Shampod	

Table 1: SME loan products

2.8.3. Retail Banking:

BBL has around 155 outlets and 399 ATMs all over the Bangladesh. The bank additionally offers an extensive variety of monetary service to meet customer need. In retail banking system the bank has a motto that- “Be it home advance, auto advance or a speedy credit basically drop an application and we might wrap up while you make the most of your life”.

2.8.4. Probashi Banking:

With this probashi banking system BRAC bank has become the largest player among other private commercial bank in channelizing internal allowance. The probashi banking executes around 150,000 transactions by the help of ELDORADO.

2.8.5. Whole Banking:

BRAC Bank offers a full cluster of Financial Services to Corporations and Institutions. Approaching the most reflective end of the nation, BRAC Bank is there to help organizations in Bangladesh. With us on your side, you have the energy of nearby learning with the abilities of worldwide criteria.

2.8.6. E- Banking:

BRAC Bank also developed in E-Banking sector such as-

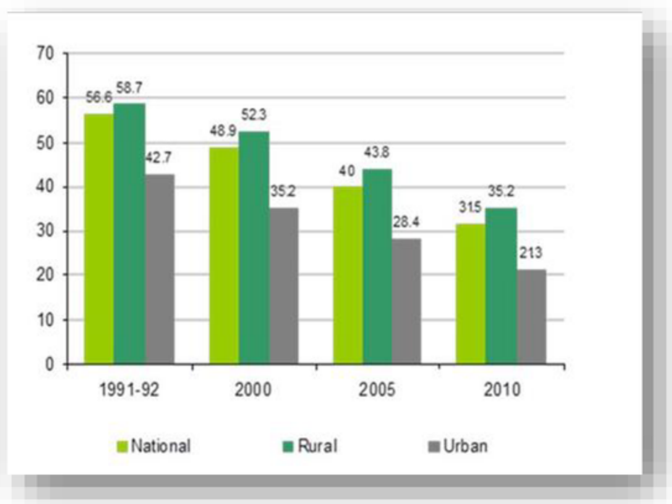
- Internet banking
- Mobile Banking
- E-commerce
- Security messege for transaction

In this section of the report I have discussed about the process of my analysis, the variables and the regression model. I have tried to discussed each and every component of my analysis.

3. Theoretical Background:

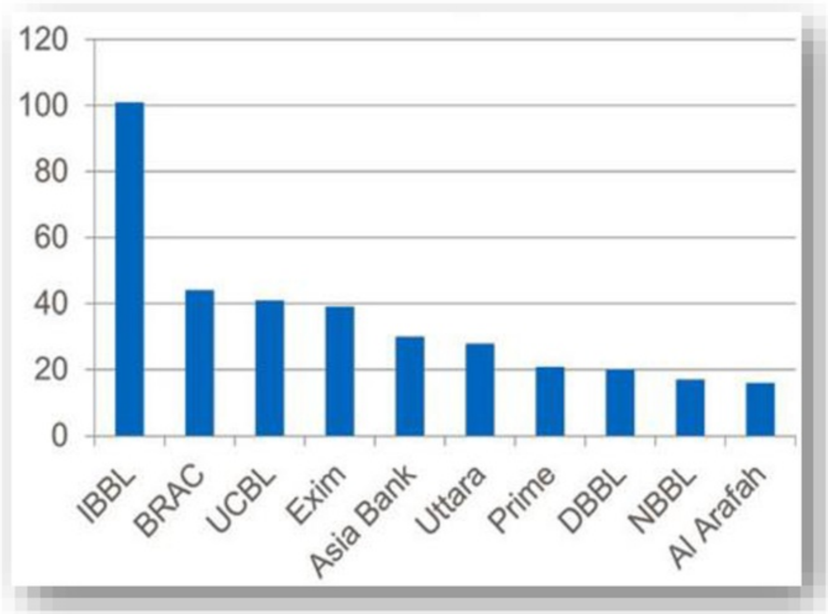
SME has become a most important part of economy. It is not only increase the growth of the economy but also make so influence on the income on organizations. At present time in our country commercial banks re practicing SME financing but following the guideline of Bangladesh Bank.

As this report is focused on SME than it can be easily said that SME provide output gains to improve employment sector. Some empirical studies show that if developing countries have strong SME sector than the circulation of income will be increased. Here we can see a data source from Bangladesh government where it showed that the poverty rate is decreasing gradually which assumed that it is happening for the development of SME.



As per Bangladesh bank the part of Small and Medium Enterprises (SMEs) is obligatory for overall economic development of a country mostly for emerging countries like Bangladesh. Even the sector is working concentrated with short gestation period it is capable of increasing national income as well as rapid employment generation; achieving Millennium Development Goals (MDGs) especially obliteration of severe poverty and hunger, gender equality and women empowerment. SME sector is playing a vigorous role in economic progress of some prosperous countries of Asia.

According to Financial Express 2017, BRAC Bank is the second largest SME loan provider; their managing director Syed Mahbubur Rahman said that, setting up in 2001 BRAC Bank is the largest provider of SME loan in the country. By looking the graph below which is provided by Bangladesh government we can see that after IBBL BRAC Bank is the largest SME loan provider.



The development of financing system of small and medium enterprises has created much progress in recent years and become an important topic in economy said by (Hallberg, 2001). It is also said by (Berger, Allen N., Seth D. Bonime, Lawrence G. Goldberg, and Lawrence J. White, 2004) that banking organizations more often disburse SME loans for longer period at low interest rate. Financial organizations also make their SME lending decision based on their financial ratios. (Allen N. Richard,J. Herring, and Giorgio P. Szego, 1995).

There is no doubt that SME sector is very important for any country that's why in our country has developing the loan facilities on this sector (Sources Daily Star News). Depending on the customer relation business growth and entity banks can disburse more than TK 10 lakh loan without any collateral. May be because of this decision as a developing country our economy will develop gradually.

3.1. Rational of the Research:

In this report I have done regression analysis to find some answer of some questions which are-

- Is there any impact of SME loan on the net income of the organization?
- Second purpose is to know why BBL is largest organization in SME sector by comparing with other financial organization

To find answer of this question I have done regression analysis and posturized some graph to make comparison and tried to give the possible accurate answer from my findings.

3.2. Data Source:

As I have mentioned earlier that SME sector of BRAC Bank is very much confidential so that during my internship period they did not provide me any primary data. My study is totally based on secondary data. I collected this data's from annual report of the bank and other web source. Though I did not have any raw data so my most of the findings are based on secondary data and assumptions.

3.3. Methodology of the analysis:

I have done my analysis by using regression. There are several reasons to choose multiple regression method. As I have mentioned earlier I have rely on secondary data source and I want to know the impact of SME loan on net income so the multiple regression method is best to identify and analysis the findings.

3.3.1. Multiple Regression model:

$$Y = b_0 + b_1X_1 + b_2X_2 + \ldots\ldots\ldots + b_p X_p$$

It is a very useful model for predicting the relationships among different variables and it is also used test the hypothesis of dependent and independent variables. (Rawlings, J. O., Pantula, S. G., Dickey, D. A., 1989). This method also helps the researcher to test variable and make recommendations. In this model the ordinary least squares is the most popular method to estimate parameters.

- Y= Predicted dependent variable
- X= From X_1 though X_p distinct independent variables
- b_0= It is the value of dependent variable when all of the values of independent variable equals to zero
- b_1, b_p = it is the estimated regression coefficient

3.3.2. Selection of Variables:

Here I have taken net income as dependent variable and total loan, total asset and net interest income as independent variables. As I want to show the effects of SME loans on net income that's why I have chosen net income as dependent. I have also selected 5 years of data from annual report of BBL.

Year	SME Loans	Total Assets	Net Interest Income	Net Income
2016	23,488	268,324	11,721	4,062
2015	19,237	231,823	9,546	2,335
2014	15,182	209,734	8,682	2,102
2013	10,839	185,576	7,337	1,339
2012	8,554	180,396	6,824	700

Table 2: Analysis Data

3.3.3. Independent Variables:

- **SME loans:** I have taken SME loan as independent variable because my finding is about whether there is any effect on net income or not and we know that BBL consider SME as their main profitable source of income.
- **Total assets:** In this analysis total asset is another independent variable because SME loans also influence the asset portion of BBL. As they receive interest income from SME loans it also increases their asset portion.
- **Net interest income:** Net interest income is the income where interest expenses are deducted from bank's asset. Here assets indicates the commercial loans and as we know SME is one kind of commercial loan from which revenue is generated.

3.3.4. Dependent Variable:

- **Net Income:** As I have already mentioned my main purpose is to find the effects SME loans on net income so I have consider it as dependent variable.

3.4. Findings and Results:

As I have done multiple regressions my results are-

Multiple *R*	**0.999162535**
***R* square**	**0.998325772**
Adjusted R square	**0.993303088**
Standard Error	**37.77237554**
Significance *F*	**0.01894477**

Table 3: Regression Results

- **R values:**

  By looking at the values of above table it can be easily said that the model is well fitted. Here the R values are significant. As we know ***R*** values are statistical measure of how data's are fitted to regression line and also known for the coefficient of multiple regression.

  The values of ***R*** are very straightforward and it is always between 0% to 100%. The above table shows that the ***R*** values are 0.99 which is close to 100% which means that the strength of the relationship between dependent and independent are fitted in this regression model.

- **Significance F:**

  Here the significance level or F value is 0.01894477 which is less than .05 that means, I can accept the result as it is less than the alpha value(0.05). The F values indicate that whether the coefficients improved the model. Here in my finding I have found the significant result so it can be said that the model is fit and there is an effect of SME loan on net income BBL.

➢ **Correlation:**

	SME Loans	*Total Assets*	*Net Interest Income*	*Net Income*
SME Loans	100%			
Total Assets	99%	100%		
Net Interest Income	99%	100%	100%	
Net Income	97%	98%	99%	100%

Table 4: Correlation Result

Correlation represents the relationship among the variables. Here we can that the variables which have been chosen are highly correlated with each other. The results are close to 1% which indicates that there is highly upward correlation.

4. Justification of the Results:

As I have done multiple regression analysis to find out the effects of SME loan now I have done some graphical analysis to justify my findings. To make justification I have selected other financial institution to show how BRAC Bank Limited is largest in SME sector and making a wide impact on economy:

4.1. SME loan growth of BBL:

Here in this graph we can see the loan growth of SME loan of BBL. In this graph its clearly visible that the loan growth of SME has gradually increased over the year. In 2012 we can see negative growth and from 2013 to 2014 the growth is very steady. Due to the political conflict in 2013 to 2014 the growth was low there. From 2015 the growth of SME loan has been rising which indicates that BBL is fousing on more SME loan disbursement to increase their interest income.

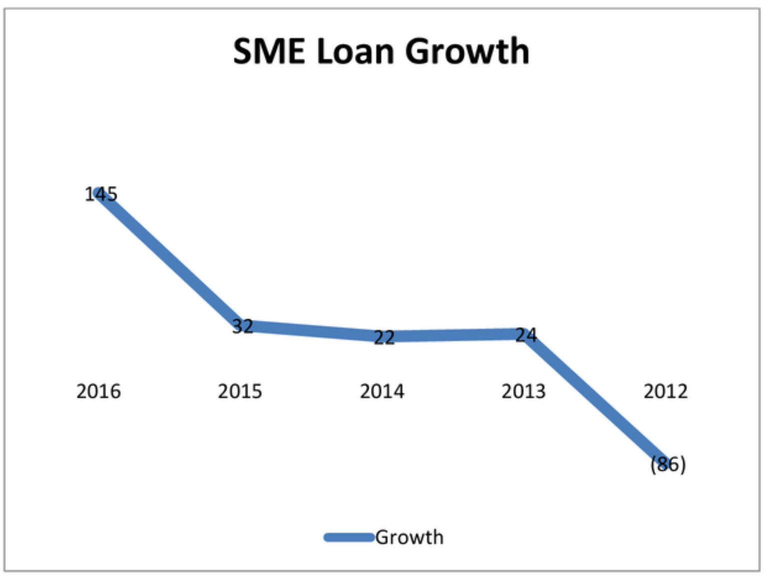


Figure 1: SME Loan Growth

4.2. Comparing net income with SME interest income:

By looking at this graph it can be easily said that SME has huge impact on net income of BBL. Because we can see here that from 2012 to 2017 the net income increasing as SME interest income is also increasing. This means that BRAC Bank disburses huge amount of SME loan as a result there interest income increases as well as their net income also increases.

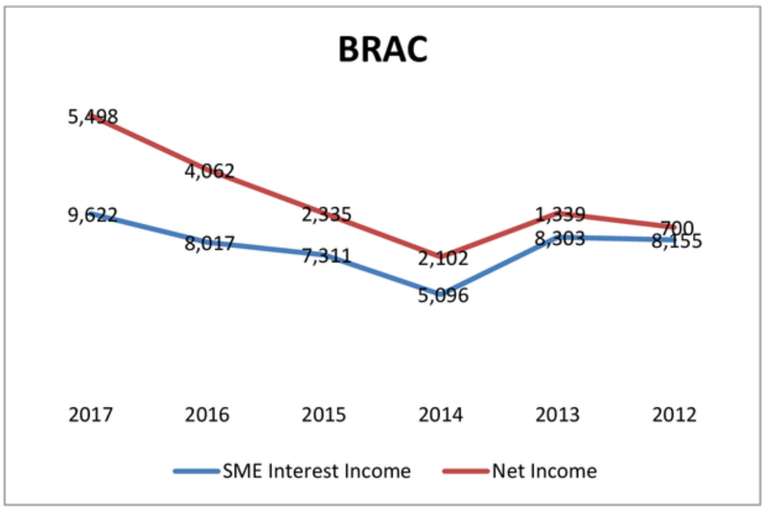


Figure 2: Relation of net income with SME interest income

4.3. Comparing BBL's SME loan disbursement with other institution:

As par report we know that BBL is the largest SME lender in Bangladesh. Though BBL has lots of competitor but in this no rivals can compete with BBL. By looking at the graph we can see that the SME loan disbursement amount of BBL is very high than its other competitor like Bank Asia, Prime Bank, IDLC, and IPDC. Here I have compared with to commercial banks and to non-bank financial institution and the result came out that BBL's SME loan disbursement amount is very high and increasing from 2012 to 2016. We can also see some steady performance in 2014 because of some financial crisis and

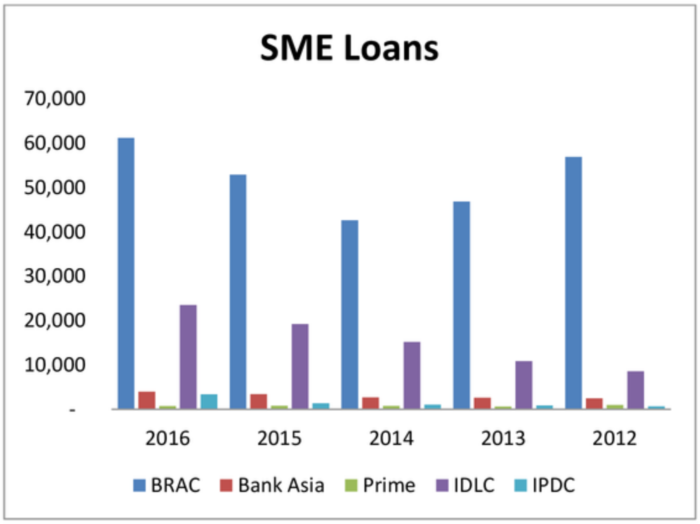
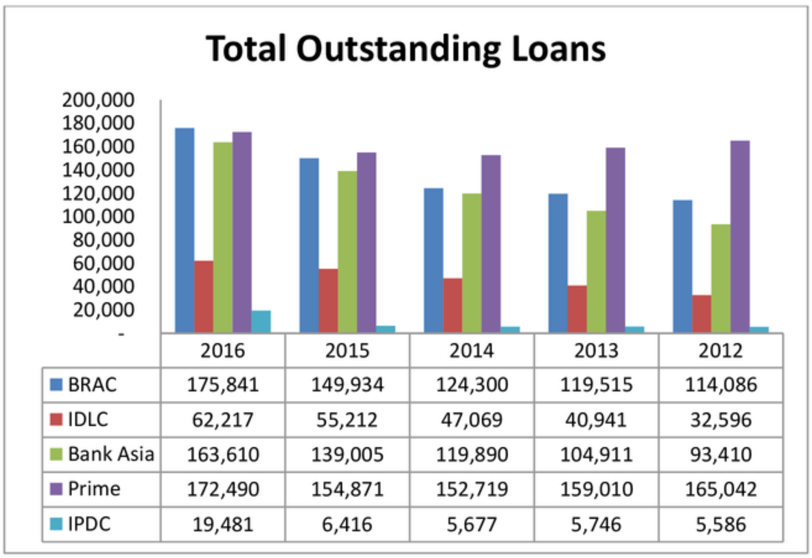


Figure 3 SME loan disbursement amount

unstable situation in politics. It is easily said that other institution are not focused to SME sector as BBL.

4.4. Comparing of BBL's total loan disbursement:

By looking at this graph we see that total outstanding loan of BRAC is increasing gradually but Prime Bank also doing the best and give competition to BRAC bank. But the difference of loan disbursement amount is not so high. Both banks are gradually increasing in loan disbursement but prime bank has high disbursement amount because it may have other loan asset which is better than BBL.



	2016	2015	2014	2013	2012
BRAC	175,841	149,934	124,300	119,515	114,086
IDLC	62,217	55,212	47,069	40,941	32,596
Bank Asia	163,610	139,005	119,890	104,911	93,410
Prime	172,490	154,871	152,719	159,010	165,042
IPDC	19,481	6,416	5,677	5,746	5,586

Figure 4 Total Loan disbursement

4.5. Recommendation:

Recommendation: After completing my internship program at BRAC Bank Limited and evaluating all findings I would suggest some recommendation which will benefit the SME sector of BRAC Bank:

- BBL need to focus more on the development of SME sector to minimize the loan disbursement risk
- They may organize many training programs to provide knowledge about SME to their employees.
- BBL should organize individual programs on SME as result customers from urban and rural area will get more knowledge about SME.
- Just like BBL's other competitor they need give importance on their other loan products.
- In this modern era of globalization technologies are changing day by day so BBL should keep their banking system up to date with the changing technological system.
- During my internship period I have noticed that some of their employees like ROs (Relationship Officers) do not have clear knowledge about SME loan so BBL should organize training program for them.
- BBL in to maintain their interest rate low from other competitor to attract young entrepreneurs.
- To run in the competition they should focus more on SME campaign and bring more loan products than their competitors.
- BBL should minimize the processing time of loan.
- As par Bangladesh Bank policy day need to be up to date to charge interest rate and other banking service.
- To reduce loan default risk thy should assess the condition of the customer and their motive to take loan.

5. Conclusion

As a developing country SME has created huge impact in our economy which is mainly possible for the contribution of the commercial bank. As a commercial bank BBL has competing in SME sector and creating new scope for entrepreneurs which also creating impact on the income and ecinimy of our country. During my internship period I have closely observed the SME sector of BBL and found that how they are focusing on the development of SME sector for our country. In our country it is difficult to get loans for small and medium enterprises but BRAC Bank in ready to helping them at any level. Last of all it can be said that as a commercial bank BRAC Bank giving new hope and strength to the small and medium enterprises.

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GRADEMARK REPORT

FINAL GRADE

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GENERAL COMMENTS

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