



An Overview of SME  
On Mercantile Bank

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Dear Madam,

I am very pleased to submit my internship report on “Mercantile bank Limited” which is an essential requirement for the completion of BBA program. This report is the result of the Internship Program that I have conducted in Mercantile Bank Limited at Bijoynagar Branch. All the information presented in this report is done with outmost sincerity and honesty. I have tried my best to make this report holistic and informative.

Apart from the academic knowledge gained, this internship program and preparation of this report have given me the opportunity to know about the overview of SME Loan. I believe that, the experience I have acquired from this Internship Program will be a valuable asset in my life. Working with such an interesting program has given me the opportunity to achieve experience, which will be helpful in my future professional career.

However, there may be some mistakes or lacking due to some limitations. Therefore, I would be highly be obliged if you would kindly consider my limitations.

Sincerely Yours,

---

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# Acknowledgement

The report titled as “Overview of SME loan of Mercantile Bank limited” has been prepared to fulfill the requirements of BBA degree. I am very much fortunate that I have received sincere guidance, supervision and co-operation from various respected people while preparing this report.

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Finally, I would like to thank the authors of the books that I’ve taken help from, which had made my understanding clearer during the making of this report.

## Executive Summary

With the clear mission to provide efficient banking services and to contribute socio-economic development of the country, Mercantile Bank Ltd emerged as a new commercial bank and inaugurated its operation on 2<sup>nd</sup> June, 1999. The bank stood 47 branches all over the country up to 2009. There are 30 sponsors involved in creating Mercantile Bank Limited. The sponsors of the bank have a long heritage of trade, commerce and industry. They are highly regarded for their entrepreneurial competence. The banking philosophy of Mercantile Bank Limited is not to 'carry coal to the new castle'. The main target is to make credits available to the poor people & their activities are aimed at multifaceted growth where people from all economic strata will enjoy the benefits of better living standard, dignity of labor and self worth. Mercantile Bank Limited provide Small and Medium Enterprise (SME) loan facilities to experienced and inexperienced entrepreneurs located in the urban and sub-urban areas to encourage new and educated young entrepreneurs to undertake productive ventures, to assist them to take part in the economic activities. To achieving the profit target, Mercantile Bank Ltd. is more interested for big and corporate loans than Small and Medium Enterprise (SME) Loan. However, they keep constant persuasion with the Heads of Branches to increase exposure in Small and Medium Enterprise (SME) Loan, but they are always handicapped with shortage of manpower in the branches. Small and Medium Enterprise (SME) is a supervised credit and needs more manpower for constant follow up, monitoring and recovery. And as such, branches ask for posting of additional manpower exclusively for Small and Medium Enterprise (SME). In this situation, it is necessary to increase substantial exposure in Small and Medium Enterprise (SME), open separate desk in the branches with adequate manpower. The bank must make a positive attempt to be more outward looking in their goals and aware of what is happening. They should have to emphasize on the domestic scenario more closely and analyze any certain trends and strategies of their competitors. By this way the Bank will be able to keep on playing its important roles in our economy.

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## 1.1. Introduction

Mercantile Bank Ltd. is committed to provide high quality services to its constituents through different financial products and profitable utilization of fund and contribute to the growth of GDP of the country by financing trade and commerce, helping industrialization, boosting export, creating employment opportunities for the educated youth and encouraging micro-credit leading to poverty alleviation and improving the quality of life of the people and thereby contributing to the overall socio-economic development of the country.

With a view to achieving the aforesaid objectives of the bank, SME Loan is of paramount importance as the greatest share of the total revenue of the bank is generated from it. The success of a bank, therefore, depends on how efficiently and judiciously it makes use of its available resources. In other words, prudent and efficient management of its credit portfolio is very essential for the success of a bank.

The accepted standards relate to safety, liquidity and profitability of the advance whereas the dynamic factors relates to aspects such as the nature and extent of risk, interest or margin, SME loan spread and SME loan dispersal. In all business dealings, officers and employees must be guided by the principles of honesty, integrity and safe-guard the interest of the depositors and shareholders of the bank. They should strictly adhere to the Banking Laws, Rules and Regulations of the Govt. of Bangladesh / the instructions and guidelines issued by the Bangladesh Bank / Head Office from time to time which affect the business practices of the Bank. However, the key to safe, liquid, healthy and profitable credit operations lies in the quality of judgment used by the Executive's / Officers making lending decisions and their knowledge of the borrower and the market place.

In formulating a SME loan judgment and making quality in SME Loan, the lending officer must be equipped with all information needed to evaluate a borrower's character,



management competence, capacity, ability to provide collaterals and external conditions which may affect his ability in meeting financial obligations.

## 1.2. Objective of the project

### **GENERAL OBJECTIVE**

The general objective of the study is to draw a comparative picture of SME loan at Mercantile Bank Limited as well as view the current status of SME loan.

### **SPECIFIC OBJECTIVES**

The specific focuses of the study are:

- To find out the activities of credit management system.
- To depict the procedures they follow for lending credit to the customers.
- To critically analyze the performance of Asset Product and Liability product of Mercantile Bank Limited at the last 6 month.
- To describe the detailed operational procedure of SME Loan along with their associated benefits.
- To identify customers' level of satisfaction
- To explore the opportunities and competitive advantages that has been ignored by MBL.
- To present my suggestion to the bank from my observation.

## 1.3. Scope of the Report

The report covers the over view of SME loan, identification of problems regarding SME loan, types of SME and sector of SME allocation of Mercantile Bank Ltd.

## 1.4. Methodology

### **Primary Sources**

Major sources of Primary information have been collected through discussing with my senior colleagues, Manager Operation, Head of Branch, Credit In charge etc.

### **Secondary Source**

Sources of secondary information are as follows:

#### **Internal Sources:**

- Bank's Annual Report
- Group Business Principal

#### **External Sources:**

- Credit Manual of MBL
- Internet

## 1.5. Limitation

Since the report has to be made parallel to office work with in three months, time might be a major constraint in accumulating all sorts of information. Due to time limitation many aspects could not be discussed in the present study because SME is a vast subject. Confidentiality of data might be another important barrier that might be faced during the conduct of this study. Every organization has their own secrecy that is not revealed to others. While collecting data on Mercantile Bank, it is obvious that employees would not disclose enough information for the sake of confidentiality of the organization. Though it is a competitive market, the company was quite liberal in disclosing the confidential information to me for my report but it was expected to me to keep the confidential things at my discretion and as at the same time, render as much information in the report as required.

## 2.1. Organization Overview

Mercantile Bank Limited emerged as a new commercial bank to provide efficient banking services with a view to improving the socio-economic development of the country. The philosophy of Mercantile Bank Ltd is not to 'carry coal to the new castle'. The main target is to make credits available to the poor people and their activities are aimed at comprehensive growth where people from all economic strata will enjoy the benefits of better living standard, dignity of labor and self worth.

The Bank determined to build a long-term customer relationship with its corporate & general clients. As a part of this, Mercantile Bank Ltd. is trying to expand their business with the market leaders of each sector of business. Mercantile Bank Ltd. emphasizes not only on customer satisfaction but also emphasizes general banking and credit management system. So that customer can get better service from every side of overall banking.

Mercantile Bank Ltd is always ready to maintain the highest quality services by upgrading Banking technology, well management system and applying high standard of business ethics through its established commitment and heritage and is representing itself with true concept as '**Banglar Bank**'.

## 2.2. My Activity

I started my journey in the bank from the very beginning part this profession. I had opportunity to gain experience working over on different departments of Mercantile Bank Limited. I was engaged on several tasks on respective departments such as- Front desk, accounts department, foreign exchange department, and cash department.

I started my work from the main and important section of the bank. First I have worked in the front desk. In this desk the main work is to open the different type of accounts. The other important work is to provide new cheque to the customers. The customers can get the signature card, solvency certificate, day start and day end cheque book list, account transfer, account close, entry of inward mail and outward mail and pay slip issue.

There are a different desk in where I have learned how to issue the demand draft, pay order and transfer by telephone. But now-a –days the telephone transfer is not used most of the time. The other important thing is to understand the code of the different type of account opening form and the rate of interest that is provided to the customers. In the front desk I have a chance to deal with customers. So I think it is not very to keep the mind peace all the time. But I also get to know how to behave with the customer properly. Because the bank will earn the maximum benefit from this section.

I have an opportunity to work in the clearing section of the general banking division. In this section I have received the cheque of the mercantile bank and other banks of our country. The customers who want to pay this cheque to the other customers.

Then I also work in the cash department in where I just get to know after taking the money from the customer how to keep them in a proper way. Also after closing the cash I have to count the cash and after keeping certain amount, send the rest of the amount to the head office.

The another most important work is to count the voucher everyday and match with the supplementary. It has to do daily basis and doing clean cash. This work is under the accounts department. I also maintain the transfer vouchers.

I also got a chance to do work in the foreign exchange division. But I only worked in the import section. I came to know how to make a letter of credit form, how to make swift and some related topic of opening of letter of credit.

Lastly I worked very few days in the SME section. In this department, I have learnt that how to processing the loan, identification of problems regarding SME loan, types of loan and in which sector the bank allocate the loans.

## 2.3. Critical Observations Regarding My Responsibilities

While making this report, I observed some activities of Mercantile Bank Limited. Here I would like to mention all the positive and negative things. Like:

- \* MBL plays a great role in placing right person to the right place.
- \* They are very active in performing their duties and responsibilities.
- \* They coordinate with different departments effectively and ensure proper synchronization of different departments.
- \* It is very difficult for them to coordinate with different departments because they have to do some works that are not related to their duties. It hampers their routine works.
- \* MBL is not properly equipped with logistics and other modern facilities. As a result, they require much time to do any complicated tasks and to communicate with other areas of the organization.
- \* Officer need to give proper orientation before fill up new LCA forms.
- \* MBL's website is not up to date; they need to be updated regularly.

- \* MBL should arrange new and effective training programs for developing their employees.
- \* MBL should modernize the storage of records to work more effectively.

## 2.4. History

Mercantile Bank Limited was incorporated in Bangladesh as a public limited company under the Bank Company Act, 1991, on May 20, 1999. After obtaining license from Bangladesh Bank to carry on banking business, the bank commenced its operation on June 2, 1999 with an authorized capital of Tk 800 million divided into 8 million ordinary shares of Tk 100 each. On 31 December 2001, its paid up capital was Tk 596.5 million. Mercantile Bank Limited went for public issue of shares on October 21, 2003. Mercantile Bank Limited has been incorporated on May 20th, 1999 in Dhaka, Bangladesh as a public limited company with the permission of the Bangladesh Bank; MBL commenced formal commercial banking operation from the June 02, 1999. The bank stood 50 branches all over the country up to 2009.

There are 30 sponsors involved in creating Mercantile Bank Limited; the sponsors of the bank have a long heritage of trade, commerce and industry. They are highly regarded for their entrepreneurial competence. The sponsors happen to be members of different professional groups among whom are also renowned banking professionals having vast range of banking knowledge. There are also members who are associated with other financial institutions insurance Companies, leasing companies etc.

The bank provides a broad range of financial services to its customers and corporate clients. The Board of Directors consists of eminent personalities from the realm of commerce and industries of the country.

The Bank is manned and managed by qualified and efficient professionals. **Mr. Shah and Md. Nurul Alam** is holding charge of Managing Director upon expiry of term of

Mr.M.Taheruddin as Managing Director on 14.04.2004. Mr. Lutfar Rahman Sarker, the former Governor of the central bank of Bangladesh was the Chief Advisor of the bank. He brings with him a wealth of experience of managing both public and private sector banks.

## 2.5. Mission

“Will become most caring, focused for equitable growth based on diversified deployment of resources, and nevertheless would remain healthy and gainfully profitable Bank”

## 2.6. Vision

“Would make finest corporate citizen”

## 2.7. Time Line of Mercantile Bank Ltd





## 2.8. Objectives

### Strategic objectives

- To achieve positive Economic Value Added (EVA) each year.
- To be market leader in product innovation.
- To be one of the top three financial institutions in Bangladesh in terms of cost efficiency.
- To be one of the top five financial institutions in Bangladesh in terms of market share in all significant market segment they serve.

### Financial objective

- To achieve 20% return on shareholders' equity or more, on average

## 2.9. Core Values

### ◆ For the customer

Providing with caring services by being innovative in the development of new banking product and services

### ◆ For the shareholder

Maximizing wealth of the bank

### ◆ For the employer

Respecting worth and dignity of individual employees devoting their energies for the progress of the bank

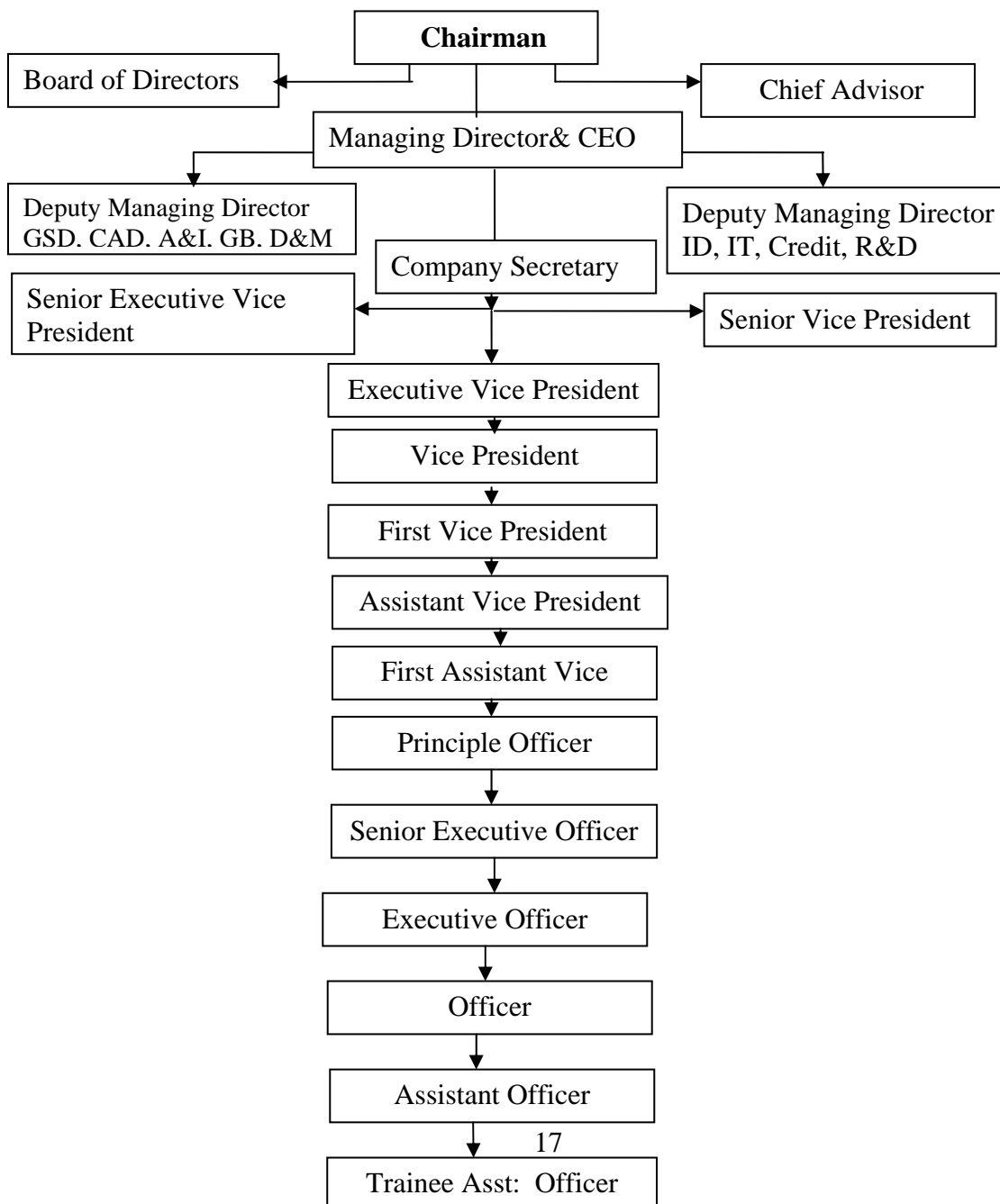
### ◆ For the community

Strengthening the corporate values and taking environment and social risks and reward into account.

## 2.10. Technology

MBL has adopted the modern hardware and software technologies to make the services easier and quicker they have introduced on-line banking and SMS banking services for their customers. They are providing 24 hours banking services to their clients through SMS banking and ATM booths across the country.

## 2.11. Operational network organ gram



## 2.12. Corporate Information

### HEAD OFFICE

61, Dilkusjha Commercial Area

Dhaka-1000

Phone: +88-02-9559333, 9553892, 9561140

Fax: +88-2-9561213

Swift: MBLBDDH

E-mail: [mbi@bol-online.com](mailto:mbi@bol-online.com)

Website: [www.mblbd.com](http://www.mblbd.com)

## 2.13. Mercantile Bank's Functional Departments

The Mercantile Bank Limited has the following departments, which includes the whole operations of the bank. The departments are listed below with their major section in the following table.

### Departments in Mercantile Bank Limited

Major Sections	Department Name
<b>Branches</b>	General Banking Department
	Credit Department
	Foreign Exchange Department
<b>Corporate Office</b>	Human Resources Department
	International Division
	Treasury
	IT (Information Technology)
	Card Division

## 2.14. Financial Highlights

<i>Particulars</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
<b>Authorized Capital</b>	1200.00	1200.00	1200.00	1200.00	1200.00	3000.00	3000.00	3000.00
<b>Paid up Capital</b>	276.85	319.77	639.53	799.41	999.27	1199.12	1498.90	1798.68
<b>Deposits (Base &amp; Bank)</b>	12234.70	15150.42	16285.19	22385.19	25087.43	33332.65	39348.00	49538.36
<b>Loans and Advances</b>	6707.42	8896.19	10775.95	17669.29	21857.05	26842.14	31877.86	41993.95
<b>Import</b>	12268.00	15112.50	20380.80	28325.20	33271.90	42442.80	40380.10	56528.80
<b>Export</b>	10457.50	11377.30	15250.60	17411.00	24108.57	34592.10	32670.10	43108.50
<b>Remittance</b>	308.40	496.30	474.00	671.30	679.10	2989.10	3510.40	4722.90
<b>Net Profit</b>	214.96	256.54	215.91	312.58	386.83	494.22	540.50	615.88

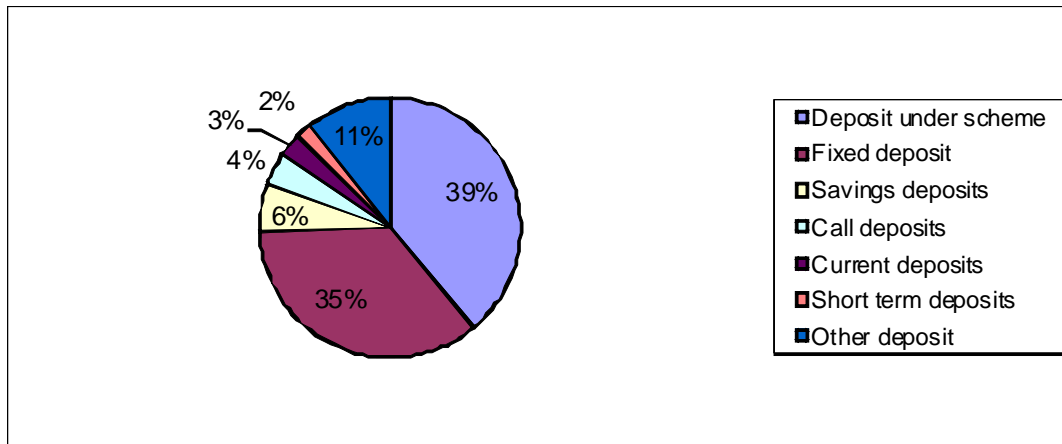
*8 Years Financial Highlights of Mercantile Bank Limited (BD in million)*

This table shows the upward growth of the organization year by year. The strong management and the interest of directors made the growth of the business smooth. Hence the bank has positioned itself a comparatively good position among the other local bank of the country.

The main function of the bank is to mobilize fund from the surplus unit to deposit unit and hence the two main activity of the bank is to collect deposit and disburse loan and advances. When we talk about the performance of bank we must observe the performance on these two activities and the growth and balance of these two activities confirm that how better the bank is performing. The following graphs shows in a simple way the consistent performance of MBL.

## 2.14.1. Deposit Mix

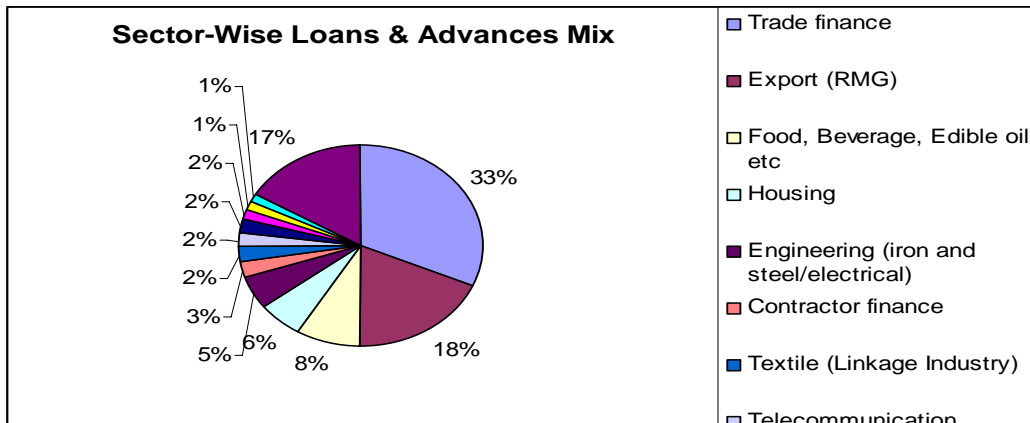
The bank mobilized total deposits of BDT 49,538.36 million as of December 31, 2009 as compared to that of BDT 39,348.00 million up to December 2008. Competitive interest rates, attractive deposit products, deposit mobilization efforts of the bank and confidence reposed by the customers on the bank contributed to the notable growth in deposit. The bank introduces a number of attractive deposit schemes to cater the requirement of small and medium savers. This improved not only the quantum of deposits, but also brought about qualitative changes in the deposits structure.



*Figure: deposit Mix*

## 2.14.2. Loans and advances:

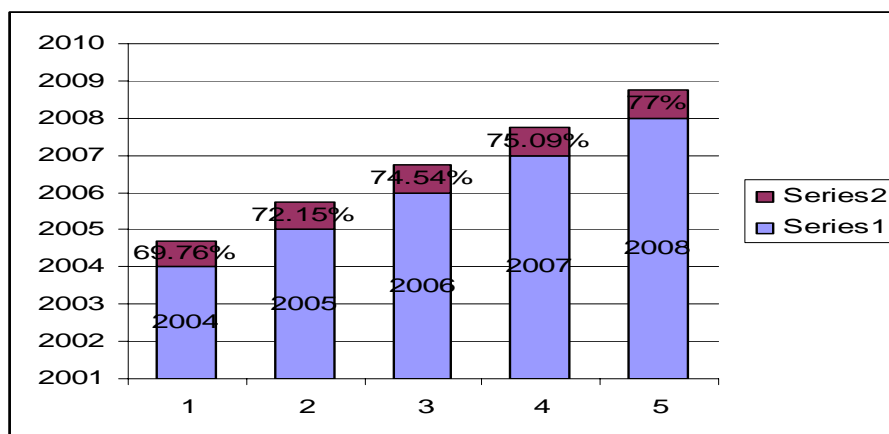
The bank has formulated a policy to give more priority to Small and Medium Enterprise (SME) while financing large-scale enterprises through consortium of banks. Total loans and advances of the bank stood at BDT 41,993.95 million as of December 31, 2009 as compared to BDT 31,877.86 million at the end of December 2008.



*Figure: Loans and advances*

## 2.14.3. Net Profit

From this figure we may come to know banking functions of MBL has smooth upward growth of profit from the year of incorporation to present



*Figure: Net Profit*

## 2.15. Product and Service

Mercantile Bank Limited has offer a broad array of innovative financial services specially designed to match the specific requirement of the client ranging from large corporate houses, small and medium enterprises to private individuals. The team of professionals assists the clients in finding the most appropriate financing package making use of the Bank's own resources and/or organizing loan to help the clients realize their short-term goals and long-term aspirations.

### 2.15.1. General Banking

The general banking department does the most important and basic works of the bank. All other departments are linked with this department. It also pays a vital role in deposit mobilization of the branch. MBL provides different types of accounts, locker facilities and special types of saving scheme under general banking. For proper functioning and excellent customer service this department is divided into various sections namely as follows-

- Deposit section
- Account opening section
- Cash section
- Bills and clearing section
- Remittance section
- FDR section
- Accounts section

#### **Functions of General Banking Division**

- 1) Account opening.
- 2) Cheque book issuing.

- 3) Signature Scanning
- 4) Demand draft issue.
- 5) Pay order issue
- 6) Telephonic Transfer
- 7) Account enquiry
- 8) Providing Accounts Statements.
- 9) Solvency certificate issuing
- 10) Account transfer
- 11) Account closing
- 12) Dispatch
- 13) Return of Bangladesh Bank and Head office statements

## 2.15.2. Foreign Exchange

Foreign Exchange department facilitate the inflow and outflow of foreign currency exchange by opening export-import L/C. This department also facilitates local L/C.

### **Function of Foreign Exchange department:**

#### **Import**

- Opening of letter of credit
- Advance bills
- Bills for collection
- Import loans and guarantees

#### **Export**

- Pre-shipment advances
- Purchase of foreign bills
- Negotiating of foreign bills
- Export guarantees
- Advising/ conforming letters of credit



- Advance for deferred payment export
- Advance against bills for collection

### **Remittances**

- Issue of D.D, T.T & M.T.
- Payment of D.D, T.T, M.T
- Issues and encashment traveler's Cheque
- Sale and encashment of foreign currency notes
- Non-residence accounts

## 2.15.3. SME Service

To make customers life more convenient and comfortable, Mercantile bank offer variety of lending option for their customer.

## 2.15.4. On-line banking Service

On-line service is now available for all customers of the bank. On-line banking have so far activated with 42 branches. As a result, it saves the time and efforts of the customers. They can easily deposit and withdraw money, transfer money from one place to another place by using online banking facility.

- **On-line banking times:**
  1. Sunday to Thursday: 9am to 3pm
  2. Saturday: 9 am to 12am
- **Account wise Online Banking Limit (cash withdrawal, deposit and transfer):**
  1. **Minimum deposit limit:** TK 500000 per transaction cumulative deposit shall not be more than TK. 1000000 per day.

2. **Maximum Withdrawal limit:** TK 500000 per transaction cumulative withdrawal shall not be more than TK. 600000 per day.

- **Charges for Online Banking:**

Intra city (branches under same city corporation areas)	Inter City (branches outside city corporation areas)	Mode of realization
Free	Up to BDT 100000 - TK. 50 Up to BDT 200000 - TK. 100 Up to BDT 300000 - TK. 150 Up to BDT 400000 - TK. 200 Up to BDT 500000 - TK. 250	Up front Cash

### 2.15.5. SMS Banking

SMS service is one of the most modern banking services. It is convenient safe, low-cost, fast and available round the clock. MBL SMS Banking service offers the followings:

- Access to account balance
- Last 3 transaction inquiry
- Cheque leaf status inquiry

### 2.15.6. ATM Booth and SME Service Centre

The bank serves the customers by providing ATM Booth and SME Service Centre facilities. A number of ATM Booths and SME Service centers have been unlocked at different commercially significant places of the country to serve the customers, to save their time, consequently, to make them free from hassle.

## 2.15.7. Cards of MBL

- **Dual Card (two in one):** Single Card with double benefits. No hassle to carry two cards (local and international). A single credit card can be used both locally and internationally to withdraw cash from ATM for POS transaction. This is the special feature of MBL Visa card.
- **Debit Card:** Visa debit card is mainly tagged with deposit account (CD/SB/STD) that is automatically debited from the A/C having available balance. Debit card can also be used for purchasing goods, services, payment of utility bills etc as well as withdrawal of cash from ATM.
- **Pre-Paid Card:** Those who have no account with MBL may avail Pre-Paid card facilities. The Pre-Paid cardholders pay first buy later. Pre-Paid card offers the convenience and security of electronic payment in situations where one might otherwise use cash, such as birthday gift or a monthly allowance for a young adult. Examples include gift cards and salary payment etc.

## 2.15.8. Categorization of Bank Account

- Current Deposit (CD)
- Savings Deposit (SD)
- Short Term Deposit (STD)
- Fixed Deposit (FDR)
- Foreign Currency Deposit (FC)

## 2.15.9. Deposit under schemes

- **Double Benefit Deposit Scheme**

Under this scheme, one can deposit a certain amount of money for a period of seven and half year. After 7 1/2 years, the deposit amount will be doubled.

Objectives		Mode
<ul style="list-style-type: none"> <li>• Give maximum benefit.</li> <li>• Help in meeting specific needs like education, marriage etc.</li> <li>• Deposit becomes double in six years.</li> </ul>	Tenure of the deposit is 7 1/2 years.	
Amount of Deposit	Period	Amount Payable
1,00,000	7 1/2 Years	2,00,000

- **Quarterly Benefit Deposit Scheme**

The 'Quarterly Benefit Deposit Scheme' will be maintained for a period of 3 (three) years and the minimum amount of deposit is BDT 50,000.00 (fifty thousand) or its multiples. Interest will be paid on quarterly basis as per example given below. On maturity the principal amount will be paid back.

Initial Deposit (BDT)	Term	Quarterly Benefit Payable (BDT)
50,000	3 Years	1,500
100,000	3 Years	3,000
200,000	3 Years	6,000

• **Mashik Sanchaya Prokalpa (MSK) Or Monthly Savings Scheme (MSS)**

The prime objective of this scheme is to encourage the people to develop their habit of saving. Under this scheme, one can save a fixed amount of return every month and get a lucrative amount of return after five, eight or ten years.

Objectives		Mode	
<ul style="list-style-type: none"> <li>Build up habit of savings.</li> <li>Attract small savers.</li> <li>Saving for rainy days.</li> </ul>		<ul style="list-style-type: none"> <li>Monthly installments of various sizes.</li> </ul>	
<b>Benefits:</b>			
Period	Monthly Installment		
	500	1000	1500
	Benefits		
5 Years	20,625	41,250	82,500
8 Years	40,375	80,750	1,61,500
10 Years	57,500	1,15,000	2,30,000
Period	Monthly Installment		
	2000	2500	5,000
	Benefits		
5 Years	1,23,750	2,06,250	4,12,500
8 Years	2,42,250	4,03,750	8,07,500
10 Years	3,45,000	5,75,000	11,50,000

• **Family Maintenance Deposit Scheme**

Under this scheme, one can deposit a certain amount of money for five years and in return he/she will receive benefits on monthly basis. Benefit start right from the first month of opening an account under the scheme and continue up to five years. On maturity the principal amount will be paid back

Objective	Mode
<ul style="list-style-type: none"> <li>• Help the retired persons for investing their retirement benefits.</li> <li>• Create investment opportunities for Non-Resident Bangladeshi.</li> <li>• Explore investment opportunities for school, college, university etc.</li> <li>• Give investment opportunities for Trust; Foundation etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Deposit a fixed amount of money for 05 (Five) years.</li> <li>• Depositor will get a certain sum of money in each month proportion to his/her deposit during the entire tenure.</li> </ul> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>• Tenure of deposit is 05 (Five) years.</li> <li>• Minimum amount of required deposit is TK.50,000.00 or its multiple</li> </ul>
Deposit	Monthly Benefit (Amount in TK.)
1,00,000	1,000
2,00,000	2,000
3,00,000	3,000

• **Time Benefit Deposit Scheme**

Under the ‘1.5 Times Benefit Deposit Scheme’ a deposit of minimum BDT 50,000.00 (fifty thousand) or its multiples will be received for a period of 42 months (3.5 years). On maturity after 42 months, 1.5 times of the deposited amount will be paid back to the account holder as per example given below:

Initial Deposit (BDT)	50,000	1,00,000	5,00,000
Return after 42 months (BDT) with benefits	75,000	1,50,000	7,50,000

- **Advance Benefit Deposit Scheme (ABDS) or Agrim Munafa Amanat Prokolpo (AMAP)**

Under this Scheme, one can deposit a certain amount of money for two years. The depositor will receive the benefit on yearly basis. The benefit amount of first year will be received in advance at the time of deposit. On maturity, the depositor will get back the principal amount with the benefit amount of second year.

Objectives	Mode
<ul style="list-style-type: none"> <li>• Get Extra benefit from minimum Deposit.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintained for a period of 2(Two) years.</li> <li>• Minimum deposit amount 1,00,000(One Lac) only.</li> </ul>
<b>Interest Rate Per BDT One Lac</b>	
BDT 1 Lac (One Lac)	Tk. 11,112.00 for first year      Tk. 13,000.00 for second year

## 2.15.10. Loan Products

- **Consumer Credit Scheme**

Consumers' Credit Scheme is one of the popular areas of collateral-free finance of the Bank. People with limited income can avail of credit facility to buy household goods including computer and other consumer durables.

Objectives	Terms & Conditions
<ul style="list-style-type: none"> <li>• Help fixed-income people for buying house hold durable.</li> <li>• For the amount up to Tk. 1,00,000 the period is two years.</li> <li>• Interest rate will be charged quarterly rest.</li> </ul>	<ul style="list-style-type: none"> <li>• Interest Rate 16.00%</li> <li>• Risk Fund 1.00%</li> <li>• Supervision Charge (per year on outstanding balances) 0.25%</li> <li>• Application Fee BDT 200.00</li> </ul> <p><b><u>Special Feature</u></b></p> <ul style="list-style-type: none"> <li>• The loan amount is directly credited to the customer's account.</li> </ul>

- **Small Loan Scheme:**

This scheme has been designed especially for the businessmen who need credit facility for their business and can't provide tangible securities.

Objectives	Mode
<ul style="list-style-type: none"> <li>• Extend credit facility to small shopkeepers.</li> <li>• Give collateral-free credit</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum amount of loan Tk. 2,00,000.</li> <li>• Interest Rate 16.00% &amp; Risk Fund 1.00%</li> <li>• Service Charge 0.25% per year on outstanding balances</li> <li>• Application Fee BDT 200.00 Loan Limit BDT 2.50 Lac</li> <li>• Repayment period 3 years &amp; Interest rate will be charged at quarterly rest.</li> </ul>

- **Lease Finance:**

This scheme has been designed to assist and encourage the genuine and capable entrepreneurs and professionals for acquiring capital machineries, medical equipments, computers, vehicle and other items. Flexibility and easier terms and conditions of this scheme have attracted the potential entrepreneurs to acquire equipments of production and services and repay gradually from earnings on the basis of 'Pay as you earn'.

Objectives	Terms & Conditions
<ul style="list-style-type: none"> <li>• Assist and encourage entrepreneurs for acquiring capital machinery, medical equipment, automobiles etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Lease period 3 to 7 years</li> <li>• Lease rent @ 16.00%</li> <li>• Risk Fund 1.00%</li> <li>• Service Charge 0.25% per year on outstanding balances.</li> </ul> <p><b>Security</b></p> <ul style="list-style-type: none"> <li>• Primary: Ownership of fixed items.</li> <li>• Collateral: Landed property, Bank Guarantee, ICB Unit Certificate etc.</li> </ul>



- **Doctors' Credit Scheme**

Doctors' Credit Scheme is designed to facilitate financing to fresh medical graduates and established physicians to acquire medical equipments and set up clinics and hospitals.

Objectives	Terms & Conditions
<ul style="list-style-type: none"> <li>• Help new F.C.P.S. or post-graduate doctors for setting up chambers and buying medical equipment.</li> <li>• Help experienced doctors for refurbishing chambers and buying medical equipment.</li> <li>• Assist private clinics for acquiring modern medical equipment.</li> <li>• Interest rate will be charged at quarterly rest.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Equity</b> <ul style="list-style-type: none"> <li>» For new doctor 10%</li> <li>» For experienced doctor 15%</li> <li>» For Hospital, Clinic and Diagnostic Center 20%</li> </ul> </li> <li>• <b>Interest Rate 16.00%</b></li> <li>• <b>Risk Fund Tk. 1.00%</b></li> <li>• <b>Repayment period 5 years</b></li> <li>• <b>Credit limit</b> <ul style="list-style-type: none"> <li>» New doctor 5.00 Lac.</li> <li>» Experienced doctor 15.00 Lac.</li> <li>» Hospital, Clinic and Diagnostic Center 50.00 Lac.</li> </ul> </li> <li>• Application Fee BDT 200.00</li> <li>• Service Charge / Ledger Fee 0.25% per year on outstanding balances.</li> </ul>

- **Rural Development Scheme**

Rural Development Scheme targeted for the rural people of the country to make them self-employed through financing various income-generating projects. This scheme is operated on group basis.

Objectives	Terms & Conditions
<ul style="list-style-type: none"> <li>• Raise the standard of living of rural people.</li> <li>• Initiative to break the vicious cycle of poverty.</li> <li>• Enhance the purchasing power of rural people.</li> </ul>	<ul style="list-style-type: none"> <li>• <b><u>Group formation</u></b> <ul style="list-style-type: none"> <li>» 30 person in a group 1 group leader</li> <li>» 6 sub-groups consisting 5 person each in a group</li> <li>» 1 sub-group leader in each sub-group</li> </ul> </li> <li>• <b><u>Credit limit</u></b> <ul style="list-style-type: none"> <li>» Maximum Tk. 5,000 per person.</li> <li>» Gradually enhance able up to Tk. 10,000.</li> </ul> </li> <li>• Interest Rate 14.00%.</li> <li>• Risk Fund 1.00.</li> <li>• Service Charge 0.25% per year on outstanding balances.</li> <li>• Repayment period 1 year.</li> <li>• Security: Group guarantee, no collateral</li> </ul>

- **Personal Loan Scheme**

Personal Loan Scheme has been introduced to extend credit facilities to cater the needs of low and middle-income group for any purpose. Government and semi-government officials, employees of autonomous bodies, banks and other financial organizations, multinational companies, reputed private organizations and teachers of recognized public and private schools, colleges and universities are eligible for this loan.

Objectives	Terms & Conditions
<ul style="list-style-type: none"> <li>Assist and encourage entrepreneurs for acquiring capital machinery, medical equipment, automobiles etc.</li> </ul>	<ul style="list-style-type: none"> <li>Lease period 3 to 7 years</li> <li>Lease rent @ 16.00%</li> <li>Risk Fund 1.00%</li> <li>Service Charge 0.25% per year on outstanding balances.</li> </ul> <p><b>Security</b></p> <ul style="list-style-type: none"> <li>Primary: Ownership of fixed items.</li> <li>Collateral: Landed property, Bank Guarantee, ICB Unit Certificate etc.</li> </ul>

- Car Loan Scheme**

Car Loan Scheme has been introduced to enable middle-income people to purchase Cars/SUVs/Jeeps. Government and semi-government officials, employees of autonomous bodies, banks and other financial organizations, multinational companies, reputed private organizations, teachers of recognized public and private universities and businessmen are eligible for this loan.

Objectives	Terms & Conditions
------------	--------------------

- Help fixed-income people for buying car
- Interest rate will be charged quarterly rest.
- Maximum loan amount is BDT 25.00 lacs.
- Tenure of loan is 05 (Five) years
- Interest Rate 16.00%
- Risk Fund 1.00%
- Supervision Charge (per year on outstanding balances) 0.25%
- Application Fee BDT 200.00
- **Special Feature**
- BDT 7.50 Lac for reconditioned Car/Jeeps/SUVs and BDT 25.00 Lac for new Cars/Jeeps/SUVs.

- **Woman Entrepreneurs Development Scheme**

Women Entrepreneurs Development Scheme has been introduced to encourage women in doing business. Under this scheme, the Bank finances the small and cottage industry projects sponsored by women.

- **SME Loan Scheme**

Small and Medium Enterprise (SME) Loan Scheme has been introduced to provide financial assistance to new or experienced entrepreneurs to invest in small and medium scale industries with a comparatively low rate of interest as the same is assisted by the Bangladesh Bank with refinancing facilities.

- **Home Loan Scheme**

To meet the growing need of housing for middle and lower-middle income people, MBL has introduced Home Loan Scheme. We also support the Bangladesh Bank's Home Loan Refinance Scheme. The Scheme boosts up the growth of housing sector. Such loan shall be available for purchase or construction of new apartments for self-residing purpose.

- **Overseas Employment Loan Scheme**

Overseas Employment Loan Scheme is designed to facilitate the Bangladeshi youths seeking employment abroad but who are unable to meet the expenses to reach the workplace from their own sources. The ultimate objectives of the scheme are to promote skilled / semi-skilled manpower to different countries across the world as well as to provide support to Government Policy considering priority of this sector. By availing loan under this scheme, the active youths of middle and lower middle class can get overseas employment by avoiding borrowing from the illustrious class or village 'MOHAJON' at a very high cost or selling their paternal properties. The scheme helps fetching foreign currency for the country as well as fulfills the Bank's commitment to encourage micro-lending for poverty alleviation, improve the quality of life and thereby contribute to socio-economic development of the country.

### 3.1. Small and Medium Enterprise (SME) Loan

The Small and Medium Enterprise (SME) worldwide are recognized as engines of economic growth. The commonly perceived merits often emphasized for their promotion especially in the developing countries like Bangladesh include their relatively high labor intensity dependence on indigenous skill and technology contribution to entrepreneurship development and innovativeness and growth of industrial linkage. Fostering SME growth in Bangladesh is irrefutable as these industries offer bright prospects for creating large-scale employment and income earning opportunities at relatively low cost for the un- and unemployed especially in the rural areas strengthening the efforts towards achieving high and sustained economic growth which are critically important prerequisites for triggering an exit from endemic poverty and socio-economic deprivation

Mercantile bank SME & Retail Banking Division has launched in 3rd September 2006 and full-fledged operation of SME started from 7th January 2007. Small and medium enterprise (SME) loan offered by MBL to provide credit facilities to small and medium size entrepreneurs located in the urban and sub-urban areas to encourage new and educated young entrepreneurs to undertake productive ventures, to assist them to take

part in the economic activities. The Bank has set the definition of small enterprise in line with Bangladesh Bank guidelines. A special credit scheme under the name and style “Small and Medium Enterprise (SME) Scheme” has been introduced to extend credit facilities to the small and medium entrepreneurs of the country.

**Definition:**

• **Small Enterprise:**

1. **Manufacturing:** Organizations having less than 50 employees and total assets of Tk. 50.00 thousand to Tk. 1.50 Crore (excluding land and building).
2. **Trading:** Organizations having less than 25 employees/ work force and total assets of Tk. 50.00 thousand to Tk. 50.00 lac (excluding land and building).
3. **Service:** Organizations having less than 25 employees/ work force and total assets of Tk. 50.00 thousand to Tk. 50.00 lac (excluding land and building).

• **Medium Enterprise:**

1. **Manufacturing:** Organizations having less than 100 employees and total assets of TK. 1.50 Crore to TK. 20.00 Crore (excluding land and building).
2. **Trading:** Organizations having less than 50 employees/ work force and total assets of TK. 50.00 lac to TK.10.00 Crore (excluding land and building).
3. **Service:** Organizations having less than 50 employees/ work force and total assets of TK. 50.00 lac to TK. 10.00 Crore (excluding land and building).

## 3.2. Purpose

- Contribute to the socio-economic development of the country.
- Encourage small and medium industry especially agro-based industry of the country.
- Participate in reduction of poverty through employment generation and income generating projects.
- Provide financial assistance to small and medium enterprise, which have limited access to the formal financial markets.

## 3.3. Classification of Entrepreneurs

Two types of entrepreneurs will come under this scheme:

- New and inexperienced entrepreneurs.
- Experienced and successful entrepreneurs.

## 3.4. Terms and conditions for SME Loan

- The bank shall not be obliged to make the loan available until it has received formal written acknowledgement from the borrower accepting the facility on the basis outlined and subject to the terms and conditions specified in the banking arrangement letter (sanction letter) and necessary security documents are properly executed.
- The SME Loan facility will be made available to the customer subject to a clean CIB report from Bangladesh Bank and Compliance of Bangladesh bank formalities (if any).

- The Bank reserves the right to withdraw the loan facility and thereby terminate the agreement. If, in the opinion of the bank, there has been any materials adverse change in the borrowers financial condition or if there has been any default in repayment of the loan.
- The loan shall be utilized for the specified purpose for which it has been sanctioned. Payment shall be made directly by the bank to the borrower and as agreed by the bank considering the purpose of the facility.
- The acceptance of the terms and conditions of the banking arrangement letter by the borrower constitute a legal and binding obligation and is enforceable in accordance with the terms of this letter.
- The borrower unconditionally undertakes to repay the facility as per terms and condition of the banking arrangement letter.
- The security documents will remain lodged with the bank and will be enforceable by the bank against the borrower in the event of breach of agreement by the borrower.
- Bank will charge repayment fee @1% on outstanding amount if the borrower adjust the loan in full within half of its tenure.
- All payments required to be made in respect of the loan, shall be made by the borrower on the respective due dates.
- The bank is authorized to enforce the securities (as required) in the event the loan account become irregular and shall apply any proceeds recovered towards adjustments of the outstanding loan liabilities along with all legal fees.



- In the event of death of borrower, the bank shall be entitled to recover the outstanding amount from the end of service benefits from his/her employer and his/her legal heir(s) and or from the guarantor.
- The bank statement and records shall be binding on the borrower and constitute conclusive evidence of debt for all purpose.
- If at any time, any provision hereof becomes illegal, invalid or unenforceable in any respect the legality, validity or unenforceability of the remaining provisions shall not be affected or impaired thereby.
- The bank reserves the right to review the facility and/ or these terms and condition and/or terminate the facility and/or call back the money due there under at anytime without ongoing any version whatsoever.
- Any notice made by the bank in respect of the loan shall be in writing and send to the mailing address given by the borrower and shall be deemed to have been served on the customer 3 business days from the date of dispatch.
- Except as notified to the bank in writing prior to the acceptance of the terms of the application, the borrower is not entering into the loan as a trustee for any trust.
- The following fees and cost are to be borne by the borrower(s) as per banking arrangement letter:
  - Interest rate
  - Risk fund
  - Penal interest rate
  - Service charge
  - Other charges/fees

- These terms and conditions shall be governed by the laws of Bangladesh and the borrower and the bank hereby irrevocably submit to the non-exclusive jurisdiction of the courts of Bangladesh.
- Bank will charge penalty@ tk. 500 for each bouncing of cheque. Bank may deal the matter according to section 138 of negotiable Instrument Act-1881.

### 3.5. Target Segments for SME Financing

S.L.	Sector
1	Hospitals and Clinics
2	It related business
3	Agricultural and Agricultural Development items
4	Fishing and fishing business promotion
5	Transportation and Communication
6	Forestry and furniture
7	Construction business and housing development
8	Leather marketing and leather goods
9	knitwear and ready made garments
10	Plastic and other synthetics
11	Entertainment
12	Photography
13	Hotel and tourism
14	Warehouse and container services
15	Printing and packaging
16	Gunning and Bailing
17	Pathological Laboratories
18	Cold Storage
19	Horticulture- Flower growing and Marketing
20	Food and oil processing plants
21	Higher education and expertise knowledge society
22	Telecommunication

### **Discouraged business types:**

The Bank will discourage lending to following areas of business:

- Military Equipment/Weapons Finance
- Tobacco sector
- Companies listed on CIB black list or known defaulters
- Highly Leveraged Transactions.
- Finance of Speculative Investments
- Logging, Mineral Extraction/Mining or other activity that is Ethically or Environmentally Sensitive
- Counter parties in countries subject to UN sanctions.
- Share Lending (Not more than 60% of share value of last 6 (six) months market average or maximum 35 lac whichever is lower or as per guidelines of Bangladesh Bank)
- Taking an Equity Stake in Borrowers (except under Islamic Banking Operation)
- Bridge Loans relying on equity/debt issuance as a source of repayment.

## 3.6. Lending Caps

1. The Bank Management will establish a specific industry sector exposure caps to avoid over concentration in any one-industry sector. Sector-wise allocation of Credit shall be made annually with the approval of the Executive Committee of the Board of Directors / Board of Directors as per appendix-1.1.
2. Diversification of Credit Portfolio will be encouraged so as to reduce the risk of dependence on a particular sector for balanced socio-economic development of the country.
3. Branches shall submit a report outlining trend and outstanding to the Head of Credit Administration Division on quarterly basis for onward submission to the

Executive Committee of the Board of Directors / Board of Directors for information/ perusal/ guidance.

## 3.7 Credit Assessment

A thorough Credit and Risk assessment shall be conducted for all types of credit proposals. The Credit Officer must be familiar with Bank's Lending Guidelines and should conduct due diligence on new borrowers, principals and guarantors in line with policy guidelines.

Credit Officers should consider following procedures in risk assessment

- Amount and type of loan(s) proposed
- Purpose of Loan(s)
- Results of Financial analysis
- Loan structure (Tenor, Covenants, Repayment schedule, Interest)
- Security Arrangements

### **Risk Management / Credit Risk Evaluation / Assessment – Lending Decision:**

A comprehensive and accurate appraisal of the risk in every credit proposal of the Bank is mandatory. No proposal can be put on place before approving authority unless there has been a complete analysis. In order to safeguard Bank's interest over the entire period of the advance, a comprehensive view of the capital, capacity, integrity of the borrower, adequacy, nature of security, compliance with all regulatory /legal formalities, condition of all documentation and finally a continues and constant supervision on the account are called for.

It is absolute responsibility of the Credit Officer / RM to ensure that all the necessary documents are collected before the proposal is placed for approval. Where Loans/Advances/Credit facilities are granted against the guarantee of the third party, that

guarantor must be subject to the same credit assessment as made for the principal borrower. While making lending decisions, particular attention shall be given to the analysis of credit proposals received from heavily leveraged companies and those dealing in non-essential consumer goods, taking special care about their debt servicing abilities.

**Emphasis shall be given on the following several credit principles:**

- a) Present and future business potentiality for optimum deployment of Bank's fund to increase return on assets
- b) Preference for self liquidating QUALITY business
- c) Avoiding marginal performers.
- d) Risk depression is basic to sound credit principles and policies. Bank shall be careful about large and undue concentration of credit to industry, one obligor and common product line etc.
- e) Managing the amount, size, nature and soundness of one-obligor exposures relative to the size of the borrower and Bank's position among his other lenders.
- f) Personal guarantee of the principal partners or the Directors of the Company shall be obtained

### 3.8. Risk Grading

Risk grading is a key measurement of a Bank's asset quality and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Presently the Bank is following/conducting the Lending Risk Analysis to assess the risk grade. The concerned Credit Officer must clearly indicate the risk grade (as per the finding) in the specific column of credit appraisal form so that the authority can take decision on the matter.

Number	Risk Grading	Short Name	Score
1	Superior	SUP	<ul style="list-style-type: none"> <li>• 100% cash covered</li> <li>• government Guarantee</li> <li>• International Bank Guarantee</li> </ul>
2	Good	GD	85
3	Acceptable	ACCPT	75-84
4	Merginal / watchlist	MG/WL	65-74
5	Special Mention account	SMA	55-64
6	Sub-Standard	SS	45-54
7	Doubtful	DF	35-44
8	Bad & loss	BL	<35

### 3.9. Limit for Loan

Maximum Limit for small enterprises is Tk. 20.00 lac (Term loan and Working Capital) and Medium Enterprises is Tk. 50.00 lac (Term Loan and Working Capital).

## 3.10. Fees and Charges of SME Financing

1. Interest Rate: 15% (for women entrepreneur 10%)
2. Risk Fund: 1%
3. Service charge: 1%
4. Application Fee: Tk. 200.00
5. Loan Processing Fee: Tk. 500.00

## 3.11. Insurance

Fire insurance and other insurance should be done at the cost of the customer.

## 3.12. Collateral Securities

Collateral security will be required for the loan amounting more than Tk. 5.00 lac. However, two personal guarantees acceptable to the Bank should be taken for all SME loans.

## 3.13. Valuation

Valuation of property provided as security should be done by a survey firm enlisted with the Bank prior to sanction / disbursement of loans.

## 3.14. Repayment of Loan

1. Term Loan: Maximum 60 installments.
2. Working Capital: Maximum 12 installments, 40% of the loan amount should be recovered within 1<sup>st</sup> 6 months and remaining 60% should be recovered within next 6 months. At maturity the loan will be fully adjusted. After repayment of 75% of the loan the customer may apply for new credit facility.

### 3.15. Application procedure

Application procedures include the following steps:

1. Prescribed application form duly filled in and signed by the clients.
2. Submission of the applicant along with supporting documents.

### 3.16. Selection of Borrower

1. Small and medium enterprise financing, like other credit facilities must be subject to the Bank's management process setup for this particular business. The process may include, identifying source of repayment and assessing customer's ability to repay, expected future cash flows, his / her past dealings with the bank, the net worth and information from CIB. The Bank must identify the key drivers of their borrowers business, the key risks to their business.
2. At the time of sanctioning facility under various modes of SME financing, a written declaration shall be obtained from the borrower disclosing details of various facilities already obtained from other institutions to ensure that the total exposure in relation to the repayment capacity of the customer does not exceed the reasonable limits as laid down in the approved policies of the Bank as well as to help avoid exposure having multiple facilities.
3. Age limit: The age of the proprietor / partners / directors must range between 21 years to 60 years.

### 3.17. Site Visit Report

Branch will forward a detailed site visit report regarding the project to the Head Office duly signed by the officer and Head of Branch / Operations Manager. On the contrary, SME Team, Head Office will assist (on need basis) in site visitation.



## 3.18. Command Area

Command area may preferably be within radius of 5 Kilometer from the branch.

## 3.19. Segregation of Duties

SME team at Head Office will process all activities to help branch related in obtaining CIB Report, file preparations, document collation, site visit, verification, credit approval, credit monitoring and recovery and credit administration. Process flowchart of SME loan processing is given in the annexure.

Simultaneously branches may independently select clients and process loan after obtaining all required formalities mentioned below. The disbursement of SME loans will be within their delegated power. They will also monitor and recover the SME loans as usual. Segregation of duties for SME financing Scheme is enumerated in details:

- **Credit Approval:**

1. SME team at Head Office will be fully involved to help the branch(s) in preparing loan proposals; the loan application will be forward to Head Office by the branch.
2. The loan will be approved for disbursement through branches as per the existing power delegated by the Board of Directors.
3. All approved applications must be checked against Bank's database to know whether the applicant is enjoying any other loan apart from the declared loans.
4. A database of sanctioned, declined cases will be maintained by SME team in Head Office.
5. Credit Committee of SME Team of Head Office will approve all proposals through SME.

Credit Committee as stated below:

- Head of Credit Risk Management Division
- Head of Consumer, Retail & SME Banking Division

However, branches will continue to sanction SME loan within their delegated power and forward loan applications to head office which are beyond their authority. The delegation of power for SME loan with collateral security is as follows:

Executive Committee	MD	AMD & DMD Jointly	AMD/DMD	SME Credit Head	Head of SME/Branch Manager
100.00	50.00	25.00	10.00	5.00	3.00

**Taka in Lac** (Approved in 88<sup>th</sup> board meeting dated 9 July 2006)

- **Credit Administration:**

1. SME division at Head Office will complete documentation of the loans sanctioned by them.
2. After completion of the documentation SME Division will send “Disbursement Order” to the branch for disbursement of the loan.
3. Security Documents of the SME loans sanctioned from Head Office will be signed by customer(s) in branch of disbursement and will be retained by them in original; a set of photocopy will be required to be sent to Head Office.
4. A set of photocopy of loan documents will be retained by SME team Head Office, the disbursing branch will retain the originals.

- **Time Requirement for Approval of Credit Proposals:**

- a) At Branch level : Branch Authority as per their business delegation must take decision within maximum of 3 - 7 days
- b) At Head Office level : The Head Office Credit Committee(HOCC)/ Executive Committee of the Board of Directors/Board of Directors shall take decision within maximum of :
  - 5 – 7 days for simple type of facility
  - 15 – 30 days for Project Loan

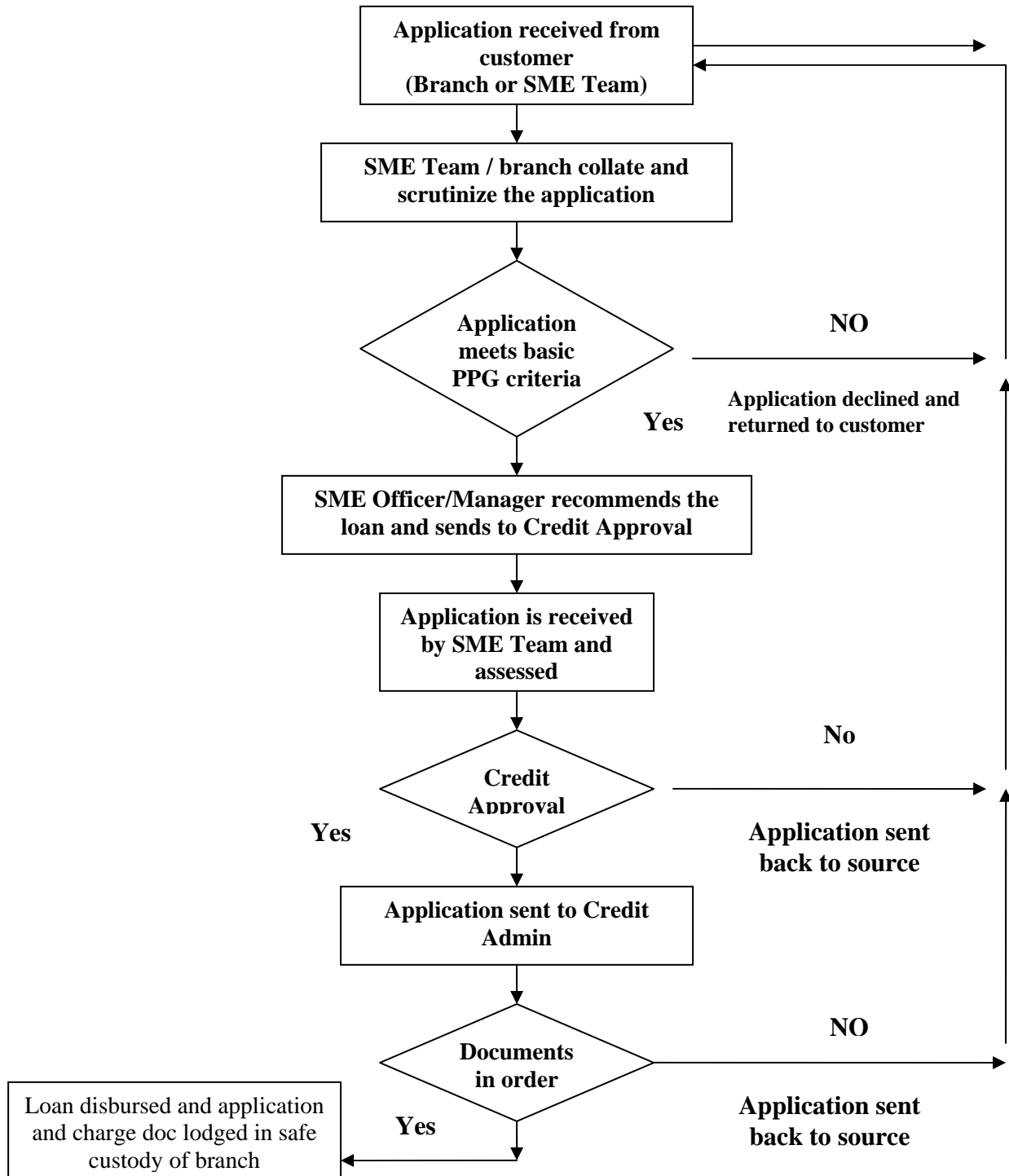
- 30 – 60 days for Loans under Syndication / Club finance etc.
- c) Sanction letter to be issued within 1 – 2 days time from the date of approval.
- d) In case of Large Loan, it must be reported to Bangladesh Bank.
- e) In case of the specific loans like Director’s loan, prior approval from Bangladesh Bank to be obtained as per requirements / guidelines of Bangladesh Bank.
- **Monitoring and Recovery:**
  1. SME Customers will deposit regular loan installments in concerned branches.
  2. Branches will send monthly statements of SME Lone to Head Office, within 7<sup>th</sup> day of following month.
  3. SME Division at Head Office will monitor and ensure recovery of all delinquent loans sanctioned by head office.

### 3.20. Loan Documentation needed for SME financing in bank

Criteria for loan selection are similar among financial institution. Most frequently requested document by financial institutions as a part of the loan application process include:

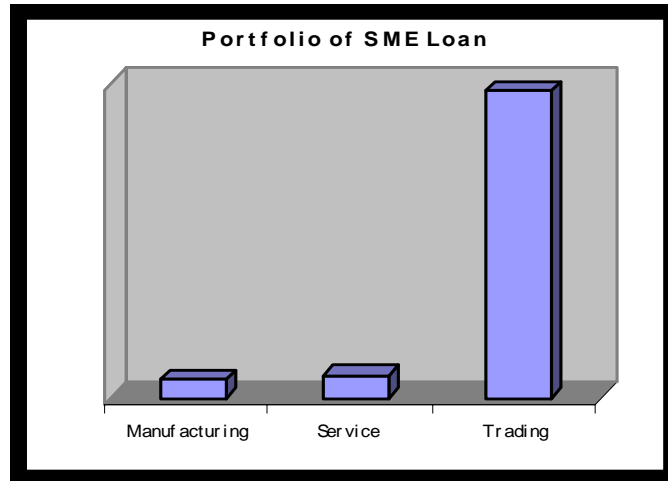
<ul style="list-style-type: none"> <li>• personal guarantee</li> <li>• business plan</li> <li>• appraisal of asset to be financed</li> <li>• purchase agreement</li> <li>• cash-flow projection</li> <li>• personal financial statement</li> </ul>	<ul style="list-style-type: none"> <li>• formal application for financing</li> <li>• business financial statement</li> <li>• tin certificate</li> <li>• bank solvency certificate</li> <li>• vat certificate</li> <li>• export license</li> </ul>
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### 3.21. Flow Chart of Small & Medium Enterprise Loan processing



### 3.22. Portfolio of SME loan

Sector	Amount	% of total disbursement
Manufacturing	44,584,784	5.05%
Service	57,562,928	6.52%
Trading	780,719,288	88.43%
<b>Total disbursement</b>	<b>882,867,000</b>	<b>100%</b>



From this above diagram we can say that, for SME loan mercantile bank give more preference in trading sector but they can finance over manufacturing and service sector to expand service and Manufacturing sector. Manufacturing sector is very important for a country to improve economic growth and as well as service generation and create employment.

#### SME Loan Disbursement from July/09- December/09 in MBL

Disbursement	July	August	September	October	November	December
SME Loan	22,700,000	67,300,000	49,247,000	536,400,000	65,360,000	77,700,000

From this table we can realize in March the amount of disbursement has been decrease with the above interest rate. But from April it is increasing with a above interest rate.

**SME Loan outstanding from July/09-December/09**

<b>Outstanding</b>	<b>July</b>	<b>August</b>	<b>September</b>	<b>October</b>	<b>November</b>	<b>December</b>
SME Loan	673900000	704600000	719800000	736200000	736100000	838300000

From this table we can realize at every subsequent month amount of disbursement has been increased with the above interest rate.

**Repayment**

Repayment is made on average three crore per month. Mode of repayment in SME loan is monthly installment basis.

**Position of SME as of June 2009**

Total Disbursement ( <i>Since Oct 2006</i> )	TK. 127.70 Crore
Total Outstanding	TK. 83.83 Crore
Total Number of file	3,452
Recovery	98 %
Refinance received from B. Bank	Tk. 43.45 Crore
Refinance outstanding	Tk. 38.37 Crore

(Source: From MBL, HO, SME Division)

To achieving the profit target, mercantile bank is more interested for big and corporate loans than SME. However, they keep constant persuasion with the Heads of Branches to increase exposure in SME, but they are always handicapped with shortage of manpower in the branches. SME is a supervisory credit and needs more manpower for constant follow up, monitoring and recovery. And as such, branches ask for posting of additional manpower exclusively for SME. In this situation, it is necessary to increase substantial exposure in SME, open separate desk in the branches with adequate manpower.

### 3.23. Competitive benefits of SME loans

- i. In SME loan, default rate is much lower representing around 98 % recovery than corporate lending (big loans). This is because of the fact that, in SME risk is distributed among a big number of customers with small amount of loan (usually TK. 3lac -8 lac).
- ii. Effective rate of return is higher due to refinance @5% from Bangladesh Bank, 1% service charge, 1% risk fund and 15% rate of interest. Interest rate still remains higher in SME as Bangladesh Bank has kept this sector out of recent interest rate cut policy. As for example, SME loan of TK. 500 crore will yield revenue of TK. 20 crore (approx) more over the same amount of corporate loans.
- iii. SME is advantageous for capital adequacy of the bank demonstrating lower risk weight on assets than corporate financing. (SME 75%, other than SME (unrated) 125%)
- iv. SME loan is most suitable in Bangladesh to create employment opportunity boosting rural economy and to increase income level of the people.

## 4. Comparative analysis of SME loan of six different banks

### 4.1. Loan Size

<b>Prime Bank Limited</b>	<b>Dhaka Bank Limited</b>	<b>Eastern Bank Limited</b>	<b>Mercantile bank Limited</b>	<b>Dutch-Bangla Bank Limited</b>	<b>BRAC Bank Limited</b>
1 lac – 75 lac	1 lac- 50 lac	1 lac- 300 lac	2lac – 50 lac	3lac – 50 lac	3lac – 30 lac

Among the Banks Eastern bank Limited offer the highest loan amount to customer where as BRAC Bank offer the lowest loan to its customer.

### 4.2. Rate of Interest

<b>Prime Bank Limited</b>	<b>Dhaka Bank Limited</b>	<b>Eastern Bank Limited</b>	<b>Mercantile bank Limited</b>	<b>Dutch-Bangla Bank Limited</b>	<b>BRAC Bank Limited</b>
18%	17%	18%	15%	15%- 17%	15%

In terms of interest rate Mercantile bank and BRAC bank offer the lowest rate of interest to its customers. The highest rate is charged by Prime bank limited. Mercantile bank is the only bank that offer fixed rate for any loan customer.

### 4.3. Loan Processing Fee

<b>Prime Bank Limited</b>	<b>Dhaka Bank Limited</b>	<b>Eastern Bank Limited</b>	<b>Mercantile bank Limited</b>	<b>Dutch-Bangla Bank Limited</b>	<b>BRAC Bank Limited</b>
.50% of the loan amount	Free	-	TK 500.00	-	0.50% of the loan amount



All the bank does not provide detail about loan processing fees to their customers. The prime bank limited and BRAC Bank limited only charges .50% as loan processing. And Mercantile bank Charge TK. 500 for loan processing.

#### 4.4. Period of loan

<b>Prime bank Limited</b>	<b>Dhaka Bank Limited</b>	<b>Eastern Bank Limited</b>	<b>Mercantile bank Limited</b>	<b>Dutch-Bangla Bank Limited</b>	<b>BRAC Bank Limited</b>
1 year to 5 years	1 year to 3 years	Upto 1 years	Upto 2-5 years	1.5 year to 5 years	1 year to 3 years

Among the bank the highest loan maturity date is offered by Dutch-Bangla Bank Limited and Mercantile Bank offer the lowest maturity period.

#### 4.5. Mode of Finance

<b>Prime Bank Limited</b>	<b>Dhaka Bank Limited</b>	<b>Eastern Bank Limited</b>	<b>Mercantile Bank Limited</b>	<b>Dutch-Bangla Bank Limited</b>	<b>BRAC Bank Limited</b>
Term loan and working capital loan	Term loan and working capital loan	working capital loan	Only Term loan	Only Term loan	Only Term loan

All the banks provide SME financing facilities do not provide long term loan to its customers. Among the banks Prime bank and Dhaka bank both provide term loan and working capital loan to their customer. Other banks either provide term loan or working capital loan to its customers.

## 4.6. Management

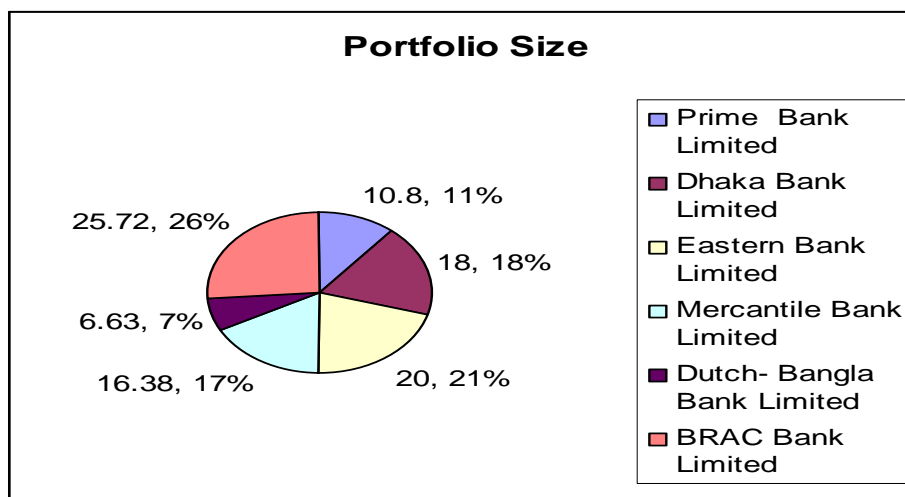
Overall the management of the bank engaged in SME banking is efficient and have diverse knowledge and banking sector. BRAC has initiated to provide training of staff for well managing and SME customer.

## 4.7. Portfolio size of different bank in SME sector

SL	Name of bank	Portfolio size
1	Prime Bank Limited	10.80
2	Dhaka Bank Limited	18.00
3	Eastern Bank Limited	20.00
4	Mercantile Bank Limited	16.38
5	Dutch- Bangla Bank Limited	6.63
6	BRAC Bank Limited	25.72
<b>Total</b>		<b>97.53</b>

(TK. In crore)

From the table we can see that BRAC bank has the highest investment in the SME sector followed by Eastern Bank Limited in second position. While the Prime bank Ltd., Dhaka Bank Ltd., Mercantile Bank Ltd. and Dutch- Bangla Bank Limited are third, fourth and sixth respectively.



Particulars	PBL	DBL	EBL	MBL	DBBL	BRAC
<b>Loan size</b>	01 lac-75 lac	1lac-50lac	lac-300lac	2lac-50lac	3lac-50lac	3lac-30lac
<b>Rate of interest</b>	18% p.a	17% p.a	18% p.a	15% p.a	15%-17% p.a	15% p.a
<b>Loan processing fee</b>	.50% of the loan amount	-----	-----	TK 500	-----	.50% of the loan amount
<b>Risk fund</b>	-----	1%-2% of loan amount	-----	1%of loan amount	-----	-----
<b>Supervision fee</b>	-----	1%-2% of loan amount	-----	1%of loan amount	-----	-----
<b>Utilization fee</b>	.75% p.a (semiannually)	1.5% (quarterly)	-----	-----	-----	-----
<b>Period of loan</b>	1yr – 5 yr	1yr – 3 yr	Upto 1	Upto 2-5 yrs	1.5yr – 5 yr	1yr – 3 yr
<b>Mode of finance</b>	Term loan as well as working capital	Term loan	Only working capital loan	Term loan as well as working capital	Only term loan	Only term loan
<b>Security</b>						
<b>primary</b>	Personal guarantee	Personal guarantee	Personal guarantee	Personal guarantee	Personal guarantee	Personal guarantee
<b>secondary</b>	Collateral security (provision depend on case to case basis)	Upto 5 lac collateral free(case to case above 5 lac and collateral mandatory )	Collateral security mandatory	Above 10.00 Lac Collateral security mandatory	Collateral security mandatory	Upto 8 lac collateral free & above 8 lac collateral is mandatory

*Table: Comparative analysis of SME loan of different bank: (Source: Data are collected from banks through personal communication)*

## 4.8. Comparative analysis of SME loan of different bank (performance part)

<b>Performance</b>	<b>PBL</b>	<b>DBL</b>	<b>EBL</b>	<b>MBL</b>	<b>DBBL</b>	<b>BRAC</b>
<b>Year of operation</b>	2009	2009	2009	2009	2009	2009
<b>Disbursement</b>	108.44 crore	115.72 crore	300.59 crore	127.70 crore	116.38 crore	950 crore
<b>Rate of recover</b>	85%	87%	97%	87%	93%	92%

From the above analysis and findings of the study, it is obvious that there is a lot of market potential for MBL in SME loan. As we came to know from the analysis that BRAC bank is the most dominant player in the market and except BRAC bank other players are more or less similar category. But since the market yields a high growth potential and BRAC bank having basic infrastructure and a larger customer base it is very difficult for the other bank to cope with BRAC bank unless they build some alliances to develop such infrastructure to serve the client at better service. Initially, it will require a huge concentration, but the bank is financially sound to incur such amount of investment in new line of business. Other than the investment MBL should improve their credit facilities, customer service, and add attractive features to the product to attract every class of people.

## 4.9. SWOT Analysis

### **Strength:**

- The bank has opened three service centre located in the key areas, which may work as unique selling points to pursue customers SME loan.
- MBL has a vast line of services, which can attract people of different segment of the society.

### **Weakness:**

- Mercantile Bank Limited (MBL) currently don't have any strong Marketing Activities through mass media e.g. Television.
- They even don't have any sales people who can sell their SME loan product.
- Competitor gave more benefit and attractive packages in providing SME loan.

### **Opportunities:**

- The focal opportunity of Mercantile Bank Limited (MBL) should be its competitors' vulnerabilities.
- To propagate the line of customers the bank will have to introduce tempting features embedded with the product.
- Major contract with big corporate houses as well as middle class people might be a good market to exploit.

### **Threat:**

- The main threat for Mercantile Bank Limited (MBL) is a wide range of competitors. About ten of them are multinational. The multinational banks came to our country with vast resources, like financial and marketing skill. Also new invented business tools and techniques are channeled to them from their parent organization. So, it is a threat for the MBL.

## **4.10. Major Findings**

Mercantile Bank Ltd actively participate in the growth and expansion of the national economy by providing SME Loan to viable borrowers. While analyzing the SME Loan policies and procedures of the Bank, the following areas were mostly viewable.

- Lack of sufficient Executives or Officers especially in the Credit Division hampers the Loan Sanctioning Process in time.

- MBL takes relatively more times in granting loans advances to different parties. It seriously discourages the persons who are inclined to get loan for their urgent purpose. Mode of disbursement, charge documents etc. creates bottleneck in Loan approval process. Head Office takes so longer time in processing and approval of SME Loan. Sometimes the total Sanctioning Process event takes month after month to give the final decision.
- MBL does not sanction loan to all sectors equally as they require, rather it concentrates its loan and advances within some limited fields and category.
- In SME Loan Service MBL doesn't comply with the requirements of its policy and Bangladesh bank guidelines exactly.
- There is discrimination in sanctioning sector wise breakup of loans and advances. Small and Medium enterprise (SME) are more popular and require things among the people of various classes but MBL don't have any customized schemes targeting various classes of people. Even the effective rate of interest is very high. And the terms and conditions of SME loan are also very inconvenient and discourage people.
- Lack of information on loan application requirement among the SME loan seekers.
- Absence of an appropriate and clear cut legal framework 4 enforcing quick recovery.

## 5.1. Recommendations

The following suggestions are put forward for present and future sustainability of the SME of MBL:

- MBL should disburse their SME loans in various sector rather than specific scheme.
- SME Loan sanctioning and disbursement procedure should be easy and flexible being considered the requirements of different classes of people.
- Amount of loan can be raised in proportion with the existing demand of people in SME loan, SME loan can be popular among the small trader and lower income group people like MBL DPS.
- MBL credit Policies can be revised being considered with the increase demand of telecom, transportation, Knit and packaging and plastic industry.
- Bottlenecks or barriers should be removed by taking advanced steps in mode of disbursement, charge documents and approval process.
- Loan facility parameter should be expanded so that all the people can get loan according to their needs.
- Business Power for sanctioning loans and advances can be increased at branch level.
- In rural areas, Mercantile Bank should provide the SME Loan to alginiate the poverty and also increase the self relevance. It will act as a promotion policy.

- The Bank should have more conference in overseas, work shop, symposium, and seminar for more expansion of SME loan.
- More SME service center need to be added to fully take the advantage of the huge potential customer segments.
- The sectors where the bank is investing should need much concern and need a revision so that investments are not resulting in desired outcome.



## 5.2. Conclusion

Mercantile Bank Limited is a strong and effective player in the financial system. It is a solid, forward-looking, modern local bank with a record of sound performance. It is a new generation bank. It is committed to provide high quality financial services /products to contribute to the growth of GDP of the industrialization, boosting up export, creating employment opportunity for the educated youth, rising standard of living of limited income group and overall sustainable socio-economic development of the country. The bank has the vision to be the best Private Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management etc. it is now one of the top most profitable private sector commercial banks.

As concluding remark the bank is able to attain a leading role with the 10 years success story but to remain unrivalled among new generation banks, the bank must face new challenges. The bank must make a positive attempt to be more outward looking in their goals and aware of what is happening. They must also emphasize on the domestic scenario more closely and analyze any certain trends and strategies of their competitors. The bank must accept any failures and think of them as an objective to pursue future goals instead of blaming such failures on other factors and in this way the Bank will be able to keep on playing its important roles in our economy.

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