

## **Internship Report**

**On**

Role of Prime Bank Ltd on Encouraging Entrepreneurs

Program Name: MBA

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### **Submitted to**

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## Letter of Transmittal

29 August, 2017

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Subject: Submission of Internship Report

Dear Sir

It is my immense pleasure to submit the report on “Role of Prime Bank Ltd on Encouraging Entrepreneurs” I am submitting this report as part of my internship in Prime Bank Limited. The report is prepared according to the instructions and methods set by you.

The purpose of the report is based on my working and the functions of MSME Division of Prime Bank Ltd.

Your acceptance of the report will make all the endeavours fruitful.

Thanking you

Nusrat Kaniz Islam

ID: 15164034

## **Acknowledgement**

First of all, I would like to express my deep gratitude to Almighty for preparing this Internship Report.

The successful accomplishment of this Internship Report is the outcome of the contribution and involvement of a number of people, especially those who took the time to share their thoughtful guidance and suggestions to improve the report. It's difficult for me to thank all of those people who have contributed something to this report. There are some special people who cannot go without mention.

First of all, I would like to thank our honourable academic supervisor Dr. Salehuddin Ahmed. I am thankful to him for his continuous support and supervision, suggestions and providing me with valuable information that was very much needed for the completion of this presentation.

Then, I express my sincere gratitude to Nahid Rumana, Supervisor of Prime Bank for supervising me the entire internship time. I would also like to express my gratitude to S. M. Golam Faiyaz, Mst. Jibonnesa, Md. Rukesh Mia and Khaleda Parveen of Prime Bank Ibrahimpur Branch for teaching me and supporting me for my internship experience.

Finally my sincere gratitude goes to my family, friends, classmates and colleagues who helped me whenever I needed.

## Executive Summary

This report aims toward providing an overview on the functions of SME Divisions of Prime Bank Ltd. on encouraging entrepreneurs. While preparing this report, it has been attempted to disclose the insights of the overall operation of the bank. In addition, a few recommendations and suggestions were also prescribed based on the observation and findings.

Prime Bank Ltd. is a private commercial bank which is operated by the Banking Companies Act 1991. It was established in April 17, 1995 with a view to providing financial assistance including all kinds of banking facilities to accelerate the pace of economic development of Bangladesh.

Advanced expansion of the Small and Medium Enterprises (SMEs) can help to cut poverty to a satisfactory level by eliminating various prejudices against labor intensive industry and creating jobs for the skilled manpower in the SME sector. However, the access to financing is still recognized as the leading obstacle to SME growth in Bangladesh, alike most other developing and under-developed countries. Small and medium entrepreneurship have a tremendous potential in empowering potential entrepreneurs and transforming society. To target this sector with huge potentiality Prime Bank Ltd introduced SME Banking Division in 2009.

Prime Bank MSME division was set up to create socio-economic impact in the country. For the inheriting business risk, SME sector is facing several constrains in terms of growth. Policy level complexity, financial constraints, legal bindings and industry structure are hindering financial institutions to support SME sector. Lack of SME supporters, poor infrastructure of the country, lack of entrepreneur's skills, lender-borrower gap, huge market competitions are the major drawbacks for both borrowers and lenders. Again SME sector has tremendously contributed in the economy. Today it has been considered as the engine of country's economy. Business risk, high interest rate, high defaulter rate, certain government policy change etc. are the major challenges of encouraging entrepreneurs facing by Prime Bank.

The recommendation part of the report strived to find out some steps could be initiated by Prime Bank in order to overcome existing weakness. A more effective loan approval system, strong monitoring activities, and entrepreneurs meeting arrangement could improve Prime bank's performance.

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# **CHAPTER 1**



## **Part 1- Company Profile**

### **1.1 Background of Prime Bank Limited**

In the backdrop of economic liberalization and financial sector reforms, a group of highly successful local entrepreneurs conceived an idea of floating a commercial bank with different outlook. For them, it was competence, excellence and consistent delivery of reliable service with superior value products. Accordingly, Prime Bank was created and commencement of business started on 17th April 1995.<sup>1</sup> The sponsors are reputed personalities in the field of trade and commerce and their stake ranges from shipping to textile and finance to energy etc.

As a fully licensed commercial bank, Prime Bank is being managed by a highly professional and dedicated team with long experience in banking. They constantly focus on understanding and anticipating customer needs. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition.

Prime Bank has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through internationally accepted CAMELS rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation.

Prime Bank offers all kinds of Commercial Corporate and Personal Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software.

Prime Bank, since its beginning has attached more importance in technology integration. In order to retain competitive edge, investment in technology is always a top agenda and under constant focus. Keeping the network within a reasonable limit, our strategy is to serve the customers through capacity building across multi-delivery channels. Our past performance gives an indication of our strength. We are better placed and poised to take our customers through fast changing times and enable them compete more effectively in the market they operate.

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1 <https://www.primebank.com.bd>

## 1.2 Vision, Mission, Strategic Priorities and Objective of Prime Bank Limited

### *Vision*

To be the best Private Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity.

### *Mission*

- To build Prime Bank Limited into an efficient, market-driven, customer focused institution with good corporate governance structure.
- Continuous improvement of our business policies, procedure and efficiency through integration of technology at all levels.

### *Corporate Philosophy*

#### *For Customers:*

- To provide the most courteous and efficient service in every aspect of its business. To be innovative in the development of new banking products and services.

#### *For Employees:*

- By promoting their well-being through attractive remuneration and fringe benefits.
- By promoting good staff morale through proper staff training and development, and provision of opportunities for career development.

#### *For Shareholders:*

- By forging ahead and consolidating its position as a stable and progressive financial institution.
- By generating profits and fair return on their investment.

#### *For Community:*

- By assuming our role as a socially responsible corporate citizen in a tangible manner by adhering closely to national policies and objectives thereby contributing towards the progress of the nation.
- By upholding ethical values and best practices.
- Constantly seeking to improve performance by aligning our goals with stakeholder's expectations because we value them.

### ***Goals and objectives***

Maximization of profit through customer satisfaction is the main objective of the bank. In addition, the others relevant objectives are:

- To be the market leader in high quality banking products and services.
- Achieve excellence in customer service through providing the most modern and advance technology in the different spheres of banking
- To participate in the industrial development of the country to encourage the new and educated young entrepreneurs to undertake productive venture and demonstrate their creativity and there by participate in the national development
- To provide general facilities to the small and medium size entrepreneur located in urban and sub-urban area and easily accessible by branches.

### ***Strategic Priority***

To meet the challenges of the current environment PBL has a set of strategic priorities that are reviewed and refreshed each year. The bank manages these priorities in a balanced way with an appropriate mix of growth, return, risk and productivity. These special attention are as follows—

- Development of the Human Resources and their transformation into Human Capital both at home and abroad.
- Online transactions and cyber security check.
- Deliver technology driven products and services.
- To bring SME and Consumer banking clients under the umbrella of centralization.
- Identification of cost driver and optimization.
- Maintain adequate amount of liquidity through minimizing asset-liability mismatch and recovery of past due loans.
- Providing sustainable returns to stakeholders, exceeding market and shareholder expectations.
- Conducting transparent and high quality business operation within the legal and social framework.
- Committed to community as a corporate citizen and contributing towards the progress of the nation.

### **1.3 Slogan**

“A Bank with Difference”

## 1.4 Organizational Hierarchy of Prime Bank

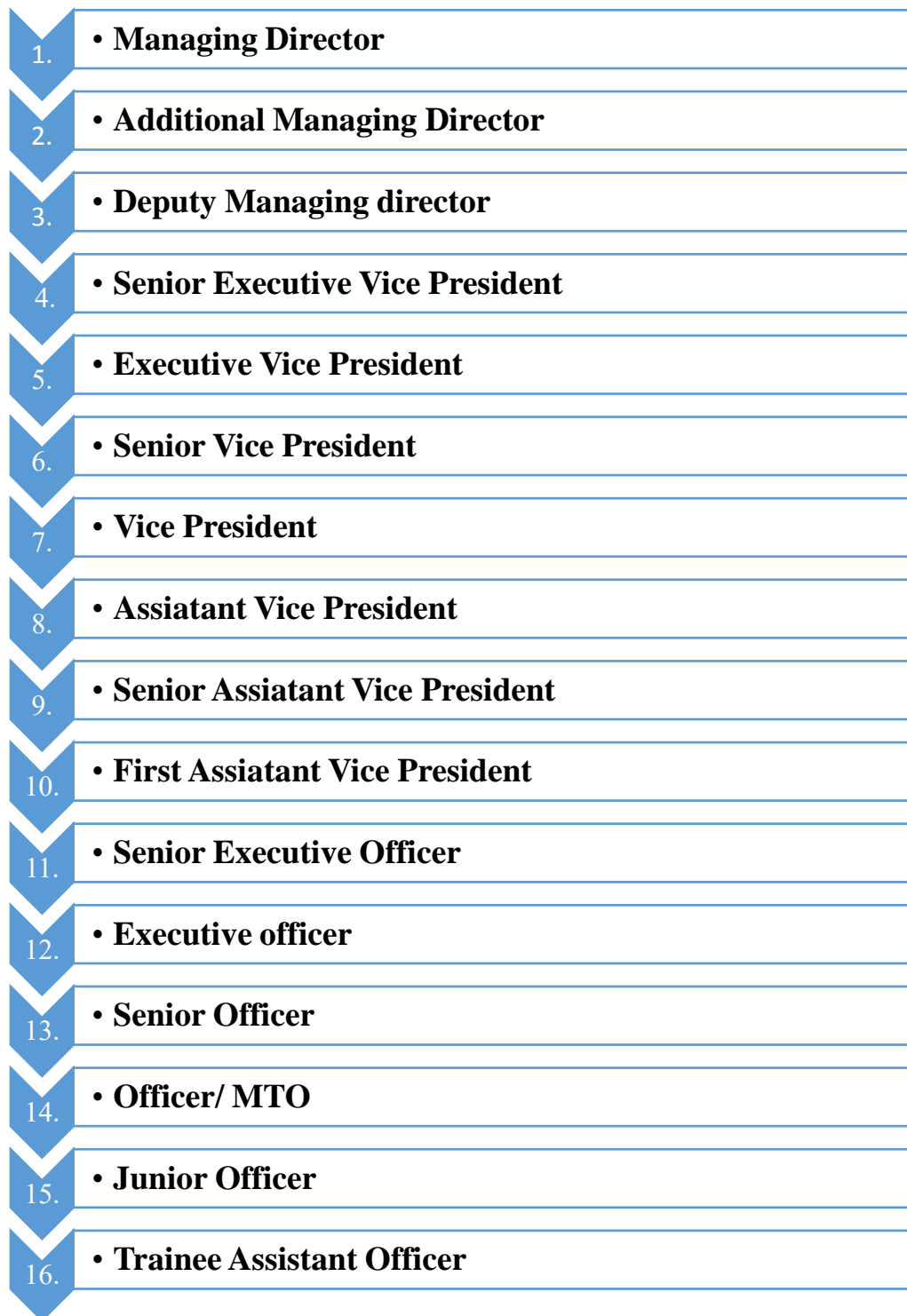


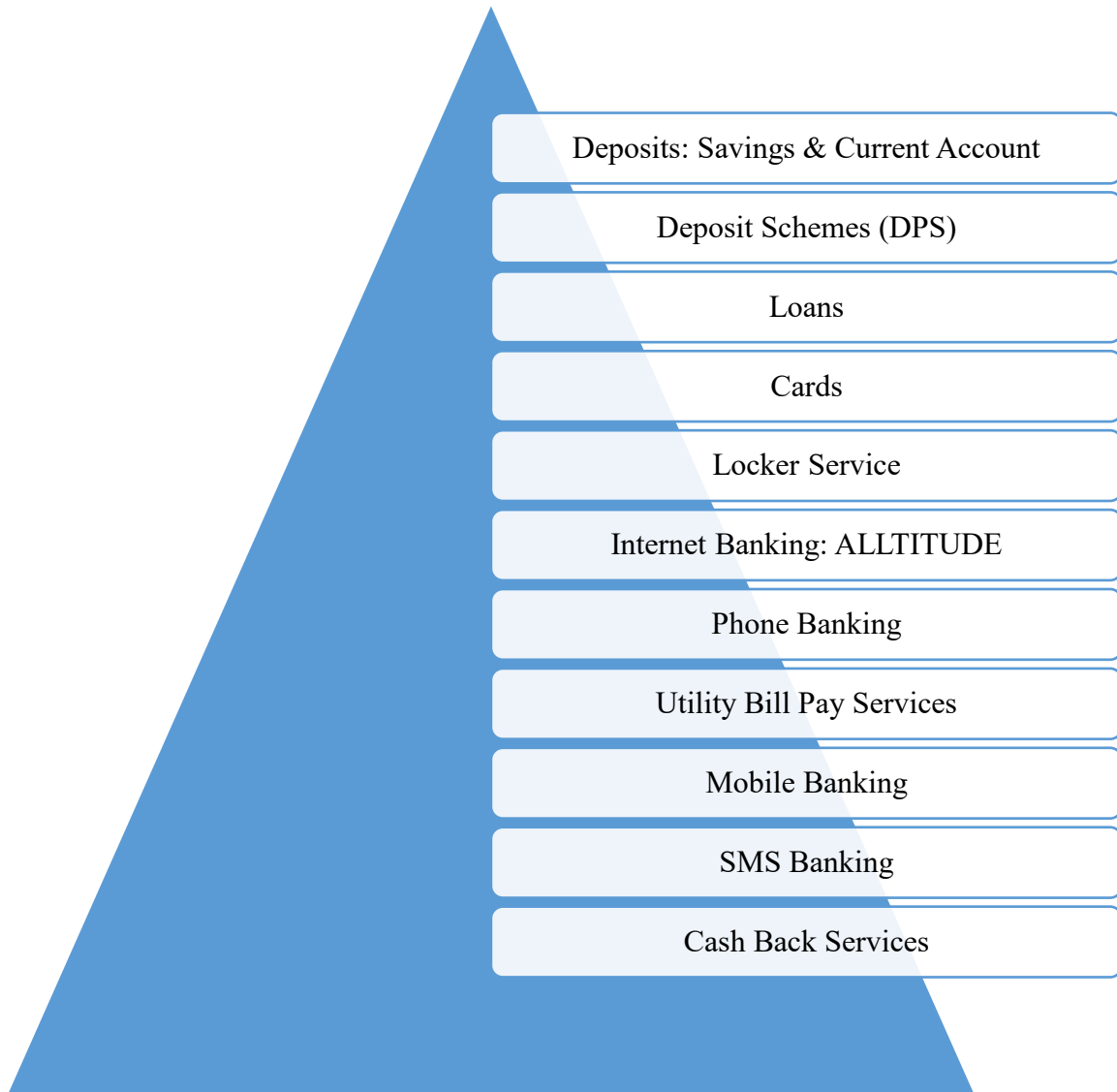
Figure: 1

## 1.5 Products and Services

Prime Bank Ltd has five categories of products and services. The product and services offered by PBL to grab the attention of the customer are listed below-

### 1. Retail Banking:

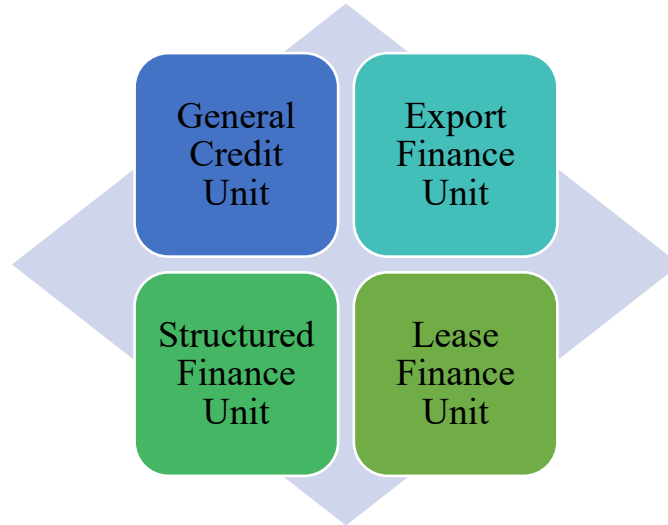
When a bank executes transaction directly with customers rather than corporations or other banks then it is known as retail banking. Retail banking service of Prime Bank Limited include-



**Figure: 2**

## 2. Corporate Banking:

Corporate banking, also known as business banking, refers to the aspect of banking that deals with corporate customers.<sup>2</sup> There are four units under Corporate Banking Service-



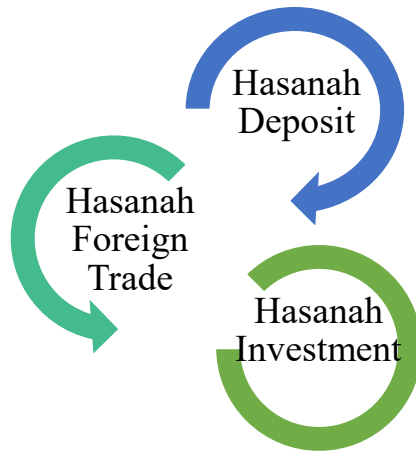
**Figure: 3**

## 3. Islamic Banking:

Prime Bank started its operations in the year 1995 as 'A bank with a difference', blending its conventional banking system with that of Islamic Banking operations based on Shari'ah principles. The bank has taken initiative to identify all of its Islamic banking activities by adopting a generic name of 'Hasanah' - the brand name for Islamic products and services of the bank.

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1. <sup>2</sup> Investopedia. 2017. *Retail Banking Vs. Corporate Banking | Investopedia*. [ONLINE] Available at: <http://www.investopedia.com/articles/general/071213/retail-banking-vs-commercial-banking.asp>. [Accessed 28 July 2017].



**Figure: 4**

#### **4. SME Banking:**

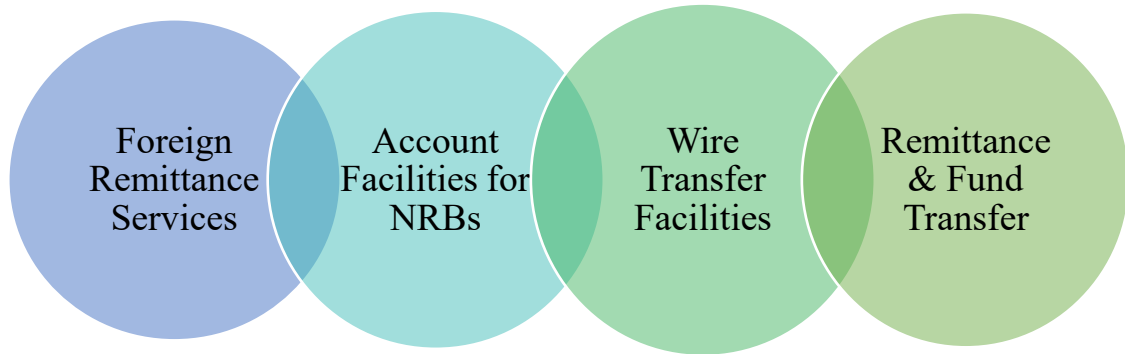
For micro, small and medium enterprises Prime Bank Limited offers different types of loan to encourage new entrepreneurs in Bangladesh. Those are given below-

- Sahaj Rin
- Sampad Rin
- Chalti Rin
- Digun Rin
- Prime Subidha Rin
- Prodip Rin
- Moushami Rin
- Anchol

**Figure: 5**

## 5. NRB Banking:

Prime Bank has set the highest priority to mobilize inward foreign remittance of Non-Resident Bangladeshi Nationals (NRB) living and working in different parts of the world. Their remittance service is Easy, Fast and Secured. The name of those services are-



**Figure: 6**

### 1.6 Share Capital of PBL

Share Capital	BDT in Million	
	2016	2015
Authorized Capital	25000.00	25000.00
Paid-up Capital	10293.49	10293.49

Source: Annual Report 2016

Table: 1



## 1.7 Key Financial Indicators

BDT in Million

Particulars	2016	2015
Deposits	197,934	194,825
Advances	170,211	151,865
Assets	256,599	252,161
CRAR	12.45%	12.74%
Operating Profit	5,757	5,906
Cost Income Ratio (CIR)	52.11%	51.08%
Cost of Fund	8.09%	9.72%
Gross Profit Ratio	52.97%	45.85%
CD Ratio	85.99%	77.95%
Return on Assets (ROA)	0.86%	0.84%
Return on Equity (REO)	8.49%	8.41%
Earnings Per Share (EPS)	2.13	2.08

Source: Annual Report 2016

Table: 2

## 1.8 Awards and Recognition

Prime Bank Limited has got lots of awards and achievements because of its sustained financial Performance and product management. Some awards are-

- 12th Bangladesh Awards DHL -The Daily Star
- ICAB National Award 2010-Best Published Accounts & Reports
- SAFA Award 2010-Best Published Accounts & Corporate Disclosures in Banking Sector
- ICMAB Best Corporate Award 2010
- International Star for Leadership in Quality (ISLQ) Award 2010-Business Initiative Directions (B.I.D.) Paris, France

- Prime Bank wins 1st Prize in 11th ICAB National Awards
- ICAB National Awards-2003 for Best Published Accounts and Reports Second Prize Financial Sector (Banking)
- FNS Award-2005 Best Performing Local Bank
- ICMAB Best Corporate Performance Award 2008 First Position (Jointly)
- 15th ICAB National Awards for Best Presented Annual Report 2014
- Best Bank of Bangladesh by Global Survey (Best Emerging Market Bank in Asia) – 2013
- ICMAB Best Corporate Award 2013 – 1st Position in Private Commercial Banks
- SAFA SAARC Anniversary Awards for Corporate Governance Disclosures 2013 – Winner
- 14th ICAB National Awards for Best Presented Annual Report 2013 - 1st Prize in Private Sector Banks
- International Platinum Star for Quality Award 2012
- The Bizz 2012 – Inspirational Company Award
- The Industry 2012 - Best Rated Bank Award

### **1.9 Corporate Social Responsibility**

The biggest CSR of Prime Bank is to establish Prime Bank Foundation to execute its corporate social responsibilities activities in a greater scale. Prime Bank Limited and Prime Bank Foundation are proud to continue CSR activities for the greater interest of country's socio economic development:

## **1. Investment in Education:**

### ***Education Support Program***

Believing education as a tool for social change, Prime Bank Foundation is proud to have another year of success of its Education Support Program launched in 2007. The total number of poor but meritorious students who are the recipients of Prime Bank Foundation stipends is now 490.

### ***Prime Campus***

It is an English medium school in Uttara, Dhaka, was created by Prime Bank Foundation in 2008 as an alternative to the expensive English primary schools at an affordable charge schedule.

## **2. Work with Handicap Population**

Investment in eradicating and preventing different disabilities such as drug addicts, blindness etc; setting up vocational training centers; undertake mass awareness raising campaigns etc.

## **3. Dristy Daan Project**

The Prime Bank Foundation started the Dristy Daan project in 2007. A total of 1357 poor cataract patients were operated till date.

## **4. Health Management**

The bank has extended finance for establishing countrywide health centers and a teachers' training college under the supervision and implementation of Diabetes Association of Bangladesh.

The bank has also provided financial support to an innovative, non-conventional yet a useful and much needed socio-medical project, popularly known as, "healthline" (accessible by dialing "789" from any mobile phone under Grameen Phone network) by Telemedicine Reference Center Limited (TRCL), the only registered telehealth and electronic health service provider in Bangladesh. The bank's finance was made available for upgrading of existing project as well as set up offshore health line call centers for Bangladeshi workers based in Kingdom of Saudi Arabia and the United Arab Emirates. The bank also financed TRCL to launch an Intensive Diabetes Management (IDM) services program in Bangladesh under its brand name "amcare".

## **5. Environment**

Activities related to the prevention of environment degradation and promotion of environment; support people living in the coastal and 'char' areas; carbon trading etc. Another important undertaking by the bank also merits mentioning, which involves financing of a geo-textiles manufacturing project.

## **6. Support to Martyr Family**

The loss of lives in the BDR carnage shocked the entire nation. Prime Bank came forward to support the Martyr families and donated Tk 2.5 million to Prime Minister's Relief Fund. PBL also took responsibility to support two such families @ Tk 0.48 million per year for ten years starting from 2009.

## **7. Games & Sports**

The Bank participated in major sponsorship programs in the area of sports viz. Golf, Tennis to popularize the same among the public. Financial assistance was provided to Bangladesh Cricket Control Board for development of the game.

## **8. Other CSR activities of the Bank**

- Donations of Passenger cum bed lift to Sylhet Diabetic Association Hospital.
- Sponsoring 20 KVA Diesel Generator for Department of Development Studies, Dhaka University
- Construction of Shahbag Foot Over Bridge
- Improvement of Porter and Luggage Handling Services at the Kamalapur Railway Station, Dhaka.
- Blankets and winter-clothes distribution among the winter distressed people of the society.

## **Part 2- Branch Profile**

### ***Location & Contacts:***

#### ***Ibrahimpur Branch***

***Address: Sumona Sahadat Center, 80, Ibrahimpur, Kafrul, Dhaka-1206***

***Phone: Direct: 02-8872557, PABX: 02-8872503, 8872423, 01755582852***

***Email: plibrahimpur@primebank.com.bd***

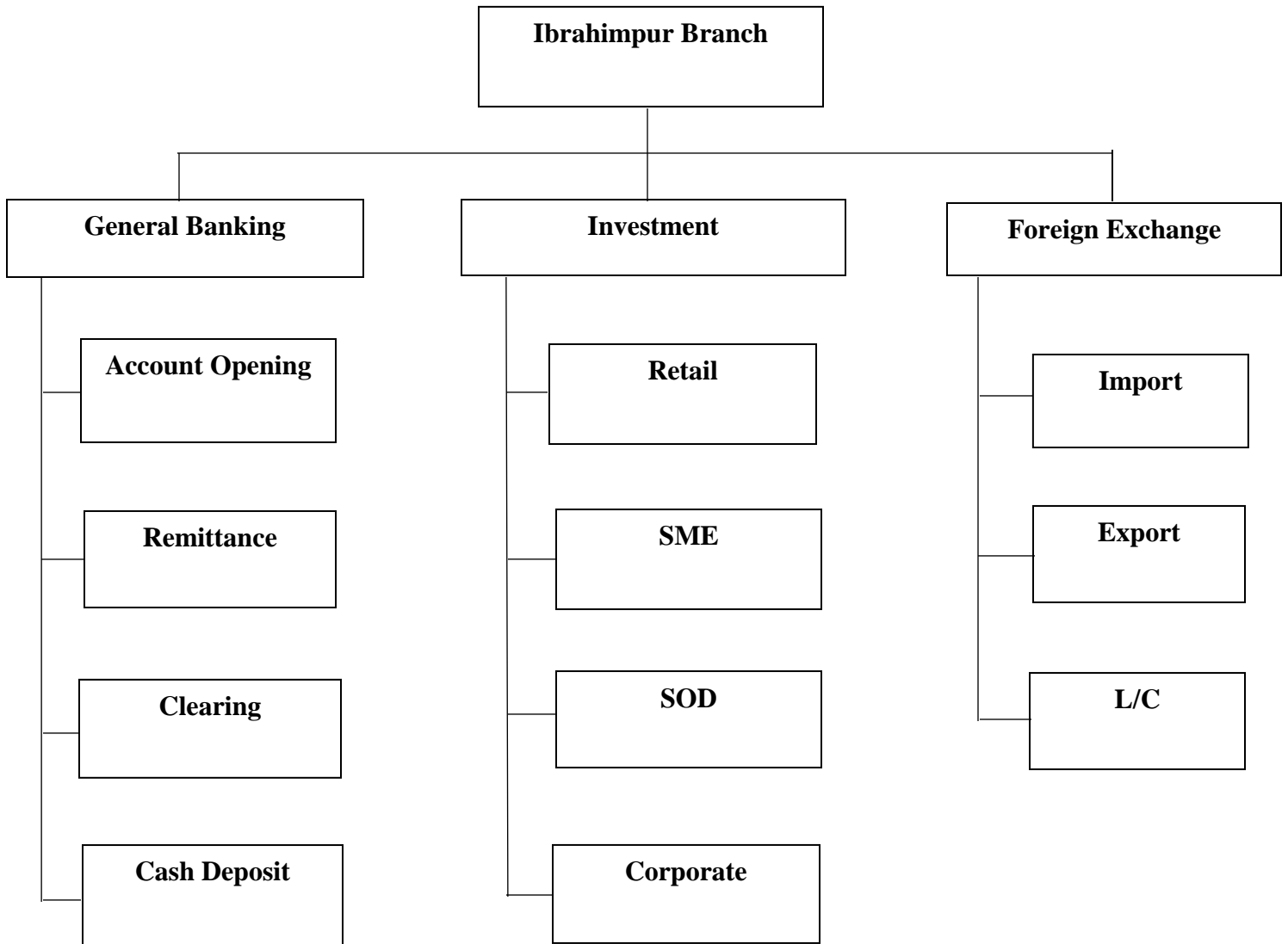
***Fax: 02-8872501***

Ibrahimpur branch is the 22<sup>nd</sup> branch of Prime Bank Ltd. The name of the present branch manager is Mohammad Nazimuddin Sheikh (AVP). The overall banking operation of this branch can be divided into three broad categories. These categories are:

1. General Banking.
2. Foreign Exchange division.
3. Investment or Advance division.

At present 15 personnel are working at Ibrahimpur branch.

### 1.10 Structure of Ibrahimpur Branch



**Table: 3**

### 1.11 Deposits

Deposits are the lifeblood of a bank. From the very beginning Prime Bank Ibrahimpur branch is aware about deposit build-up. The branch is trying to do better day by day. The deposits of this branch from January 1 to July 31, 2017 was 1,213,693,484 corers. Different nature of deposits are-

Schemes	No of account	Amount (in cr.)
Current	4200	434419474
Savings	12000	216352994
Special Notice Deposit (SND)	500	45977757
FDR	1150	319938024
DPS	5500	197005231

**Table: 4**

### 1.12 Loans and Advances

Ibrahimpur branch of Prime Bank have already invested millions of money. The officials of the branch are trying their best to follow the head office instruction. But the branch believes in good investment rather than volume investment. The branch continues to explore and diversify the area of financing in addition to traditional financing of domestic and international trade. Nature of loan in this branch as of July 31, 2017 is-

Nature of loans	Amount (in cr.)
Staff Loan	7966969
Corporate loan	55399765
Retail Loan	82866917
SME	10621176

**Table: 5**

## **Part 3- Internship Activities**

### **1.13 My working experience at Prime Bank Ltd**

I have worked under retail banking divisions of the Bank, where all the employees of the bank were generous and helpful in providing information. Overall, it was a very responsive and supportive environment at Prime Bank Limited, which gave me pleasure and satisfaction to be a part of them for the last 3 months. I was also encouraged to learn from the bank employees. They have discussed in details about their respective task. It also helped me to understand how they deal with the customer.

### **1.14 Lessons learnt from my internship program**

- Knowing about corporate culture & process to work in structured organization.
- Developed communication skills & learned about ways to interact with the customers.
- Learned how to complete given task within specified time frame & process to prioritize the work based on their importance.
- Learned how to work in a team & also was able to broader networking of contact which may help to build my career.

### **1.15 Daily Activities**

Throughout this three months of internship period, I performed lot of responsibilities. My foremost duty was to communicate with the Zero-balance and Dormant account holder customers of PBL.

I was assigned to maintain decent relation with those valuable customers. I tried to convince the customer to deposit money in account and at the end of every day I have to report to my mentor about the feedback of these customers. My mentor used to check the feedback of customers and guided me for the following day. For the duration of the phone calls, if I faced any difficulties, I used to discuss it with her and acquire solutions.



### **1.16 Role of my supervisor**

- My supervisor used to monitor my daily work, checks everyday report and gave feedback.
- She also used to share her insight that how their day-to-day tasks and projects are profiting the company as a whole and also performing into the industry.
- She created a clear vision for me and planned standards for me to increase a well understanding.

## **CHAPTER 2**

## **Part 1- Introduction of the Project**

### **2.1 Introduction**

An entrepreneur supplies risk capital as a risk taker, and monitors and controls the business activities. The entrepreneur is usually a sole proprietor, a partner, or the one who owns the majority of shares in an incorporated venture. According to economist Joseph Alois Schumpeter (1883-1950), entrepreneurs are not necessarily motivated by profit but regard it as a standard for measuring achievement or success.<sup>3</sup>

The role of Small and Medium Enterprises (SMEs) is indispensable for encouraging entrepreneurs of a country particularly for developing countries like Bangladesh. Since this sector is labor intensive with short gestation period, it is capable of increasing national income as well as rapid employment generation; achieving Millennium Development Goals (MDGs) especially eradication of extreme poverty and hunger, gender equality and women empowerment. SME sector has played a vital role in economic development of some prosperous countries of Asia. Our neighbouring countries have also given due importance on SME. Terming SME as ‘employment generating machine’ they stressed on SME development for higher economic growth, narrowing the gap of income inequality and poverty alleviation. The present government has also put much emphasis on the development of SME sector considering it as ‘the driving force for industrialization’.

### **2.2 Problem Statement**

In Bangladesh, there is no abundance facilities for developing entrepreneurship rather exist a large number of obstacles. New entrepreneurs are in a less favourable position in terms of accessing commercial credit from formal financial service providers. People have failed to notice that entrepreneurs not only create jobs for themselves but also for other people in their communities and bring innovation to existing industry where creativity is the platform of innovation. Unless we change this believe, we will continue to face trouble. In this situation Private Banks can play a major responsibility to promote entrepreneurial development.

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<sup>3</sup> BusinessDictionary.com. 2017. *What is an entrepreneur? definition and meaning - BusinessDictionary.com*. [ONLINE] Available at: <http://www.businessdictionary.com/definition/entrepreneur.html>. [Accessed 28 July 2017].

### **2.3 Purpose of the Project**

The report has been prepared in order to provide a brief idea about the SME financing scenario of Bangladesh from the perspective of Prime Bank Ltd. Analysing the SME scenario of Bangladesh and to assess the performance of Prime Bank Ltd in context of highly competitive market along with that the report will justify how SME is contributing in socio-economic development of the country. The objectives of the report are given bellow-

#### ***Primary Objective***

The primary objective of this report is to meet the requirements of the course, BBA Internship.

#### ***Secondary Objective***

The secondary objectives are:

- To know the concept of SME and its impact in overall economy of Bangladesh.
- Entrepreneurship development situation through SME banking.
- Importance of SME banking in context of Bangladesh.
- To be familiar with SME loan procedures.
- To understand the terms and conditions of SME loan.
- To value the disbursement and recovery procedures of SME loan.
- To suggest some recommendations for development of SME loan products.
- To analyse compliance with the Bangladesh bank's guidelines.

### **2.4 Methodology**

To complete my study, I have required the primary data as well as the secondary data.

#### ***Primary Sources:***

- Face to face conversation with the employees.
- Appointment with the top officials of the Bank.
- By interviewing clients of the Bank.

#### ***Secondary Sources:***

- Bank's Annual Report.
- Different circulars, manuals and files of the bank.
- Different books and periodicals related to the SME banking sector and CRM.

## **2.5 Limitations**

- Due to privacy reason, certain information was not disclosed to me since I was not a permanent employee. This came up as an obstacle while preparing the report.
- It was very difficult for the employees to co-operate me since they were occupied with a lot of work. Therefore, it was not always possible to reach them.
- Because of the limitation of information, some assumptions were made. So there may be some unintentional mistake in the report.
- Omissions and error may be there due to lack of my prior experience in preparing professional report like this one, nevertheless, I have tried utmost to avoid mistakes.

## **Part 2- Theoretical Framework of the Project**

### **2.6 Entrepreneurial Development**

Small and medium enterprises are referred to as the missing middle because its size is neither small enough for microcredit from microfinance institutions nor big enough to be considered viable to finance in the formal financial sector. Therefore, in most of the developing countries, including Bangladesh, lack of adequate access to finance is considered one of the major constraints to the growth of the SME sector.

Developing countries like Bangladesh are confronted with serious unemployment and underemployment problems. This problem is particularly crucial among the population of these countries. One of the major reasons for this situation is that the financial support system is not designed in a way to motivate to take business profession as an alternative source of employment. Moreover the support services towards this end are not adequate. Entrepreneurship is a key factor in the economic development process of a country. Its role is particularly important for industrialization of an economy. Study of economic development history of developed countries shows that present status of their development lies in the active role of the entrepreneurs.

Micro, Small and Medium Enterprises are acknowledged worldwide as the life-blood of local trade, commerce and industry. In Bangladesh, SME plays a vital role in economic development and the contribution to the GDP from this sector is more than 25%.<sup>4</sup> Banking industry has started changing its direction towards new opportunities. Bangladesh, being a developing country, there are lack of corporate bodies in this emerging market. Several factors already suggest that SME markets will be big winner in the near future. Banks in SME markets are increasing substantially and it has plenty of opportunities to grow. A large portion of SME sector is still unbanked; the access to formal credit is very limited due to lack of capacity, experience, documentation, collaterals etc.<sup>5</sup>

Bangladesh is a developing nation, rich in human resources where women constitute slightly less than half the population. The majority of them are underprivileged, under nourished, illiterate and poor. Moreover, there are not enough employment opportunities for women. Therefore, economic activities, through self-employment have become essential for potential working women. As a

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<sup>4</sup> New Age | The Outspoken Daily. 2017. *Banks' SME loan disbursement target raised by 18pc for 2017*. [ONLINE] Available at: <http://www.newagebd.net/article/11581/banks-sme-loan-disbursement-target-raised-by-18pc-for-2017>. [Accessed 28 August 2017].

<sup>5</sup> Prime Bank Limited. 2017. *Prime Bank Limited*. [ONLINE] Available at: [https://www.primebank.com.bd/index.php/home/financial\\_reports](https://www.primebank.com.bd/index.php/home/financial_reports). [Accessed 10 August 2017].

matter of fact, women entrepreneurship or “women in business” has gained importance and acts as a very recent phenomenon in Bangladesh.<sup>6</sup>

SMEs can play a significant role in establishing gender equality and bridge the widening the gap between rural and urban income. It is said that introduction of SME to rural areas would result in a large-scale development that would put the country’s economy in a high growth trajectory.

Bank's reputation is a critical factor for its success and therefore modern banks must follow appropriate guidelines, policies and relevant manuals regarding credit extension and recovery. It is now very important to know the lending processes of the banks and financial institutions to make informed decisions regarding their integrity, scope, ability and capacity.

Management of SME portfolio is one of the major operations of the banks. Therefore, as a 1<sup>st</sup> generation bank, Prime Bank Limited should give much attention to this area and this study will attempt to analyze their efforts and draw a complete picture of their practices.

## **2.7 Definition of SME**

Existing definition of SME is recommended by Better Business Forum and accepted as a uniform one by Ministry of Industry and Bangladesh Bank. Criteria of the definition of SME are given below-

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<sup>6</sup> The Daily Star. 2017. *Challenges for women entrepreneurs* | *The Daily Star*. [ONLINE] Available at: <http://www.thedailystar.net/education-employment/challenges-women-entrepreneurs-1366573>. [Accessed 09 July 2017]

## NEW CLASSIFICATION OF SMEs

ENTERPRISE	FIXED ASSETS excluding land and buildings	EMPLOYEES	LOAN LIMIT
MICRO	Tk 10 lakh-Tk 75 lakh (Manufacturing)	16-30 or less	Tk 1cr
	Less than Tk 10 lakh (Service)	15 max	Tk 25 lakh
COTTAGE	Less than Tk 10 lakh	15 max	Tk 10 lakh
SMALL	Tk 75 lakh-Tk 15cr (Manufacturing)	31-120	Tk 20 cr
	Tk 10 lakh-Tk 2cr (Service)	16-50	Tk 5cr
MEDIUM	Tk 15 crore-Tk 50cr (Manufacturing)	121-300 (Garments 1,000 min)	Tk 75cr
	Tk 2 crore-Tk 30cr (Service)	51-120	Tk 50cr
TRADING SECTOR	Less than Tk 10 lakh (Micro Enterprise)	15 max	Tk 25 lakh
	Tk 10 lakh-Tk 2cr (Small Industry)	16-50	Tk 5cr

Source: National Industrial Policy 2016

**Table: 6**

### 2.8 Interest Rate on SME Credit

Banks/financial institutions shall fix up the interest rate on small and medium loan for the respective sector/sub-sector. The operating cost of the banks is high for the small entrepreneurs. Reasonably, the rate of interest in this sector is somewhat higher. Banks are being given directions to keep the interest rate within a tolerable limit. Bangladesh Bank is providing refinance facility to banks and financial institutions at bank rate (at present 5%) in SME sector.<sup>7</sup> The fund obtained at bank rate through BB refinance window should be disbursed at bank rate + not more than 5% interest to the client level (in case of women entrepreneurs).

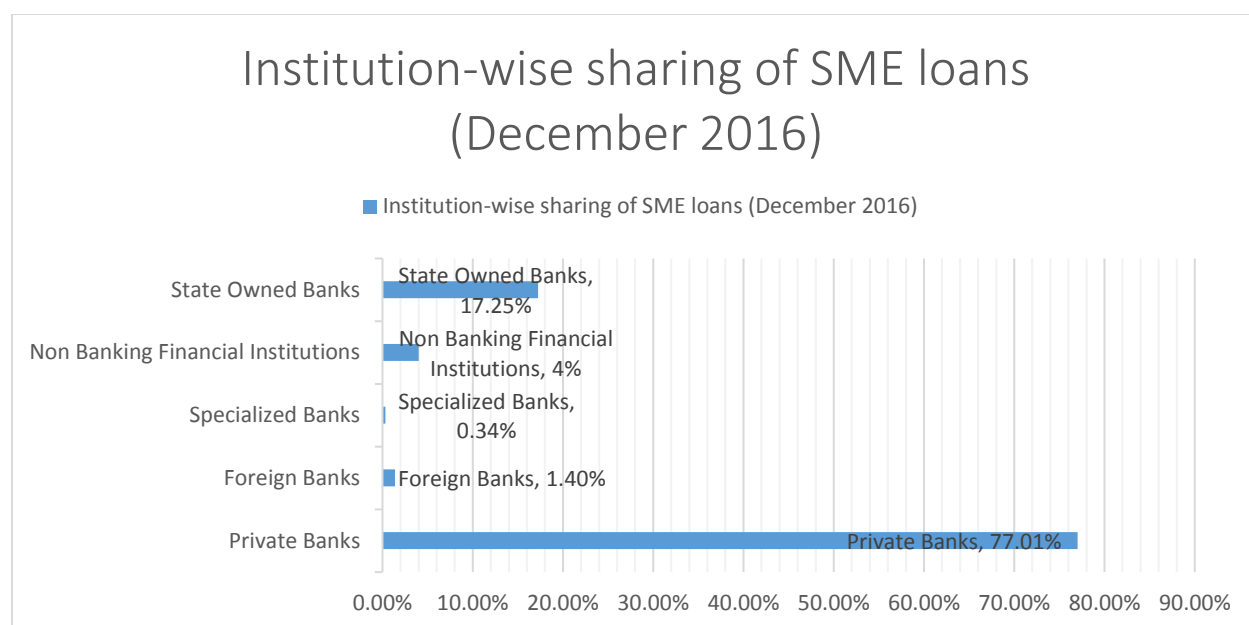
### 2.9 Outstanding Position of SME Loans in Bangladesh

SME loans as percentage of total loans stood at 23.89 percent at the end of December, 2016 as compared to 23.64 percent of December, 2015. The percentage share of SME loans from different

<sup>7</sup> Future Startup. 2017. *The Pains Of Being An Early Stage Woman Entrepreneur In Bangladesh*. [ONLINE] Available at: <http://futurestartup.com/2015/08/17/06-problems-every-early-stage-woman-entrepreneur-face-in-bangladesh-backed-by-personal-experiences/>. [Accessed 08 July 2017]



categories of banking and financial institutions to total SME loan as of end December, 2016 is shown in a chart-



Source: Major Economic Indicator Monthly Update July 2017

**Figure: 7**

## 2.10 General SME Guidelines by Bangladesh Bank

Bangladeshi SME sector is guided by general SME Guideline of Bangladesh Bank. Guidelines are as follows-

- Each bank/financial institution shall follow a separate business strategy in financing SME loan with least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process.
- Priority shall be given to small entrepreneurs.
- For small entrepreneurs credit limit will be ranged from Tk. 50,000 (Fifty thousand) to Tk. 50, 00,000 (Fifty lacs)
- For more participation of women entrepreneurs in industrial development of the country and for conducting business activities by women entrepreneurs in large number, priority shall have to be given to potential women entrepreneurs in respect of SME credit disbursement.
- Banks & Financial Institutions shall put highest priority in receiving loan application from small and medium women entrepreneurs and settle the loan disbursement process within very reasonable time from the date of acceptance of the application.

- Each bank and financial institution shall establish a separate ‘Women Entrepreneurs’ Dedicated Desk’ with necessary and suitable manpower, provides them training on SME financing and suitably appoints a lady officer as chief of dedicated desk. Branch wise list of ‘Women Entrepreneurs’ Dedicated Desk ‘should be sent to SME and Special Programs Department of Bangladesh Bank within two months from the date of declaration of this policy and program.
- Banks and financial institutions may sanction up to Tk. 25, 00,000 to women entrepreneurs against personal guarantee. In that case, group security/social security may be considered.
- The success in SME loan disbursement will be considered as yardstick for further approval of new branches of the concerned bank. License for New Branches will be issued for financing the priority sectors like SME and agriculture from 2010 in the name of ‘SME/Agriculture Branch’ instead of ‘SME Service Centre; in order to involve banks in financing priority sector like SME and Agriculture’.
- Each bank/financial institution shall fix the interest rate on SME loan sector/subsector wise. However, bank/financial institution will inform Bangladesh Bank sector/sub-sector wise rate of interest immediately and ensure disbursement of refinanced fund to the clients (women entrepreneurs) at Bank rate +5% interests.

## **2.11 Minimum Requirement for SME Financing According to Bangladesh Bank**

Each and every SME provider is regulated by separate restriction given by Bangladesh bank along with general banking rules. It may be noted that those minimum requirement should not in any way interrupt the role of monument process through establishing comprehensive credit risk management system appropriate to their type, scope, sophistication and scale of operation. The Board of Directors of particular bank is required to establish policies, procedures and practice in order to define risks, specify security requirement, design internal control and ensure strict compliance with them.

All the minimum requirements can be described as follows-

### ***Pre-Operation***

Before undertaking small enterprise financing, bank/financial institutions are required to follow some specific guidelines. Firms that have already established SME financing are required to compliance with the guidelines by six month of the date of issuance of Small Enterprise Financing Prudential Regulations. Pre-operation guidelines are-

- For the purpose of undertaken SME financing, banks are required to set up own separate risk management capacity which will be properly staffed in combined with sufficient expertise and experienced person in the field of consumer finance/business.

- The bank shall develop comprehensive credit policies suitably approved by Board of Directors. The policy will cover loan administration combined with documentations process, disbursement systems and appropriate monitoring mechanism. The policy will also revise with job description and job specification of different layer staffs. Along with it, policy shall specify powers/authority relating to approval/sanction of consumer finance facility.
- The bank shall develop specific Product Program Guide (PPG) for every type of SME activities. The program shall describe the eligibility of the borrower in terms of objectives or quantitative parameters. It shall also determine the maximum permissible loan limit of each borrower. Along with that, PPG shall indicate the maximum permissible exposure banks will take against each product.
- The SME undertaking bank shall have computer based Management Information's System (MIS) which will cater the need of small and medium enterprise financing portfolio and should be flexible enough to generate necessary information regarding various clients and their payments behaviours. This periodical report are expected to help in generating new policies, effectively implementation of current policies and facilities appropriate modifications of existing policy.
- The bank shall prepare product wise profit and loss account quarterly which will adjusted with the provision on account of classified account as expected. The profit and loss account should be present to the Board of Directors in the immediate next board meeting. In case of foreign banks, the report should be place before committee combined with Chief Executive Officer, Chief Financial Officer and Head of Small enterprise.
- The bank shall have comprehensive recovery procedures for the delinquent loan. There must have a constructive procedure to recover loan defaulters. That recovery procedure my very product to product, but the distinct should be prescribed in such manner so that pre-planned enforcement measures could be taken immediately.
- All the institutions starting/undertaken small and medium enterprise financing are instructed to gone through some training on an ongoing basis to their capabilities related with various aspects of SMEs. The bank shall prepare standardized set of borrowing and recourse documents for each types of SME financing.

### ***Operations***

Like other financing institutions, small and medium enterprise financing institutions are subject to set up own credit risk management process. The process includes- information about borrower past dealing with banks, assessing the clients ability to repayment, sources of repayment, net worth and information obtained from Credit Information Bureau approved by Bangladesh Bank.

- While granting loan to the borrowers, bank shall obtain written declaration from the borrower reviling the details of various facilities he/she already obtained from other

financial institutions. The bank shall carefully gone through the declaration detail and find out whether the customer exceeds the resemble limits as laid down in the approved policies of the banks. Additionally this declaration helps the bank to avoid exposure against an enterprise having multiple facilities from different financial institutions.

- Bank should establish its own internal audit and control system in order to review its activities. For its inheriting nature, SME portfolios are subject to high risk and various weaknesses. The internal audit review managerial decisions in order to rectify the weaknesses of SME financing and reduce the level of risk. Another function of the internal audit is to look after the delinquency of internal control. It also figured out whether standardized policies are developed and practiced in reality.
- The bank shall ensure that their accounting and computer systems are properly equipped so that bank can avoid mark up. Even if it marked –up, bank must ensure that the marked-up charge on the outstanding amount is kept separate from the principal. The banks shall also ensure that any repayment made by the borrower is accounted for before applying mark-up on the outstanding amount.

## **2.12 Discloser/Ethics**

Bank shall disclose all necessary terms and conditions regarding fees-charges; interest rate and penalties. It should also reveal internal information to some extend because sometimes it contains conditions related with interest rate and pre-payments penalties. In order to make it hassle free and keep update with clients, banks are encourage to published brochures regarding their different mood of products, eligibility to apply and frequent asked questions.

## **Part 3- SME Banking of Prime Bank Limited**

### **2.13 Introduction**

Bangladesh Bank has formulated SME policy strategies to assist in achievement of the sustainable development goals. Accordingly, Bangladesh Bank has introduced array of schemes for encouraging new entrepreneurs under different focus sectors with special funds to provide refinance for banks and NBFIs against lending to SMEs.

Looking forward to the excellence in service and business performance, Prime bank established a separate SME Banking Division in 2009 by formulating a comprehensive policy on SME financing to explore the immense opportunity in small and medium sized business. Prime Bank Limited has made significant progress in financing this sector through offering tailor-made lending products and services so that SMEs can aspire to grab opportunities for growth and wealth maximization. Bank's exposure under SME are thus well diversified among potential SME customers to different sectors viz. cottage, handy crafts, power loom, auto parts, garment accessories, rice mills, light engineering, permitted brick field, poultry farming, fish processing/dry fish, animal feed, agro-based and agro-processing industry, furniture, hospital/diagnostic centre, packaging industry, leather goods sector, jute-goods and jute-mixed goods, computer software and ICT goods, artificial flower making, LP gas businesses, solar electricity plant, green-financing renewable energy etc.

There are 18 SME branches of PBL. During the 2016 the Prime Bank disbursed BDT 1,817.16 Cr. as SME loans to 2,527 borrowers. As on 31 December 2016 SME portfolio was BDT 1,819.05 Cr. out of banks total portfolio of BDT 17,021.18 Cr. where SME represents 10.69% of banks total loans and advance.<sup>8</sup>

PBL defines SME as follows:

<b>Category</b>	<b>Criteria</b>
<b>Small Enterprise:</b>	
Non-manufacturing (Trading or Service)	Fewer than 25 full-time employee
Manufacturing	Fixed Assets (excluding land & building) valuing up to Tk. 150 lac
<b>Medium Enterprise:</b>	
Non-manufacturing (Trading or Service)	50 full-time employee (excluding land & building) valuing in range of Tk. 150~1000 lac
Manufacturing	150 full- time employees Loan limit up to TK.2000 lac

**Table: 7**

<sup>8</sup> Prime Bank Limited. 2017. *Prime Bank Limited*. [ONLINE] Available at: [https://www.primebank.com.bd/index.php/home/financial\\_reports](https://www.primebank.com.bd/index.php/home/financial_reports). [Accessed 10 August 2017]

## 2.14 Types of SME Loans in PBL

Sl no.	Product Name	Key Features	Eligibility
1.	Sahaj Rin (Collateral Free Loan)	<ul style="list-style-type: none"> <li>✓ Any justifiable business purpose for small &amp; medium enterprise customers.</li> <li>✓ Investment amount - Tk 2 lac to Tk 6 lac.</li> <li>✓ Tenure - Maximum 36 months.</li> <li>✓ Interest Rate 12% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Age: At least 21 years</li> <li>✓ Any entrepreneur having the experience of successfully managing the business for at least two years may apply for the loan.</li> </ul>
2.	Sampad Rin (Capital Loan)	<ul style="list-style-type: none"> <li>✓ Loan facility for business expansion, purchase of new business space or expansion of existing outlets and capital machineries and also to purchase light or heavy vehicles for business use.</li> <li>✓ Investment amount - Tk 2 lac to Tk 50 lac for small enterprise customers and Tk 2 lac to Tk 300 lac for medium enterprise customers.</li> <li>✓ Tenure- Maximum 60 months and grace period may be allowed maximum 6 months.</li> <li>✓ Interest Rate 12% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Age: At least 21 years</li> <li>✓ Any entrepreneur having the experience of successfully managing the business for at least two years may apply for the loan.</li> </ul>
3.	Chalti Rin (Working Capital Loan)	<ul style="list-style-type: none"> <li>✓ Any justifiable working capital need for small and medium enterprise customers.</li> <li>✓ Investment amount - Tk. 2 lac to Tk 50 lac for small enterprise customers and Tk. 2 lac to Tk 300 lac for small and medium enterprise customers.</li> <li>✓ Tenure- Maximum 12 months for continuous loan and</li> </ul>	<ul style="list-style-type: none"> <li>✓ Age: At least 21 years</li> <li>✓ Any entrepreneur having the experience of successfully managing the business for at least two years may apply for the loan.</li> </ul>

		<p>Maximum 60 months for term loan.</p> <ul style="list-style-type: none"> <li>✓ Interest Rate 12% p.a.</li> </ul>	
4.	Moushami Rin (Seasonal Loan)	<ul style="list-style-type: none"> <li>✓ To meet short term financing need of any existing small and medium enterprise customers.</li> <li>✓ Investment amount - Maximum Tk 50 lac for SE customers and maximum Tk 300 lac for medium enterprise customers.</li> <li>✓ Tenure- Maximum 6 months.</li> <li>✓ Interest Rate 12% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Age: At least 21 years.</li> <li>✓ Any entrepreneur having the experience of successfully managing the business for at least two years may apply for the loan.</li> </ul>
5.	Digun Rin (Double Loan)	<ul style="list-style-type: none"> <li>✓ Any justifiable business purpose for small and medium enterprise customers</li> <li>✓ Investment amount - Tk 2 lac to Tk 50 lac for both small enterprise and medium enterprise customers</li> <li>✓ Tenure- Maximum 60 months.</li> <li>✓ Interest Rate 12% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Age: At least 21 years</li> <li>✓ Any entrepreneur having the experience of successfully managing the business for at least two years may apply for the loan.</li> </ul>
6.	Anchol (Women Entrepreneurs' Loan)	<ul style="list-style-type: none"> <li>✓ Any justifiable business purpose for Small Enterprise women entrepreneurs</li> <li>✓ Investment amount - Tk 1 lac to Tk 50 lac (up to Tk. 25.00 lac unsecured limits)</li> <li>✓ Tenure - Maximum 12 months for continuous loan and Maximum 60 months for term loan</li> <li>✓ Interest rate- 10% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Age: At least 21 years</li> <li>✓ Any entrepreneur having the experience of successfully managing the business for at least two years may apply for the loan.</li> </ul>

## 2.15 Capacity Building Activities of SME

With a view to increasing the focus on the SME business, Prime Bank has put utmost effort for the development of this sector by participating in various road shows, workshops, forums and fairs to build awareness among the customers as well as for capacity building of the SME officials. In line with the trend of contemporary business and regulatory requirement, the all branches of the bank are now focusing on SME. Therefore, all branches have separate target for selling SME products in order to strengthen the base of the bank.

## 2.16 SME Marketing Strategy

Prime Bank is relentlessly working to ensure a vibrant national economy through financing in the SME sector. Prime Bank Limited has already taken several initiatives conducive to the overall growth of the sector; it is putting an increased focus on the development of SME sector by following the guidelines of Bangladesh Bank.

Prime Bank has already centralized its Corporate and Commercial Banking Business from Branch Banking model, so all the branches are able to deliver dedicated service for the SME and Consumer Banking business. Thus bank will have further opportunities to grow in SME Banking business area.

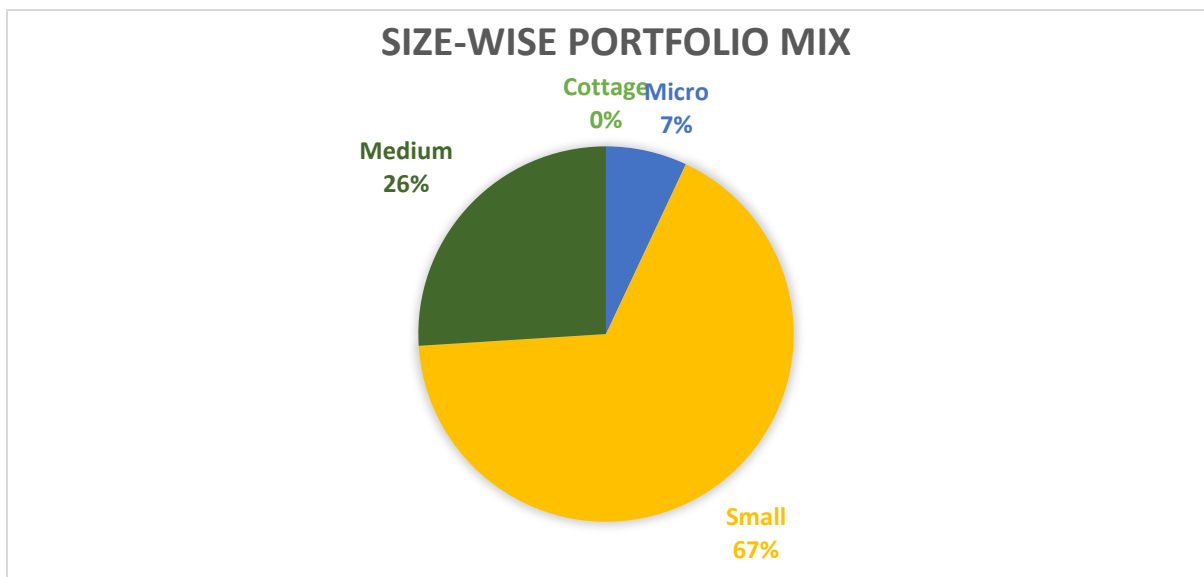


Figure: 8



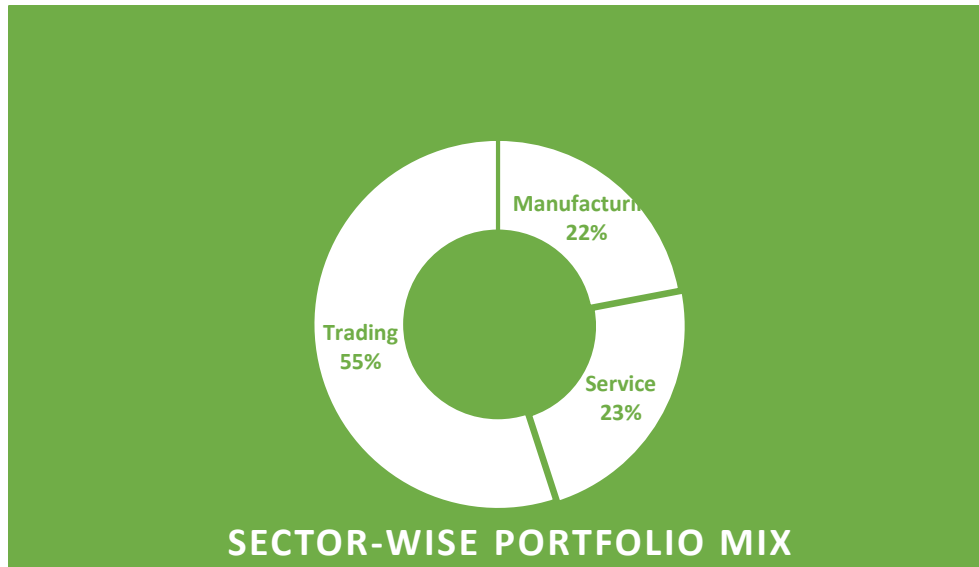


Figure: 9

In order to focus on push marketing, the bank will establish Own-Sales-Force which will act with existing branches-networking. This will help PBL to penetrate the market further and make available finance to door steps of Micro, Small and Medium Enterprises.

With a view to increasing focus on the sustainable business, SME Banking launched three different campaigns titled-

- I. SME Portfolio Growth Campaign,
- II. SME Portfolio Deposit Campaign &
- III. SME Debt Collection Campaign in last quarter of 2016.

Prime Bank also organised 'Road Show' promoting SME business at different place across the country. Besides these, bank has participated different local SME fair organised by Bangladesh bank.

### **2.17 Financing Women Entrepreneurs under SME**

The importance of women entrepreneurs in the national development process has been acknowledged. Prime Bank has successfully established 'Women Entrepreneurs Development Unit' at head office level with a view to increasing focus on the development of Women Entrepreneurs and to be in compliance with the regulatory guidelines. Bank has designed a separate product 'Anchol' for women entrepreneurs as well as disbursed SME loans under this product at a lower interest rate. This unit is taking initiatives to find out and to develop new women business clusters in different parts of Bangladesh and to bring the unbanked and under-banked women entrepreneurs under Prime Bank umbrella. Bank has participated in different local 'SME Women Entrepreneur Fair' organized by Bangladesh Bank. The fair accommodated the SME Women Entrepreneurs with stalls to show their products.

## 2.18 Required Documents for SME Credit

According to new proposal of Bangladesh Bank document checklist for SME Credit are given below-

SL No	Document Name
<b>Mandatory Documents:</b>	
1.	Properly filled up loan application form.
2.	Up to Date CIB Report.
3.	Photograph of customers and guarantors.
4.	National ID Card/ passport/ driving licence of customers.
5.	National ID Card/ passport/ driving licence of all guarantors.
6.	Copy of up to date trade licence.
7.	Business age proofing documents (Trade Licence/ Bank Statement/ Rental Deed/ others)
8.	Statement of major transactional bank accounts (if any) for last 12 months.
9.	Other bank loan sanction letter & loan statement/ Loan Performance (if any)
10.	Photograph of business/ Inventory in presence of Credit Officer/ HoB
11.	Last two years audited/ un-audited financials (for loan amount Tk. 50 lac)
12.	Copy (front & back page) of rent deed (main showroom/ office)/ rent receipt (where rent deed is not available)/ possession deed/ ownership document of main showroom/ office and go down.
13.	Proposal with recommendation of sourcing officials.
14.	Call report/ visit report provided by branch officials.
15.	CRG score sheet with financial spread sheet (for loan amount above Tk. 50 lac).
16.	Stock position report with specific date signed by customers & duly verified by Credit Officer/ HoB.

17.	Dealership agreement & last one year performance with supplier (if any).
18.	Copy of quotation signed by vendor, accepted by customer and verified by sourcing official (for Lease Finance & Higher Purchase Agreement Facility).
19.	<b>For Manufacturing Concern</b>
	i. List of machinery along with present value, year of purchase, origin and ownership status.
	ii. Production capacity and utilization percentage.
	iii. Up to date electric/ gas bill.
	iv. Factory rental deed.
20.	<b>Permission Requirement according to business legal entity</b>
	i. Registered partnership deed (in case of Partnership Business).
	ii. Letter of Partnership (in case of Partnership Business).
	iii. Personal net worth of all directors.
	iv. Memorandum and Articles of Association certified by RJSC (For Limited Company).
	v. Certificate of incorporation (for Limited Company).
	vi. Form XII certified by RJSC (for Limited Company).
	vii. Board Resolution in respect of availing loans and execution of document.
	viii. Certificate of Commencement (in case of Public Limited Company).
	ix. Joint Venture Agreement (in case of Joint Venture Company).
	x. BOI permission (if applicable).
21.	<b>Additional permission/ licence required for specific Business</b>
	i. Form KHA from Divisional Forest Officer, Social Forestry Department (for saw mill).
	ii. Form 8 (20(1)) for sell, stock, exhibit for sale and distribute drugs other than biological and other special products, and form 9 (20(2)) for sale, stock, exhibit

	for sale and distribute biological and other special products in Schedule-C of the Bengal Drug Rules 1946.
	iii. Form 15 for retail and form 14 for wholesale trading issued by Plant Protection Specialist, Agriculture Extension Directorate (for trading of pesticide).
	iv. Licence from Health Directorate (for private pathology/ diagnostic centre).
	v. Declaration to be obtained from DC/ Additional District Magistrate (for printing press).
	vi. Licence issued by Director/ Deputy Director, Directorate of Agricultural Marketing, Bangladesh Agricultural Produces Market Control Act 1964 (for trading of leather).
	vii. Form-J or Form-M of petroleum act, 1934 issued by the Explosive Inspector (Form-J for 1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> class petroleum and Form-M for 1 <sup>st</sup> & 2 <sup>nd</sup> class petroleum).
	viii. Form-Cha issued by Explosive Inspector (for trading of gas filled cylinder).
	ix. Clearance from BSCIC (in case the business is situated in BSCIC industrial estate).
	x. Licence for restaurant, bakery and food item/ BSTI licence/ licence from Fire Service and Civil Defence Authority (applicable for flammable items on case to case basis)
	xi. Licence for acid/ chemical.
	xii. Licence for petrol pump and jewellery business.
	xiii. Environment Clearance Certificate from Ministry of Environment.
	xiv. Other special licences required for doing the business.
22.	<b>For Registered Mortgage</b>
	i. Legal opinion from PBL Legal Division/ enlisted lawyer
	ii. Up to date branch/ source valuation with photograph of proposed mortgaged property.
	iii. Up to date surveyor valuation from PBL enlisted surveyor before final approval.

	iv. Location Sketch Map of proposed mortgaged property.
	v. Approved plan from the competent authority (if permanent structure exist) where applicable.

Table: 8

## 2.19 SME Loan Approval Process

The unique feature of PBL is that it approaches prospective clients, while other banks wait for them to apply for loans when required. Credit Officers of PBL are instrumental in not only selecting and approaching clients, but also in maintaining regular interaction with each client, monitoring the use of the loan and ensuring regular repayment. They help customers to choose the scheme which best meets his financial requirements and fits his business size and nature. The loan approval process completes with several steps-

**Step-1:** A potential customer collects prescribed Credit Application Form from the Branch or SME Banking Department or Web address of the Bank. Later, he or she submits the filled in Credit Application Form along with necessary papers and documents. If he or she is positive, the LE collects duly filled in CIB Inquiry Form from the customer and submits it to the Credit Information Bureau of Bangladesh Bank for latest CIB Report through Credit Administration Department, Head Office.

**Step-2:** The Credit Officer scrutinizes the Credit Application Form and other documents submitted by the customer and make a preliminary assessment on creditworthiness of the potential borrower. He or she collects further information from the customer if it is felt necessary. And, if he or she finds the proposal not bankable, he or she sends a refusal letter to the customer immediately. On the other hand, if he or she finds it acceptable, he or she forwards the application to the concerned Senior Credit Officer.

**Step-3:** Credit Officers visit the customer's business premise and try to acquire proper understanding about the business position, actual credit requirement, repayment capacity etc. Besides, he or she negotiates with the customer about the structure of the proposed credit facility. Apart from this he or she assesses the value of the security to be offered. Finally, the officer summarizes all these information in proposal format and send to Head of SME.

**Step-4:** If Head of SME refuses, the Credit Officer sends a refusal letter to the customer. Everything may stop here if CIB report shows that the customer has classified liability in its name and or in the name of its sister concern(s). In that case, the customer is regretted accordingly.

**Step-5:** The Head of SME Banking Division, Head Office forwards the proposal to the Credit Risk Management Department, Credit Division along with necessary papers. The concerned Credit

Assessment Officer conducts in-depth Credit Analysis and affixes his or her comments or observations or findings.

**Step-6:** The Credit Assessment Officer places the proposal along with his or her comments or observations or findings before the Head of Credit or Head Office Credit Committee. The Head of Credit may contact with the Head of SME Banking for his or her queries. He or she may also express his or her reservation on a particular issue or risk and ask the Head of SME Banking to clarify his or her position and or risk minimization technique(s). Finally, he might decline the proposal. And, if he or she is fully satisfied he or she may approve the facility if it is within his or her delegated authority. If it is beyond his or her delegated authority, he or she would recommend the proposal to the higher authority.

**Step-7:** The Approving Authority may decline the proposal if he or she is not satisfied about the proposal. If he or she is satisfied and if it is within his or her delegated power, he or she approves the proposal. If the proposal exceeds his or her delegated authority, he or she recommends it to the Executive Committee of the Board of Directors, which has the supreme authority to sanction any loan.

**Step-8:** If the facility is approved, the Credit Risk Management Department of Credit Division issues sanction letter to the SME Banking Division or Branch along with a Documentation Check List which clearly spells out what are the documentation formalities required to be completed before disbursement. A copy is sent to Credit Administration Department, Credit Division.

**Step-9:** The SME Banking Division or Branch then issues sanction letter to the customer in line with the letter of Credit Risk Management Department and requests the customer to complete documentation formalities.

## **2.20 Post Approval Activities of SME**

Prime Bank Ltd. does two types of post approval activities which are as following:

- **Monitoring Activities**

Credit monitoring process starts immediately after disbursement of the facility. Steps involved in monitoring process are as follows:

**Step-1:** The customer starts repayment of the loan. Simultaneously, Branch relationship officer starts monitoring the loan on on-site basis. If he or she finds any deviation to the terms and conditions of the sanction or borrowers financial health, he or she prepares an Early Alert Report and sends it to the Corporate Banking Division, Head Office.

**Step-2:** Simultaneously, Credit Administration Unit monitors the loan on an off-site basis and reports its findings to the Credit Risk Management Unit. On the other hand, Corporate Banking Division informs the Credit Risk Management Unit about the customer's position on the basis of Early Alert Report received from Relationship Officer. It may propose revising the customer's risk grading. Credit Risk Management Unit ultimately decides on the customer and directs Corporate Banking Division to take necessary action.

**Step-3:** The Relationship Officer regularly reminds the customer as per decision of the Credit Risk Management Unit about the irregular repayment, if any and or breach of contract through letter and or phone call and or visit in person.

- **Recovery Activities:**

The Recovery Unit (RU) of Credit Division will manage accounts with sustained deterioration (a Risk Grade of Sub-Standard (6) or worse). Sometimes, as per recommendation of the Credit Risk Management Unit and Corporate Banking Division the Management may decide to transfer some EXIT accounts graded 4-5 to the RU for efficient exit. Whenever an account is handed over from SME unit or Relationship Management to RU, a Handover or Downgrade Checklist is prepared. Down grading process is done immediately and should not be postponed until the annual review process.

The Recovery Unit's Primary Functions are:

- ✓ Determine Account Action Plan or Recovery Strategy.
- ✓ Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- ✓ Ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- ✓ Regular review of grade 6 or worse accounts.
- ✓ Management of classified loans and special mention accounts.
- ✓ Waiting off B/L loan accounts and related works with the approval of the Board.

## **2.21 Credit Risk Management of Prime Bank**

In the financial arena, enterprise risks can be broadly categorized as Credit Risk, Operational Risk, Market Risk and Other Risk. Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by

maintaining credit risk exposure within acceptable parameters.<sup>9</sup> Globally, more than 50% of total risk elements in banks and FIs are Credit Risk alone. Thus managing credit risk for efficient management of a bank has gradually become the most crucial task.

Credit risk management of Prime Bank encompasses identification, measurement, matching mitigations, monitoring and control of the credit risk exposures to ensure that:

- The individuals who take or manage risks clearly understand it.
- The organization's Risk exposure is within the limits established by Board of Directors with respect to sector, group and country's prevailing situation.
- Risk taking Decisions are in line with the business strategy and objectives set by Board of Directors.
- The expected payoffs compensate the risks taken.
- Risk taking decisions are explicit and clear.
- Sufficient capital as a buffer is available to take risk.

## **2.22 Computation of CRG (Credit Risk Grading)**

To understand the creditworthiness of the customer **Credit Risk Grading (CRG)** method is seriously followed by Prime Bank Limited. It involves calculation to predict if the loan will be profitable or not.

Step 1: Identify all the Principal Risk Components

Step 2: Allocate weightages to Principal Risk Components

Step 3: Establish the Key Parameters

Step 4: Assign weightages to each of the key parameters.

Step 5: Input data to arrive at the score on the key parameters

Step 6: Arrive at the Credit Risk Grading based on total score obtained.

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<sup>9</sup> Principles for the Management of Credit Risk - consultative document. 2017. *Principles for the Management of Credit Risk - consultative document*. [ONLINE] Available at: <http://www.bis.org/publ/bcbs54.htm>. [Accessed 28 August 2017].



***Assign Weightages of Each Parameters***

Principal Risk Components	Key Parameters	Weight
<b>Financial Risk</b>		<b>50%</b>
	Leverage	15%
	Liquidity	15%
	Profitability	15%
	Coverage	5%
<b>Business/Industry Risk</b>		<b>18%</b>
	Size of Business	5%
	Age of Business	3%
	Business Outlook	3%
	Industry Growth	3%
	Market Competition	2%
	Entry/ Exit Barriers	2%
<b>Management Risk</b>		<b>12%</b>
	Experience	5%
	Succession	4%
	Team Work	3%
<b>Security Risk</b>		<b>10%</b>
	Security Coverage	4%
	Collateral Coverage	4%
	Support	2%
<b>Relationship Risk</b>		<b>10%</b>
	Account Conduct	5%

	Utilization of Limit	2%
	Compliance of Covenants	2%
	Personal Deposit	1%

Source: Credit Risk Grading Manual

Table: 9

### ***CRG Matrix***

The following is the proposed Credit Risk Grade matrix based on the total score obtained by an obligor.

<b>No.</b>	<b>Risk Grading</b>	<b>Short Form</b>	<b>Score</b>
<b>1</b>	superior	SUP	-100% cash covered -Government Guarantee - International Bank Guarantees
<b>2</b>	Good	GD	85+
<b>3</b>	acceptable	ACCPT	75-84
<b>4</b>	Margin/ watch list	MG/WL	65-74
<b>5</b>	Special Mention	SM	55-64
<b>6</b>	Sub-standard	SS	45-54
<b>7</b>	Doubtful	DF	35-44
<b>8</b>	Bad & Loss	BL	Below 35

Source: Credit Risk Grading Manual

Table: 10

### **2.23 New Look of SME Banking of PBL**

SME Banking Division intends to be one of the best SME Bank in Bangladesh by 2020. To underpin this vision, SME Banking have started enormous transforming works which include redesign of approval process through introducing End-to-End process, introducing KPI for creating performance culture, establishment of own-sales-force along with branches to penetrate the un-tapped area for ensuring foot at door step of the clientele.

## **Part 4- Findings and Conclusion**

### **2.24 Findings**

1. Prime Bank is relentlessly working to encourage entrepreneurs through financing in the SME sector. It has already taken several initiatives conducive to the overall growth of the sector. It is putting an increased focus on the development of SME sector by following the guidelines of Bangladesh Bank. The bank has put utmost effort for the development of this sector by participating in various road shows, workshops, forums and fairs to build awareness among the customers as well as for capacity building of the SME officials. In line with the trend of contemporary business and regulatory requirement, all branches of the bank are now focusing on SME. Therefore, all branches have separate target for selling SME products in order to strengthen the base of the bank.

2. Prime bank recognizes the need of introducing a specialized loan product solely geared to catering the need of women entrepreneurs. Therefore, it has introduced “Anchol” as a tribute to women entrepreneurs and to help strengthen women entrepreneurs business in a supportive manner. The bank has successfully established ‘Women Entrepreneurs Development Unit’ at head office level with a view to increasing focus on the development of Women Entrepreneurs and to be in compliance with the regulatory guidelines.

3. Prime Bank monitors and maintain SME credit disbursement in a constructive way. Credit Officers are instrumental in not only selecting and approaching clients, but also in maintaining regular interaction with each client, monitoring the use of the loan and ensuring regular repayment.

## 2.25 Recommendation

In context of the economic and social scenario of Bangladesh, the concept of encouraging entrepreneurs is essential as well challenging. For overall economic growth, it is really required for the economy to have small and medium enterprises, however, these are the loans which have a sharp tendency to go default. In this scenario, Prime Bank Ltd. should be more vigilant while giving out an SME loan.

In the light of the above findings, following recommendations are proposed:

1. PBL needs to decrease the interest rate. Because many of their competitors are providing loans at a lower rate. For example most of the competitors banks providing loan at 18-22% interest rate. High interest rate is the result of high cost of fund, so they must source fund at lower cost.
2. Sometimes, credit officers, bank staffs or direct sales team select potential borrowers in order to meet sales target. It's a major reason of defaulter. So PBL should not put excessive pressure on employees because at the end of the day it hampers bank reputation.
3. Prime bank can share common platform in order to provide SME loan. It can jointly work with other financial institutes without hampering profits. For example entrepreneur training session could be arranged jointly with SME Foundation.
4. The credit sanction procedure should be made quicker since competition is very hard in today's business world. People do not want to wait for three to four weeks on an average to get a loan which is even protected by security.
5. The authority must be more watchful for complete recovery of loans.
6. Analyze customers' behavior that what type of customer makes default and stop giving them SME loan.
7. When it comes to recovery, it is better to put equal weightage to all the borrowers rather than focusing on a potential borrower just to meet the quarterly/half-yearly recovery target.
8. Increase marketing activities in the urban area because other competing industries are given huge ad in urban area which helps them to increase their customer base.
9. Organize entrepreneurs meeting to train them up according to the business type.
10. Prepare retail division staffs specially front line employees about SME vastly. Because most people do come to retail branch in order to get information's.

11. The media converge should be more extensive to attract the potential borrowers towards available products and services. TV advertisement and radio coverage could prove to be suitable medium of advertisement.
12. Product modification is extremely necessary in line with the changes in current economy and the position of the competitors.

## **2.26 Conclusion**

Small and Medium Enterprise (SME) Financing has become an important area for Commercial Banks in Bangladesh. To align its corporate policy with the regulation of Central Bank, banks have become more concerned about SME and opened windows to conduct business in this particular area. Prime Bank Ltd has been established on the visionary to finance and encourage entrepreneurs in order to bring economic development of the country. With its unique thinking and impressive business strategies it has proven small and medium enterprises as an emerging economic opportunity.

## **CHAPTER 3**

### 3.1 Appendix

#### QUESTIONNAIRES

##### 1. For Bank Officers

1	What do you consider most important when deciding on loan-applications?	1. Collateral 2. Regular income 3. the business plan 4. personality of the applicant 5 other	
2	How many loan applications do you on average attend to per month?		
3	How many of these loan applications due you on average approve per month?		
4	When you are not sure about a loan application, what do you normally do?	1. I usually immediately decline the client 2. I discuss the application with a colleague 3. I think about it a bit more and let the client know one or two days later 4. I usually still accept the client 5. Others	
5.	Do you typically prefer to reject loan applications for which you have a doubt?	Yes / No	
6	What do you consider as more beneficial for PBLs portfolio (or overall performance)?	1. Give new loans to existing businessmen of PBL  2. Give loans to new entrepreneurs	

## 2. For New Customers

- What is the reason for choosing this bank as your bank?
  - (a) Family tradition
  - (b) Incentive schemes
  - (c) Nearness to office/residence
  - (d) just by chance
  - (e) Others (specify)
- Do you consider it necessary for you to know someone personally at this branch to expedite your transactions?
  - (a) Yes
  - (b) No
- Is the space available at the bank for customers sufficient for transactions with reasonable comfort?
  - (a) Superior
  - (b) Good
  - (c) Average
- Do you think that there is adequate staff at the bank to meet your requirements?
  - (a) Yes
  - (b) No
- Is the bank conveniently located?
  - (a) Yes
  - (b) No
- Prominent display of time norms required for transaction, for information of customers
  - (a) Superior
  - (b) Good
  - (c) Average
- Manager available easily and accessible to redress grievances if any and to solve problems
  - (a) Superior
  - (b) Good
  - (c) Average
- How do you know about the existing and new policies and services offered by the bank?  
Through
  - (a) Branch manager
  - (b) Staff at the branch
  - (c) Advertisements/pamphlets
  - (d) others



- Availability of leaflets /pamphlets on schemes/services to customers  
 (a) Superior  (b) Good  (c) Average

**3. For Existing Customers**

- Are you a bank borrower through this branch?

(a) Yes  (b) No

- What type of facilities do you currently enjoy with this bank?

TYPE No.

(a) Loan

(b) Cash credit

(c) Overdraft

(d) Bills

(e) Any other

- Did you have to apply influence of any sort at any stage to facilitate availability of credit

(a)Yes  (b) No

- If yes, please indicate

(a)Using intermediary or consultancy service Yes  No

(b)Applying political influence Yes  No

(c)Approaching through bank staff or executive Yes  No

- Was the information called for by the bank for sanctioning credit useful to you at any time in understanding your business requirements better?

(a)Yes  (b) No

- Did find any information asked for by the bank while processing your Loan application unnecessary or not available or too confidential to part with?

(a) Yes  (b) No

- Do you fully understand the implications of the documents executed by you with the bank in respect of credit facility?

(a) Yes  (b) No

- Does the branch follow a consistent policy for levying service charges on your account?

(a) Yes  (b) No

- During the last 12 months did you have to complain to the bank officials on any matters?

(a) Yes  (b) No

- If yes, what was the nature of complaint?

(i) Misbehavior (a) Yes (b) No

(ii) Error (a) Yes (b) No

(iii) Delay (a) Yes (b) No

- Does the bank report at any time to Credit information Bureau about your outstanding debt?

(a) Yes  (b) No

- Are the information's provided accurate?

(a) Yes  (b) No

- Is there any transparency in banker - customer relationship?

(a) Yes  (b) No

- Do you think that bank provide equitable or equal treatment of similar customers for similar services?

(a) Yes  (b) No

- Is the bank follows fair and simplified pricing procedures?

(a) Yes  (b) No

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