



Inspiring Excellence

Internship Report Topic:

**Performance Analysis of Credit Management policy and
procedures of Mercantile Bank Limited.**

Submitted To:

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Submission Date: 5th April 2018

Title

**"Performance Analysis of Credit
Management Policies and Procedures of
Mercantile Bank LTD"**



Letter of Transmittal

Date: 5th April 2018

Mr. Md. Shamim Ahmed

Lecturer, BRAC Business School

BRAC University

Dear Sir,

With intense pleasure, I am submitting to you this internship report which was assigned to me as an important requirement of completing “Bachelor of Business Administration” program at BRAC University.

I have completed this report titled as “Credit Management of MBL” by the knowledge that I have gathered during my 3 months internship at MBL in the Credit management Department. I have tried my level best to make the work as per following your guidelines and my level of experience and capability by giving maximum effort to complete this report with the necessary information and suggested proposal that were provided to me. I hope that this report will be completed successfully and meet your expectations.

Moreover, I am extremely thankful for the opportunity that you gave me to express my ability and I intently hope that you will like the work that I have done. Any difficulties or flaws may arise as because of my learning aspects. I shall wholeheartedly accept any suggestion or opinion regarding my report

Sincerely yours,

.....

Tasnia Jahangir

Student ID: 13204095

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Letter of Endorsements by the Supervisor faculty

This is to certify that Tasnia Jahangir, ID- 13204095, Student of Bachelor of Business Administration (BBA) under BRAC Business School, BRAC University has successfully completed her assigned Internship Report on Credit Management of Mercantile Bank Limited.

She was placed in Mercantile Bank Limited for 3 months for completing her Internship which is a mandatory requirement for the completion of the Bachelor of Business Administration (BBA). The BBA Internship Report that she has submitted on the topic is up to the mark in terms of the quality and the organization.

I wish her every success in life.

.....

Faculty Supervisor

Mr. Md. Shamim Ahmed

Lecturer

BRAC Business School

BRAC University

Acknowledgement

This report has been completed with tremendous amount of work, research and dedication. But, it would have been incomplete if I did not have the support of many individuals and organization. Therefore, I would like to spread my sincere gratitude to all of them. First of all, I wish to express my gratitude to the almighty Allah for helping me to end up with an extensive effort and giving me the strength to perform my responsibilities as an intern. After that I would like to thank my academic advisor Mr. Shamim Ahmed, Lecturer of BRAC Business School, BRAC University for his wholehearted supervision during my organizational attachment period. Moreover, I am also grateful to Mr. Md. Aminul Islam, as my organizational Supervisor I am also thankful for his patience to let me complete this paper in an efficient way and to enhance my basics in developing each part of the report. My gratitude goes to entire BRAC Business School for arranging this Internship Program as a mandatory part of academic purpose, which facilitates integration of theoretical knowledge with practical life situation, I am also thankful to Mr. Syed Abul Hossain and Furthermore, who had helped me through providing information about the organization and its credit Management process and helping me to finish my report.

Last but not the least I express my gratitude toward my families and colleagues for their kind co-operation and encouragement which helped me in completion of this report.

Executive Summary

In Bangladesh, Mercantile Bank Limited was established on 20 May 1999 and commenced commercial banking operation on 2 June 1999. It is a public limited company with limited liability under the bank companies act, 1991. (Corporate Profile, 2017) The bank provides products and services in retail banking; corporate finance, Islamic Finance, asset management, equity brokerage and security. Main job of commercial banks is collecting funds from surplus unit and lending it to a deficit unit. Both primary and secondary data are used to compose this report. The core job task assigned to me comprised of working the Clearing Department and Credit Management Department. I got the opportunity to work with the team dealing clearing section and Credit Management of Mercantile Bank as well. I also faced some troubles and difficulties while assembling this report. The foundation of the report is based on the investigation of Credit Managements and procedure of Mercantile Bank Limited. The most important focused I have given in this report is on Credit Management Department. The economic state of Bangladesh is not stable and in good position currently thus Mercantile bank is giving its best efforts in order to make it quite stable. Non-performing loans a growing trend in both public and private sector banks of Bangladesh. Consequently, the bank should try to make positive attempts to be more outwards looking in relation with their goals and improve its product and services, stay aware of the market conditions and the changing atmospheres at the same time.

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1.Introduction

Banking system Occupies a vital place in a nation economics banking institution is crucial in a modern society. Bank is the lifeblood of an economy. Mercantile Bank Limited is a new generation Bank. It is dedicated to grant high worth financial services and products to add to the expansion of GDP of the nation through motivating trade & commerce, boosting up export, creating employment prospect for the educated youth, poverty improvement, accelerating the rate of knots of industrialization, raising standard of living of not enough income group and over all sustainable socio-economic expansion of the country. (Credit and Advance, n.d.) In achieving the abovementioned objectives of a Bank, Credit Management has chief importance as the greatest share of total revenue a Bank generates from credit Management department. The officers believe in collaboration and tremendous hard working. All business dealings credit officers are guided by the values of sincerity, truthfulness and safe-guard the interest of the depositors and credit customers of the bank. Credit officers mainly perform credit managing task by providing fund credit to customers and receiving fund back by charging interest alongside with installments with obeying policy and set of laws of the Bangladesh Bank and Head Office as well as maintaining the best dealing practices in the Bank. However, the key to safe, liquid, healthy and profitable credit operations lies on the quality of credit management which is performed by the credit officers.

1.1 Origin of the Report

As a student of BRAC Business School every student must conduct a practical orientation that is an internship program in an organization, for fulfilling the requirements of the BBA program. The main objective of the program is to get a glimpse of the real world situation and the corporate culture. I had the opportunity to gain experience about Operations, Foreign trade and Credit management policies and procedures during my internship at Mercantile Bank Limited at Mohakhali branch, Mohakhali, Dhaka. Theoretical knowledge is not sufficient enough, and so practical knowledge is also needed. However, only practical knowledge makes a person blind. The internship program gives the opportunity to combine the theoretical knowledge that is acquired from last four years of Bachelor's program with the practical setting. Here, i was able to realize the relevance and usefulness of the theoretical learning with the operational experience in Mercantile Bank Ltd.

1.2 Objectives of the Study

The report spotlight on the credit management policies and procedures of MBL. Number of day loan and clarifications has become a huge problem for the overall finance region of Bangladesh. The public and private schedules of banks have to accept the huge amount of arrangement of loans. The objectives of the study are to congregate realistic knowledge concerning banking system and operation of the credit Management. This practical orientation gave me an opportunity to synchronize out theoretical knowledge with the practical experience

The primary objectives of this report are to complete the internship as per BBA program of BRAC University. The secondary objectives of this report are:

- To build up practical awareness about MBL.
- To know about Loans and Advances of MBL.
- To know about their recovery process of loans.
- To know about the credit sanctioning policies of MBL.
- To get acquainted with credit Risk Management guidelines of Bangladesh Bank.
- To expand knowledge about the factors affecting the finance sanctioning decisions and how loans are disbursed to loan applicants to loan depending on their credit worth.
- To gain knowledge about foreign exchange procedures.
- To recommend some guidelines and suggestions to the bank from my observations

1.3 Methodology of the study:

In order to make the report more significant and acceptable, two sources of data were used extensively. Sources of Data:

The report is based on both primary and secondary sources of data.

a) Primary Sources:

- Interviewing Manager and clients of the bank.
- Face to face conversation with the officer.
- Interviewing officers of the bank.

- Conversation with clients of the bank.
- Practical desk work.
- Directs observations.

b) Secondary Sources:

- Annual report of the bank.
- Prospectus of the bank.
- Procedures manuals of the bank.
- Website.
- Statement of affairs.

1.4 Job Responsibility

Throughout the whole internship period, I was assigned to do several duties. Initially I was instructed to observe how the work environment is managed; I was explained the hierarchy in the department and how the work is distributed and accomplished in the Mohakhali branch of MBL. At first, I was placed in under the clearing department to work with the day to day operations and deal with cheques. My basic duty involved to receive inwards and outward cheques and crossing them, recording them in registers, then passing the appropriate cheques or returning the inappropriate cheques which are not meeting the basic requirements of passing the cheques. As handling cheques is one of the important tasks of banks so constant supervision was there by senior officers who helped me to boost my self-esteem and become more responsible person. Primary task was to give seal on the cheques received and give signatures on them count them on a bundle of 30 and report it to the clearing Department officer then after one and half months I was placed on Credit Management Department, where my task was to monitor the clients behavior and go through the different types of credit procedures and assist senior officers in dealing with clients and make them understand the terms and conditions. In the Foreign Exchange Department, I was given tasks of filing and recording Back to Back Letter of Credit. This was the summation of the core duties I was allocated by the senior authorities and essential responsibilities I was assigned with in my internship period

1.5 Limitations

There were some problems while I was conducting the orientation curriculum, a whole hearted effort was applied by me to conduct the orientation program and to bring a reliable and fruitful result, in spite of having the whole hearted effort, there exists some limitation which acted as a barrier to conduct the program. The limitations were as follows:

- Every organization has their own secrecy that cannot be revealed publically.
- Duration of the study was too short to get an overall idea of the general managing an account.
- Necessary Documents like Prospectus, Annual Report, Bulletin, were not available in the Bank.
- Customers of Mercantile Bank's were so much busy into meetings and handling clients that's why I couldn't ask them enough questions about the bank and collect enough all relevant information's from them.
- In many cases, up to date information is not published.
- It is difficult to communicate with the clients as they were feeling hesitation to respond.

1.6 Scope of study

The report covers details about the credit management and credit performance of Mercantile Bank Ltd. The report consists of my observation during the internship period in the Mohakhali branch, Mohakhali, Dhaka. The report emphasizes on the ways to manage credit risk, tools of credit risk management, loan recovery system, performance of bank, etc. It details everything under the theory of credit risk management according to Bank Companies Act 1991 and discusses on major findings and recommendations of MBL.

2. Company Overview

Mercantile Bank Limited was incorporated as a public limited company on 20th May 1999 but it commenced business on 2nd June 1999 with a vision for being finest corporate citizen. MBL enlisted in both Dhaka and Chittagong stock exchange on February 2004. It is a third-generation private commercial bank. The Bank has established correspondent relationship across the world with several foreign banks. The number of correspondent banks stood at 652 as on December 31, 2016 across 63 countries. MBL Family always tries to be a responsible partner of our customers, shareholders, employees, communities, and other stakeholders attaching highest priority to ethical conduct and integrity. This includes monetary donations and aid given to nonprofit organizations and communities. Donations are made in areas such as the arts, education, housing, health, social welfare and the environment, among others, but excluding political contributions and commercial event sponsorship. (Corporate Profile, 2017) Mercantile Bank Limited Discourage doing business with some companies or sector like Tobacco sector, Companies listed on CIB black list or known defaulters, Bridge Loans rely on equity or debt issuance as a source of repayment, Highly Leveraged Transactions, Military Equipment or Weapons Finance and many more.

2.1 Vision

To become the market leader, MBL is planning to take some initiatives very soon and would make finest corporate citizen

2.2 Mission

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

2.3 Strategic Objectives of MBL:

- To increase shareholders' value.
- To achieve economic value addition
- To be market leader in product innovation.
- To be one of the top three financial institutions in Bangladesh in terms of efficiency.
- To be one of the top five financial institutions in Bangladesh in terms of market share in all significant market segments MBL serve.

2.4 Corporate Priorities

- Ensure customers satisfaction by meeting their demands with excellent customer services.
- Enlarge customers freedom by designing need-based banking products and services.
- Manage credit risk by diversified loan portfolio with emphasis on SME and Agriculture financing.

- Mitigate different risks through efficient risk management techniques
- Strengthen Internal Control and Compliance (ICC) system to establish a very systematic and effective compliant culture.
- Combination of skilled human resources and state-of-art technology in providing banking services.
- Focus on green banking by ensuring ecofriendly financing.
- Corporate clients credit rating to remain compliant in terms of regulatory capital requirement.
- To be transparent, accountable and trustworthy in all aspects of our banking activities.

2.5 SWOT analysis

SWOT is the acronym for STRENGTH WEAKNESS OPPORTUNITIES & THREAT. Here, the strength and opportunities are an internal factor, whereas weaknesses and threats are more constructed on external factors. SWOT analysis is a valuable tool for the evaluation of the company's internal affairs and outside competition. The main purpose of the SWOT analysis is to identify strategies which are aligned with the company's resources and capabilities in accordance to the environment in which the company operates. In other words, the purpose of the strategic alternatives generated by a SWOT analysis should be built on a company's strengths to exploit opportunities in the industry and deals with the threats along with correcting the mistakes

Table-1

STRENGTH	WEAKNESS
<ul style="list-style-type: none"> a. Experienced, skilled & proficient top management. b. Favorable reputation and creative & effective bank in the banking industry c. Strong moral of the employees d. Modern facilities and computerized banking e. Interactive corporate culture f. Sponsors directors being large industrial g. Satisfactory asset quality and operating efficiency h. Diversified product lines i. Low human resource turnover 	<ul style="list-style-type: none"> a. No long-term strategies b. Failed to provide a strong quality recruitment policy in lower and mid-level position c. Service quality of this bank is good but not high as the customer satisfaction d. Having a group of unsatisfied employees e. Low promotional sector f. Lack of effective aggressive marketing activities g. Low remuneration package for entry level and mid-level officer

OPPORTUNITY	THREATS
<ul style="list-style-type: none"> a. Increasing demand for advanced and customized banking services b. Going for other domestic and international market c. Expansion of product line to enhance d. Investment in the secondary market e. Provide large ATM service facility across the country f. Providing quick service facility to the customer 	<ul style="list-style-type: none"> a. Opening of new banks with technological advantages and innovativeness b. Increasing default risks of all terms of loan c. Existence of strong competitors d. Rapid expansion of multinational bank e. Increased market competition f. Lower compensation package of the employees from mid-level to lower level position

2.6 Code of Conduct

The code of conduct of MBL's employees is as follows:

- Complies the various rules, regulations and policies provided by the bank and other regulating authorities
- Show courtesy and attend customers with utmost sincerity, honesty and diligence
- Maintain confidentiality regarding the affairs of the bank and its customers
- The scope of outside employment, honorary or inducement is strictly prohibited without prior written permission of the competent authority
- The permission of the authorities in writing must be obtain in order to leave the station and the absent from duty
- Not to make any personal representations to any director of the board or any outside authority
- Not to invest any money in the business of the bank's clients
- Maintaining the image of the bank is the responsibility of the employees and to uphold the prestige of the bank.
- Not the accept or permit any member of the employee's family to accept any gifts form a constituent of the bank
- Not to take part in any political activity directly or indirectly or and in any election to parliament in Bangladesh or else where
- Not to participate in gambling and betting or any such activities

2.7 Principle Activities

MBL has been able to establish itself as a leading third generation private commercial bank by dint of its prudent policy guidelines coupled with proper execution, wider range of banking products and excellent customer services. The core activities of the bank are to provide all kinds of commercial banking services including deposits mobilization, providing loans, discounting bills, foreign exchange business, off-shore banking, treasury function, card business and mobile banking. MBL caters card services to its customers by VISA dual prepaid card, VISA Dual Hajj Card, Credit Card, Debit Card and International/Dual cards with various up-to-date facilities. MBL

is continuously expanding its ATM network and inking contact with the other banks with a view to making its card service more attractive and convenient to all. Except these, MBL is also providing other services through its two subsidiary companies.

2.8 Subsidiaries

MBL has 2 (two) subsidiaries namely "Mercantile Bank Securities Ltd (MBSL)" and Mercantile Exchange House Limited, another subsidiary company of MBL incorporated as private limited company on December 01, 2010. It commenced its business operation on December 06, 2011 currently it is operating with one branch in London with a view to providing faster, easier and safer remittance services to the Bangladeshi expatriate living and working in UK.

2.9 Capital Base

MBL is maintaining strong capital adequacy ratio as per new risk-based capital adequacy framework i.e. Basel II. The Authorized Capital of the Bank stood at BDT 12,000.00 million of 1,200,000,000 Ordinary Shares of BDT 10 each as on December 31, 2016. Paid-up Capital of the Bank was BDT 7,391.57 million of 739,156,701 Ordinary Shares, face value of BDT 10 each and listed in both Dhaka and Chittagong Stock Exchanges.

2.10 CSR Activities in MBL

MBL's Corporate Social Responsibility initiatives are firmly based on the four key pillars of our Economy, Community, Environment, and Ethical. Their sustainability strategy is connected to their vision, would make finest corporate citizen. they control on the connections and relationships they have formed to win hearts and achieve prosperity for all. Guided by their Core Values of Teamwork, Integrity, Growth, Excellence and Efficiency, and Relationship Building, their place should be at the heart of the communities they serve. (CSR Activities, 2017)

2.11 Networks of MBL

In 2016 Particulars number of Branches 119, Number of AD Branches 21, Number of SME Branches 5, Number of Off-shore Banking Units (OBU) 2 Number of Subsidiaries 2, Number of Employees are 2,043 .Number of ATMs are 149, Number of CDMs 20, Number of Credit Cards 7,454 ,Number of Debit & Prepaid Cards 142,285 , Total Assets (BDT in Million) 204,127.47 (Annual Report of Mercantile Bank 2016)

2.12 Loans and Advances

Total loans and advances of the Bank stood at BDT 150,912.52 million as on December 31, 2016 against that of BDT 126,338.83 million at the end of 2015. The Bank recorded a 19.45% growth in loans and advances.

2.13 Import & Export Trade

MBL has exhibited quality financing while facilitating import trade. During the year 2016, the Bank handled a total of BDT 139,766.40 million of Import business compared to BDT 119,982.40 million of the year 2015. total of BDT 113,035.20 million of export business in 2016 as against BDT 94,027.10 million of the year 2015. (Directors Report English, 2017)

2.14 Total Income

Total income of the Bank stood at BDT 20,607.52 million in 2016 from BDT 19,752.47 million in 2015. Interest income accounted for 80.23%, exchange gains 4.62%, commission 4.46% and other income 10.69% to total income in 2015 as against 85.90%, 4.43%, 4.04% and 5.63% respectively in 2015.

2.15 Interest Income:

Interest income of the Bank stood at BDT 16,533.37 million in 2016 from BDT 16,967.11 million in 2015. Interest on loans and advances accounted for 79.21%, interest on Treasury bill and Bond 17.28% and Other Interest Income 3.51% in 2016. Non-interest income stood at BDT 4,074.15 million in 2016 against BDT 2,785.45 million of 2015.

2.16 Total Expenses

The total expenses of the Bank stood at BDT 16,171.08 million during 2016 as compared to BDT 15,816.81 million during 2015. Non-interest expenses moved up from BDT 4,008.26 million in 2015 to BDT 5,652.54 million in 2016.

2.17 Way Forward

MBL look forward to consolidating their position keeping our mind on the following:

- More important on SME financing

- Achievement on agriculture credit target
- All out efforts to improve deposits mix by procuring low cost along with no cost deposits
- Innovation of need-based deposits, loan products and services
- Advanced products and solutions based on incorporate technologies
- To hire and retain human resources in accordance to the bank

2.18 Business ethics

MBL believes that business ethical practices provide a foundation for the stability and sustainable growth of the bank and supports the bank's efforts in achieving all its stipulated aims. Business ethics practices are highly encouraged by the bank to all the parties to conduct their business and perform their duties.

- The bank conducts its business in accordance with the law and regulations set by the central bank and other regulatory authorities. The bank does not finance in any project that is detrimental to the community and thus such financing is prohibited by the credit policies by the bank
- The bank complies with various standard which are generally acceptable for conducting the banking business and always stay clear from doing aggressive business while extending credit facilities
- In conducting business, the bank adheres to Bangladesh Bank's specific instruction while setting the interest rates of deposits and loans. The bank also keeps the interest spread at or below 5% to what is authorized by the Bangladesh Bank
- The bank offers quality services to its customers with the principle of warm friendship and mutual support. Only those charges and fees that are disclosed by the schedule of charges of the bank are applied
- The bank safeguards confidential information of its customers, and not disclosing it to others without their consent or unless required by law
- To conduct CSR activities
- To be compliant under the industry practices

2.19 Core values:

1. **Customer delight:** Customer satisfaction pervades all our activities. We appreciate that Customer's satisfaction is critical for our success.
2. **Innovation:** Spurring innovation for reinforcement of our business.
3. **Ethical Values:** We continue to be responsible, ethical, sincere and transparent in our thoughts and actions.
4. **Socially Responsible:** steady attempt to act and take action in a socially responsible method keeping in mind society and our nation.
5. **Shareholders Value:** Creation and Maximization of values for our shareholders.
6. **Assurance:** MBL always keep high on the schedule their commitment towards valued depositors as their trustworthy warden and to uphold the identical spirit for all other stakeholders.

2.20 The Corporate Structure of MBL

The boards of directors have the accountability to articulate policies, guidelines and procedures which provides deliberate planning and supervises business activities, along with monitoring performance of management. The board consists of the executive and audit committee who are accountable to all its shareholders.

Board of Directors

The board of directors comprises of 13 members elected by the sponsors of the bank.

Board of Committee

The board of directors also adopts on the composition of each committee determining their responsibilities.

Executive Committee

All routine matters beyond delegated powers of management are decided upon by the directions of the executive committee, subject to ratification by the board of directors

Audit Committee


All matters relating to the principles policies rules and regulations are directed towards operation and management which are decided by the executive committee.

Management

The management of the bank is vastly dependent on the board of directors for overall supervision and directions on policy matters. The power of general supervision and the control affairs of the bank is exercised by the managing director of the bank who is the chief executive officer. Most importantly, the talented professional who manage the overall activities of the bank.

2.21 Organizational Hierarchy of Mercantile

Table-2



Chairman
Board of Directors
Managing Director and CEO
Additional Managing Director
Deputy Managing Director
Senior Executive Vice President
Executive Vice President
Senior Vice President
Vice President
First Vice President
Assistant Vice President
First Assistant Vice President
Principal Officer
Senior Executive Officer
Executive Officer
Officer
Assistant Officer
Trainee Assistant Officer

2.22 Corporate Priorities

- Enlarge customers liberty by scheming need based banking products and services.
- Guarantee customers contentment by meeting their demands with brilliant customer services.
- Focus on green banking by ensuring ecological financing.
- Handle credit risk by diversified loan portfolio with highlighting on SME and Agricultural banking.
- Lessen different risks through well-organized risk management techniques.
- To be clear, trustworthy and accountable in all aspects of MBL banking activities.

2.23 New Technology

Mercantile Bank Limited has adopted the up to date hardware and software technologies to make the services more rapidly and easier. Now they are adopting the state of the art technology in banking operations. They offer online banking services and 24 ATM booths for their customer across the country.

2.24 Product and services

Product and Service of MBL Based on the customer satisfaction, MBL offer numerous products to its clients and customers. For this reason, MBL made momentous growth in all areas of its business, such as deposit mobilization, credit management, remittance handling, foreign exchange and foreign trade MBL offers various products and services to its customers those are as given below.

2.24.1 Deposit products

- ❖ Current Deposit (CD) Accounts.
- ❖ Saving Bank Deposit (SB) Accounts.
- ❖ Special Note Deposit (SND).
- ❖ Fixed Deposit Receipt (FDR).
- ❖ Scheme Deposit:
 - i. Monthly Saving Scheme (MSS)
 - ii. Double Benefit Deposit Scheme(DBDS)

- iii. Special saving Scheme(SSS)
- iv. 1.5 Times Benefit Deposit Scheme(1.5TBDS)
- v. Educational Planning Deposit Scheme(EPDS)
- vi. Super Benefit Deposit Scheme(SBDS)
- vii. Family Maintenance Deposit Scheme(FMDS)

❖ School Banking:

- i. Super Benefit Deposit Scheme (SBDS).
- ii. Educational Planning Deposit Scheme (EPDS).

2.24.2 Loans and Advances:

❖ Retail Loans:

- i. Home Loan Scheme
- ii. Lease finance Scheme
- iii. Doctor's Credit Scheme
- iv. Consumer credit Scheme
- v. Personal loan Scheme
- vi. Overseas Employment Loan Scheme
- vii. Cottage loan
- viii. Car loan

❖ Corporate loan:

- i. Short Term Finance.
- ii. Long Term finance.
- iii. Real Estate Finance.
- iv. Export Finance.
- v. Loan Syndication.
- vi. Trade Finance.
- vii. Structured Finance.

2.24.3 SME Financing

- ❖ **CHAKA**(Term Loan)
- ❖ **SMARIDDHI**(continuous Loans)
- ❖ **MOUSUMI** (short term seasonal loan)
- ❖ **ANANNYA** (Women Entrepreneur Loans)
- ❖ **SANCALOK**(Mix of Term, Time and continuous Loans)
- ❖ **UNMESH** (Trade Finance)

2.24.4 Agriculture Loans:

- ❖ **NABANNO** (krishi/Polli Loan)
- ❖ **SAKTI** (Solar power loans)

2.24.5 MBL Card:

- ❖ Debit Card.
- ❖ Credit Card (local card, International card, Dual Currency card).
- ❖ MBL Pre-Paid card (Student card, Hajj card, Travel card, Virtual card, treatment care).

2.24.6 Other Services:

- ❖ Online Banking.
- ❖ Mobile Banking.
- ❖ Off-Shore Banking.
- ❖ SMS Banking.
- ❖ Locker Banking.
- ❖ ATM Booth Services.
- ❖ Cash Deposit Machine (CDM) services.
- ❖ NRB Banking.

2.25 Department of Mercantile Bank Limited:

2.25.1 General Banking

- Account opening and KYC procedure
- Issuance of DD/TT/PO/FDR
- Interbank transaction, OBC/IBC
- Account section
- Clearing section
- IT section

2.25.2 Credit Department

- Credit proposals processing procedure
- Documentation and loan disbursement procedure
- Overview on all return

2.25.3 Foreign Exchange Department

- Cash L/C
 - Opening of L/C
 - Lodgment of import bill
 - Payment against import bill
 - B/E Matching
 - IMP Reporting
- BTB L/C
 - Export L/C checking
 - Opening of BTB L/C (Local, Foreign, EDF, EPZ)
 - Lodgment and confirmation of maturity date
 - Payment against realization of Export proceeds
 - Reporting
- Export
 - Scrutinizing/ Negotiation
 - Follow up
 - Realization
 - Reporting

➤ Foreign Remittance

a) Inward

- ✓ FDD
- ✓ FTT
- ✓ Others

b) Outward

- ✓ Endorsement of travelling
- ✓ Education/ Treatment/ Others
- ✓ Cash Rebate
- ✓ FC issuing & FDD/ FTT

3. Overview of Credit.

Credit means lending liquid money or goodwill, trust and services by the documentary credit which is letter of credit or Bank guarantee to the customer is called Credit. Before giving credit to customer the credit officer must look at some important things which background are, character of borrower, capacity to repay the credits, purpose and nature of the credit, term of facility, safety, security, profitability, sources of repayments, Diversity, National interest and environmental risks.

Risk Management Committee of The Board: The MBL's approach to the management of risk involves establishment and reinforcement of Integrated Risk Management Framework and strategies within all business units as the core foundation in driving robust and dynamic risk management practices. (Annual Report 2016 Mercantile Bank Limited, 2017)

Roles and Responsibilities of the Risk Management Committee:

1. Formation of Organizational Structure.
2. Risk identification & control policy.
3. Analysis and approval of Risk Management policy.
4. Monitoring the Implementation of Overall Risk Management Policy.
5. Storage of data & Reporting system
6. Comply instructions issued time to time by the controlling body
7. Internal & external auditor will submit respective evaluation report whenever required by the committee.

3.1 Credit department

Credit extension and deposit extraction are two of the important functions of a bank. Credit is essential for the banking system. More than half of the total revenue comes from this source in such an industry. Any bank needs to manage its credit operation properly. A bank might have to exit the industry if it does not take care of its credit management. In order to do this the bank must

create a proper credit profile that drives the credit operation efficiently. Following this method leads to efficient management leading to approval, direction, monitoring and review of the leading operation.

Credit is an arrangement where the bank acts on the request if and follow the instructions of the customers and makes the payment and accepts the bills of the customer. The role of a bank in the economy is to channel funds from the people who own the surplus to the ones who have deficits. Therefore, credit facility is one of the important functions of a bank. Mercantile bank provides this facility to bring growth and expand the economy of Bangladesh. Mercantile bank ensures that it does so in the most efficient way possible at competitive prices. Banks can lend up to 15% of the capital fund without any prior permission from Bangladesh Bank. The maximum can go up to 100% of the bank's capital fund. Mercantile Bank complies with these rules set by Bangladesh Bank.

3.2 Credit policy of Mercantile Bank

A credit policy includes all the rules regarding loans and advances such as types of credit extended by the bank, method of judging the credit worthiness of borrowers and the collateral involved in the agreement. They also provide guidelines to placement of funds on the interbank market and other transactions with financial institutions. MBL does not differentiate between the scales of the firm. It does business with small and medium sized organizations as well as providing services such as lease financing for large firms. They also provide micro credit and small loans for the entrepreneur. MBL's credit policy takes care of the whole macro economy of Bangladesh by providing financial support to it. It also has a commitment to welfare as they will be providing for underprivileged children by giving them financial support for education and self-employment.

Its operational aspect is observed through its policies:

- 1) Charging of interest rate is flexible depending on the proposal of the customer
- 2) It maintains short, medium and long-term finance for a period not exceeding 5 years.
- 3) MBL puts emphasis on the customers and not on the size of the collateral.
- 4) It makes sure that a portfolio is diversified.

3.3 Sound principles of lending:

MBL follows some guidelines to avoid loan default and risk in their efforts to safeguard public money and the performance of the bank. Some of the questions that go into these policies include:

- 1) When is the loan needed?
- 2) Why is the loan needed?
- 3) How the loan is to be given?
- 4) What may happen after the disbursement of the loan?
- 5) Generally, what happens (past experience) after the disbursement of a loan?
- 6) Whether the loan should be only given to the private sector or should the public sector be included?
- 7) Whether loans should be long term, along with the short term and medium term loans?
- 8) Who to finance?
- 9) Whether loan will be provided for only the trading sector or should the industrial sector also be included?

3.4 Principles of credit

- i) Safety of fund: Safety means the assurance of repayment. This depends on mainly integrity, business behavior, reputation, past experience in the particular line of business, financial solvency, quantum of equity in business, capability of running an efficient business, capacity and willingness to accept the loan etc.
- ii) Security: The manager must ensure that there is a security for the loan provided to fall back on in case of default. The securities must have the required qualities such as possession, title deed, parches among other things.
- iii) Liquidity: The borrower should have liquid assets so that he can adjust liquidity on demand. The loan itself should be quasi liquid so that it can be realized on demand if needed.
- iv) Purpose: The loan should be production, development and economic benefit oriented.
- v) Profitability: This is applicable to both bank and borrower.

- vi) Diversification: It means that the loans must be given to a large number of borrowers instead of a small number. This will increase the loan recovery rate. Due procedures will be done in ensuring the credit worthiness of the borrower beforehand.
- vii) National interest: No venture will be taken if it harms the national interest of the country.
- viii) Credit restriction imposed by Central Bank: All activities will be as per the instructions provided by the Bangladesh Bank.
- ix) Financial Data Analysis: The credit manager has to compare three years' worth of financial statements. He uses the help of the different ratios such as liquidity ratio and such to get a true picture of the state of the business. The bank statement also has to be analyzed. Site visitations are also recommended in order for a thorough credit analysis.
- x) Industry analysis: For this analysis, credit analyst should make analyze the business behavior which includes market demand, competitors and government barriers.
- xi) Lending risk analysis: It is a systematic and structural way to access lending risk which includes all the above factors. The lending officer has to complete a form whereby if the risk is low, the loan is passed through. Although due recommendation has to be provided by the credit information bureau (CIB) in light of the information provided.

3.4.1 Lending sectors of MBL:

- Agriculture.
- Term loans to large scale industry.
- Term loan to small & Medium Industries.
- Working Capital.
- Export Credit.
- Commercial Lending.
- Finance to Non-Banking Financial Institution.
- Others

3.5 Lending Procedure of Mercantile Bank:

The lending process starts with building up a relationship with the customer through account opening. Control of credit operations is done at branch and corporate office level.

Step one

It starts with a loan application form from a customer who has an account at the bank. It starts with the branch office where the customer does business who submits a loan application. The application includes what type of credit facility the customer and also includes personal information and business information of the customer. An initial interview of the customer is conducted by the branch officer or the officer in charge of the service.

Step two

This requires credit inquiry report. This report is done by Bangladesh Bank through CIB. This is done usually when the loan amount exceeds Tk. 50000. The purpose of this report is to find out whether the customer has taken any loans from other banks and if so, then whether these loans are classified or not.

Step three

If the CIB report is positive, then and only then the bank will inspect the documents of the prospective borrower.

Step four

Evaluation of the loan is done through Lending Risk Analysis (LRA) technique by which the risk of the loan is calculated. This is done when loan application is above 1 crore. The total score is out of 140 where 120 is total business risk and 20 is total security risk.

The following aspects are analyzed when using LRA:

1. Suppliers risk
2. Sales risk
3. Performance risk
4. Resilience risk
5. Management ability

6. Level of managerial teamwork
7. Management component risk
8. Security control risk
9. Securities cover risk

Step five

Obtain vetting or legal opinion on the collateral provided by the applicant. The documents have to be up to date with all the recent information otherwise, they will be sent back to the customer to be updated.

Step six

This is the processing stage of the loan. This is where the bank will prepare a proposal which will contain the following information.

1. Name of the borrower/borrowers
2. Nature of loan
3. Purpose of loan
4. Extent of limit
5. Collateral
6. Margin
7. Rate of interest
8. Repayment
9. Validity

Step seven

If the proposal meets the lending criteria of MCB and is within the manager's discretionary powers, the loan will be approved. The manager and the sponsoring officer will sign the credit line proposal and issue a sanction letter to the client. If the value of the credit line is above the bank

manager's limit, then it is sent to head office or zonal office for final sanction with detailed information regarding client's business, purpose of loan and security.

Step eight

Head office processes the credit proposal and sets out a memorandum to the credit committee. The credit committee reviews the credit proposal and gives the final verdict on whether it should be accepted or rejected.

Step nine

After approval, a letter is sent to the branch who sends out a sanction letter. If the client accepts the sanction letter and signs it, it shows that he approves with the terms and conditions of the bank in terms of the loan.

Step ten

After the sanction advice, bank will collect the necessary charge document. Charge document varies on the basis of facility and types of collateral.

Step eleven

Finally, the loan is disbursed and monitoring of the loan starts as well. Credit facilities extended by MBL. One of the important functions are to lend money to different kinds of borrowers. Mercantile offers both funded and non-funded credit facility with its line of credit going to trade and commerce, imports and exports, transport, housing, agriculture etc.

3.6 There are four types of loan which mercantile Bank limited offers:

- i. **Continuous loan:** here dealings may be made within definite limits and have an expiry date for full modification for examples, Copy concern, and secured overdraft.
- ii. **Demand loan:** loans that become repayable by the bank on demand or any liabilities turned to forced loans are demand loan as well e.g. PAD, FDBP, PC, and IBP etc.
- iii. **Fixed Term Loan:** these are repayable within a specific time period under a specific repayment schedule. E.g., both general and secured loans, HP, CCS, PL, and term loan.
- iv. **Short-term Agricultural & micro Credit:** It includes short-term credits as listed under the annual credit program issued by the agricultural credit and financial

Inclusion department (ACFID) of Bangladesh bank. Short-Term Micro-credit must not exceed Tk. 50000/= and repayable within 12 months.

3.6.1 Credit Policy Framework

Asset quality of the Bank was never compromise under any circumstances. As the lion's share of the total revenue comes from credit operations and the existence of the Bank depends on quality of asset portfolio, efficient management of credit risk is of paramount importance.

Credit Risk- for Banks and financial institutions credit risk is considered to be the toughest one. Credit risk originates from a bank's on and off balance sheet transactions with an individual, corporate, bank, financial institution or an autonomous. It is most simply characterize as the feasible risks that a borrower or counterparty will be failed to assemble its obligations in harmony with the agreed terms and state of affairs.

Purpose-The main purpose of this policy document is to set out benchmark for and spell out standard practices for supervision of credit risk in the Bank. It specially addresses the following areas like establishing an appropriate credit risk situation, setting up a resonance credit approval procedure, maintaining an appropriate credit administration and monitoring process and ensuring adequate controls over credit risk

Amendment of the Policy- This Credit Policy will be amended, revised, refined, readjusted as and when warranted to accommodate the changes in the market condition

Access to the Policy: This policy document is categorized as a confidential one and will be officially circulated to all the Branches of the Bank, to Corporate Banking Division, Central Law Division, Credit Risk Management Division, Consumer & Retail Banking Division Special Assets Management Division, Credit Administration Division, etc.

3.7 Types of Credit Facilities:

All the Credit Facilities of Mercantile Bank Limited have been brought under two major groups, firstly Funded group, secondly Non-funded.

3.7.1 Funded Credit facilities:

A Credit facility which involves nature direct outflow of bank's fund on account of borrower refers to funded Credit Facility. The followings are the funded credit facilities which limits practiced in the Mercantile Bank Limited:

3.7.2 General Loan

A loan is an advance made in lump sum, which is repayable through either monthly installment or a single repayment of the full amount, while any subsequent debit is usually restricted unless it is through interest, incidental charges, etc. The entire amount of the loan is to be debited on a loan account in the customer's name. This account is to be opened in the ledger and the amount is paid to the borrower in credit to his current or savings account, or fully in cash. Moreover, the payment is given against the hypothecation of goods, land & building, and personal guarantee.

Eligibility: Loans are generally given to parties who have a fixed income source or those who wish to pay in lump sum.

Rate of interest: 16%

Loan disbursement system: One-time.

Terms and conditions:

- The bank authority reserves the right to amend or revoke the entire terms and conditions or just parts of it without attributing any reason for it.
- In any case if the debtor fails to live up to his commitment or promise, the guarantor is accordingly held liable for it.

3.7.3 Cash Credit (CC) Hypothecation

Cash credit is an ongoing credit facility, which represents another form of lending by MBL. This facility is usually provided to customers who need to raise their working capital funds. As each customer can borrow against the security of some tangible assets or guarantees, the banker specifies a control called the cash credit limit under this system. In simple terms, cash credit is a pledge of goods, and is also sometimes permitted against the hypothecation of goods. When there is cash credit hypothecation, the borrower holds the ownership of the goods, and under this form of agreement the bank has the right to take possession of the goods if or when the borrower defaults.

Eligibility: Cash credit hypothecation advances are usually provided by the bank to business men and limited companies for their working capital, but not for any form of capital investment.

Rate of interest: 16% – 17.5% - This rate depends on the relationship between the banker and the client.

Renew system: Must be renewed yearly

Terms and conditions:

- An insurance policy is to be obtained by the customer at his own cost to cover for fire and RSD against the stocks to be hypothecated.
- A monthly report on the stocks need to be submitted
- The bank holds the right to call back or cancel the agreed credit limit.

3.7.4 Packing credit

MBL grants a short-term advance to exporters to assist them to buy, process, pack and ship goods – this is called packing credit. This form of credit covers in general the handling charges, freight payments, insurance duties and export duties. The packing credit advances require to be liquidated through negotiation or purchase of the export bill for the specific shipment it is appointed for, and in usual cases, these advances do not extend beyond 80 days.

Eligibility: This facility is geared towards local small-scale manufacturers and exporters

Rate of interest: 15.5%

Terms and conditions:

- The packing credit advance amount is to be adjusted in regards to the total payable amount to the exporter upon negotiation or purchase of bill.
- The exporter's letter of credit should be a valid, constricted one that cannot be revoked. The bank is also required to mark lien on it.
- Disbursements are to be made once all formalities of the sanctioned terms are completed.

3.7.5 LTR (Loan against Trust Receipt)

Under MBL's LTR agreement, the exportable goods remain in possession of the exporter and credit is permissible against the trust receipt. Additionally, the exporter must present a stamped

export trust receipt to the bank in its favor, while he must also declare that the goods that he holds have been purchased through the financial assistance and trust of the bank.

Eligibility: LTR is granted to exporters for the export of goods in general

Rate of interest: The interest rate is dependent on the frequency with which this kind of loan is taken, and therefore also on the relationship between the customer and the banker. The rate is between 14.5% and 15.5%

Terms and conditions:

- A supplier credit report is to be opened before the opening of letter of credit.
- The concerned party should maintain continuous supervision and follow up with it so that adjustments of the loan are made in time and any overdue is avoided.
- Drawing over the agreed limit sanctioned is strictly prohibited.
- Disbursements are to be made once all formalities of the sanctioned terms are completed.

3.7.6 PAD (Payment against Document)

This is a loan facility provided by banks to customers against some documents or bills; for example, delivery orders, railway receipts, warehouse-keeper certificates, bill of lading, and dock warrants. This essentially means that under this facility the bank makes payments against the relevant shipping documents of imported goods through L/C. This falls under the classification of 'Commercial Lending', and is a provisional advance. The advance is usually made on import-related cases, where the concerned party receives payment against the withdrawal of documents required for the release of imported goods from customs officers.

Eligibility: PADs are generally provided to exporters and importers.

Rate of interest: 15.5%

Terms and conditions:

- An insurance policy is to be obtained to cover for fire and RSD against the goods by the customer.

- The bank authority reserves the right to amend or annul the terms and conditions partially or entirely without being liable to provide any reasons for it.
- The bank also holds the right to sell the goods in case the borrower defaults.

3.7.7 SOD (Secured Overdraft)

SODs are continuous loans facilitated by MBL, as well as other banks. The bank sanctions a credit limit, in accordance with which customers can overdraft their current accounts and are liable to pay an interest on the amount they withdraw. An overdraft is essentially a deficit in a bank account caused by drawing more money than the account holds. The bank may grant this loan on the security of the borrowers or withdraw some collateral security.

Eligibility: Secured overdrafts are usually given to businessmen who want to expand their businesses. They are provided against securities such as FDR, MBDS, DBDS, MSP, and SSS against earnest money and work orders, among others. Additionally, FDR, MBDS, DBDS and MSP together form what is called secured overdraft against financial obligation. They can, therefore be further be classified into three different forms of SODs:

- i) SOD financial obligations
- ii) SOD against earnest money
- iii) SOD of work order

3.7.8 SOD financial obligations:

- FDR (Fixed Deposit Receipt) – This is a deposit that is payable to the customer only after a specific period of time from the deposit date or after an ascertained notice period. Rate of interest – [FDR + 2.5%], or [MBDS, DBDS, MSP, SSS + 3%]
- MSP (Monthly Sanchay Prokolpo) – MSP is alternatively known as ‘Monthly Saving Scheme’, and is aimed at encouraging people to save more often. This scheme allows a customer to save a fixed sum of money every month and eventually get a gainful payout in five to ten years’ time.
- MBDS (Monthly Benefit Deposit Scheme) – This scheme allows a customer to deposit a certain amount of money continuously for five years or above, and receive monthly returns

from it. Benefits are given from the starting month of opening an account itself and continue for five years or more.

- DBDS (Double Benefit Deposit Scheme) – This is one of the top yielding deposit schemes in Bangladesh, under which the depositor can enjoy a doubled return in a period of eight years.
- SSS (Special Saving Scheme) – This scheme yields the customer a tripled sum of his deposit in eleven years, with the advantage that allows the customer to withdraw money any time after one year with added lucrative benefits.

3.7.9 SOD against earnest money:

Under this, banks finance contractors, who participate under various names in tenders to obtain works. Suppose a contractor wants to engage in ten works. The contractor can then pay the bank the value of one earnest money, and the bank can then finance the earnest money for the remaining nine works. No collateral security is required in this exchange, but the bank may also, keep a certain range of adjustment of the interest rate according to the specific project.

Rate of interest – 17.5%

3.7.10 SOD work order:

This is a specialized form of overdraft granted to contractors and suppliers, where clients are financed by the bank after they receive a work order. The bank is associated with the work order and bills are paid through the specifically assigned account in the bank. The loan amount is credited to the borrower's account, while a certain percentage is debited from each account in case of adjustments of the loan. The bank provides a maximum of 20% of the value of the work order as loan to the contractor, and this facility remains valid for a period of time for which the work order is valid.

3.7.11 Car Loan

This is a consumer credit scheme with a maximum credit limit that is usually higher than most other types of consumer credit schemes.

Eligibility: The eligibility criteria for car loans are the same as other consumer credit schemes.

Rate of interest: 16%

3.7.12 Staff Loan

MBL provides its staff with loans which can be made in installments and amounts which are adjustable per their purpose. The loan can be taken for building a house, acquiring sanchaypatras, medical payment requirements, or financing weddings, for example.

Eligibility: The borrower must be employed as a staff of MBL.

Rate of interest: 16%

3.7.13 Hire Purchase

Hire purchases are also a form of consumer credit, where a deposit is required to be paid while the remaining cost of purchase is spread over a six-month or longer period. The good is under the ownership of the bank until the full payment is made by the consumer.

Eligibility: This facility is generally provided to customers with fixed income sources or those who wish to pay the amount in lump sum.

Rate of interest: 14%

3.7.14 Lease Finance

MBL provides lease finances to aid and promote accomplished entrepreneurs and professionals, so that they can acquire capital machinery and equipment that would benefit their enterprises and thereby help make them economically self-sufficient.

Eligibility: Capable entrepreneurs who need to purchase capital equipment for their businesses.

Rate of interest: 17.5%

3.7.15 Micro-credit

Micro-credit programs grant small-scale credits to the poor at low interest to promote their self-employed small businesses, aimed towards alleviating poverty through sustainable development. MBL provides micro-credit services to people with mid-range income, which include small-scale entrepreneurs and doctors. The purpose here is to help them develop their businesses, themselves, and the society as a whole, while also improving their living standards. Additionally, micro-credit services are also aimed at rural development.

3.7.16 Micro-credit programs of MBL:

MBL provides micro-credit loans mainly to a fixed income group among the poor, the middle class and the lower middle class. Consumer credit is a relatively form of collateral-free financing by banks, and through this service people with insubstantial income can make use of this facility to finance the purchase of household goods which they would not have been able to previously afford on their own.

- Small Loan Scheme (SLS) – SLS services are chiefly intended to assist small-scale shopkeepers who need a source of credit to run their businesses. The maximum amount of allowable loan is Tk. 2 lacs, payable within two years, but can also be extended. Creditors are liable to pay a 15% interest rate, a 0.5% risk fee and a one-time supervision fee equal to 1%.

Eligibility - Small and medium entrepreneurs can make use of this service.

Rate of interest – 16%

- Personal Loan Scheme – This scheme entails in the banker specifying a credit limit for each of its customers, according to which they are allowed to borrow from the bank against tangible asset holdings or guarantees.

Eligibility - The customer should be either a government official; a semi-government official; a bank/financial institution employee; an employee of a known private organization; an MNC employee; a teacher/staff of a recognized school; college or university; or an employee of an autonomous body.

Rate of interest - 16%

- Consumer Credit Scheme (CCS) – As mentioned before, through this scheme people with limited income can gain access to credit to finance the purchase of durable household goods.

Eligibility – The customer must be a verified official who works for a government, semi-government, multinational, or a commercial organization. Employees of banks and insurance companies, as well as professionals are able to avail this credit facility.

Rate of interest – 16%

Terms and conditions:

- The creditor is to gather all the specified goods from the agents or shops, as deemed acceptable by the bank.
 - The client must bear all the costs incurred by way of licensing, registering and insuring whenever required.
 - The client must also pay the entire repair and maintenance costs for the items acquired through credit.
 - All papers, receipts and cash memos for the procurement of goods are to be listed in the name of the bank. Ownership of these goods can be transferred to the client once the bank is paid all its dues.
- Doctors' Credit Scheme – These schemes are in place to finance recent graduates from medical schools and physicians who require medical equipment to set up clinics to exercise their medical expertise.
- Eligibility – Only doctors and physicians can make use of this scheme.

3.7.17 Few more types of Funded Credit.

- **Time Loan-** to meet emergency/ seasonal fund obligation in the business. It is allowed as a post import facility against sight L/C (local). It is a short term demand loan; Time loan is particular time disbursement loan with specific purpose and validity.
- **Overdraft (OD) (Export) -** Demand loan by nature, forced liability, in case of failure the exporter pays from their own sources. Primary security is export L/C documents or bills.
- **Export cash credit (ECC)-** Allow customers for processing of export of goods. The advances must be liquidated out of export proceeds within 180 days. It must be adjusted from proceeds of the relevant exports. Primary security is export L/C or firm contract.
- **Inland Documentary Bill Purchase IDBP-** This is demand loan, usual amount of IDBP is 90% of the bill value. Primary security is duly accepted and confirmed inland documentary bills.

- **Foreign Documentary Bill Purchase-** this is a demand loan. Interest on applicable up to 21 days. primary source is in order L/C documents and bills,
- **Foreign Bill Purchase-** Demand loan by nature, cheques or drafts have to be in order. Primary security is foreign currency cheques or draft.

Inland Bills purchase- Payment made to a customer through purchase of Govt. cheques, payment orders, draft issued by schedules banks and bills. Usual amount IBP is up to 80% of currency cheques, PO, drafts.

3.8 Non-Funded credit facility:

The followings are the non-funded credit facilities or limit facilities practiced in Mercantile Bank Limited:

3.8.1 Letter of Credit

MBL allows its clients to open or issue letters of credit – documents which licenses a bank to pay the holder a sum of money that is specified. A letter of credit represents a convenient tool to settle foreign trade transactions, A requirement to the exporter's bank the importer for import of any allowable item from both local and foreign sources. Inland L/C shall be permissible for industrialized unit at sight basis only. L/C governed by UCPDC-600

The AD branches are acceptable to function the L/C business. and comes in two distinct kinds:

- Traveler's letter of credit – issued for those who travel.
- Letter of commercial credit – issued to facilitate trade transactions.

Eligibility: This facility is given to producers, manufacturers, exporters and importers for the export and import of goods.

Rate of interest: 17.5%

Terms and conditions:

- The letter of credit should designate the name of the loan
- Items listed in the LCA form must not include items that are prohibited
- The designated bank must be mentioned in the document

- A first class customer can enjoy the facility through the firm's contract with foreign buyers overseas.
- The bank authority is to inspect and verify the quality and quantity of the goods from time to time, as specified in the letter of credit.
- Bank is indebted to pay the beneficiary on complied presentation of paper or upon productions of predetermined documents.
- An L/C contract is guided by the Foreign Exchange Guidelines of central bank, foreign Exchange Regulation (FER) and import course of action.

3.8.2 diverse types of L/Cs:

- i. **Sight L/C:** when payments against the L/C is made on sight of the shipping documents or bills. Pricing modes are commission on quarterly basis. Primary security is L/C margin, L/C related shipping documents.
- ii. **Usance or Deferred Payments:** bank gives Acceptance for payment at a pre-agreed later time later time upon sight of the shipping documents and bills.
- iii. **UPAS L/C:** (Usance Payable at sight) it's a mixture of both sight and Usance L/C. it is payable on quarterly basis. Primary security is L/C margin; L/C related shipping documents and acceptance.
- iv. **Back to Back (BTB)** – This are opened to mobilized export inputs. Primary security is lien on export L/C. Branches will ensure the compliance issues of the 100% export oriented RMG customers. It must be examined carefully important points like shipment or credit validity and many more.
- v. **Accepted Bill for Payment:** These are created under revolving limits are demand loans by nature. ABP is created against import of Usance L/C. Importer receives shipping documents after creation of ABP. Importer receives usually no import or export finance is allowed. Primary security is Bills of Exchange signed on the back by the importer and L/C application and agreement form.

3.9 Bank Guarantee:

It is total undertaking of the bank on the account of its clients in favor of the recipient to pay the money amount if the customer fails to complete the contractual obligations. Guarantee is unconditional and unchangeable. Primary securities are counter guarantee of the customers. The diverse types of Guarantee are of several types:

- i. **Bid Bond (BB)** - it is issued on behalf of a bidder or contractors which are the customers of MBL to contribute in a tender favoring tender inviting authority. If the customer becomes successful bidder, the awarding authority asks for submission of performance guarantee and return of the original bid bond. The unsuccessful bidder must return the bid bond immediately after the tender.
- ii. **Performance Guarantee:** it usually covers the work order validity plus warranty period.
- iii. **Payment Guarantee/ Supplier Credit Guarantee:** in favor of the suppliers or service providers and on behalf of the customers to avail certain amount of supply and services on credit
- iv. **Advance Payment Guarantee (APG)** – Guarantee Issued Against advance made by the customer MBL's Liability under APG is liquidated gradually as per adjustment of the advance with the Work Awarding Authority.
- v. **Retention Money Guarantee/Retention Bond/warranty guarantee:** issued on behalf the contractor after completion of work/supply order for withdrawing the money retained by them from the bills. Usually its validity ends with the warranty or defect liability period.
- vi. **Customs Guarantee:** issued on account of the customers favoring the custom Authority of Bangladesh to clear imported goods. Usually exporter avail this kind of the guarantee.
- vii. **Guarantee against Counter Guarantee of other Bank:** MBL gives guarantee to another Banks on behalf of their customers.
- viii. **Other Bank Guarantee:** Time to time provides different other Guarantees in the name of 'Bank Guarantee' to meet customer's requirement.

3.10 Lending Process

Through intensive research, prospective business opportunities are identified by the credit officers (stage 1). After finding potential clients, a credit proposal is drafted and undergoes evaluation (stage 2). Monitoring and reviewing becomes essential after approval of the loan (stage 3). Failure by the customer to fulfill payment commitments will lead to the credit officer to assess options for remedial action (Stage 4).

3.11 Assessment of credit proposal

At MBL, each and every credit proposal goes through a thorough and intensive Credit and Risk assessment. The assessment is sent to the Corporate Banking Division (CBD) through a Credit Appraisal Form. The Relationship Manager of the CBD then conducts assessment with due diligence on the new borrowers. This is also done for existing borrowers, to study the prospect of extending credit or opening new lines of credit, principals and guarantors. Following its structured analysis, the CBD sends its report to the Credit Risk Management (CRM). The CRM places the original credit proposal (received from the branch office) with their own observations and recommendations. The management may decide to approve or decline on its own, or it could refer the case to the board or executive committee.

3.12 Evaluation of credit proposal

MBL works inside sound and very much characterized paradigm for new acknowledges and additionally the extension of existing credits. Earlier permitting a credit office, MBL embraces an appraisal of hazard profile of the client/exchange, which incorporates credit evaluation of the borrower's business and large scale monetary variables, the reason for credit and source of reimbursement, the reputation/reimbursement history of borrower, reimbursement limit of the borrower, proposed terms and conditions and contracts, amplexness and worthiness of guarantees, endorsement from acknowledge expert and so on.

3.13 Credit risk grading process

Credit risk grading (CRG) is led at the branch level to survey the hazard grade. The concerned credit office RM plainly demonstrates the hazard grade (according to the finding) in the particular

section of credit evaluation shape with the goal that the expert can take choice on the matter in view of hazard reviewing.

3.14 Credit administration and disbursement

Credit organization division has been isolated from Credit Risk Management Division (CRMD) in accordance with National Bank's center Risk Management Guidelines' CRMD surveys credit hazards and proposes alleviations before suggestion of each credit proposition. MBL's credit Administration Division performs following huge exercises preceding endorsement of payment of a credit office.

3.15 Documentation

Credit administration division guarantees fulfillment of documentation (advance assertions, ensures exchange of title of pledges and so on) as per affirmed terms and conditions. Remarkable records are followed and followed up to guarantee opportune execution and receipt.

3.16 Credit Disbursement

Advance dispensing must be mentioned after consummation documentation and objective fact of the authorizing terms against raising value by support as set out. Each period of advance dispensing to be directed by bank official that the venture and the period of execution of the venture to be successfully managed and borrower influenced for completion of venture in time.

There are primary three essential factors in the advance payment, for example

- Completion of documentation
- Verification of stocks
- All-important documentation

3.17 Credit monitoring

The credit observing procedure in the bank is doled out with credit administration division. Head of credit organization division reports the remarkable rundown of benefits on everyday schedule on the accompanying classes:

- Past due (which are not paid or recharged at development) guideline or intrigue installments, past due exchange charges, account excesses and break or advance contracts.
- Compliance of advance terms and conditions, opportune accommodation of money related articulations and any contract breaks or special cases are to be alluded to the CRM what's more, the RM expression for opportune development.
- Timely restorative move is made to address discoveries of any internal, external or administrative investigation/review.
- All borrower relationships/loan offices are checked on and endorsement through the accommodation of a credit application in any event every year.

3.18 Early alert process

Early identification incites revealing and proactive administrations of early ready records are prime credit duties of all credit officers/RM and are attempted on a nonstop premise. An early ready report is finished by the credit officers/RM and is sent to the capable expert for any record that is showing signs of disintegration inside seven days from the recognizable proof of shortcomings. The hazard grade is updated as soon as conceivable and no deferral to be made in alluding issue records to the checking, recuperation and consistence division for help with recuperation.

3.19 Collateral and Security Documents

MBL's Credit Administration Division ensures that all security documents are kept in a fire-proof safe under close control. Registers for documents are maintained to keep track of their movements. Procedures have been established to track and review relevant insurance coverage for certain facilities/collateral. Physical checks on security documents are conducted on a regular basis.

3.20 Setting Exposure Limit

MBL has developed its own limit structure within the exposure limits set by Bangladesh Bank. MBL sets the limit based on the credit strength of the obligator, genuine requirements of credit, economic conditions and the institution's risk tolerance. Credit limits are regulated regularly at least annually or more frequently if the obligator's credit quality deteriorates. BB's instructions are strictly followed in determining single borrower or large loan unit.

3.21 Credit recovery

Each branch of the bank maintains a diary or a card in a prescribed format in which the due date of expiry of credit facility is recorded, a notice is sent to the borrower reminding him of the due date of the repayment and making a formal demand for repayments or renewal. Vigorous follow up actions are taken by issuing repeated reminders and putting pressure on the borrower by contacting him personally. In other words, all our efforts are taken to recover the advance on its expiry.

3.22 Monitoring of Non-Performing Loans

On a quarterly basis, a Classified Loan Review Report is prepared by the Recovery Unit Account Manager to update the quarterly status of the action or the recovery plan, review and assess the adequacy of provisions and modify the bank's strategy as deems appropriate. The head of Credit will approve CLR for NPLs in excess of 15% of the Bank's capital. The CLRs for NPLs above 25% capital shall be approved by Executive Committee of the Board of Directors with intimation to the Board. At present, the entire rescheduling writes off proposals are being approved by the Executive Committee of the Board of Directors.

3.23 Strategies adopted for managing credit risk by MBL

- Creating credit risk awareness culture
- Approved credit policy by the Board of Directors
- Separate credit risk management division
- Formation of low and recovery mean

- Independent internal audit and direct access to board or audit committee
- Credit quality and portfolio diversification
- Early warning system
- Provision and supervision of interest
- Scientific lending and credit approval process
- Counterparty credit rating
- Strong NPL management system.

3.24 Credit Risk Management

Credit risk of a bank refers to the inability of its borrowers or counter parties to meet their obligations in accordance with agreed terms. Credit risk management of MBL passes through the following procedures:

- Articulate lending guide lines
- Credit risk grading process
- Proper assessment of credit proposal
- Rationalize lending process
- Segregated Credit Administration Department
- Credit monitoring and CL provisioning department
- Special asset management department

The bank has segregated duties for the officers or executives involved in credit related activities. The head office of the bank has a separate corporate/ SME/ Retail Divisions which are responsible with the duties of maintaining effective relationship customers, marketing of credit products, exploring new business opportunities, etc. In addition, credit approval, administration; monitoring and recovery functions have been segregated towards reinforcement of credit risk management activities. For this purpose four separate units have been formed within Credit Risk

Management Division (CRM Division) which are:

- a) Credit risk measurement and approval department
- b) Credit administration department

c) Credit monitoring and CL provisioning department

d) Special asset management department

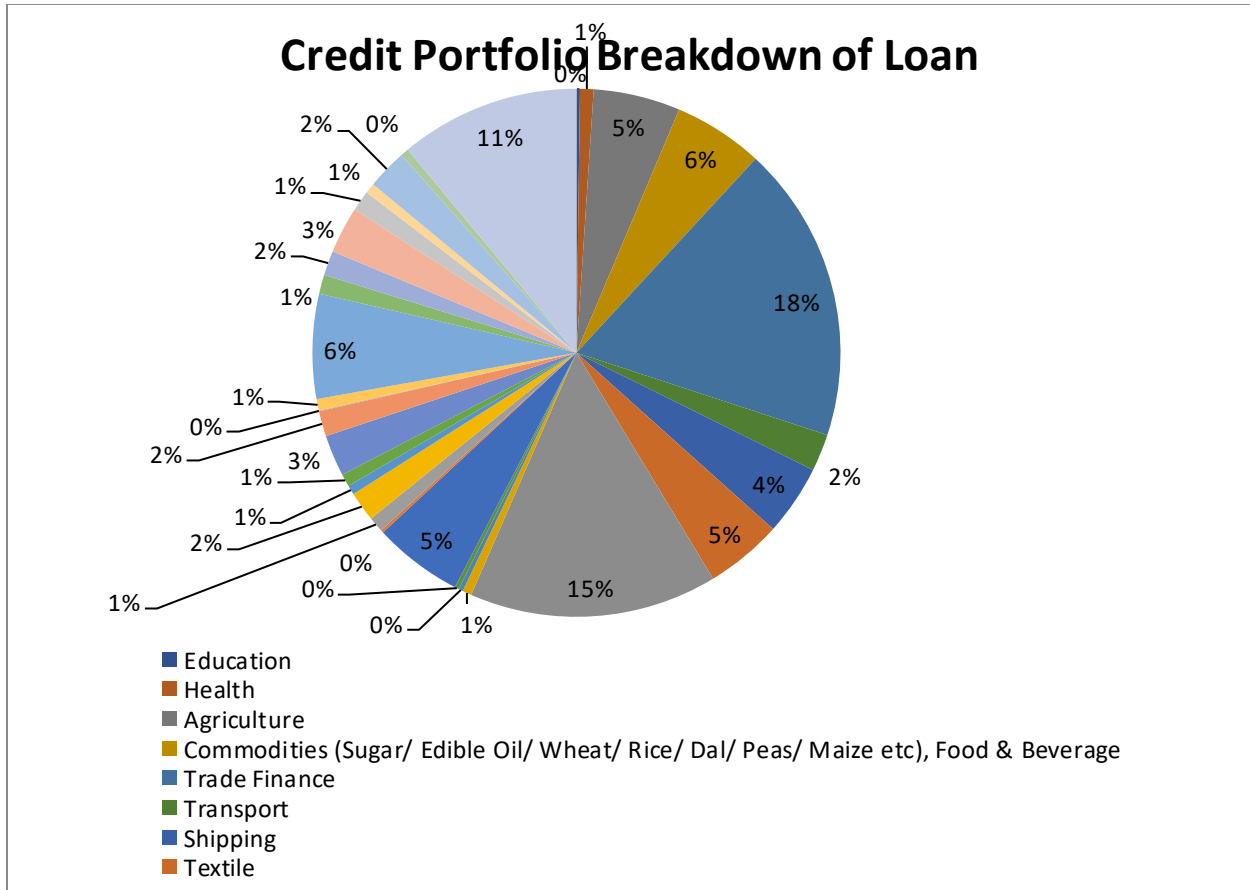
It is the responsibility of the Credit Risk Management Division to formulate policies, maintain asset quality, assess risk in lending, sanctioning credit, etc. A thorough investment analysis is done before sanction of any credit facility at Credit Risk Management Division by the risk review committee. The risk assessment includes:

- Borrower risk analysis
- Financial analysis
- Industry analysis
- Historical performance of the customer
- Security of the proposed credit facility, etc.

The assessment process starts at Corporate Division by the Relationship Manager and ends at Credit Risk Management Division when it is approved or declined by the competent authority.

3.25 Credit portfolio breakdown of loan

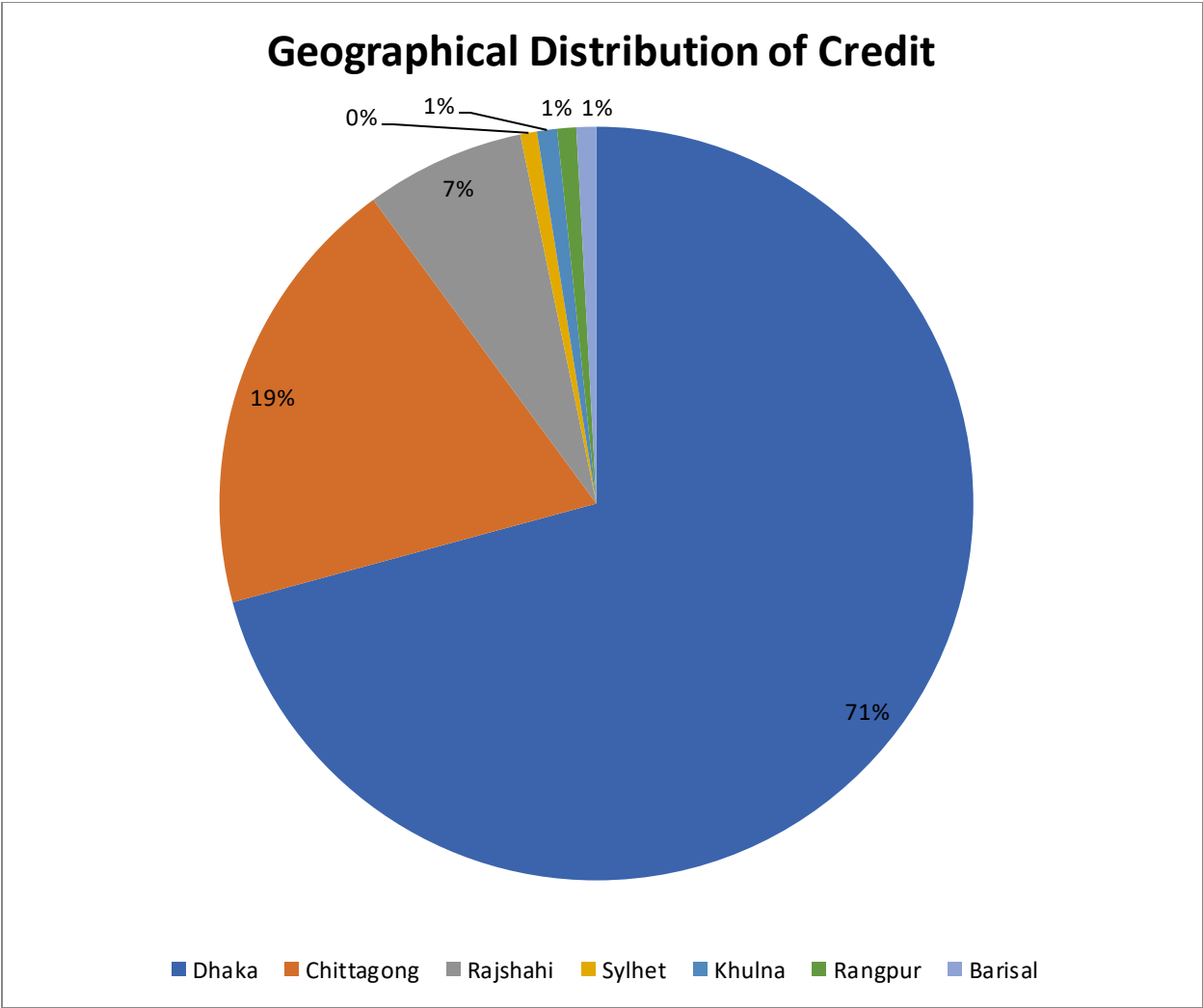
Figure:1



Total loans and advances of the bank stood at BDT 1,509,125.22 Lac as on December 31st, 2016 against that of BDT 1,263,388.34 Lac at the end of 2015. The bank recorded a growth in loans and advances of 19.45%. major sectors where the bank extended credit includes trade and commerce, garments industries, construction, agriculture, pharmaceuticals, etc.

3.26 Geographical distribution of breakdown of credit

Figure: 2



4. Types of Borrowers

Borrowers must have permitted by law to enter into a contractual agreement. A loan involves a contract between the borrower and the lender. Therefore, any individual who may be unable, due to legal reasons, to enter a contractual agreement (insolvents, legally insane and minors etc.) cannot be accepted as borrowers. Before accepting applications for loans or advances, it is the duty of the banker to evaluate whether the prospective borrower possesses the economic capacity to undertake such debt.

Aside from the ability to sign contracts, a customer must have to fulfill some other criteria before applying for a loan. Examples of this include the retirement age of borrowers; if the borrower is a service person, then his/her retirement age must not precede the expiry of the loan. The bank targets customers from several groups. Customers of the bank include people in service, business, healthcare and engineering.

4.1 Types of borrowers: Profile

Table-3

Borrower	Name of the Loan	%
Business	General loan, CIC, Packing credit, LTR, PAD, Lease finance, Small loan, L/C.	50
Service	Personal loan	5
Both	House building loan, Consumer credit scheme, Car loan.	20
Others	Doctor's credit loan, secured overdraft, staff loan etc.	25

4.2 Interest Rate

Interest Rate refers to the cost of borrowing. It is the amount on the principal that must be paid by the borrower to the lender periodically.

Interest rate is set on mutual terms by the banker and the borrower. Business experience, security value and the relationship between banker and client are the main factor behind the sanctioning of a loan. When the loan is taken against FDR, MBDS and DBDS and 3% of the deposit. In case of FDR, the rate varies from time to time.

4.3 Types of securities for loans and advances

Loans and Advances have primarily been divided into Three major groups

Term Loans: These are the loans having fixed repayments schedules. The term loans may be as follows:

Short –Term: up to and including 12 months.

Medium: More than 12 months up to 60 months

Loan Term: More than 60 years.

Security is taken to minimize risk for the banker. In case of default by the borrower, the lender can place a claim on the assets of the borrower enlisted as security for the loan, to reclaim value of its arrears. A collateral security refers to securities deposited by the borrowers themselves. The security must also be under their ownership. Collateral security in a wider sense is used to denote any type of security that runs parallel to or side by side with the personal right of action against a debtor in respect of an advance.

Table-4 Types of distributed loans and advances

Particulars	2016	2015	2014	2013	2012
Term Loan	43,761,705,985	34,181,961,424	24,952,400,000	20,706,300,000	18,403,800,000
Time Loan	14,136,815,187	11,070,939,182	14,607,400,000	13,740,500,000	9,953,300,000
Packing Credit	1,548,226,606	1,427,066,820	1,155,510,000	1,191,700,000	1,064,200,000
Loan Against Trust Receipt (LTR)	4,581,696,407	3,974,284,395	5,335,600,000	5,115,600,000	11,102,000,000
Lease Finance	1,132,517,783	1,046,371,397	1,000,600,000	1,038,800,000	880,200,000
EDF Loan	7,809,074,756	5,815,679,466	4,538,700,000	2,486,000,000	1,549,300,000
Loan General	597,883,291	805,602,236	2,061,100,000	2,011,600,000	2,166,000,000
House Building Loan	2,890,640,355	2,903,893,309	2,914,600,000	2,785,800,000	2,785,500,000
Hire Purchase	5,326,803,146	6,580,813,489	6,800,600,000	5,373,800,000	4,099,600,000
Payment Against Documents (PAD)	369,819,363	458,289,706	464,800,000	376,000,000	752,600,000
Cash Credit (Hypo)	12,179,623,046	10,979,781,878	11,361,200,000	7,332,900,000	7,748,900,000
Overdraft	23,015,186,144	22,233,536,229	21,665,400,000	16,636,800,000	16,949,600,000
Home Loan Scheme Refinance	5,259,700	6,417,477	7,285,000	8,727,000	11,200,000
Personal Loan	150,682,832	285,241,535	32,420,000,000	35,830,000,000	42,160,000,000
Consumers Credit Schemes	10,825,370	17,818,870	23,000,000	25,800,000	27,600,000
Consumers Finance	1,182,876,109	1,047,657,103	99,600,000	95,700,000	103,600,000
Other Credit Schemes	1,797,439	2,434,876	11,900,000	13,700,000	17,900,000
Staff Loan	1,142,450,616	696,545,543	651,800,000	618,100,000	658,500,000
Credit Card	284,791,342	286,625,987	264,100,000	301,100,000	299,500,000
(SME) Loan	14,542,978,240	11,656,871,253	9,068,600,000	7,893,700,000	4,553,000,000
Agricultural Credit	3,198,023,202	2,202,188,445	1,785,700,000	2,218,000,000	1,421,100,000
Total	137,869,676,919	117,680,020,620	141,190,000,000	125,800,627,000	126,707,400,000

4.4 Provision for loan and advances

Table-5

Status of loans and advances	Outstanding amount (BDT)	Base for Provision	Provision %	Provision (BDT)
Unclassified loans and advances:				
Unclassified (SMEF)	13,410,199	13,410,199	0.25%	33,525
Unclassified (other credit)	109,191,311	110,993,812	1%	3,571,603
Unclassified (OBU)	8,591,726	8,591,726	1%	85,917
Unclassified (HF, LP & BH/MBS/SDS against share)	2,638,565	2,638,565	2%	52,771
Unclassified (other than HF, LP & short-term agri. Loan)	667,869	667,869	5%	33,393
Agri Loan	4,263,505	-	2.50%	106,588
Unclassified (staff loan)	1,142,451	-	0%	-
Special Mention Account	3,261,012	3,261,012	0.25%-5%	32,803
Total unclassified loans and advances:	143,166,638	139,563,183		3,916,600
Classified loans and advances :				
Sub - standard	1,860,400	483,848	5%-20%	96,664
Doubtful	597,092	113,565	5%-50%	55,997
Bad/ loss	5,288,392	2,694,482	100%	2,964,482
Total classified loans and advances:	7,745,884	3,291,895		3,117,143
Total loans and advances:	150,912,522	142,855,078		7,033,743

4.5 Credit Risk Management

Credit risk of a bank refers to the inability of its borrowers or counter parties to meet their obligations in accordance with agreed terms. Credit risk management of MBL passes through the following procedures:

- Articulate lending guide lines
- Credit risk grading process
- Proper assessment of credit proposal
- Rationalize lending process
- Segregated Credit Administration Department
- Credit monitoring and CL provisioning department

4.6 Collateral securities of different types of loans at a glance:

Name of loan	Name of security
General loan	Land, stock of goods, machinery, furniture, fixture, etc.
Cash credit hypothecation	Stock of goods
House building loan	Land and building
Packing credit	Corporate guarantee, land, trust receipt, stock
PAD	Corporate guarantee, land, trust receipt, stock
LTR	Corporate guarantee, land, trust receipt, stock
SOD work order	Lien of work order, land construction machinery tools.
SOD financial obligation	MSP, TD & amp; MBDS, DBDS, SSS
SOD against earnest money	Earnest money amount, margin, personal guarantee

Personal loan scheme	Spouse guarantee, post-dated and updated cheque, personal guarantee of acceptable person (colleague or Government service)
Customer credit scheme	Hypo of product, personal guarantee (2 person), 24 blank cheque
Car loan	Car, personal guarantee of quota; acceptable two person (colleague government service)
Staff loan	Car, land, building, provident fund benefit
Doctors credit scheme	Certificates, machinery, furniture, fixture, personal guarantee of acceptable two person (colleague or government)
Small loan	Stock of goods, personal guarantee of acceptable two persons (colleague or government service)
Lease finance	Machinery, building, land (if any)

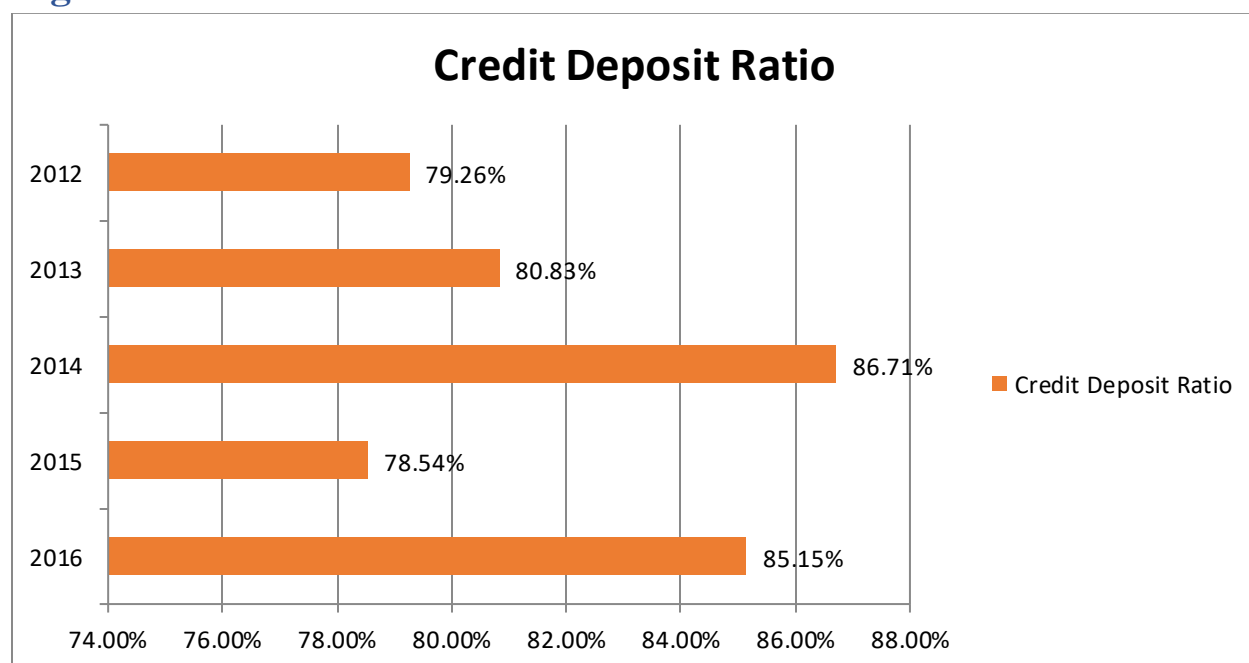
4.7 Residual contractual maturity breakdown of loan

Table-6

Particulars	2016
Up to 1(one) month	13,130,500,699
Over 1(one) month but not more than 3 (three) months	12,940,318,257
Over 3 (three) months but not more than 1 (one) year	33,000,854,650
Over 1 (one) year but not more than 5 (five) years	26,310,600,077
Over 5 (five) years	16,160,076,263
Total	101,542,349,946

4.8 Loan to deposit ratio

Figure: 3



From the data provided above, we can see that the loan to deposit ratio has increased from 2012 to 2014, then decreased in 2015 and then increase in 2016.

4.9 Loan Classification

Loan classification is a process by which the risk or loss potential associated with the loan accounts of a bank on a particular date is identified and quantified to measure accurately the level of reserve to be maintained by the bank to provide for the probably loss account for those risk loans.

- Unclassified: Repayment is regular
- Substandard: Repayment is topped or irregular but has reasonable prospect of improvement
- Doubtful Debt: Repayment is unlikely, but special collection efforts may result in partial recovery
- Bad/ Loss: Very little chance for recovery

4.9.1 For unclassified loans and advances

Table-7

Particulars	Rate (%)
1. Small and Medium enterprise	0.25%
2. All unclassified loans	1%
3. Unclassified loans against housing and professionals to set up business under consumer financing	2%
4. Unclassified loans to brokerage house, merchant banking and stock dealers	2%
5. Margin loan account	2%
6. Unclassified loans against other consumer financing	5%
7. Outstanding amount of loans kept in the “special mention account” after netting off the amount of interest suspense	5%
8. Specific provision on substandard loan and advances	20%
9. Specific provision on doubtful loans and advances	50%
10. Specific provision bad/ loss, loans and advances	100%

4.9.2 As per Bangladesh Bank’s guideline, MBL maintains general and specific provision in the following way:

Table-8

Particulars	Rate (%)
General provision on all unclassified loans/ SMA of SME	0.25%
General provision on all classified loans/ SMA	1%
General provision on all unclassified loans/ SMA	5%
General provision on all unclassified loans/ SMA amount for consumer financing	5%
General provision on all unclassified loans/ SMA amount for housing financing and loans for professional to setup business under consumer financing scheme	2%
General provision on all unclassified loans/ SMA amount for loans to brokerage house, merchant bank, stock dealers, etc.	2%
General provision on the off-balance sheet exposures	1%
Specific provision for classified continuous, demand and fixed term loans:	
Substandard	20%
Doubtful	50%
Bad/loss	100%
All credits except “bad/ loss”	5%

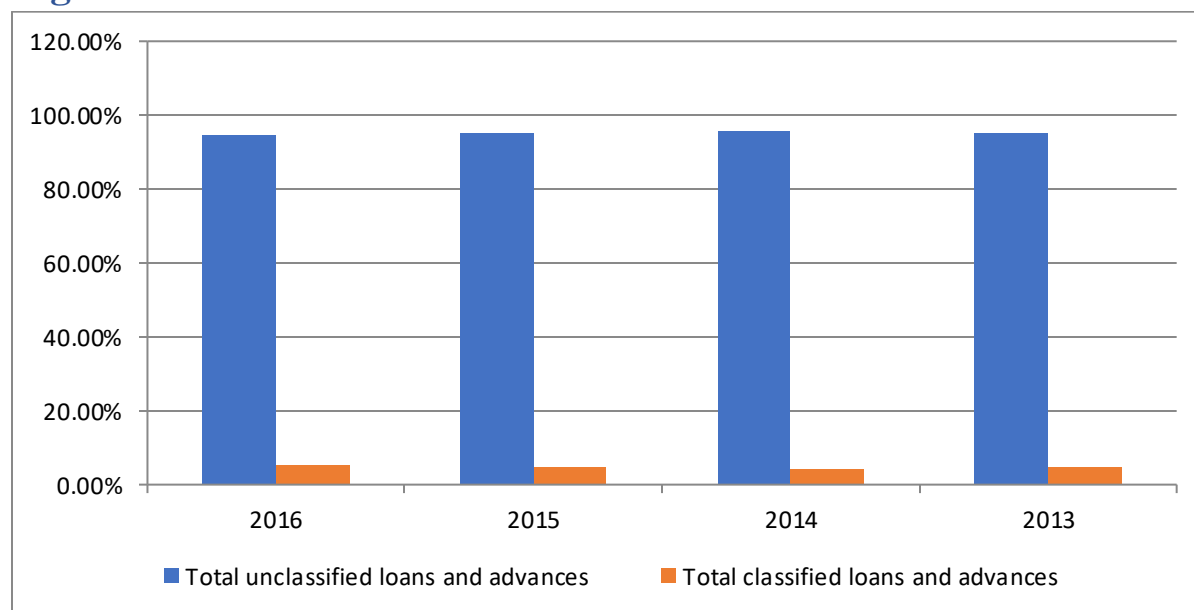
4.9.3 Details of large loans and advances

Table- 9

Name of Client	Outstanding		Total	Branch
	Funded	Non-Funded		
1 Azmat Group	438,476,000	1,173,380,000	1,611,856,000	Main
2 Hasan Flour Mill	-	2,613,855,000	2,613,855,000	Main
3 Natural Group	934,618,000	1,113,317,000	2,047,935,000	Main
4 Jamuna Group	2,486,780,000	2,937,670,000	5,424,450,000	Main
5 United Group	62,183,000	1,557,949,000	1,620,132,000	Main
6 Bashundhara Group	1,450,896,000	567,852,000	2,018,748,000	Main
7 Pioneer Group	505,271,000	719,772,000	1,225,043,000	Main
8 Creative Group	1,445,020,000	610,363,000	2,055,383,000	Main
9 Mercantile Bank Securities Ltd	1,641,024,000	-	1,641,024,000	Main
10 Interstoff Group	1,612,825,000	1,054,876,000	2,667,701,000	Dhanmondi
11 Abul Khair Group	1,044,391,000	3,644,639,000	4,689,030,000	Agrabad
12 T.K. Group	229,213,000	1,206,654,000	1,435,867,000	Agrabad
13 Sanmar Hotels	3,189,605,000	44,736,000	3,234,341,000	Agrabad
14 Kabir Group	1,555,054,000	802,358,000	2,357,412,000	Agrabad
15 BSRM Group	2,269,917,000	931,374,000	3,201,291,000	Jubilee Road
16 Starlight Group	2,827,408,000	3,493,030,000	6,320,438,000	Mohakhali
17 Nitol Motors	817,448,000	203,315,000	1,020,763,000	Mohakhali
18 Rising Group	1,355,663,000	841,374,000	2,197,037,000	Banani
19 KDS Group	1,230,965,000	567,752,000	1,798,717,000	Khatungonj
20 S. Alam Group	1,698,283,000	2,196,759,000	3,895,042,000	Khatungonj
21 Deshbandhu Group	2,197,457,000	1,873,304,000	4,070,761,000	Motijheel
22 Pran RFL Group	2,006,400,000	1,100,900,000	3,107,300,000	Motijheel
23 Jamuna Industrial Agro	2,405,394,000	-	2,405,394,000	Rajshahi
24 Rokeya Group	1,196,183,000	-	1,196,183,000	Rajshahi
25 Sheema Group	806,332,000	813,413,000	1,619,745,000	O.R Nizam Road
26 Robin Group	750,451,000	314,611,000	1,065,062,000	Gulshan
27 IFAD Group	1,669,450,000	126,000,000	1,795,450,000	Satmasjid Road
28 Ananda Shipyard	1,349,542,000	886,136,000	2,235,678,000	Eng. Institution
Total	39,176,249,000	31,395,389,000	70,571,638,000	

4.9.4 Recovery of loans and advances

Figure:4



4.9.5 Credit risk grading system in MBL

Credit risk grading is a key measurement of a bank's asset quality and as such, it is essential that grading is a complex process. Presently, the bank is conducting the lending risk analysis to assess the risk grade. The concerned credit officer must clearly indicate the risk grade in the specific column of credit appraisal form that the authority can take decision on the manner.

Credit Risk Grading:

Mercantile Bank Limited follows and conduct the Credit Risk Grading (CRG) to assess the risk grade.

a. Superior- (SUP)-1

1. Credit Facilities, which are fully secured, i.e. fully cash covered.
2. Credit facilities fully covered by guarantee given government.
3. Credit facilities fully covered by the guarantee of a top tier International Bank.

b. Good- (GD) – 2

1. Strong repayment capacity of the borrower.
2. The borrower has excellent liquidity and low leverage.
3. All security documentation should be in place.
4. Borrower has well established, strong market share.

5. Very good management skills & expertise.
6. Aggregate Score of 85 or greater based on the Risk Grade Score Sheet.

c. Acceptable (ACCPT) -3

1. Acceptable parent/sister company guarantee.
2. Borrowers have adequate liquidity, cash flow and earnings.
3. Aggregate score of 75-84 based on the Risk Credit Score Sheet.
4. Acceptable Management.

d. Marginal/Watch list-(MG/WL) - 4

1. The borrower incurs losses.
2. Loans repayments regularly fall past due.
3. Credit needs attention.
4. Aggregate Score of 65-74 based on the Risk Grade Score Sheet.

e. Special Mention-(SM) - 5

1. A severe management problem exists.
2. This grade has potentials weaknesses that deserve management's close attention.
3. Aggregate Score of 55-64 based on the Risk Grade Score Sheet.

f. Substandard- (SS) - 6

1. Financial condition is weak and capacity or inclination to repay is in doubt.
2. These weaknesses jeopardize the full settlement of loans.
3. Aggregate Score of 45-55 based on the Risk Grade Score Sheet.

g. Doubtful- (DF)- 7

1. Full repayment of principals and interest is unlikely and possibility of loss is extremely high.
2. Bangladesh Bank criteria for doubtful credit shall apply.
3. An aggregate Score of 35-44 based on the Risk Grade Score Sheet.

Bad &Loss- (BL) - 8

1. Prospect of recovery is poor and legal options have been pursued.
2. Credit of this grade has long outstanding with no progress in obtaining repayments or on the border of liquidation.
3. An aggregate Score of less than 35 based on the Risk Grade Score Sheet.

Table-10

Number	Risk Grading	Short name	Score
1	Superior	Up	100% cash recovered
2	Good	GD	85
3	Acceptable	Accept	75-84
4	Marginal watch list	MG/WL	65-74
5	Special mention account	MA	55-64
6	Substandard	SS	45-54
7	Doubtful	DF	35-44
8	Bad & low	BL	>35

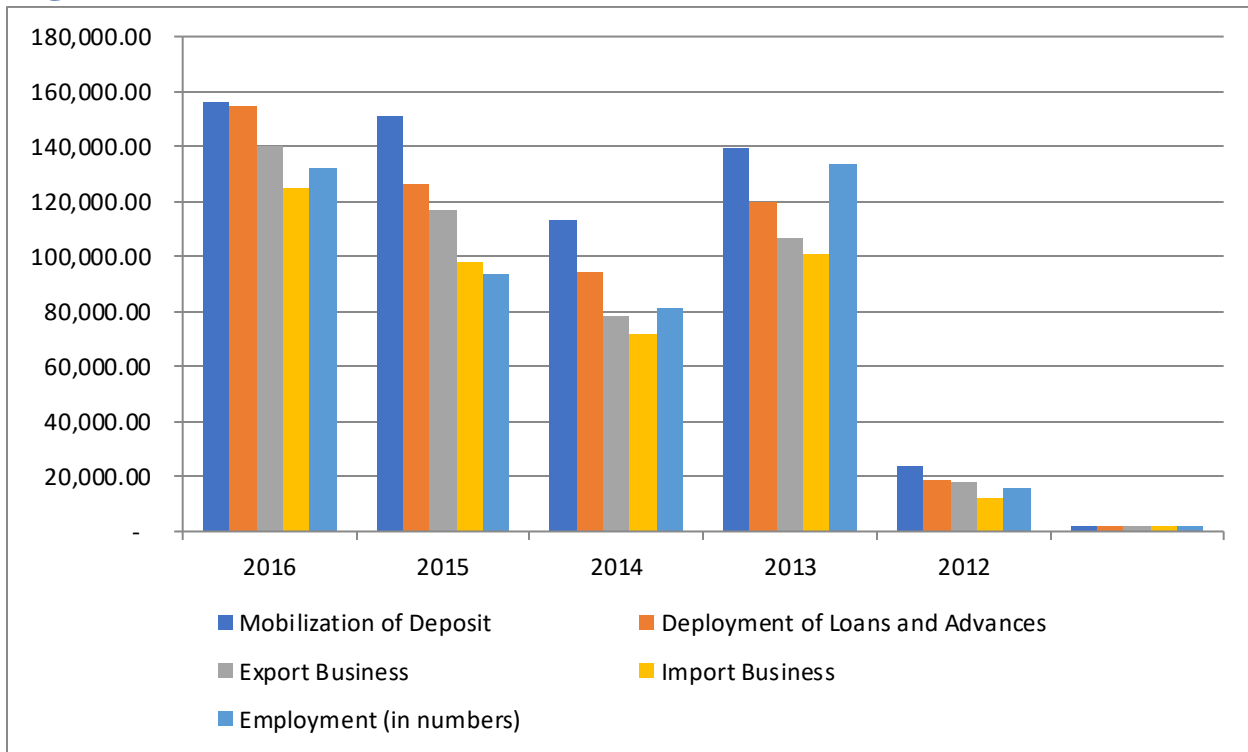
4.9.6 Performance of the bank in Economy

MBL has contributed to the economy by offering employment for 2073 full time employees. It also, indirectly, plays a vital role in creating job opportunities by financing other productive sectors. The bank also recruits a handful of freshly graduated students and experienced employees each year.

The bank mobilized resources of BDT 140,487.56 million from the surplus economic unit and deployed BDT 117,890.07 million in 2014 to deficit group.

The following table highlights the Bank's performance in terms of deposit mobilization, its deployments, international business, inward foreign remittance and employment as at 31 December of 2015 and 2016:

Figure: 5



4.9.7 Contribution to national Exchequer

MBL is one of the key contributors to the government revenue. As a responsible corporate body, the bank ensures that all corporate tax payments are made accordingly to the government in time. According to the tax law, MBL also deposits excise duty, withheld tax and VAT to the government Exchequer in time through deduction from employees' salary as well as payments to customers and vendors.

4.9.8 Financial Inclusion

For attaining both geographical and demographical diversification, MBL has been very keen on expanding their branches all across Bangladesh. By the end of 2016, the bank has --- branches serving every corner of the country. Bearing the slogan of 'Banglar Bank', the bank provides precise financial services to any viable business of any size and nature. Their organizational propaganda is to reach more and more people with a wide array of financial solutions.

Agriculture and SME are the priority sectors of financing in MBL. In order to properly facilitate these two sectors, the bank is working in affiliation of the Bangladesh Bank and many other Micro-Financing Institutions (MFI). The bank has separate Agricultural Credit Department and SME Department to further focus on the matter.

4.9.9 Supplier Payment Policy

MBL has a well-established set of payment policies for all suppliers and explains them in details about the payment method and system. Bills are paid according to the payment terms and VAT and other withholding taxes are deducted from bills as per law.

4.9.10 Supplier Payment Policy

The main focus of MBL's Corporate Responsibility is to encourage and preserve the Bengali tradition, help the victims of any natural disaster in any possible manner, and support thoroughly the disabled. MBL is also credited for supporting meritorious students with weak financial background. In 2016, the bank has contributed BDT 64million for CSR activities for pursuing the title of a responsible corporate citizen. MBL CSR, overseen by MBL Foundation, has aided the bank to ensure that their funding to many corporate all over the country have never been void of basic, five key philanthropy pillars: community outreach, education, medical research, the arts and the environment.

4.9.11 Environmental Related Initiatives:

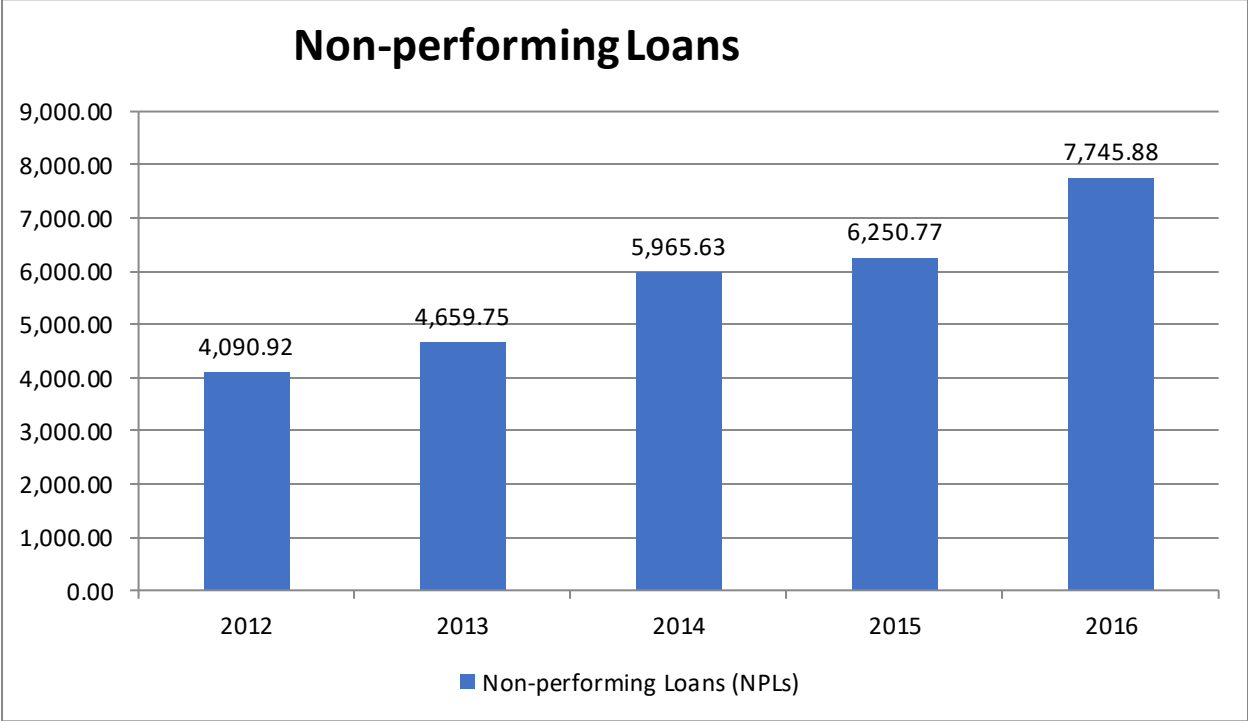
It is within the common belief of MBL that, every small 'green' step taken today shall go a long way in building a greener and better future. Going Green in Mercantile Bank cannot only bring awareness amongst customers and the employees, but also build awareness and consciousness to the society. The core business model of the bank takes into concern every detail that can help provide a more environmental concerned step. MBL has constructed a separate unit named 'Green Banking Unit' to raise the environmental related issue and to take any necessary step to solve it. It includes green financing, creating awareness amongst employees and customers etc.

4.10 Non-Performing Loans

Non-Performing Loans (NPL) are those financial assets from which a bank no longer receives an interest, installment or any other modes of payment. They are termed as 'non-performing' as they

have ceased to perform or generate any revenue for the bank. It is normal for a bank to classify non-performing assets according to their 'length of overdue'.

Figure: 6



From the above data, we can interpret that the non-performing loans of MBL are increasing day by day and it is mandatory for the bank to take necessary measures.

5. Findings

At present the banking system of Bangladesh experiences high amount of NPL. The dissatisfactory performance is seen in the management of bad loans which accounts for more than eighty percent of the NPL. The situation illustrates the inefficiency in the banking sector and tackles the flow of problem of bad loans. Therefore, the challenge facing the banking sector in Bangladesh is to construct sufficient measure to address the flow of problem of bad loans effectively. After over viewing the overall procedures of this bank, I found the followings:

- Non- performing loan are increasing day by day
- Bad loans are also increasing
- The loan and advances are higher this year which is not good because the default rate is also high
- Lack of sufficient executive and officials in the credit division make the process slow
- MBL takes relatively more time for granting loans and advances to different parties. It seriously discourages urgent purpose loans. The head office takes quite long time in processing and approving corporate loans. The total sanctioning process event takes month after month to give the final decision.
- MBL has credit card facilities, but ATM booths are located in some commercial areas in the city. Clearly not enough booths are available.
- Customer Credit Schemes (CCS) are more popular and needs to be customized according to people of different classes. However, MBL do not have customized scheme targeting various classes of people. Even the effective rate of interest is very high and the terms and conditions of CCS loan are also very inconvenient and discourage people
- MBL does not sanction loan to all sector equally, rather it concentrates its loan and advances to certain limited fields and category
- There is a discrimination in sanctioning sector wise breakup of loans and advances

Recommendation:

Mercantile Bank has been successful in all its operation since its inception. It has managed to outperform its competitors in all areas of its activities. However, there still remains scope of improvements for the bank. Some improvements are presented down below which MBL can choose to implement for better performance.

- MBL should disburse their loans in various sectors rather than specific scheme.
- Loan sanctioning and disbursement procedure should be easy and flexible considering the requirements and different classes of people.
- Amount of loan can be raised in proportion with the existing demand of people in SME loans, CCS and personal loans.
- MBL's credit policies can be revised considering the shift of demand of telecom, transportation, knit, plastic and packaging industries.
- Sector wise loan in agro based industries and firms, leather technology should be introduced.
- The bank should as soon as possible install highly automated software like FLEX Cube to add value to their service and increase accountability.
- The bank should outsource its collection of dues to other companies.
- The bank can increase its retail credit loan by allowing credit to more customers.
- Relaxation of credit norms like waiver and guarantee from third parties.
- The valuation of property should be calculated by the surveyors.
- The bank enhances its asset quality through offering rebate on interest and hence provocation of timely repayment by the customers.
- The bank should introduce credit card system, as credit cards are growing in popularity.
- The loan sanction process should be easier, so that the customers feel convenient to take loans.
- To attract new customers and to retain the current ones the bank should diversify its products and services.

- Advertisement is a key factor for a business organization to uphold its image in the market and gain more market share in the future. So, the management should give priority to advertising the bank.

Conclusion:

As an organization MBL has earned the reputation of top banking operation in Bangladesh. The organization is much more structured compared to any other banks operating in Bangladesh. It is unyielding in pursuit of business innovation and improvement. It has a reputation as partner of consumer growth.

With a bulk of qualified and experienced human resource, MBL can exploit any opportunity in the banking sector. It is pioneer in introducing many new products and services in the banking sector in the country. Moreover, in the overall banking sector, it has unmatched branch networking spread all over the country.

This report aims to uphold few of the strengths and weaknesses of MBL as a significant influential player in the banking sector of Bangladesh. A severe cut throat competition is going on currently in the banking sector and so MBL has to work out different dimension like product diversification through accurate market forecasting.

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