



Internship Report on
“Credit policy for Corporate Clients of Mercantile Bank Limited”

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Subject: Submission of internship report

Dear Madam,

I am very glad to submit my internship report on “**Credit Policy for Corporate Clients of Mercantile bank Limited**” which is an essential requirement for the completion of BBA program. I have completed my internship program in Mercantile Bank Limited at Bijoy Nagar Branch. All the information presented in this report is done with outmost sincerity and honesty. I have tried my best to make this report informative and credible.

Apart from the academic knowledge gained, this internship program and preparation of this report have given me the opportunity to know about the overview of Corporate Loan policy of MBL. I believe that, the experience I have acquired from this Internship Program will be a valuable asset in my life.

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

Sincerely Yours,

.....

Tabassum Anwar Subha

ID: 11104116

Acknowledgement

Firstly, I would like to express my sincere gratitude to Almighty, the most merciful for empowering me to prepare the report within the scheduled time.

Next, I would like to thank my internship supervisor Sohana Wadud, Lecturer, Department of Business Administration, BRAC University for her inspiring guidelines, valuable suggestion, constructive criticism and constant help throughout the work and in preparation of this report.

My cordial thanks to the management and officials of Mercantile Bank Limited, Bijoy Nagar Branch who have given me the opportunity to work with them and helped a lot by providing the information and enabling me to prepare this report. So special thanks to Mr. MD Zamal Hossain, (Senior Vice President) Manager & Head of Bijoy Nagar Branch, Mercantile Bank Limited, Mr. MD Sarwar Alom (First Vice President), Mr. MD Masum Chowdhury (Principal Officer), Kazi Anisur Rahman (Senior Executive Officer) of that branch. Moreover, I would like to express my wholehearted gratitude to my fellow friends, near and dear ones for their continuous encouragement, inspiration and assistance during the period of constructing this report.

Executive Summary

This report is based on 'Credit Policy for Corporate Clients of Mercantile Bank Limited' which is prepared from the experiences gained by working in Credit Department at MBL. At the present time, Banks and Financial Institutions are becoming very competitive and various kinds of services and products provided by financial institution are increasing with rapid growth. People need money to accommodate their livelihoods as well as updating with the present world of living, therefore people take 'Credit/Loan' from the bank. For this reason different organizations require credit facilities from the bank to run their business so that they can meet the need of people by their various types of products and services. This report focuses on different credit facilities provided to the Corporate Clients by Mercantile Bank Limited and the procedure of lending such.

With the clear mission to provide efficient banking services and to contribute socio-economic development of the country, Mercantile Bank Ltd emerged as a new commercial bank and inaugurated its operation on 2nd June, 1999. The bank has 86 branches all over the country up to 2014. There are 30 sponsors involved in creating Mercantile Bank Limited. The sponsors of the bank have a long heritage of trade, commerce and industry. They are highly regarded for their entrepreneurial competence.

The major task for a bank is to survive in the competitive environment of credit service by managing its assets and liabilities in an efficient way. And Mercantile Bank Limited manages the assets and liabilities effectively. Consequently it is achieving success and prosperity. It operates in a disciplined and prudent manner with a focus on driving productivity initiatives with delivering sustainable improvements in business practices.

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Chapter 01

The Organization

1.1) Introduction

Mercantile Bank Limited is considered as one of the leading banks in Bangladesh. This is a blend of development and commercial bank. It has been established to promote banking activities in the country. It is committed to provide high quality services to its clients through different financial products and profitable utilization of fund and contribute to the growth of GDP of the country by financing trade and commerce, helping industrialization, boosting export, creating employment opportunities for the educated youth and encouraging agriculture and micro- credit leading to poverty alleviation and improving the quality of life of the people and thereby contributing to the overall socio- economic development of the country.

1.2) Historical Background of Mercantile Bank Ltd:

Mercantile Bank Ltd was established on May 20, 1999 and started its operation on June 02 on the same year. It was founded as banking company under the companies Act 1913. The bank is governed by the bank companies Act 1991. According to CAMELS (Capital adequacy, Assets, Management capability, Earnings, Liquidity, Sensitivity) rating, it was given the top ranking after applying all the ten creation that are required to judge a bank's overall performance.

The first branch of MBL was opened at Dilkusha commercial area in Dhaka. It became as a public limited company on May 20, 1999. MBL enlisted in Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) on February 16, 2004 respectively. It has two subsidiaries namely Mercantile Bank Securities Ltd. (MBSL) and Mercantile Exchange House (UK) Limited. On June 2010, MBSL was created to deal with stock dealing and brokering. After obtaining stock dealer and broker license from appropriate authority it started commercial operation on September 14, 2011. Another subsidiary of MBL that is Mercantile Exchange House (UK) Limited was incorporated as private limited company on December 06, 2010, whereas it started its business operation on December 06 2011.

1.3) Visions for the Future:

Vision of MBL is “Would make finest corporate citizen”.

Through this vision they want to provide such banking service to all so that whenever people think of a bank they will of course think of Mercantile Bank Ltd. Like other commercial organization their objective is to increase the shareholder’s value. Besides they always want to provide innovative service to their all types of clients. In order to do so their **strategic objectives** are as follows

- 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 it serves

1.4) Product/ Service Offerings of MBL

The bank is continuously differentiating itself from other banks through its products and services. Their service is only for their target customers to fulfill their needs so that their needs and demands can be met accurately. The bank is proud to have exemplified the true concept as “Bungler Bank”. Therefore it launched several financial products and services. These are as follows

a. Deposit Products:

- ❖ Current Deposit (CD) Accounts
- ❖ Savings Bank Deposit (SB) Account
- ❖ Fixed Deposit Receipt (FDR)
- ❖ Scheme Deposit
 - ✓ Monthly Saving Scheme (MSS)
 - ✓ Double benefit deposit scheme (DBDS)
 - ✓ Family maintenance deposit scheme (FMDS)
 - ✓ Quarterly benefit deposit scheme (QBDS)
 - ✓ Special saving scheme (SSS)
 - ✓ Education planning deposit scheme (EPDS)
 - ✓ Super benefit deposit scheme (SBDS)
- ❖ School Banking

Loan & Advances:

Mercantile Bank Ltd. provides following types of loans to their clients

a. Retail Loan:

- ❖ Consumer credit scheme
- ❖ Lease finance
- ❖ Car loan scheme
- ❖ Home loan scheme
- ❖ Doctors' credit scheme
- ❖ Any purpose loan (personal loan scheme)
- ❖ House furnishing loan
- ❖ Overseas employment loan scheme
- ❖ Cottage Loan
- ❖ Education Loan
- ❖ Rural Development scheme

b. Corporate Loan:

- ❖ Short Term Finance
- ❖ Long Term Finance
- ❖ Real Estate Finance
- ❖ Import Finance
- ❖ Construction Business
- ❖ Export Finance
- ❖ Structured Finance
- ❖ Loan Syndication

c. SME Financing:

- ❖ Chaka (Term Loan)
- ❖ Samriddhi (Continuous loan)
- ❖ Mousumi (Short term seasonal loan)
- ❖ Anannya (Women entrepreneur's loan)

d. Agriculture Loan:

- ❖ Nabanno (Polli loan)
- ❖ Sakti (Solar energy loan/Bio gas)

e. MBL Card:

- ❖ Debit Card
- ❖ Credit card (Local card, international card, Dual currency card)
- ❖ MBL pre- paid card (Student card, hajj card, travel card)

f. **E-banking Services:**

- ❖ Online Banking
- ❖ Mobile financial services (My Cash)

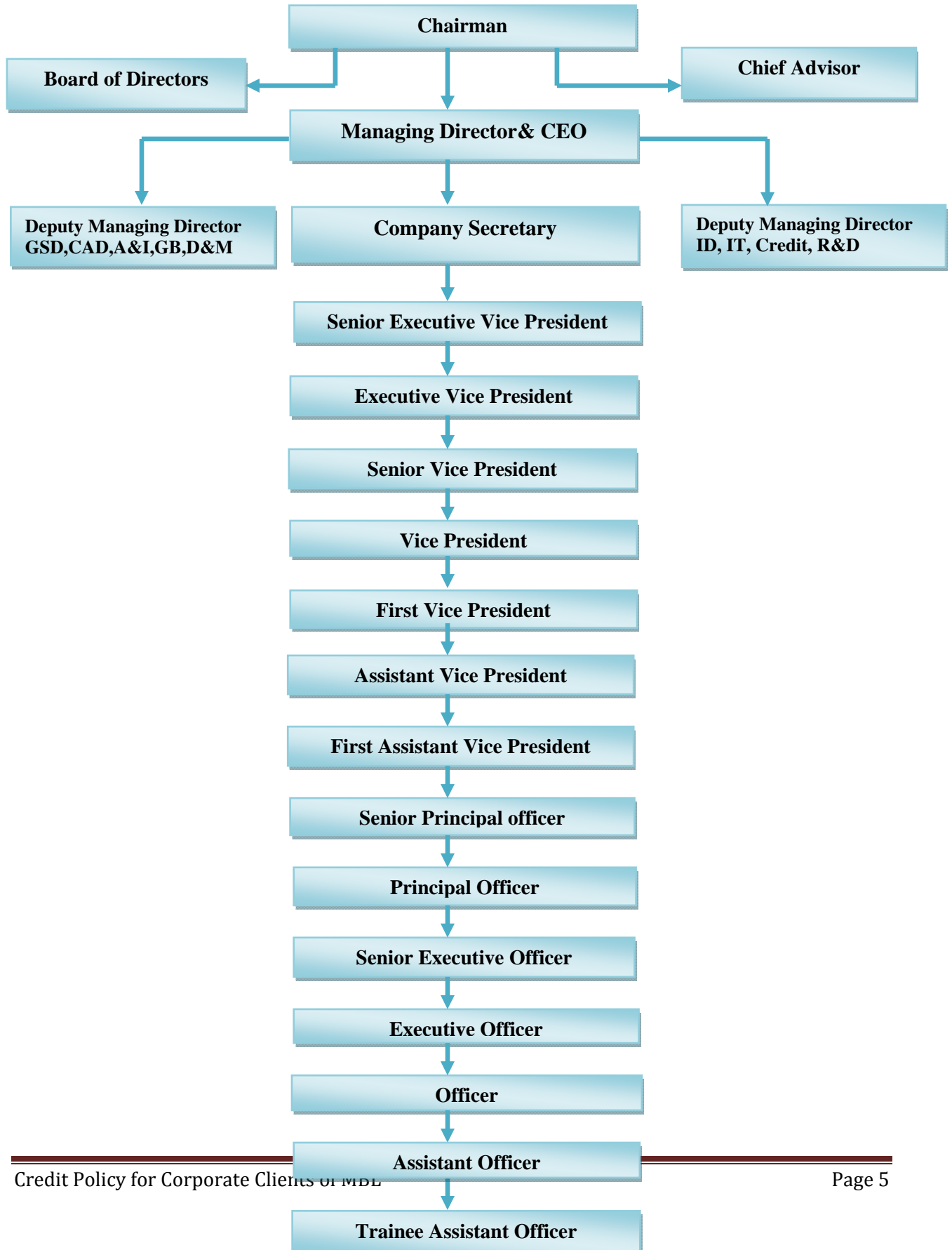
g. **NRB Banking**

h. **Locker Services**

1.5) **Operational Network Organogram of MBL**

Operational network organogram of Mercantile Bank Ltd. is shown in the next page.

Operational Network Organogram:



Chapter 2

Job Description

2.1) Nature of the Job:

I have joined Mercantile Bank Limited as an intern. I was assigned to the Bijoy Nagar branch of this bank. This branch is quite small in terms of size and number of transaction though all the banking activities are done here in a systematic way. I was assigned in all three departments of the bank those are General Banking Department, Foreign Exchange Department and Credit Department. As a result I got the practical knowledge of how a bank runs as a whole. By working there I realized that all three departments are connected to each other.

Firstly I was appointed in the Front Desk of the bank which is a part of General Banking Division. Front Desk deals with opening all types of Deposit Accounts. Besides attending phone calls, giving balance statement to the clients are daily responsibilities of this division. Then I was assigned to the Accounts Division. Accounts department is responsible for analyzing all the transactions which are held in bank and keeping records of them. Everyday lists, vouchers, cheques of all transactions are received from different divisions. Then the respective officers in Accounts analyze and register them accordingly.

Later I was appointed to the Foreign Exchange Department (FED). The activities of FED can be divided into three parts. These are Import, Export and Remittance. So this department deals with opening of letter of Credit (L/C), Back to back L/C and transferring of funds to overseas accounts etc. which are the regular activities of this division. For these reasons, this one is the busiest department of the bank.

Lastly I worked in Credit Department. This department is for all types of loans account. By working there, I came to know what rules and regulations the bank follows for granting, monitoring, and recovery of loans.

2.2) Specific Responsibilities of the Job:

At the beginning of my internship I worked in General Banking Department. Firstly I was assigned to the front desk of this department so that I have the primary knowledge of the banking activity. There I interacted with the customers, gave phone call to them to give different types of information mostly if their debit or credit card have been received I used to call them to make them know about this. Besides I helped the customers to fill up the forms.

After a week I was assigned to the Accounts Division. My job was to check vouchers and then attach all vouchers with respective Supplementary sheets. After attaching, next job was to balancing. Balancing means doing summation and ensuring that value of debit and credit is equal. Next job was to make a cover where total numbers of transactions are counted and recorded. Afterward, I prepared those for binding in an organized format.

Then I worked in Foreign Exchange Department. There I did various types of work such as calculating the value of every L/C or Back to back L/C, interest charge, filling up IMP (Import) form and EXP (Export) form, giving entry to the Bangladesh Bank for newly opened L/C, keeping records to different types of register books etc.

Finally I worked in Credit Division. My job was to prepare file for applicants with the corresponding papers (i.e. applicant's information, company invoices, ETIN, VAT certificate, credit report etc.) and help them to fill up it. I attached stamp in some of the papers like as Demand Promissory Note and then gave some seals like as Signature Verifying seal. I also printed out vouchers and sorted them.

2.3) Different Aspects of Job Performance:

My observation and experiences while doing internship at Mercantile Bank Ltd. are really very important. I got to know how the real work place is. Therefore, I like to share different aspects of my job performance.

- ✓ I have learned how to deal with clients properly, how to maintain business relationship.
- ✓ Learned how to work with colleagues in one office, how to cooperate with each other efficiently, the way of treating senior officers and how to finish all the work in time.
- ✓ Knowing the corporate culture is a big fact for an employee because it is very much important for them. Ensuring proper responsibility is very much essential and in that case MBL is perfect. Everybody doing their job with proper responsibility and the corporate environment of MBL is very much friendly. So it was a great experience for me.
- ✓ Got the real experience of how to grant, collect, monitor different types of loans. Moreover got the practical knowledge how the overall banking activities are running successfully.
- ✓ Moreover, my performance has encouraged me to overcome challenges and execute my skills properly. Consequently my self confidence level has been increased.

2.4) Critical Observations and Recommendations

Since I had no prior knowledge of how an organization really runs therefore at the beginning it was a challenge for me to cope up with the bank's culture. With the passage of time I've learned many important things and improved myself. There are some factors that I have observed in Mercantile Bank Ltd. during my internship.

- ✓ Although my internship report is on credit procedure but it wasn't directly related to my assigned duties, that's why concentrating only on credit policy was difficult for me. Therefore, the bank should assign an employee as a supervisor of the intern to give necessary guidance.
- ✓ Understanding client's psychology is not easy. Everyone is different so do their attitude. Because of different characteristics of different clients, services providing or handling to each customer should be customized. In this regard bank should provide more training to their employees how to deal with clients successfully.
- ✓ Work in a team is really a helpful experience and but as an intern I was not given a separate desk with personal computer and that's why I had to share desk with a regular employee of the bank. So performing my own responsibility became difficult some time. Hence, the bank should give a separate desk for intern.
- ✓ According to me, bank's management system should be changed a bit. Regular work maintenance system, checking procedure of pending work should be updated so that clients can get their service quickly. By doing so bank can meet every client's expectation properly which will be positive affected on bank's reputation.

Chapter 3

The Project

Credit Policy for Corporate Clients of Mercantile Bank Ltd

3.1) Summary

The credit policy of any banking institution is a combination of certain accepted, time tested standards and other dynamic factors dictated by the realities of changing situations in different market places.

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

At present, the bank has wide branch network coverage in both rural and urban areas of the country and every new branch is added with the task force. Credit portfolio of the bank has been growing at a constant pace every year.

Asset quality of the bank was never compromise under any circumstances. As the lion's share of the total revenue comes from credit operation and the existence of the bank depends on quality of asset portfolio, efficient management.

3.2) Description of the Project

3.2.1) Objective of the Project

The report is prepared on “**Credit Policy for Corporate Clients of Mercantile Bank LTD.**” with thought of getting in depth of credit management process.

Broad Objective is to analyze properly the credit policy of Mercantile Bank Ltd for their corporate clients.

Specific Objectives:

- ✓ Evaluate the credit risk management tools for better effectiveness.
- ✓ To get the knowledge of Mercantile Bank Ltd overall credit policy and the real scenario of their recovery process whether it is really matching with the rules and regulations or not.
- ✓ To acquire practical experience in different credit policy in Mercantile Bank Ltd.
- ✓ To find out the weakness and strengthens of the current credit policy.

3.2.2) Methodology

Sources of Data

Both primary and secondary data were used to complete the report. The main primary source of data is the information collected from employees of the Credit Department by taking interviews several time. Secondary data is most important for providing information properly. The secondary source of data is the documents and rules book of Credit Department of Mercantile Bank Ltd.

Primary Data:

- Direct conversation with respective officers and clients
- Personal observation

Secondary Data:

- Credit rules of Mercantile Bank
- Data from Annual report of MBL.

- Relevant files provided by the officers.

3.2.3) Limitations

- ❖ Since financial information for any organization is confidential so the officers did not provide all types of information regarding credit policy of their bank.
- ❖ It is not possible to concentrate only on the project part during the internship program as other duties and responsibilities had to do.
- ❖ As I am a newcomer, there is a lack of previous experience in this concern, and many practical matters have been written from my own observation that may vary from person to person.
- ❖ Completing the project work in this particular topic required more time. Since I have finished this report within one and half months so I couldn't manage to provide in details information about credit facilities for corporate clients.

Chapter 04

Lending Guidelines

4.1) Basics of Lending:

Before selecting a corporate client and subsequent recommendation for financing, the credit officer / relationship manager must observe the following basics of lending:

4.1.1) Portfolio Management Analysis:

Portfolio management may be defined as the allocation of funds amongst investment alternatives to maximize the profit and minimize the risks. In this regard bank's policy is to deliver the business and allocate the fund in different sectors in consideration of the followings;

- Maximum concentration to a single sector should be maximum 25% of investable fund.
- Prospect of the business and thrust sectors
- Economic trend
- Historical growth and performance of the products
- Ensure maximum return keeping the risk at minimum level
- Government incentive policies

Corporate Banking Division, SME Division, Retail Banking Division, and Agriculture Credit Dept. prepare sector wise budget annually and provide it to Research and Planning (R&P) Division for placing to the competent authority of the bank for information, guidance, and approval.

4.1.2) Industry and Business Segment Focus:

As a general practice, Mercantile Bank Ltd. definitely concentrate its business in Trade Finance / Export- Import business and all types of commercial loan, industrial / project finance/ syndication and structured finance/ SME Financing / Agricultural/ Rural and other specialized programs except otherwise restrict by the government.

The bank gives emphasize to diversity its business portfolio matching with economical cycle order, business trend, life cycle of the products, demand supply gap, social and national obligation etc.

4.2) Lending Caps

- The bank management establishes a specific industry sector exposure cap to avoid over concentration in any one industry sector. Considering the cycle aspect of the economical growth for each sector, sector- wise allocation of credit with growth is made annually with the approval of the executive Committee of the Board.
- Diversification of the Credit portfolio is encouraged so as to reduce the risk of dependence on a particular sector for balanced socio-economic development of the country.
- Branches submit a report outlining trend and outstanding loan portfolio of each sector to the head of credit risk management division on quarterly basis for submission to the board of directors for information guidance.

4.3) Discouraged Business Types:

The bank will discourage lending to following areas of business

- Military equipment or weapons finance
- Tobacco sector
- Companies listed on CIB black list or known defaulters
- Highly leveraged transactions
- Finance of speculative investments
- Logging, mineral extraction or other activity that is ethically or environmentally sensitive
- Counter parties in countries subject to UN sanctions
- Taking an equity stake in borrowers
- Lending to holding companies

4.4) Loan Facility Parameters:

The loan facility parameters for the bank have been set as following

- The bank in general approves or renews short periodic trade finance or working capital facility for the period of one year from the date of approval, disbursement or last expiry date.
- The bank will extend short term loan for up to 12 months and medium term loan for above one year up to five years period.
- The bank will extend long term loan for maximum period of ten years including grace period up to eighteen months (depending on the nature of the project) for project finance but in case of need, in syndication or club financing, the bank may extend the period as per agreement of the syndicated members.
- In case of house building loan (commercial), the repayment period will be maximum of five years for developers.
- Besides above, the bank will extend credit facilities for special program like SME Financing, Agriculture / Rural Credit, Women Entrepreneurship development Project, Refinance Scheme for Solar Energy, Bio Gas and ETP, Green Finance etc to be set by the bank under the policy guidelines of the specific scheme.
- The rate of interest, commission, charges, fees etc would be as per the approved circular of charges as per Bangladesh Bank guidelines and with the approval of competent authority.
- The interest rate would be charged and to be paid out on quarterly basis except the special schemes.
- Repayment of term loan would be fixed preferably on monthly or quarterly basis.
- Margin for L/C preferably in cash should be on the basis of banker- customer relationship subject to minimum requirement of Bangladesh Bank.
- For import of capital machinery, margin for L/C would be preferably 5%- 30% or on the basis of banker- customer relationship subject to minimum requirement of Bangladesh Bank.
- Security accepted against credit facilities will properly be valued and will be effective in accordance with laws of the country. An appropriate margin of security will be taken to reflect such factors as the disposal costs or potential price changes of the underlying assets.

Accepted securities are cash / cash equivalent like FDR, balance on CD (Current Account), STD account etc, land and building (in the form of registered mortgage with registered IGPA), ownership of plant, machinery, stock of goods, assignments of bills / receivables, book debts, pledge of shares, guarantee / corporate guarantee etc.

- Valuation of the above mentioned securities will be done by the bank's enlisted professional surveyors. Branch also will make valuation on the offered securities duly endorsed by the Head of Branch. However, revaluation of the property will not be done within three years.
- The value of the mortgage property will preferably be doubled of the facility to be extended depending on other security coverage. The Managing Director may relax the security conditions depending on banker-customer relationship and potentiality of the business of the client.

Any other exception of the loan parameters mentioned above is subject to be approved by the Executive Committee of the Board of Directors.

Chapter 05

Product and pricing

5.1) Lending Sectors:

Loans and advances have primarily been divided into three major groups. Those are as following-

- a) **Term loan:** these are the loans having fixed repayment schedules. The term loans may be as follows
 - **Short term:** up to and including twelve months
 - **Medium term:** more than twelve months up to and including sixty months
 - **Long term:** more than sixty months
- b) **Continuous loan:** These are the credit facilities having no fixed repayment schedule, but have a limit and an expiry date at which it is renewable based on satisfactory performance of the customer.
- c) **Demand loan:** These are the loans that become repayable on demand by the bank and on fixed installment or repayment schedule are laid down. By any chance other liabilities are turned to loans under forced circumstances (without any prior approval as regular loan) those are treated as demand loan.

Loans are accommodated under the **seven** prime sectors which are as under

I. **Agriculture:**

Credit facilities to the customers of doing agro business fall under this category. It is divided into major sub sectors.

- a) **Loans to primary producers:** This sub sector of agricultural financing refers to the credit facilities allowed to production units engaged in farming, fishing, forestry, or livestock. Loans to processors or traders of agricultural products are not be categorized as agricultural loans. Loans to tea gardens for production are treated as agricultural loan, but loans to tea Gardens for export will be treated as “Export Credit”. Similarly, medium and long term loans to tea gardens are categorized as industrial term lending.
- b) **Loans to input dealers / distributors:** It refers to the financing allowed to input dealers and distributors in the agricultural sectors.

Loans to agriculture sector may include short, medium and long term loans as well as continuous credits. As a product, it may fall under term loan / hire-purchase / lease finance / cash credit / overdraft etc. There are separate policy regarding loans and advances to agriculture, which are respective department of the bank.

II. Term loan to Large Scale Industry:

This category of loans include the medium and long term financing for establishment of project, capital formation of new industries or for BMRE of the existing units who are engaged in manufacturing of goods and services.

III. Term loan to Small and Medium Industries:

There are separate policy regarding term loan to small and cottage industries which are prepared by the respective division of the bank.

IV. Working Capitals:

Loans allowed to the business enterprise to meet their working capital requirements, irrespective of their size – big, medium, small fall under this category. These are usually continuous credits and short periodic loan such as Cash Credit (Hypo) / SOD (Gen) or OD / Time Loan.

V. Export Credit:

Credit facilities allowed facilitating export of all items against Letter of Credit or sales contract fall under this category. It is accommodated under the heads Packing Credit (PC), Foreign Documentary Bill Purchase (F), FDBP (L) etc.

VI. Commercial Lending:

Short term loans and continuous credits allowed for commercial purposes other than exports fall under this category. It includes import financing for local trade, services establishment etc. No medium and long term loans are included here. This category of advance is allowed in the form of Loan against Trust Received (LTR), Secured Overdraft (SOD), Cash Credit (Hypo) etc. for commercial purposes.

VII. Finance to Non-Banking Financial Institution:

Loan and advance favouring different Leasing companies other than House Building Finance Companies falls under this category. Usually Term Loan, working capital etc are allowed to NBFIs.

VIII. Others:

Any loan that does not fall in any of the above categories is considered under the category “Others”. It includes loan to acquire transport equipments, complete construction works including housing, execute work/supply orders, loans under different loan scheme, loan and advance against Financial Obligations etc.

5.2) Types of Credit Facilities for Corporate Clients:

Depending on the various nature of financing all the credit facilities are divided into two major groups. One is Funded Credit and another one is Non-funded Credit.

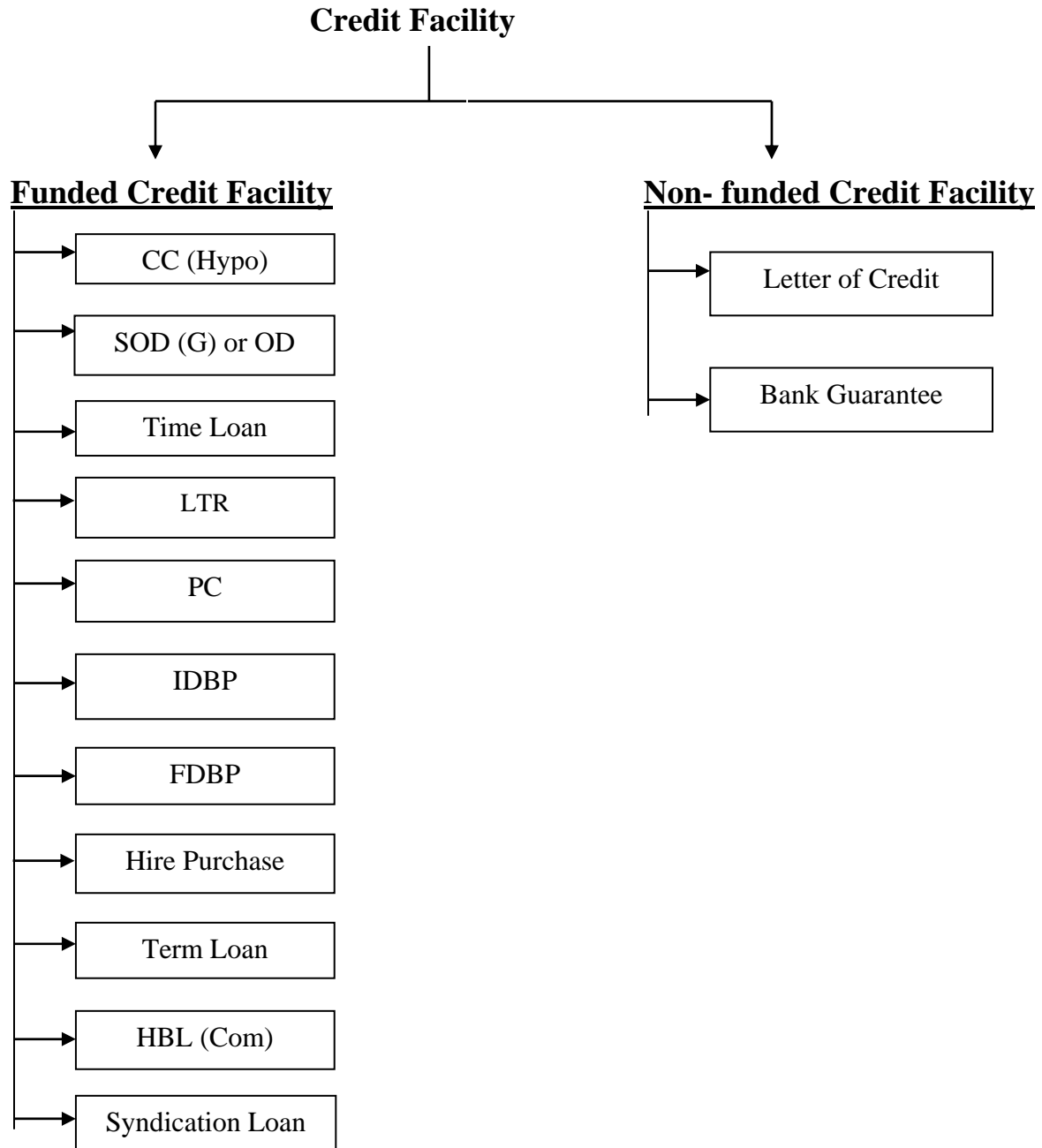


Fig: Types of Credit Facility for Corporate Clients

5.2.1. Funded Credit Facilities:

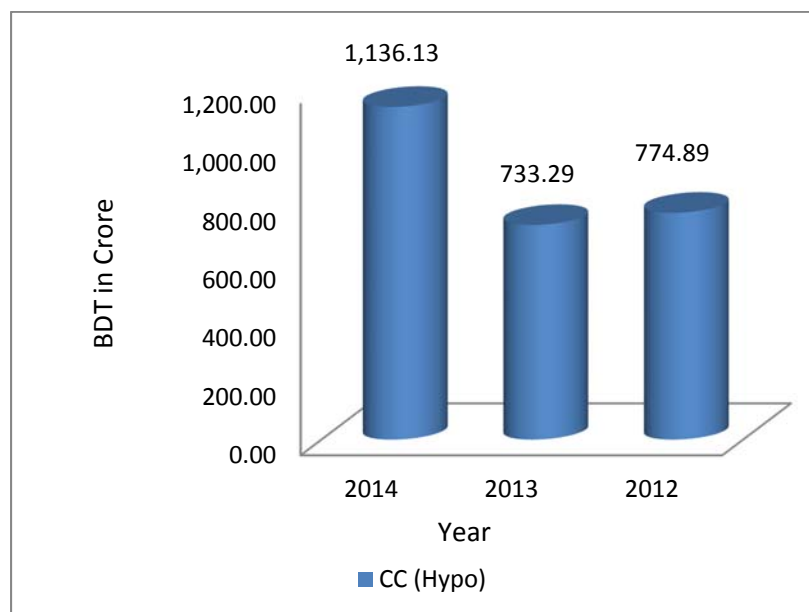
Any type of credit facility which involves direct outflow of bank's fund on account of borrower refers to funded credit facility. The followings are the funded credit facilities which are practiced in the Mercantile Bank Ltd.

i. Cash Credit (Hypothecation):

This is a continuous credit limit allowed for trading as well as manufacturing, assembling, other value adding units to procure and maintain the stock in trade for trading units and stock of raw material (RM), work in process (WIP) and finished goods (FG) for manufacturing, assembling and other value adding units.

Feature:

- This is a continuous loan
- Continuous drawing and adjustment is possible
- Validity of the limit may be one year or less
- It is adjusted through crediting sale proceeds in the account on regular basis. Desired yearly credit turnover in the account in four times of the credit limit.
- Stock in trade remain under customer's lock and key
- Pricing mode: Interest
- Primary security is hypothecation of stock in trade or stock of RM, WIP and FG.



From the above graph it can be noticed that the amount of CC (Hypo) loan has been increased in the last year and it is the highest amount among the last three years. So it indicates that the bank attracts new clients through this facility.

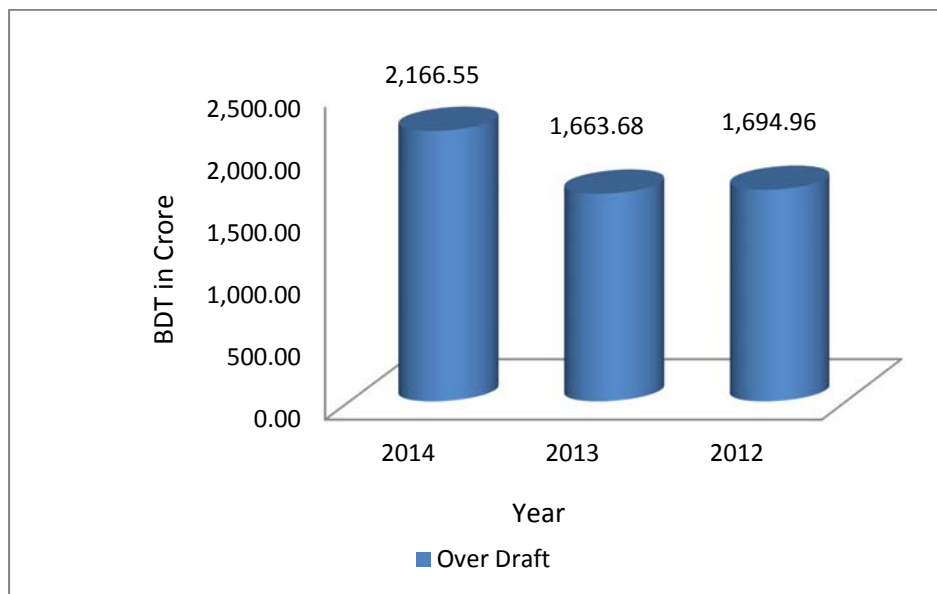
In MBL Anwar Ispat Ltd. got this facility for purchasing raw materials in order to manufacture their products. On the other hand, to meet the requirement of working capital Arrival Fashion Ltd. got this facility from MBL as well. Additionally, Enam Motors had this credit facility from the bank to purchase car tire, IPS battery etc. Therefore, it is clear that organization can have this facility according to meet their different conceded purpose.

ii. Secured Over Draft (General) or Over Draft:

This continuous credit limit is allowed for different business purposes specially service oriented business enterprise who does not maintain stock including meeting working capital requirement. The facility also allowed for payment of duty, tax, VAT against import business.

Features:

- This is a continuous loan
- Continuous drawing and adjustment is possible
- Validity of the limit may be one year or less
- Pricing mode: Interest
- Primary security may not be available but in case of SOD (Gen) or OD against other bank's deposit, lien on underlying deposit



From the above graph it can be seen that the amount of SOD (gen) has been increased at a satisfactory level in the last year which indicates the existence of positive reputation regarding the bank among the clients. As a result, new clients are taking this loan from the bank.

A travel agency named Al-rafi Travel Trade had this facility from this bank in order to provide their service. Additionally, Faria's Fashion Ltd. received this facility from MBL to pay their duty, tax, VAT etc.

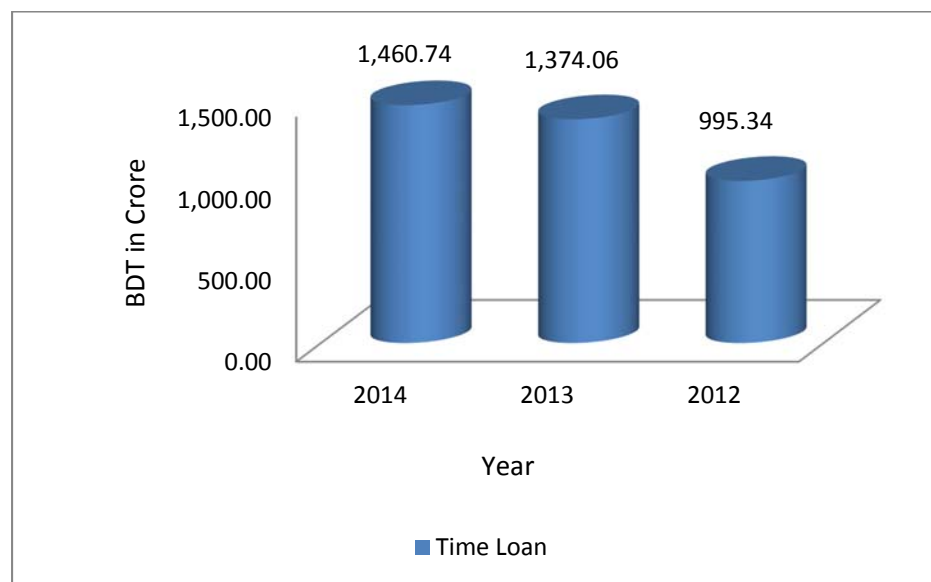
iii. **Time loan:**

This is a very specific purpose of short time. The facility is allowed to favouring the customer usually for the following reasons:

- To meet emergency/ seasonal fund requirement in the business
- The facility is allowed in some forced circumstances such as encashment of bank guarantee, against letter of credit and other commitment of the bank where customer fails to pay.
- This loan is also allowed as a post import facility against sight L/C (local)

Features:

- It is a short term demand loan. Maximum validity can be 180 days.
- It is a single time disbursement loan with specific purpose and validity.
- Pricing mode: Interest
- Primary security is hypothecation of stock in trade, work in process, finished goods



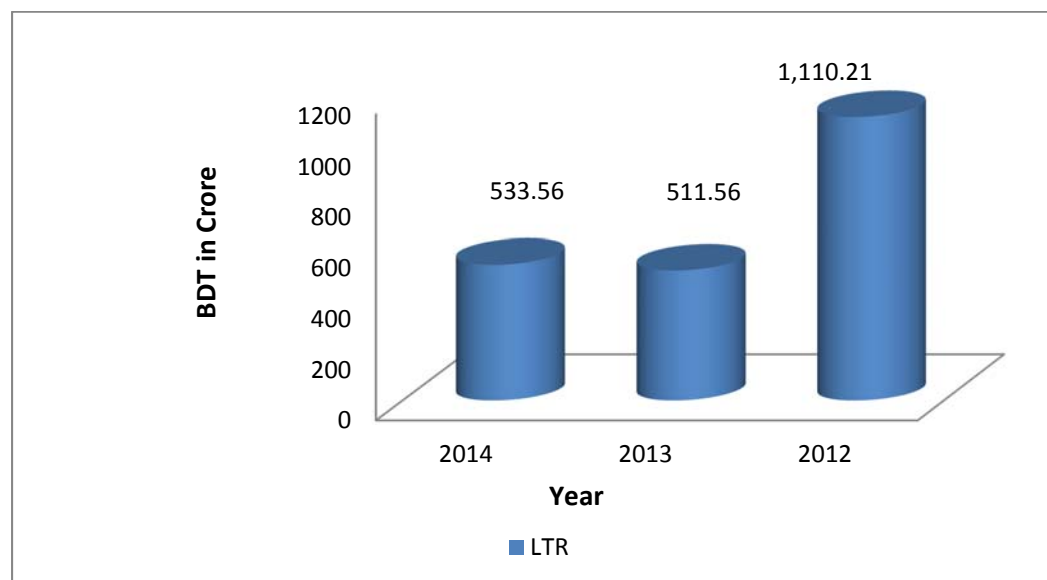
Time loan has been increased in last three years. It means that the bank continuously attracts new clients through this service. In 2014, Benhid Apparel Bangladesh Ltd. got this credit facility from Mercantile Bank Ltd. Another name of organization that got this facility from this bank is Masud Enterprise.

iv. LTR:

LTR stands for “Loan against Trust Receipt”. This facility is allowed for retirement of shipping documents, so that the importer can release the goods imported through L/C, by adjustment of Payment against Documents (PAD) liability.

Features:

- This is also a demand loan
- Usually LTR amount is less than or equals the PAD liability
- Importer possesses the imported goods
- Usually has the tenure of 30, 60, 90, 120 or 180 days but subject to Bangladesh Bank guidelines
- Drawing is allowed once only, no further drawing is allowed. Borrower has option to adjust the loan within the period of LTR.
- Pricing mode is Interest rate
- Primary security is hypothecation of imported goods

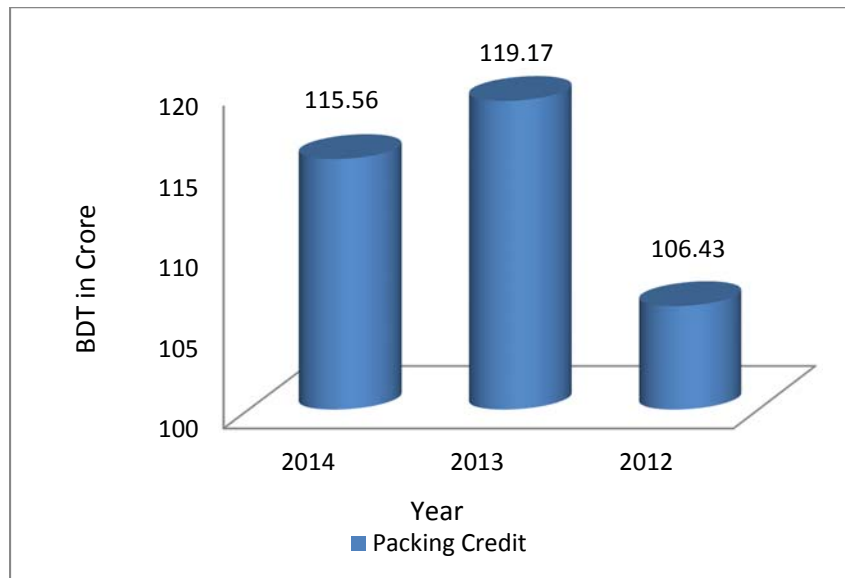


The above graph is showing that the amount of LTR has been decreased drastically in the last two years. In 2012 the amount was BDT 1110.21 crore. However in the following year it had been decreased almost two times. And this decreasing trend continued. It indicates that the clients are not taking this facility from the bank. It might happen due to the bank's poor service of this facility. Another reason might be the effect of political unrest in our country.

However, Arrival fashion Ltd and Reytex Fashion Wears Ltd are two regular corporate clients whom are receiving this facility from MBL.

v. **PC:**

PC stands for packing credit (export). It is a short term facility allowed to customers against L/C and firm contract for processing, packing, shipping of goods to be exported. It must be adjusted from proceeds of the relevant exports.



The above graph indicates that the amount of PC has been increasing over the last three years. However, it has been decreased slightly in last year. It might occur due to the existence of political unrest in our country in last year.

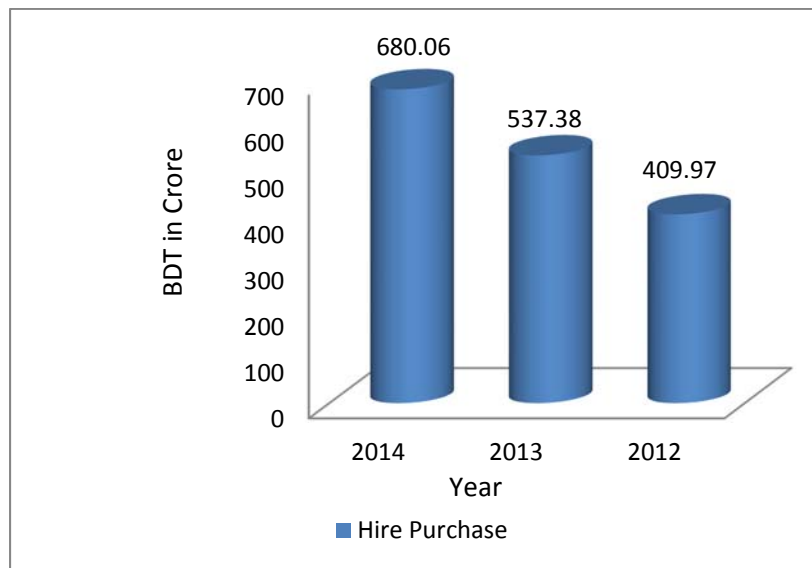
Arrival Fashion Ltd and Reytex Fashion Wears Ltd are two companies who are regularly getting this credit facility to export their products properly.

vi. **Hire Purchase (HP):**

This is particularly finance where customer provides equity at the agreed ratio for procurement of the assets such as capital machinery and equipments. The customer is entitled to use the asset at his own risk and responsibility throughout the loan tenure.

Features:

- It is a term loan.
- A contract called ‘Hire Purchase Agreement’ guides the facility throughout the term.
- A down payment or margin or equity from the customer is required.
- Here, pattern of ownership is joint. But the responsibility of maintenance, insurance and other obligations related to the asset remains to the customer.
- Liability is adjusted through deposit of Hire Purchase installments periodically.
- Price mode: Interest.
- Primary security is hypothecation of the asset.



From the above graph it can be seen that the amount of Hire Purchase has been increasing continuously which indicates that new Corporate Clients are becoming the customer of the bank.

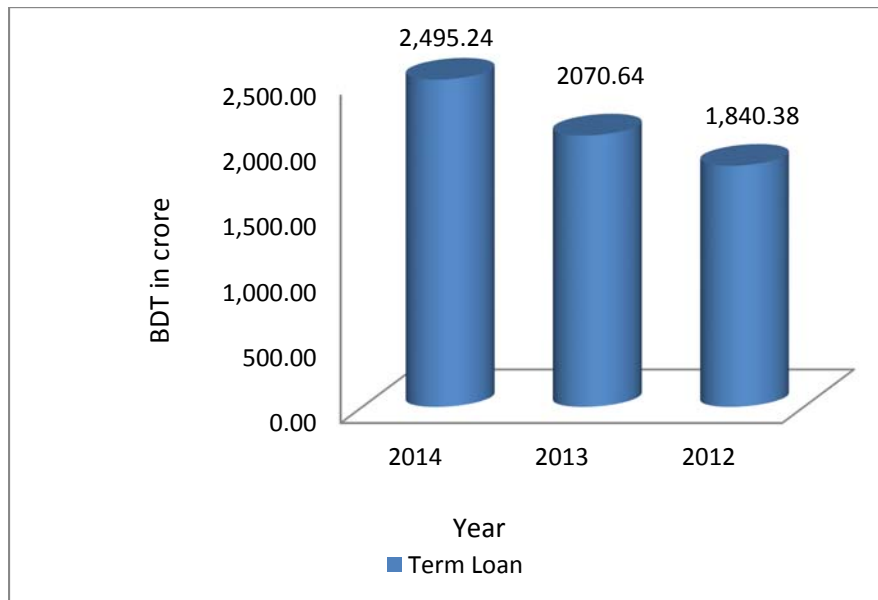
Arrival Fashion Ltd and Reytex Fashion Wears Ltd. are two companies who got this facility from this bank

vii. **Term loan:**

This is another type of term financing for acquisition of capital machinery and equipments or other assets such as consumer durables and vehicles or for specified defined purpose. The customer is entitled to use the asset at his own risk and responsibility throughout the loan tenure.

Features:

- A down payment or margin from the customer is required.
- Liability is adjusted through deposit of installments periodically.
- Pricing mode: Interest.
- Primary security is hypothecation of the asset.



Term loan has been increasing over the last three years which is a positive aspect of the bank. It means that the service of the bank has been improving; consequently new clients are becoming attracted to them.

Azmat Group, Jamuna Group, Bashundhara Group are some of the corporate clients who had this facility from the bank.

viii. HBL (Com):

HBL (Com) stands for House Building loan (Commercial).

Features:

- It is a term loan
- HBL (Com) facility may be allowed for the following purposes
 - ✓ Purchase of space for commercial purpose
 - ✓ Construction of commercial building
 - ✓ Construction of residential building for selling out to the public
 - ✓ Purchase or reconstruction of commercial building
- Usually disbursement is made at multiple phases

- It is usually short/ medium/ long term financing
- It is adjusted through deposit of periodically installments
- Pricing mode: Interest
- Primary security is registered mortgage with RIGPA of the underlying land and building

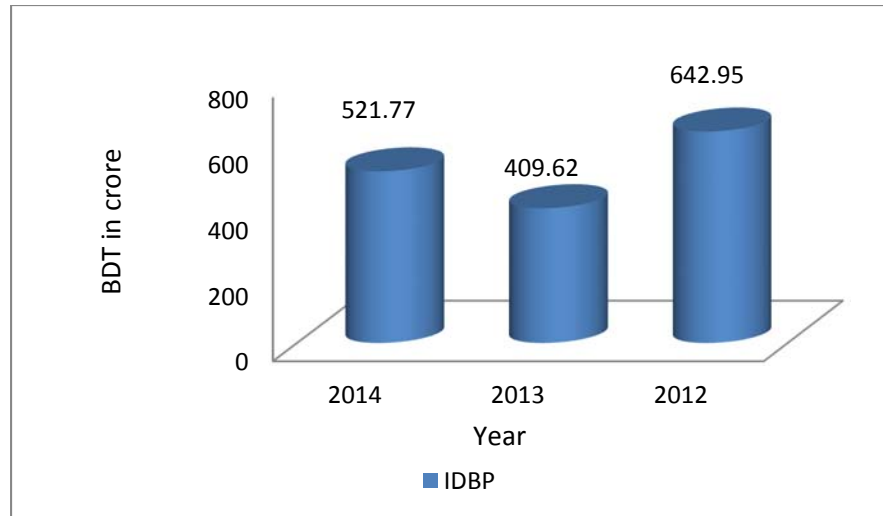
Nandonik Developer & Construction Ltd. and At Las Developers Ltd., Bashundhara Group are the name of some companies those got this type of credit facility from the bank.

ix. IDBP:

IDBP stands for 'Inland Documentary Bill Purchase'. This facility is provided to purchase/ negotiate documents/ bills (duly accepted by issuing bank) submitted by the exporter/ supplier on exporter/ supply made to local exporter oriented industries or other entities against inland L/C usually denominated in foreign currency.

Features:

- This is a demand loan.
- This is usually a mode of (deemed) export finance.
- The accepted bills have to be confirmed by the accepting bank upon written request of the purchasing bank.
- Usually amount of IDBP is 90% of the bill value.
- Usually has the tenure less or more 90-120 days.
- Pricing mode: Interest
- Primary security: Duly accepted and confirmed inland documentary bills



From the above graph it can be seen that the amount of IDBP has been decreased slightly over the last two years. However, the amount increased in last year than the year 2013. So it gives a positive indication regarding the bank.

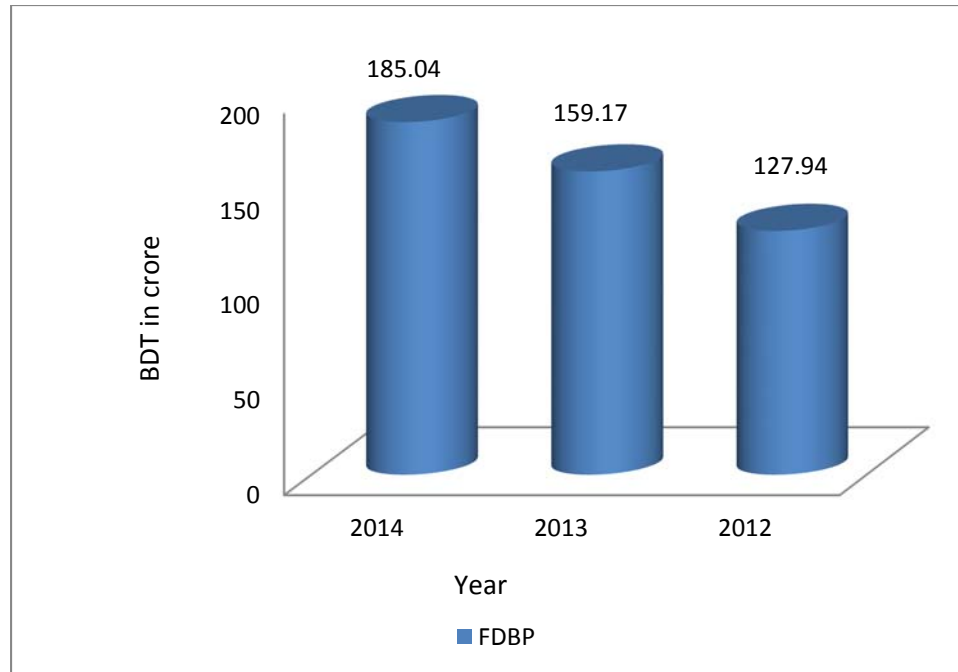
Bonitto Button Industries Ltd, Samita Embroidery Ltd and AB Siddique Polymer these are some companies which are regularly receiving credit facility from MBL in this way.

x. FDBP (F):

FDBP stands for foreign documentary bill purchase. This facility is provided to negotiate foreign documentary bills/ documents submitted by the exporter on export made against export L/C denominated in foreign currency.

Features:

- This is a demand loan
- This is a mode of export finance
- The documents/ bills have to be in order as per export L/C terms
- Cash drawing allowed under FDBP after adjustment of (Back to Back) BTB L/C, PC and other liabilities associated to the particular export.
- Usually has no fixed tenure but maximum tenure may be allowed is 21 days for sight L/C and as per stipulated usance period for usance L/C.
- Primary security: In order L/C documents/ bills



From the above graph it can be noticed that the amount of FDBP has been increased over the last three years. So it indicates that the new clients are becoming interested to take this facility from Mercantile Bank Ltd.

Benet Fashion Ltd and Arrival Fashion Ltd are two companies those are getting this credit facility from MBL in a regular basis to run their business.

xi. Syndication Loan & Structured Finance:

Syndication is a joint financing by more than one banks/financial institutions to the same clients against a common security. This is done basically to spread the risk. It also provides a scope for an independent evaluation of risk and focused monitoring by the agent/ lead bank. This loan should be analyzed the risk and return in the same manner as directly sourced loan.

Feature:

- More than one bank/financial institution provide this loan under syndication agreement to a same business entity against security.
- Syndication loan may be non-funded, revolving funded limit and long term loan in nature.
- Primary Security: Pari passu security sharing agreement on the fixed and floating assets (present and future) among the lenders.

Generally, Mercantile Bank Ltd. may act as Lead Arranger, Participant, Agent, Book runner and Security Trustee to finance/ to assist finance under Syndication favouring a single person/ counterparty. The bank participate in finance under Syndication for the following situations

- Risk Diversification
- Capital shortfall etc.

Biman Bangladesh Airlines took about \$5 million loan in this way. Mercantile Bank Ltd was one of banks that lent some portion of \$5 million to Biman Bangladesh Airlines. Another syndication loan has been sanctioned for a new project of ACI where MBL is one of banks giving loan to ACI. To launch this project ACI Ltd requires about Tk. 40 crore.

4.6.2. Non-Funded Credit Facility:

Any type of credit facility which involves commitment of bank on behalf of customer for payment to third party in some agreed conditions refers to non-funded credit facility. The followings are the non-funded credit facilities practiced in Mercantile Bank Ltd.

- i. Letter of Credit (L/C):** This is an obligation to the exporter's bank the importer for import of any permissible item from both local and foreign sources. The Authorized Dealer (AD) branches are allowed to operate the L/C business.

Features:

- L/C governed by the UCPDC-600
- An L/C transaction is guided by foreign exchange guidelines of central bank, Foreign Exchange Regulation (FER) and import policy
- Bank is obliged to pay the beneficiary (exporter) on complied presentation of documents
- L/C is of different types. They are sight L/C, Deferred L/C, Back to Back L/C.

MBL is providing this facility in a regular basis to Arrival Fashion Ltd, Reytex Fashion Wears Ltd. and many other organizations.

ii. Bank Guarantee:

A bank guarantee is an unconditional undertaking of the bank on account of its customer in favour of the beneficiary to pay a specified amount of money if the customer (on account of which guarantee is issued) fails to fulfill the contractual obligation.

Features:

- The guarantee is unconditional and irrevocable
- Bank is obliged to pay the beneficiary on lodgment of claim by the beneficiary
- Pricing mode: Commission usually on quarterly basis.
- Primary Security: Counter guarantee of the customer.

5.3) General Covenants:

While sanctioning credit facility Mercantile Bank Ltd. will set some covenants. Some of these are general and others are specific to a particular credit facility and/ or customer. These are as follows

- ✓ The customer cannot sell or transfer the ownership of the business, factory, shop and vehicle etc until bank dues are fully paid or without NOC of the bank.
- ✓ Nature of business cannot be changed without prior approval of the bank
- ✓ Capital in the business of the borrower cannot be reduced without prior approval of the bank
- ✓ The borrower cannot make any amendment or alteration in Memorandum & Article of association without prior approval of the bank
- ✓ The customer is not allowed to borrow from any other source without prior approval of the bank
- ✓ The customer need to submit financial statements within 30 days after year end
- ✓ Bank will have the authority to debit client's account to keep insurance policy with other charges, commissions, interest including stamps cost etc in force.

5.4) Rules on Margin

Margin requirement for various loans and advances are given below

SL	Particulars	Required Margin
1.	Hypothecated goods as primary security having collateral security	Minimum 50%
2.	Hypothecated goods as primary security having no collateral security	Minimum 60%
3.	Lien and Pledge of FDR and other scheme deposit of bank as primary security	Minimum 5% on encashment value
4.	Sanchay Patro, Unit Certificate	Minimum 10%
5.	Documentary Bill	Minimum 10%
6.	Life Insurance Policy (to be discontinued)	Minimum 50% of surrender value
7.	Immovable Property	Minimum 50%
8.	For Industrial working capital margin on raw material/ finished goods	Minimum 20%

5.5) Pricing Policy

5.5.1) Credit Pricing

Rate of interest, commission and charges etc are the price of the credit. As a general approach, pricing is determined covering the cost of fund (CoF). The other major parameters that are taken into account for pricing are level of risk, borrower's credit rating, performance of the customer, period of loan and type of security offered, national priority etc. The good borrower are usually offered low price against credit.

5.6) Revision of rates

The management of the bank continuously monitors interest rate situation in the market and discuss the same in the Asset Liability Management Committee (ALCO) meeting at least once in a month. As per decision of the ALCO, the management of the bank obtains approval of the Board of Directors to revise rate of interest, commission, charges etc. Schedule of interest, commission and charges are shown in the following table

Prevailing interest rate against funded facilities

Sector of Business	Interest Rate (Mid Rate)
Agricultural Loans	
• Term loan (both short and long term)	11.50%
• Revolving Credit	11.50%
Term loan	
• Industrial / Manufacturing Project	13.50%
• Other Term loans	13.50%
Working Capital Financing	
• Industrial / Manufacturing Project (including cash incentive, Time Loan)	13.50%
• Work order/ Supply order	14.50%
• Export Loan (PC)	7.00%*
• Trade Finance/ Business Loans	13.50%
• Import financing of rice, wheat, edible oil (refunded and crude), pulse, peas, onion, dates and sugar	13.00%
Financing to Small & Medium Enterprise	
• Lease Finance/ Hire Purchase (industrial)	14.00%
• House Building Loan (Com)	14.00%
• Loan against FDR	FDR Rate+ 2.00%*
• Loans against Scheme Deposits of the bank	Scheme Deposit Rate+ 2.50%
Financing Solar Energy & Bio-Gas Project under Bangladesh Bank refinance	
• Direct Lending to ultimate beneficiary	9.00%**
• Lending through NGO linkage	10.00%
• Financing Effluent Treatment Plant (ETP)	9.00%**
Other Loans & Advances	14.50%

✓ * Fixed Rate

✓ ** Subject to receiving refinance from Bangladesh Bank. Otherwise, interest rate will be 15.00%. Loan under refinance scheme of Bangladesh Bank will be guided by Bangladesh Bank circular.

Notes:

- ✓ Interest against Loans & Advances will be determined by +/- 1.50% with the mid rate. The Head of Branches exercises delegation only for the higher slot that is 1.50% above the 'Mid Rate' as applicable for each sector of loans. Mid rate or lower the mid rate are exercised by the head office management within their delegation.
- ✓ The revised rate on lending is effective on the existing loans and advances.

Prevailing Commission rate against non-funded facility

Items	Rate of Commission (per quarter)
Commission for opening of L/C (sight)	0.15% to 0.40% for each quarter and part thereof but minimum Tk. 1000.00
Commission for opening of L/C under deferred payment and UPAS	0.15% to 0.50% for each quarter and part thereof but minimum Tk. 1000.00
Acceptance Commission (DP, UPAS etc bills)	0.15% to 0.40% for each quarter and part thereof
Commission for opening of Back to Back L/C including EDF L/C	0.15% to 0.40% for each quarter and part thereof but minimum Tk. 500
Acceptance Commission (BTB L/Cs)	0.15% to 0.40% for each quarter and part thereof but minimum Tk. 500
Issue of Guarantee	0.60% per quarter No commission in case of 100% cash margin Service charges of BDT 750 per instance

Chapter 06

Credit Risk Assessment, Credit Risk Grading

6.1. Credit Risk Assessment process of MBL:

A thorough credit and risk assessment need to be conducted for all types of credit proposals. That's why credit risk assessment is being done properly in Mercantile Bank Ltd. Therefore, the results of assessment are presented in the approved credit appraisal form originated from the branches and zonal office of this bank and forwarded to corporate banking division along with their recommendation. Then the Relationship Managers (RM) of the corporate banking division conducts assessment with due diligence on new borrowers, existing borrowers for renewal/enhancement of existing credit line or sanction of new credit facility, principals, and guarantors. After proper analysis, that division forwards it to the Credit Risk Management (CRM) Division with their proper recommendation. After getting recommendation on the proposal, CRM Division places the proposal to the Credit Committee. According to the decision of the credit committee, CRM Division places the credit proposal as per standard format with their necessary observation, recommendation before the management for consideration to approve and to place the same before the board for approval.

Credit Appraisal summarizes the results of Credit Officers/ RMs risks assessment and includes the following details

- Amount and type of loan(s) proposed
- Purpose of loan(s)
- Results of financial analysis
- Up to date and clean CIB (Credit Information Bureau) Report of the borrower as per Bangladesh Bank's guideline
- Borrower's credit report
- Loan structure (tenor, covenants, repayment schedule, rate of interest)
- Security arrangements

In addition, the following risk areas should be addressed

- **Borrower Analysis:** The majority shareholders, management team and group or associate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter group transactions should be addressed and risks mitigated.
- **Industry Analysis:** The key risk factors of borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concern or

competitive forces should be assessed and the strengths and weakness of the borrower relative to its competitors should be identified.

- **Supplier/ Buyer Analysis:** Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.
- **Historical Financial Analysis:** An analysis of a minimum of three years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specially, cash flow, leverage and profitability must be analyzed.
- **Projected Financial Performance:** When term facilities (tenor >1 year) are being proposed, a projection of the borrower's future financial performance are provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans are not granted if projected cash flow is insufficient to repay debts.
- **Account Conduct:** For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments etc) are assessed.
- **Mitigating Factors:** Mitigating factors for risks identified in the credit assessment need to be identified. Possible risks include, but are not limited to: margin sustainability and volatility, high debt load (leverage), overstocking or debtor issues, rapid growth, acquisition or expansion; new business line/ product expansion, management changes or succession issues, customer or supplier concentration and lack of transparency or industry issues.
- **Loan structure:** The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability. Before granting loan managers of MBL estimate all these aspects properly.
- **Security:** A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. However, loans are not granted based only on security. Adequacy and the extent of the insurance coverage are also assessed.

6.2) KYC Concept:

The credit officers/ RM must know their customers and conduct due diligence on new borrowers, principals and guarantors to ensure such parties are in fact who they represent themselves to be i.e. Know Your Customer (KYC). The banker-customer relationship would be established first through opening of CD/ SND/ SB accounts. Proper introduction, photographs of the account

holders/ signatories, passport/National ID, trade license, memorandum, Articles of the company, certificate of incorporation, certificate of commencement of business, list of Directors, board resolution papers as per bank's policy and regulatory requirements are to be obtained at the time of opening of the account. Information regarding business pattern, nature of business, volume of business etc. are ascertained. Any suspicious transaction must be timely addressed and brought down to the notice of head office or Bangladesh Bank as required and also appropriate measures is taken as per the director of bank management and Bangladesh Bank from time to time.

6.3) Credit Risk Grading:

The credit risk grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure. This grading is displayed by a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure. CRG is the basic module for developing a credit risk management system.

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

Number	Risk Grading	Short Name	Score
1	Superior	SUP	- 100% cash covered - Government guarantee - International Bank Guarantees
2	Good	GD	85+
3	Acceptable	ACCPT	75-84
4	Marginal/ Watch List	MG/WL	65-74
5	Special Mention	SM	55-64
6	Sub-standard	SS	45-54
7	Doubtful	DF	35-44
8	Bad & Loss	BL	<35

6.3.1) Credit Risk Grading Process:

- In Mercantile Bank Ltd. credit risk grading is completed for all exposure (irrespective of amount) other than those covered under Consumer and Small Enterprise Financing Prudential Guidelines and also under the Short-Term Agricultural and Micro- Credit.

- For Superior Risk Grading (SUP-1) the score sheet is not applicable. This is guided by the criterion mentioned for superior grade account i.e. 100% cash covered, covered by the government & bank guarantee.
- Credit risk grading would be useful in analyzing credit proposal, new or renewal for regular or specific transactions, if basic information on a borrowing client to determine the degree of each factor is a) readily available, b) current, c) dependable, d) parameters/ risk factors are assessed judiciously and objectively. The Relationship Manager as per data collection check list collects required information.
- Risk factors are evaluated and weighted very carefully. It is done on the basis of most up to date and reliable data and complete objectivity must be ensured to assign the correct grading.
- Credit risk grading exercise is originated from Relationship Manager which is an ongoing and continuous process. Relationship Manager completes the credit risk grading score sheet and consults with a Senior Relationship Manager then documents it as per credit risk grading form.
- All credit proposals whether new, renewal or specific facility consist of a) Data Collection checklist, b) Limit Utilization Form, c) Credit Risk Grading Score Sheet and d) Credit Risk Grading Form.
- The credit officers then pass the approved credit risk grading form to credit Administration Division and Corporate Banking/ Line of Business/ Recovery Unit to enter all credit facility amounts into Management Information System Database and update their MIS.
- The appropriate approving authority through the same credit risk grading form approves any subsequent change/ revision, upgrade or downgrade in credit risk grade.

Chapter 7

Credit Approval Authority

7.1) Credit Approval Authority:

Mercantile Bank Ltd. believes in decentralization of powers. In order to implement the system of delegation of powers effectively, and to derive the desired benefit for the bank, the bank has developed a system to ensure that the delegated authority exercised by the executives can be evaluated realistically and qualitatively. For that purpose, the bank has developed a Management Information System (MIS) so that the Board of Directors gets prompt and systematic feedback about how effectively and efficiently the delegated authority is being exercised by the executives. For the purpose of investment of bank's fund, the fundamental principle is '**Safety first, Business next**'.

Credit Approval Authority is delegated to the following body/ Executive

- i. The Board of Directors
- ii. The Executive Committee of the Board
- iii. Different tier of the management

7.1.1 The Board of Directors:

The Board of Directors has the authority to sanction any loan for the amount not exceeding the regulatory limit the bank can provide to a single customer.

- All proposals for the waiver of interest, commission, charges etc must be approved by the Board of Directors.
- Any proposal for reduction rate of interest as per agreeable range of the rate set by central bank from time to time.
- All large loan of the bank must be approved by the Board of Directors.
- If the consolidated result against Environment Risk is high, in that case any credit proposal loan (irrespective of amount) will be needed approval from the Board of Directors.

7.1.2. The Executive Committee of the Board:

The executive committee of the board of Directors may sanction any loan for the amount not exceeding the regulatory limit. However, it will not have the authority to approve any proposal for waiver of principal. Any proposal beyond the delegated authority of the Managing Director will be placed before the executive committee of the board for approval.

7.1.3. The Management:

Different tier of the management can delegate credit approval authority to ensure timely disposal of the credit proposals at root level. In the Management, the following executives can do so

- The Managing Director & CEO can execute all the powers provided to other executives/officers of the bank.
- The Managing Director & CEO can delegate the business power (as approval by the Board of Directors) to Additional Managing Director/ Deputy Managing Director/ Executives/ Officers of the bank by a separate letter issued by him or under his order.
- Executives and officers authorize to exercise delegated powers only when posted as In-Charge of branch/ Zonal Office/ Division.
- The Managing Director may suspend or reduce delegated powers of any executive / officer through specific or general order at his discretion by the prior/ post fact approval of the Board.
- The sanctioning authority exercises their discretion and judgment at the time of applying delegated business powers.

7.2) General Principles for Credit Approval Authorities:

In exercising the powers, authorized officials abide by credit restrictions, CIB clearance, CRG restriction, margin restrictions, stipulation regarding period of repayment in force from time to time etc. followings are some general principles for credit approval authorities

- The credit approval function has been excluded from the corporate/ relationship management function.
- If there is any requirement for better functioning of the delegation of business power, then the Managing Director will be empowered in line with the judicial guidelines of Bangladesh Bank to assign any executives with that power for credit approval of all cases from higher authority to lower authority within the approved structure.

- Any limit approved by the executives should be within his/her delegated power as consulted to them by Managing Director and CEO. Pooling or combining of delegation powers of the executives is not permitted.
- Any credit proposal that does not comply with lending guidelines, regardless of amount should be identified in the applications and a justification for approval must be referred to Head Office for approval by the competent authority.
- Any branches of lending authority must report to Managing Director & CEO, Head of Internal Control and Head of CRM.
- The schedule of business powers lay down in delegation of business power is the maximum power against per customer. A customer means Individual, Proprietorship firm, partnership firm, duly registered, Private Limited Company, Public Limited Company, joint venture, Co-operative Society duly registered, Trustee Board operating private education/ health institutions, Micro financing Institution duly registered.
- While determining sanctioning power for each customer against different types of credit facilities, the existing limit and the proposed amount of limit are taken together and the total amount of a particular facility must not exceed the delegated power of sanctioning authority of the specific type.
- A customer should not be allowed credit facilities in different natures or types from branches without the approval of Head Office. However, L/C facilities with eventual liquidation facility such as LTR, HP, Lease Finance can be allowed within business delegation.
- A party should not be allowed credit facilities in different names or from different branches without the authority of Head Office. A party means any one person/ firm/ company/ concern and includes his/ its sister concerns.
- No business power will be applied to accommodate customers to whom Head Office has already sanctioned limit or proposals of which have already declined by head Office. However, the above mentioned credit facility will be renewed if it falls within the revised business power or business power of concerned authority is increased due to change in post or designation.
- Authority beyond delegated power will be exercised by the Executive Committee or the Board of Directors.
- There is no power to sanction any clean advance without any security (primary, collateral, guarantee). If for any reason, clean advance needs to be approved, are placed before the Board/ the Executive Committee of the Board for consideration.
- The customer to whom credit is allowed should be as far as possible within the command area meaning area of operation of the branch.
- Sanctioning authority cannot involve in the sanctioning process of any credit to any of his/ her near relations and to any firm/ company where his/ her relations have financial interest. Such cases are sent to Head Office for consideration.

- No loan or advances are sanctioned to any Director of the bank or any firm or company where they have interest as Proprietor / Partner/ Director or to their family members as defined in the Bank Companies Act, 1991.
- There is Credit Committee at Head Office and branch. In case of any disagreement between the committee and the concerned Executive, the matter is referred to the Managing Director for disposal for the greater interest of the bank.
- Above mentioned rules containing schedule of powers are treated as strictly confidential and are always in the custody of the executive/ officer to whom it has been issued.

7.3) Rules of Sanctioning Loans:

- Sanction orders are communicated by Head Office to the branches and by the branches to the parties under double signature as follows:
 - ✓ For the limits sanctioned at Head Office level: by executives not below the rank of Assistant Vice President
 - ✓ For the limits sanctioned at branch level: by Executives / Branch-in-Charge.
- Prescribed limit of business powers cannot be exceeded under any circumstances.
- Valuation of goods, products, hypothecated to the bank to secure any advance cannot be exceeded as well.
- Goods and produces against which advances are made should be readily marketable.
- Loans & Advances allowed against FDRs/ Cash Collateral's, PSPs etc are adjusted immediately before the face value of the instruments and outstanding advance amount becomes equal or on maturity whichever is earlier.
- Money suit or court cases against any defaulting borrower are to be filed by the branches after obtaining prior approval from Head Office.
- Branches maintain bank's printed "Confidential Limits, Register" which will record serially all the limits sanctioned.

Chapter 8

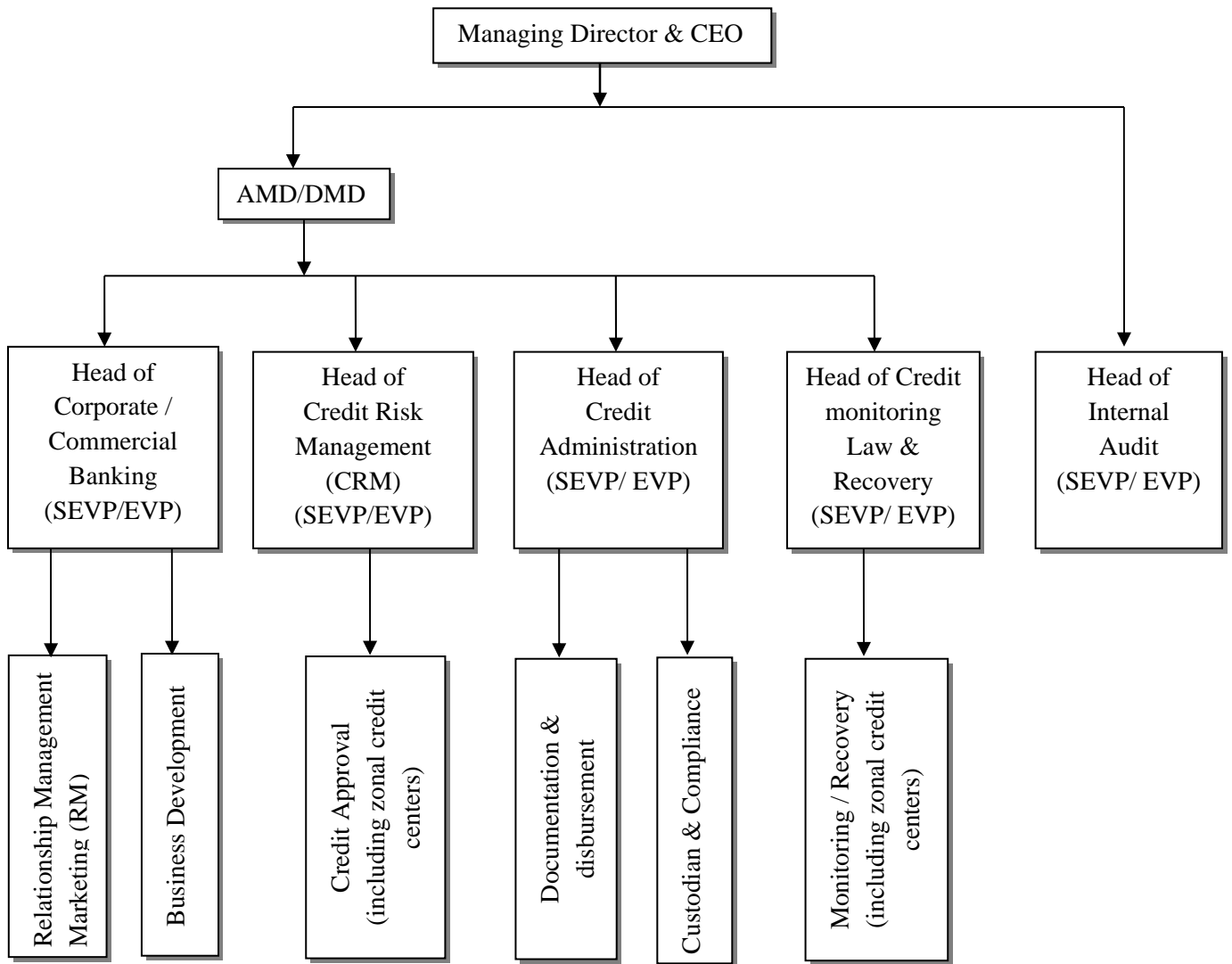
Organization Structure and Segregation of Duties

8.1. Organization Structure

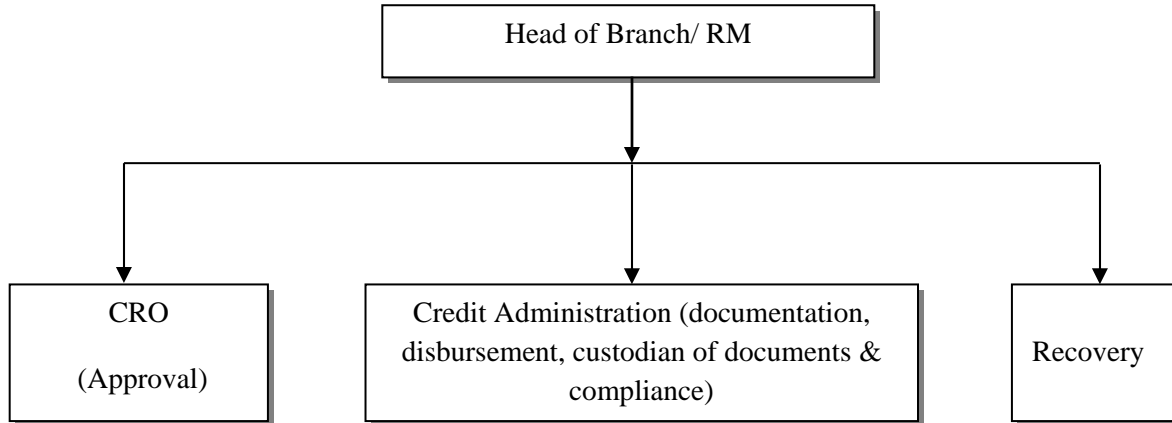
The appropriate organization structure must be in place to support the adoption of policies. The key feature is the segregation of the Marketing/ Relationship Management function from Approval/ Risk Management/ Administrative Functions.

Credit approval process is centralized within the CRM function. Credit application is approved by the Managing Director and CEO/ Additional Managing Director/ Deputy Managing Director/ Head of Credit at Head Office or Head of Branches as per their delegation of business powers approved by the Board of Directors.

Management Structure for credit marketing, approval, disbursement and monitoring at **Head Office level.**



Management structure for credit marketing, approval, disbursement and monitoring at **Branch Level:**



8.2. Segregation of Duties:

The following lending functions have been segregated

- Corporate Banking Division
- Credit Approval / Risk Management Division
- Monitoring Law, Recovery
- Credit Administration and Compliance

The purpose of the segregation is to improve the knowledge levels and expertise in each department, to decrease the probability of compromise, to impose controls over the disbursement of authorized loan facilities and obtain an objective and independent judgment of credit proposals.

Chapter 9

Process of Workflow:

Credit approval process starts with collection of credit application by the customer and ends with issuance of a written sanction letter by the bank. Credit approval process in the bank must be guided by some basic principles. These are as follows

9.1) Proposal Origination:

Any credit proposal and Pre-sanction Inspection Report or Call Report or Visit Report must be originated by the Relationship office of the Credit Marketing Team or Relationship Manager of the branch or Relationship Officer of Corporate Banking Division of Head Office.

9.2) Identification Number:

Each borrower would have a unique identification number. The branch originating a credit proposal assigns this number after getting sanction letter of the facility from the proper authority which generates from the bank's IT system.

9.3) Time frame for Decision:

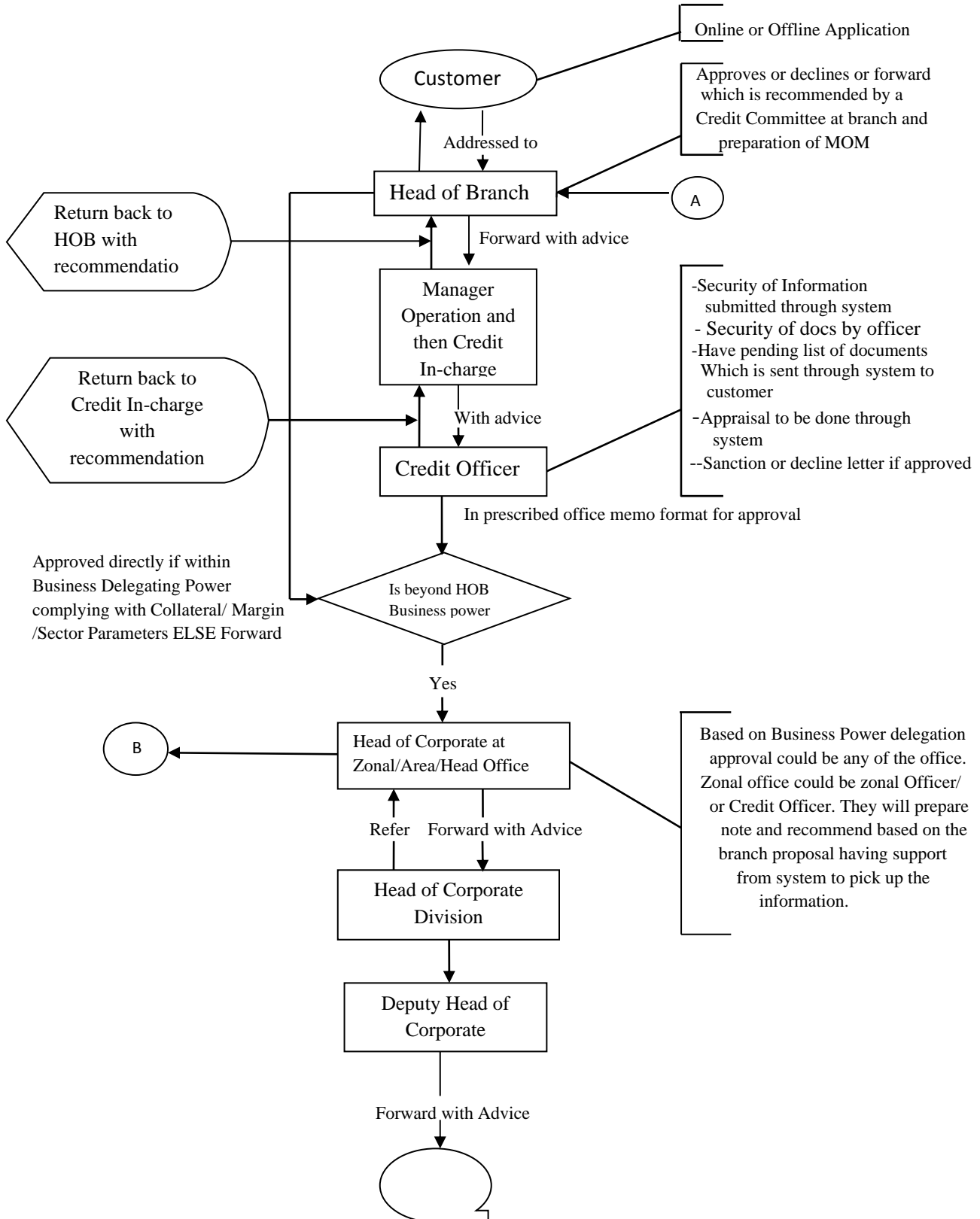
- **At Branch Level:** Branch authority as per their business delegation must take decision within maximum of 5-10 days after due diligence and obtaining all required papers and documents including CIB report on the customer. Proposals beyond their business delegation are sent to Head office within seven days after receiving the complete proposal from the customers and all require papers and documents including CIB report on the customer.
- **At Head Office Level:**
 - a. **Corporate Banking Division (CRB):** This division takes decision for recommendation or refusal within maximum of seven days.
 - b. **CRM Division:**
 - ✓ If the proposed facilities are within the approved delegation of business power of the management, then disposal will be made within seven to ten days after receiving the proposal from Corporate Banking Division.

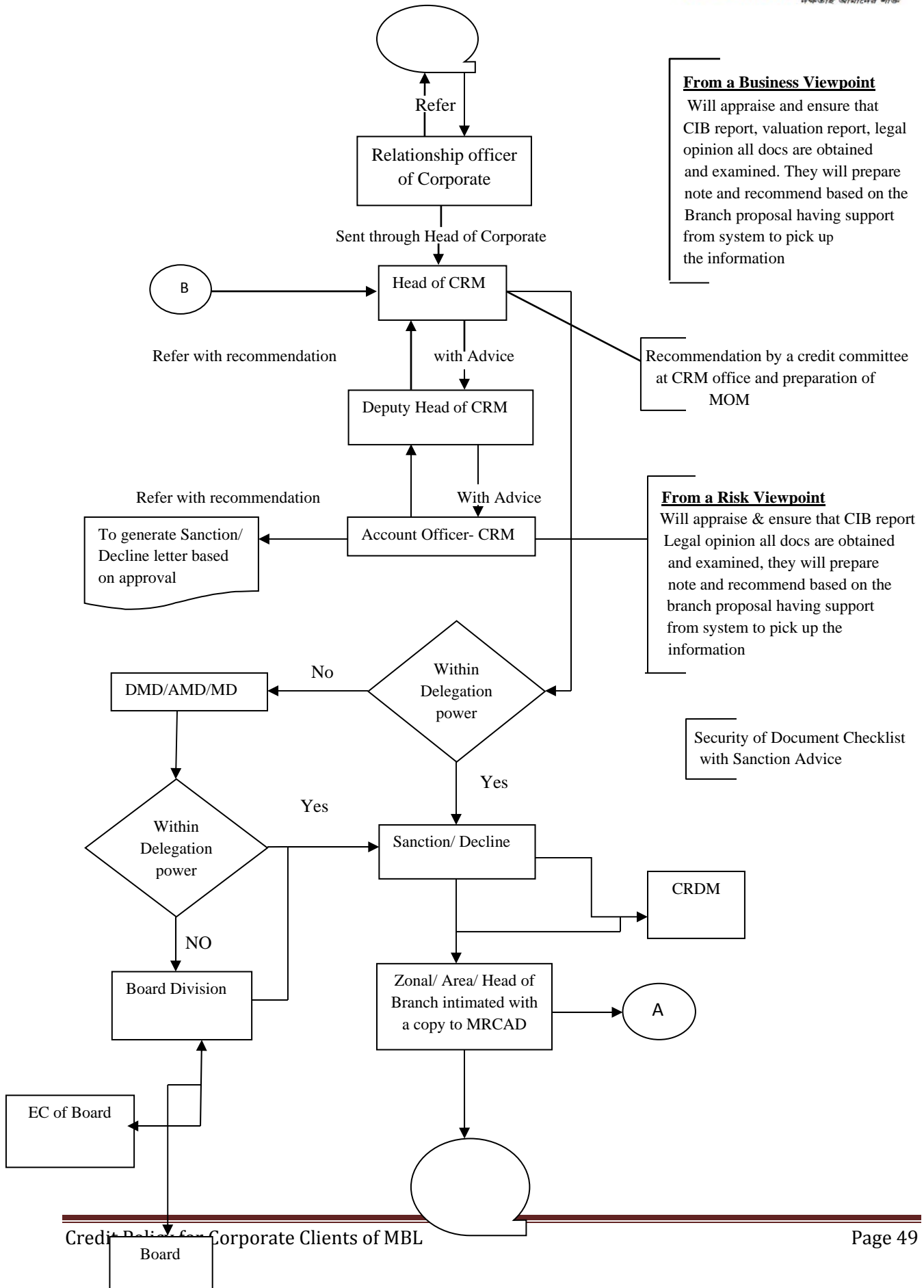
- ✓ If the proposed facilities are beyond the approved delegation of business power of the management, then disposal will be made within fourteen to twenty one days. For the project loan the time will be fourteen to thirty days. For the loans under syndication or club financing time span will be thirty to sixty days.

The Head Office Credit Committee, Executive Committee of the Board of Directors takes decision within maximum of

- Seven to ten days for simple type of facility
- Fifteen to thirty days for Project Loan
- Thirty to sixty days for loans under Syndication or Club Finance etc
 - ✓ Sanction letter is issued within one to two days time from the date of receipt of formal approval
 - ✓ In case of large loan, it must be reported to Bangladesh Bank.

9.4) Steps in Credit Approval and Disbursement Process:





From a Business Viewpoint
 Will appraise and ensure that CIB report, valuation report, legal opinion all docs are obtained and examined. They will prepare note and recommend based on the Branch proposal having support from system to pick up the information

Recommendation by a credit committee at CRM office and preparation of MOM

From a Risk Viewpoint
 Will appraise & ensure that CIB report Legal opinion all docs are obtained and examined, they will prepare note and recommend based on the branch proposal having support from system to pick up the information

Security of Document Checklist with Sanction Advice

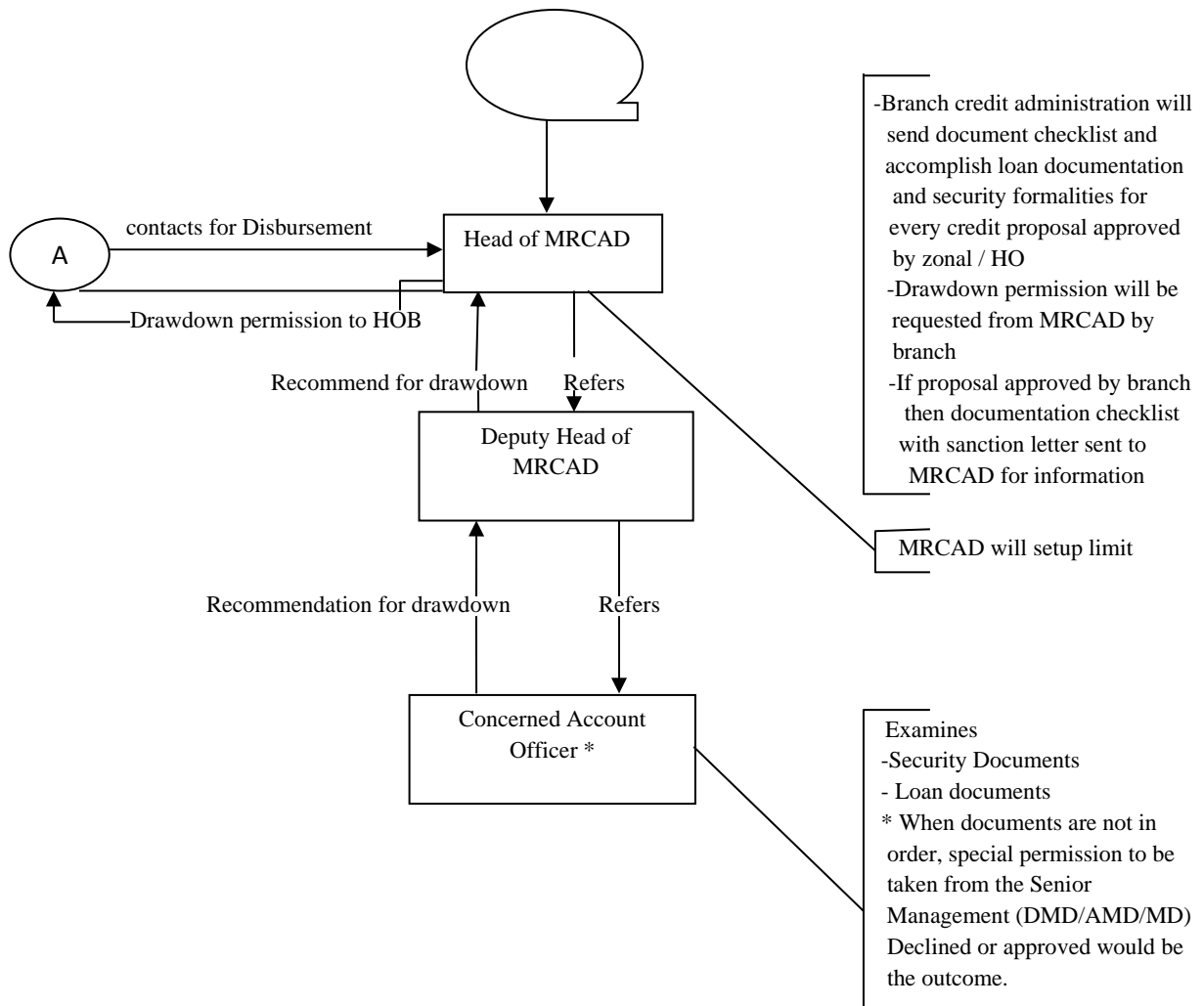


Fig: Flowchart of Credit Approval and Disbursement Process

- Any query at any approval/ recommending level goes back to the previous stage with a note mentioning, requisition additional information or document.
- Credit approval and disbursement authority are separate from each other. Credit Risk Management Division deals with credit approval while Credit Administration department dealing with disbursement of approval credit facilities.

9.5) Renewals and Status Verification:

If the time of revolving facility expires then borrower comes forward with a proposal along with necessary paper and documents for renewal of their existing facility for a desired period. Even borrower may offer additional stocks or security for that. In such case, the Head of Branch examines all such proposals and if they are satisfied, the proposals are sent to sanctioning authority at Zonal Office or Head Office. The Head Office processes the renewal proposal after verifying the following factors

- Justification for renewal/ enhancement
- Reasons for non- payment or adjustment of the loan in time
- Security aspect in terms of outstanding loan
- Credit worthiness of the client

9.6) Revision of Credit Decision:

Any credit proposal declined by an executive of the management is placed before next higher authority for reassessment or review of the decision. However, no appeal will go beyond the Managing Director.

9.7) Compliance to Regulation:

Any credit approval or sanction is the subject to the banking regulation in force or must be imposed by the regulatory body from time to time and to the changes in the bank's policy. This is specifically mentioned in the sanction letter issued to the customer.

9.8) Disbursement/ Drawdown:

Security documents are prepared by in accordance with approval terms and are legally enforceable through the enlisted or competent lawyer. Documents of standard loan facility are drafted by the legal counsel.

Disbursements under loan facilities are made when all loan and security documentation is in place and clean CIB report obtained from Bangladesh Bank. All formalities regarding large loans are guided by Bangladesh Bank circulars and related section of Banking Companies Act. All credit approval terms must be made. The checklist is signed by Credit in-charge and Head of Branch. In order to cope with the revised policy, the disbursement authority will be vested as per following

Nature of Facility	Head of Credit Administration Department	Deputy Managing Director	Additional Managing Director
Funded and Non-funded	Up to TK 500 lac	Above TK 500 lac to TK 2500 lac	Above TK 2500 lac

9.9) Custodian Duties:

- Loan and security documents are preserved at respective Branch/ Zonal Office/ Head Office.
- Appropriate insurance coverage is maintained on pledged/ Hypothecated as security.
- Security documents are held under strict control, preferably in locked fireproof storage with joint control.
- Safe in safe out register is properly maintained to track of their movement.

Chapter 10

Loan Recovery process of Mercantile Bank LTD.

10.1. Credit Monitoring Policy

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

Step-1: The customer starts repayment of the loan. At the same time, branch relationship officer starts monitoring the loan on on-site basis. If he/she finds any inconsistency to the terms and conditions of the sanction or borrowers financial health, then he/she prepares an Early Alert Report and sends it to the Monitoring, Recovery and Compliance Division, Head Office.

Step-2: Simultaneously, Monitoring, Recovery & Compliance Division monitors the loan on an off-site basis and reports its findings to the Credit Risk Management Division. It may propose revising the customer's risk grading. Credit Risk Management Division ultimately decided on the customer and directs Corporate Banking Division to take necessary action.

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

10.2) Classification of Loans & Provisioning system

In order to strengthen credit discipline and improve the recovery position of loans and advances by the bank, Bangladesh Bank introduced a system covering loan classification which is completely followed by MBL. In this system if bank suspense any interest due then will make provisions against potential loan loss. For loan classification and provisioning system, the bank follows Bangladesh Bank guidelines.

10.3) Non-Performing Loan (NPL) monitoring:

On a quarterly basis, a Classified Loan Review (CLR) will be prepared by the Monitoring Recovery & Compliance Division's (MRCD) account manager to update the status of the action or recovery plan, review and assess the adequacy of provisions and if required then modify the bank's strategy. The Head of Chief Risk Officer (CRO) approves the CLR for NPLs up to 15%

of the bank's capital. In excess of 15% of the bank's capital, MD's approval will be required. The CLR's for NPLs above 25% of capital should be approved by the MD/CEO with a copy presented before the Board of Directors.

10.4) NPL Provisioning and Write-off:

Mercantile Bank Ltd follows all the guidelines established by Bangladesh Bank for CIB reporting, provisioning and write-off of bad and doubtful debts and suspension of interest. These requirements are the minimum and MBL maintains more than minimum required provision and follows strict write off policy. Regardless of the length of time a loan is past due, provision would be raised against the actual and expected losses at the time they are estimated. The approval to take provisions, write offs or release of provisions are restricted to the Board of Directors based on recommendation from the MRCD. The Request for Action (RFA) or CLR reporting format are used to recommend provisions, write offs or release.

10.5) Maintenance of Provision:

Mercantile Bank Ltd. maintains provision at the following rates in respect of classified Continuous, Demand and Fixed Term Loans:

Sub-standard	: 20%
Doubtful	: 50%
Bad/Loss	: 100%

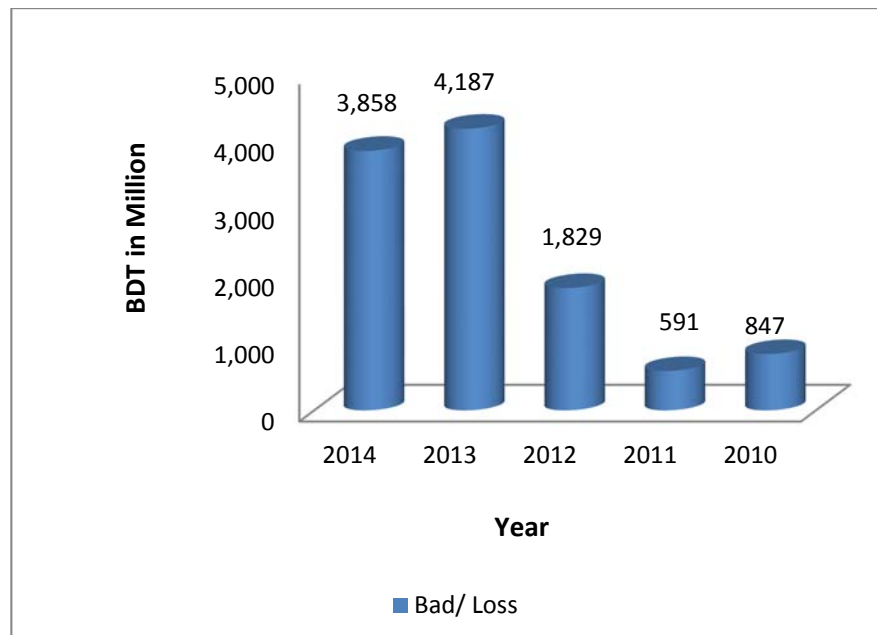
10.6) Recoveries and Follow up of Non-performing Loans & Advances:

Loans and advances in whatever form granted by the bank to its clients are repayable either on demand or at the expiry of fixed period or as per repayment schedule agreed on while granting the facilities. If loan is repayable on installment basis, default may be purely on oversight on the part of borrower but in other cases it may be much more serious, giving the bank the first evidence that the borrower is in financial difficulty. At this point, the procedure for dealing with potential loan losses comes into operation. The Head of Branch therefore keeps a close and constant watch on all their loans and advances to ensure that timely action is initiated in each case for adjustment of the account or its renewal, if it is decided to continue the facility.

For this purpose, each branch maintains a diary or card in prescribed format in which the due date of expiry of credit facility is recorded. If due date expires then notice is sent to the borrower reminding him/her of the due date of repayment and making a formal demand for repayment or renewal of the existing facility. Thereafter vigorous follow up action is taken by issuing repeated reminders and putting pressures on the borrowers by calling on him personally. In other words, all types of possible efforts are taken to recover the advance on its expiry. If in spite of strong persuasion the borrower fails to adjust the liability within the date of expiry of the facility that one then downgraded to special mention (Grade-5) to facilitate monitoring and further follow up. However, the branches make constant efforts to recover the advance if necessary through legal process. Before bringing suit against default borrowers, Head Office approval is obtained.

10.7) Bad Debts Management:

Real condition of Bad debts of Mercantile Bank Ltd for last five years is shown below through a graph here.



From the above graph it can be seen that almost every year the amount of Bad Debts of MBL has been increased drastically. The amount of bad debts was lowest in the year 2011 conversely it had been increased more than three times in the following year and the increasing trend continued. This might occur due to the changes in internal or external audits of the bank where

they might modify the calculating procedure of bad and loss account of MBL. Another reason might be the political and social pressure on granting loan to clients. Before sanctioning loan to some clients the bank authority might realize the chances of being default of that loan however they were forced to grant such loan. As a result the amount of bad debts has been increased terrifically. So it indicates that the credit approval and loan recovery process of Mercantile Bank Ltd has some problems. Consequently their bad debts management has drawbacks which require an adjustment immediately.

10.8) Legal Action

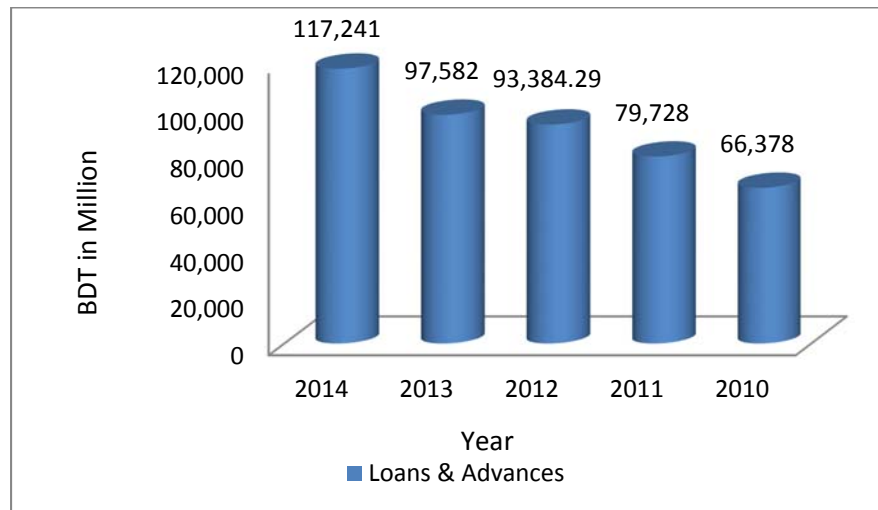
Legal proceeding is lengthy and time consuming. Also it has a possibility of negative publicity and as such effort must be made by Mercantile Bank Ltd. to settle defaulter's outstanding out of court. However, if situation necessitates the bank to take legal action for recovery of stuck up loans and advances, the same is done with prior approval of Head Office. In order to speed up the process, the government has already enacted the Artha Rin Adalat (Amendment) Act 2003. Therefore the head of branch and MRCD in Head Office must ensure that legal actions are taken properly and in time.

Chapter 11

Graphical Presentation and Analysis

11.1 Loans & Advances:

The following graph will give an idea about the changes in amount in Loans & Advance of Mercantile Bank Ltd in last five years.



From the graph it can be seen that total loans & advances are highest in the year 2014 among the last five years. It was about BDT 117,241 million against that of BDT 97,688.50 million at the end of 2012. Despite unfavorable conditions, the bank recorded a significant growth in loans and advances. It is because the bank extended their credit in some major sectors such as trade and commerce, garments industries, steel and allied, plastic & plastic materials, transport, pharmaceuticals etc. Besides, the bank continued its support to Small and Medium Enterprise (SME) by expanding credit facilities to them through its SME Division. (**Appendix**)

Chapter 12

Findings and Recommendation

12.1) Findings

During writing this report I have gone through different aspects of Credit policies and procedures of Mercantile Bank Limited. By analyzing, I have identified the following findings as importantly

- ❖ **Political and Social Pressure on granting loans:** Often the bank faces pressures from different political, social persons to make consideration in granting loan to their recommended applicant. Though the applicant might fail to satisfy conditions in some cases, for example the collateral security offered by the applicant is not matched with demanded loan amount (under-valued) or Credit Officer can guess the chance of being default of the sanctioned loan. Still they grant loan to such customer because of continuous pressures from respective political person sometimes from the Director of the bank as well.
- ❖ **Fund Diversion by the Borrower:** Sometimes it happens that the bank provides loan to a client for business purpose which might be used in personal uses by that client. In such cases the bank faces problem of getting periodical installments from that particular client within specific time. By investing the loan amount in other purposes the clients violate the conditions of credit policy. Ultimately, the bank confronts with difficulties to have periodical repayment if the client fails to pay the installment within the specific time.

12.2) Recommendation:

For effective Credit policy for Corporate Clients there are some recommendations which are as follows:

- ❖ Bottlenecks or barriers should be removed by taking advanced steps in mode of disbursement, charge documents and approval process.
- ❖ Business Delegation Power for sanctioning and approving loans and advances can be increased at branch level. Meaning centralization of credit approval policy should be made decentralized to reduce time and complexity of sanctioning loans
- ❖ The Bank should organize more conference in overseas, work shop and seminar for more expansion of corporate loan. It means they should increase their promotional activities to attract new corporate clients.

- ❖ The sectors where the bank is investing should need much more concern and need a revision so that desired outcome can be obtained from every investment. Also should try to overcome the pressures for granting loan to particular clients.
- ❖ Industry wise integrated Credit Risk Grading systems should be developed by the bank. So that risk can be measured for different industry of business.
- ❖ Training is the key factor for development of the risk managers' skills. Mercantile Bank Ltd. should provide a regular training and development program so that risk managers are able to know every risk matters and assessment techniques.
- ❖ Team effort helps a bank to obtain its goal perfectly and systematically. So existence of strong co-ordination with the related divisions and departments is very much required.
- ❖ Insurance coverage should be obtained immediately for every funded and non funded credit facility. So that in case of uncertainty and damage like fire, strike, riot etc. bank and borrower can save themselves form financial losses.

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Appendix:

Total Loans and Advances of MBL

Particulars	Year 2014	Year 2013	Year 2012	Year 2011	Year 2010
Loans & Advances	BDT 117,241 million	BDT 97,582 million	BDT 93,384.29 million	BDT 79,728 million	BDT 66,378 million

Funded Facilities for Corporate Clients of MBL over the last three years

Particulars	Year 2014 (BDT in crore)	Year 2013 (BDT in crore)	Year 2012 (BDT in crore)
Term Loan	2,495.24	2070.64	1,840.38
Time Loan	1,460.74	1,374.06	995.34
CC (Hypo)	1,136.13	733.29	774.89
Over Draft	2,166.55	1,663.68	1,694.96
Hire Purchase	680.06	537.38	409.97
LTR	533.56	511.56	1,110.21
Packing Credit	115.56	119.17	106.43
IDBP	521.77	409.62	642.95
FDBP	185.04	159.17	127.94

Particulars	Year 2014	Year 2013	Year 2012	Year 2011	Year 2010
Bad/ Loss	3,858 (BDT in Million)	4,187 (BDT in Million)	1,829 (BDT in Million)	591 (BDT in Million)	847 (BDT in Million)