

Internship Report
On
‘SME Banking Division of BRAC Bank Limited’



Internship Report
On
Reducing the Risk of Bad debts of “BRAC Bank Limited”

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LETTER OF TRANSMITTAL

22nd August, 2015

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Subject: Submission of internship report

Dear Madam,

I would like to take this opportunity to thank you for the guidance and support you have provided me during the course of this report. Without your help, this report would have been impossible to complete. With deep gratitude, I also acknowledge the help provided by Sabuj Roy, Supervisor of SME Banking Division, BRAC Bank for providing me utmost supervision during my internship in the organization.

To prepare the report I collected what I believe to be most relevant information to make my report as analytical and reliable as possible. I have concentrated my best effort to achieve the objectives of the report and hope that my endeavor will serve the purpose. The practical knowledge and experience gathered during my report preparation will immeasurably help in my future professional life.

I would really be grateful if you enlighten me with your thoughts and views regarding the report. Also, if you wish to enquire about an aspect of my report, I would gladly answer your queries. Thank you again for your support and patience.

Yours Sincerely,

Golam Shahriar

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Acknowledgement

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

First of all, I would like to thank our honorable academic supervisor Nusrat Hafiz Lecturer, BRAC Business School, BRAC University. I am thankful to her for her continuous support and supervision, suggestions and providing me with valuable information that was very much needed for the completion of this presentation.

Then, I express my sincere gratitude to Sobuj Roy, Supervisor of SME Banking Division, BRAC Bank, for supervising me the entire internship time. I would like to also express my gratitude to Palash Kumar Biswas, Shakhawat Hossain, Md. Golam Rabby, Masuma Rahman, Jannat Ara, Senior officers of BRAC Bank's SME Division for teaching me and supporting me for my internship experience.

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

Executive Summary

Small and Medium Enterprises (SMEs) can help to cut poverty to a satisfactory level by eliminating various prejudices against labor intensive industry and creating jobs for the skilled manpower in the SME sector. However, the access to financing is still recognized as the leading obstacle to SME growth in Bangladesh, alike most other developing and under-developed countries. Small and medium entrepreneurship have a tremendous potential in empowering potential entrepreneurs and transforming society. To target this sector with huge potentiality BRAC Bank Ltd introduced SME Banking Division in 2001.

Being the fastest growing bank of the country currently BRAC Bank is operating all over the country having 157 Branches and Krishi Branches, 22 SME Sales and Service Centers, 300+ ATMs, 405 SME Unit offices. This fastest growing bank works on 3P- People, Planet and Profit; ensures sustainable growth and largely focuses on SME financing sector.

BRAC Bank SME division was set up to capture “Missing Middle” and to create socio-economic impact in the country. Within 11 years of establishing it has proved its success through becoming country’s largest SME finance provider and 4th large SME provider in the world in terms of lending volume.

For the inheriting business risk, SME sector is facing several constrains in terms of growth. Policy level complexity, financial constraints, legal bindings and industry structure are hindering financial institutions to support SME sector. Lack of SME supporters, poor infrastructure of the country, lack of entrepreneur’s skills, lender-borrower gap, huge market competitions are the major drawbacks for both borrowers and lenders. Again SME sector has tremendously contributed in the economy. Today it has been considered as the engine of country’s economy. Being country’s largest SME provider, BRAC Bank is facing several challenges which are identified in analytical part of the report. Business risk, high interest rate, high defaulter rate, certain government policy change etc are the major challenges facing by BRAC Bank. At the same time BRAC Bank has a large number of defaulters. Even though strict loan approval system is maintained, due to some unavoidable reason “bad-losses” sometimes occur. In order to reduce credit risk BRAC Bank follows consistent monitoring system upon borrower’s activities. Again if someone turns in to defaulter special wing called SAM works to enforce law.

THE ORGANIZATION

Introduction:

In Bangladesh, the Banking sector dominates the financial sector and it contributes to economic growth by efficiently allocating investment funds among competing alternative uses. The overall performance of banks does not merely depend upon the banking industry itself but also on the performance of economy wherever there are operating. Banking is the backbone of national economy. The growth of the economy depends on the performance of the banking sector. All sources of economic and financial activities revolve around the axis of the bank. As the industry produces goods and commodities, so the bank creates and controls money market and promotes formation of capital. From this point of view, banking is a technical profession can be termed as industry. In the global context, the role of banks are far-reaching and more penetrating in the economic and fiscal discipline, trade, commerce, industry, export and import all carried through the banks. Banks are the only media through which international trade and commerce emanate and entire credit transaction, both nationally and internationally. Banks secure money for the society. Government takes various monetary policies which are ultimately implemented by this banking sector. Banks provides service in banking sector that helps the business sector in carrying on the business.

This report has been prepared in the light of practical as well as theoretical knowledge. Also it is prepared under the guidance and supervision of the respectable teacher. During the Project Work I have got a good idea about the banks and that has been reflected throughout this report.

Historical Background

Bank has started operations from 04 July, 2001. A fully operational Commercial Bank, BRAC Bank focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which hitherto has remained largely untapped within the country. Almost 40% of BRAC Bank's clients had no prior experience with formal banking. The Bank has 313 regional marketing unit offices offering services in the heart of rural and urban communities and employs about 1,200 business loan officers – around 70% of total staff.

The reason BRAC Bank is in business is to build a profitable and socially responsible financial institution focused on markets and businesses with growth potential, thereby assisting BRAC and stakeholders to build a “just, enlightened, healthy, democratic and poverty free Bangladesh.” Which means to help make communities and economy of the country stronger and to help people achieve their dreams? We fulfill the purpose by reaching for high standards in everything we do: For our customers, our shareholders, our associates and our communities, upon which the future prosperity of our company rests.

As such a career in the BRAC Bank Limited requires one to be versatile, to have genuine love and understanding towards others and to be able to take on different roles. Remarkably, BRAC Bank, despite being one of the newest Banks in the country, has attained a reputation for being in the forefront of the industry. Our retail business and corporate business have gained new ground over the last two years and today BRAC Bank can claim itself to be among the top financial service providers.

BRAC Bank began its operations with a mind to provide formal banking services to all levels of people in the urban, semi-urban and rural spectrum, and through the nearly 300 unit offices across the country, the Bank has seen that goal a long way through – providing Bangladesh with a degree of service and professionalism that the traditionally underserved class could ever dream of. Since inception in July 2001, the Bank’s footprint has grown to 26 branches, 349 SME unit offices and 37 ATM sites across the country, and the customer base has expanded to 210,000 deposit and 55,000 borrowers through 2006. In the last four and half years of operation, the Bank has disbursed over BDT 2,100 core in loans to nearly 50,000 small and medium entrepreneurs. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh. The Bank operates under a “double bottom line” agenda where profit and social responsibility go hand in hand as it strives towards a poverty-free, enlightened Bangladesh.

Products / Services offerings

Retail Loans are consumer’s loan. Based on the customer demand these loans are given. BRAC Bank has a wide range of retail loan-

- Car loan
- Doctors loan
- Secured Loan/OD
- High flyer loan
- Top up loan
- Credit card loan
- Study loan
- Teachers loan
- Salary loan

BRAC Bank’s Retail Division is being operated centrally. Under the Retail Banking Division all the branches, which acts as sales & service center, are reportable to Head of Retail Banking.

Different products of Retail Banking are as follows:

- Deposit Products
- Loan Products

Cards
 Locker Services
 Foreign exchange and related Service.

SME products are categorized in two areas 1) Loan Products. 2) Deposit Products.
 Loan products are: Anonno Rin, Apurbo Rin, Prothoma Rin, Durjoy, Shomriddhi Rin, Shompod Rin, Shokti Rin.
 Deposit products are: Prapti Current Account, Prachurjo Fixed Deposit.

Operational network organ gram

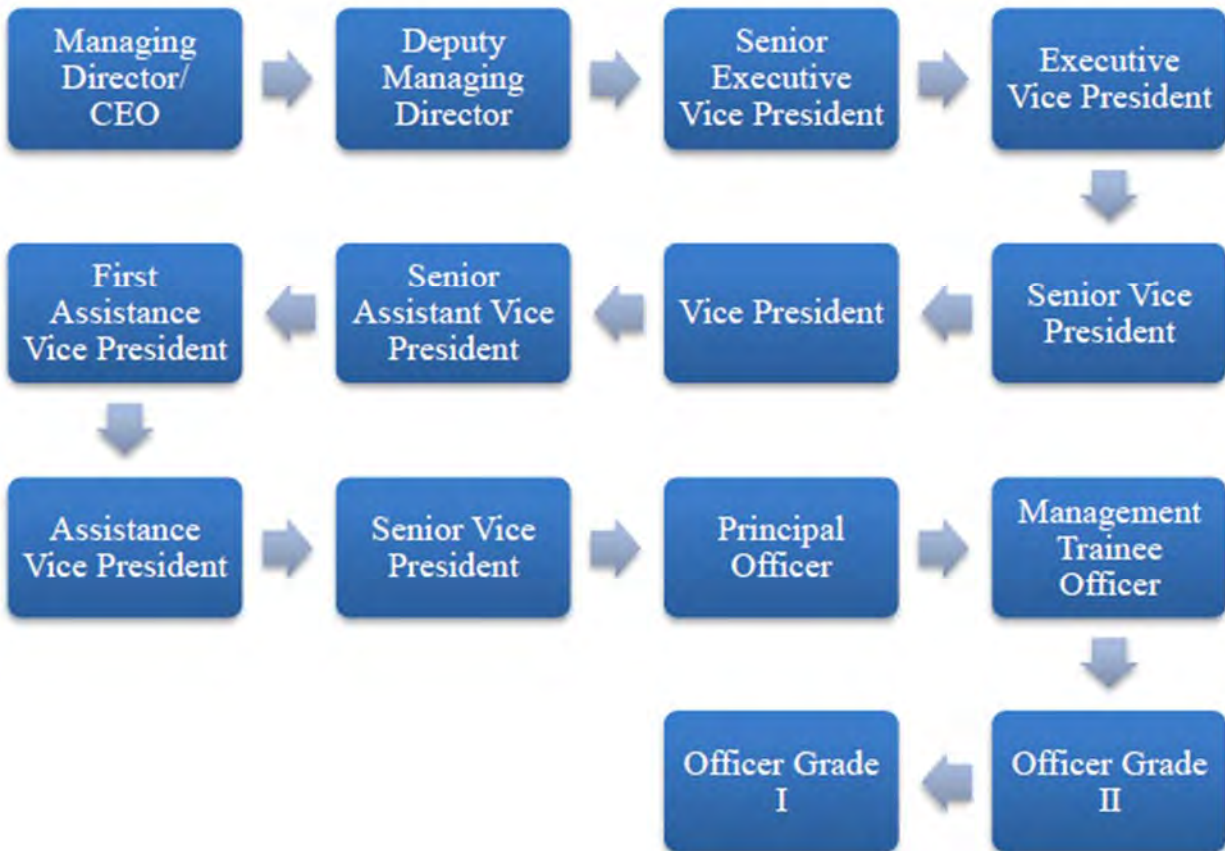


Table: Operational network organ gram

Visions for the future:

Building profitable and socially responsible financial institution focused on Market and business with Growth potential, thereby assisting BRAC and stakeholders to build a just, enlightened, healthy democratic and poverty free Bangladesh BRAC Bank will be a socially responsible institution that will not lend to businesses that have a detrimental impact on the environment and people.

JOB

Description of the Job

I joined BRAC Bank as an intern in the SME Banking Division on 2nd July 2015. I was selected after an interview with the HR head and the senior manager of the respected department. With the consent of my onsite supervisor my report is over 3 months of internship.

Specific Responsibilities of the Job

During my 3 months of internship I worked under the supervisor of SME division. My job responsibilities was to remind the borrower to pay his installment in right time, and listing those borrowers who didn't pay their installment and sending them and their guarantor legal notices and other different types of SME activities of entire BRAC Bank.

Observation:

- BRAC Bank limited is less focused on training the CRO.
- BRAC Bank is not that much concerned to the ability of the borrowers to pay back their installments.
- The salary package for the entry and mid-level management is considerably low.
- Office area is very small of SME unit offices.

Recommendation:

- Should give proper training to the CROs.
- Should motivate the entry and mid level employees and give them a good salary.
- Office area of the SME unit office should be well decorated so that the client will become more attractive to take loan.

PROJECT

Summary of the Project:

BRAC Bank Ltd. was established in 2001 with a focus on the small business sector, operating with a double bottom-line agenda: a combination of profit and social responsibility. The bank also focused on relationship based banking, as it believes that the pursuit of profit and developmental goals are mutually reinforcing. This focus makes the bank to emphasize more on to explore and access market opportunities as well as build asset base to its clients conforming significant contribution to the profitability of the Bank.

Description of the Project:

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

Objectives of the Project:

The report will work on some specific objectives. Those are as follows-

1. To present an overview of SME division of BRAC Bank

- Detail description of SME division of BRAC Bank
- Collection procedure of SME Banking of BRAC Bank.
- Reducing the risk of bad debts.

Methodology:

Both the primary and secondary data are used to make the report more rich and informative.

Primary Sources

Face to face communication with the on-site supervisor and employees of the BRAC Bank Ltd.

Open ended and closes ended questions with borrowers.

Secondary Sources

Official Website of the Bank and bank records
Different books, training papers, manuals etc. related to the topic.

Different websites and publications, newspapers

Limitations

I have worked only for three months in the bank. Within this short period it is almost impossible to acquire very deep understanding of banking industry as it is such a broad area to study and activities are quite complex. There were number of impediments in my way of research which prevailed all through the internship-

1. Time shortage

I have already mentioned that internship period was too short to get the big picture of the organization.

2. Access to information

Due to confidentiality issues and policies of the bank I could not use all the data in this report making.

CHAPTER: 01

SME DIVISION OF BRAC BANK

1.1 Introduction of SMEs (Small and Medium Enterprise)

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

Small & Medium Enterprises are important to almost all economies in the world, especially to the developing countries as they face major employment and income distribution challenges. There are about 60 lakh SMEs and microenterprises in Bangladesh, according to Asian Development Bank. In recent times, small and medium Enterprises (SMEs) have come into the forefront of development agenda due to the recognition of their contribution in fostering growth, sustaining global economic recovery, generating employment and reducing poverty. Other definitions are based on whether the owner of the enterprise works alongside the workers, the degree of sophistication in management, and whether or not an enterprise lies in the "formal" sector. The definitions in use depend on the purposes these are required to serve according to the policies of the respective countries/Governments.

1.2 General SME Guidelines by Bangladesh Bank

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

- Each bank/financial institution shall follow a separate business strategy in financing SME loan with least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process.
- Priority shall be given to small entrepreneurs.
- For small entrepreneurs credit limit will be ranged from Tk. 50,000 (Fifty thousand) to Tk. 50, 00,000 (Fifty lacs)
- For more participation of women entrepreneurs in industrial development of the country and for conducting business activities by women entrepreneurs in large number, priority shall have to be given to potential women entrepreneurs in respect of SME credit disbursement.
- Banks & Financial Institutions shall put highest priority in receiving loan application from small and medium women entrepreneurs and settle the loan disbursement process within very reasonable time from the date of acceptance of the application.
- Each bank and financial institution shall establish a separate 'Women Entrepreneurs' Dedicated Desk' with necessary and suitable manpower, provides them training on SME financing and suitably appoints a lady officer as chief of dedicated desk. Branch wise list of 'Women Entrepreneurs' Dedicated Desk 'should be sent to SME and Special Programs

Department of Bangladesh Bank within two months from the date of declaration of this policy and program.

- Banks and financial institutions may sanction up to Tk. 25, 00,000 to women entrepreneurs against personal guarantee. In that case, group security/social security may be considered.
- The success in SME loan disbursement will be considered as yardstick for further approval of new branches of the concerned bank. License for New Branches will be issued for financing the priority sectors like SME and agriculture from 2010 in the name of 'SME/Agriculture Branch' instead of 'SME Service Centre; in order to involve banks in financing priority sector like SME and Agriculture'.
- Each bank/financial institution shall fix the interest rate on SME loan sector/subsector wise. However, bank/financial institution will inform Bangladesh Bank sector/sub-sector wise rate of interest immediately and ensure disbursement of refinanced fund to the clients (women entrepreneurs) at Bank rate +5% interests.

1.3 Minimum Requirement for SME Financing According to Bangladesh Bank

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

All the minimum requirements can be described as follows-

1.4 Contribution of SMEs in Bangladesh

Positive impacts of SMEs

- Employment Generation
- Women empowerment
- Enhanced Living Standard
- Creation of Market for Indigenous Group
- GDP Growth Poverty Reduction
- Growth in International Business
- Reduction in Urban Migration
- Creation of Entrepreneurship

In Bangladesh, poverty alleviation through economic growth, as well as employment generation on mass scale is heavily dependent on the development and expansion of SMEs. Empirical studies find that the share of SMEs in GDP is significantly higher in high income countries. A cross country study (Ayyagari et al, 2003) shows that SMEs account for over 51 percent of GDP and 57 percent of employment in high income countries while the corresponding figures for low income countries are 16 and 18 percent. This reveals the importance of SME in growth and employment generation According to the Bangladesh Economic Review 2009, around 6 percent of the country's \$90 billion economy comes from SMEs. Developing countries like China are getting 20 to 30 per cent of their GDP from SMEs whereas this sector in Bangladesh is contributing 25 per cent to GDP with 60 per cent of employment generation.

As of recent research (Daily Star, 2011), the SMEs account for about 45 percent of manufacturing value addition, 80 percent of industrial employment, 90 percent of total industrial units and about 25 percent of total labor force. Their total contribution to export earnings ranges from 75 percent to 80 percent, according to a recent economic census. The SMEs make up 75 percent of the domestic economy.

Bangladesh is a developing nation, rich in human resources where women constitute slightly less than half the population. The majority of them are underprivileged, under nourished, illiterate and poor. Moreover, there are not enough employment opportunities for women. Therefore, economic activities, through self-employment have become essential for potential working women. As a matter of fact, women entrepreneurship or “women in business” has gained importance and acts as a very recent phenomenon in Bangladesh.

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

1.5 SME Banking Division of BBL

BRAC Bank Limited is the largest SME Bank in the country and 4th largest SME Bank in the world in terms of outstanding loan amount. SME Banking Division holds highest asset volume among the business divisions of the Bank (SME Banking, Retail Banking, Corporate Banking, and Probashi Banking). As the name signifies, it provides lending and deposit solutions as well as value adding services (payment remainder, payment notification, etc) to small and medium size businesses within the country. Small Business department of the division works through 399 unit offices all throughout the 64 districts of the country. The department is divided into three regions named – Dhaka, Chittagong and Rajshahi. Each region comprises of 6 to 7 territories. Territories are divided into zones and zones are further divided into unit offices. Currently there

are 21 territories and 119 zones. Medium Business department is currently located in Dhaka and Chittagong city to look after the mid-size borrowers of SME Banking arena. The total number of CROs is approximately 1300 supervised by 119 Zonal Managers.

1.6 General Procedure of SME Loan of BRAC Bank

BRAC Bank Ltd. was set up with the growing need for capital mobilization and the need for formal contracts for a wider spectrum of clients of the country. When it came to SME financing, instead of approaching the problem by scaling down its regular operations, a separate program designed especially for SME financing was launched by BRAC Bank in 2002. BRAC Bank's effort is noted in this regard for its complete focus on the credit needs of the small and medium enterprises. Since the initiation of SME operations by BRAC Bank, it has become the Bank's largest and most profitable venture.

The unique feature of BRAC Bank is that it is the only bank that approaches prospective clients, while other banks wait for them to apply for loans when required. SME units of BRAC Bank are located in all districts of the country. Each unit has two to five Customer Relations Officers (CROs). The role of CROs is instrumental in not only selecting and approaching clients, but also in maintaining regular interaction with each client, monitoring the use of the loan and ensuring regular repayment.

Customer Relations Officer (CRO) helps a customer choose the scheme which best meets his financial requirements and fits his business size and nature. The CRO then collects all the requisite documents from the customer, consolidates the information, and after ensuring that all the required documentation are in place, he prepares the Loan Application Proposal (LAP) and passes it on to his Zonal Manager. The Zonal Manager visits the business, gives the file a final check and forwards it to the Credit Risk Management department of our bank.

The in the SME Credit wing visits the business location and analyzes the loan proposal by making an assessment of the customer's ability to repay based on his business profile and matching customer's proposal with his credit assessment to determine whether the customer can be financed. In areas where there is no centralized credit assessment department, the bank has audit team that visits the business location and assesses the file.

The Origination department verifies the documentation and opens the loan accounts of our customers. In addition, they help obtain the CIB report of the customer, a mandatory requirement of Bangladesh Bank. The loan is then disbursed to the customer. SME Business and CRM jointly manage the collection responsibility across the country based on overdue aging. SME

Repayment Unit performs the functions of loan repayment and the Closing Unit does the loan closure.

The CRO obtains the deposit slip from the customers for the monthly installments; he sends a mobile text to Head Office for realization of the installment. The slips are collected at the repayment unit for reconciliation. As the loan matures, the closing and clearing units handle the necessary paperwork and forward the clearance certificate and redemption authority of mortgage property to the respective CRO/ZM, who then hand them over to our customer.

1.7 BRAC Bank's SME Banking Availability

Small Business department of the division works through 400 unit offices all throughout the country. The department is divided into three regions-Dhaka, Chittagong and Rajshahi. Each region comprises of 6 to 7 territories. Territories are divided into zones and zones are further divided into unit offices. Currently there are 20 territories and 126 zones. The frontline employees of small business are called Customer Relations Officer (CRO). More than 1,100 CROs are working in the department as of June 2012.

Small Business department is organized into regions, territories, zones, and unit offices all throughout the country. Historically the department provided small loans to entrepreneurs. Now it is fully equipped to provide all kinds of products and services to small entrepreneurs. It is the biggest department of the division in terms of asset, deposit, and nationwide presence.

Medium Business department is currently located in Dhaka and Chittagong city to look after the mid size borrowers of SME Banking arena. It is looked after by Senior Relationship.



1.8 SME Products of BBL

BRAC Bank, being the youngest bank, took a step to break away from usual tradition and tapped into the true suburb entrepreneurial initiatives. Currently BRAC Bank has following SME loan products:

Table: A- SME Products of BBL.

Product Name	Eligibility	Loan Amount	Mortgage	Business Type	Overdraft facilities	Special features
ANONNO (Business Loan)	Small Sized businesses (Production, Trading,	BDT 2 LAC to 10 LAC	No	Sole Proprietorship, Partnership or Private limited		No security required

	Service, Agro based products and others.) Having At least 3 years business background)			company		
APURBO (Term Loan)	Any kind of business operating at least 3 or more years.	BDT 1 Million to 10 Million	Property/ Lad/building		Based on Business needs	
PROTHOMA (Term Loan)	Small scaled business operated by woman entrepreneur having 2 or more years of business experience.	Maximum BDT 1 Million	No	Sole Proprietorship, Partnership or Private limited company		Low interest for woman entrepreneurs
SHOKTI (Business Loan)	Any kind a business having at least 1 year bank statement	BDT 1 Million to 10 Million			YES	Loan against partial security or Fixed deposit
DURJOY (Business Loan)	Any kind a business having valid trade license, operating for at least 3	BDT 3 LAC to 2.5 Million	No	Sole Proprietorship, Partnership or Private limited company		Easy installment up to 5 years.

	years.					
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CHAPTER: 02

COLLECTION PROCEDURE

OF

SME BANKING

2.0 Collection Process of BRAC Bank Limited:

2.1 Collection Unit:

The collection process for SME and Retail starts when the customer failed to make one or more contractual payment (installment). It therefore becomes the duty of the collection unit to minimize the outstanding delinquent receivable and credit losses. Collection plays a key part in the credit process and in ensuring the profitability of asset products and quality of the portfolio by collecting the delinquent receivables efficiently and effective. The main objective of collection is to ensure that, wherever possible, an account that is in arrears is brought up to date and the customer's goodwill is retained.

2.2 Collection Processes:

Customers are provided with an Offer Letter or Banking Arrangement letter during Loan disbursement where the total payment mood and loan details are described. When a customer fails to fulfill the agreed terms or misses the required payment, the account then enters collections. Collection department is responsible for collecting the overdue amount from the delinquent customers. There are different stages involved in collection after an account enters delinquency till regularization of the account by recovering the overdue. Basically collection can be broadly divided into four stages which are servicing, locating, collecting and cancellation & write-off. The aging of an account in collections is with reference to the days since missed payment.

2.3 Classification of Loan on Basis of Days Past Due:

The level of delinquencies of loan is determined based on the number days past of monthly installment from 1st payment date by the customer, following are basis of bucket calculation as guided in the Days Past Due (DPD):

Table B: Classification of Loan on Basis of Days Past Due

Particulars	DPD	Reporting as
Regular Customer	0 DPD	Regular
The sum past due is equivalent to one month's payment	X DPD(0-29)	Delinquent

The sum past due is equivalent to two month's payment	30 DPD(30-59)	Delinquent
The sum past due is equivalent to three month's payment	60 DPD(60-89)	Delinquent
The sum past due is equivalent to four month's payment. Interest to be suspended at this point.	90 DPD(90-119)	Delinquent
The sum past due is equivalent to five month's payment	120 DPD (120-149)	Delinquent
The sum past due is equivalent to six month's payment. 50% charge off at this point.	150 DPD (150-179)	Delinquent

CHAPTER: 03

REDUCING THE RISK OF BAD DEBT

3.0 Reducing the Risk of Bad Debt of BRAC Bank Limited:

3.1 Special Asset Management- SME Banking:

Special Assets Management (SAM)-SME is a special department under CRM. Its vital role is to recover the Bank's bad portfolio. SAM deals with Bank's non-performing loans through legal persuasion/procedure and facilitates external and internal recovery forces to maintain Bank's portfolio at risk (PAR) at a steady position. Based on priority, SAM is designed mainly as SME unit and Retail unit and also two separate units for Legal support & MIS and a Monitoring unit which acts as internal audit of the both portfolio. SAM department deals with the legal actions regarding mitigation of bad portfolio under SME & Retail Banking Division.

3.2 File Transfer:

Files transfer to SAM from SME when the loan reaches at DPD 180. SAM receives the file from Retail when the loan reaches at DPD 360.

3.3 Legal Notice:

Legal notice issued to SME at DPD 145 and for Retail at DPD 360, SAM-S&R would arrange to serve 1st legal notice for warning the default borrower to adjust the total outstanding and 2nd legal notice would be served after bouncing the cheque or before litigation. 1st legal notice served centrally across the country and 3rd party recovery agencies are working with retail defaulters. 15 (fifteen) days in 1st legal notice and 30 (thirty) days in 2nd legal notice under NI Act given to the defaulter to adjust the total outstanding. SAM will offer Auction to recover the overdue loan against mortgaged properties before filing the case.

3.4 Write- off Management:

BRAC Bank has a specific Write-off policy developed based on Bangladesh Bank circulars. SAM takes initiative to write-off bad portfolios as per policy if following criteria satisfied, a) Classification status will be Bad/Loss (BL) b) 100% provided c) Litigated (under any kind of Law of the land)

3.5 Waiver process:

SAM with its country wide recovery structure takes initiative to settle bad loans amicably by giving delinquent customer waiver facility. The waiver amount will be fixed on judgmental basis i.e. affected by natural calamities, demise, business closed etc. however, in any cases; waiver of principal portion is not awarded.

3.6 Case Withdraw:

SAM withdraw the case when a litigated defaulter adjusts outstanding amount in full with updated interest, legal costs and other expenses if any, and/or upon amicable settlement SAM withdraws the case against such defaulters on receipt of clearance certificate from Operations.

3.7 External 3rd party agency Management:

SAM hands over the files to 3rd party recovery agency after one month of issuance of 1st legal notice. Only the retail loan files, which are delinquent (if minimum 30% of outstanding is not recovered within 30 days after 1st legal notice) are handed over to outsource. SAM takeover the files from 3rd party recovery agency after 90 days.

3.8 Special Asset Management & Credit Inspection - Wholesale Banking & Medium Business:

Special Asset Management & Credit Inspection - Wholesale Banking & Medium Page

Business department is split up from the Corporate CRM to maintain and ensure appropriate recovery strategies are implemented as per policy guideline. The department functions under three major areas which are as follows:

- Credit Inspection through File and Field level area
- Early Alert Account
- Legal Procedure

3.9 Credit Inspection:

Credit Inspection through file and field level area deals with all matters relating to credit inspection, ensuring compliance of BBL policy towards credit granting process, corporate portfolio review and physical inspection of client's premise and files, including security documents, for providing management information reports on a regular and ad hoc basis.

3.10 Early Alert Account (EAA):

Early Alert Process is an effective tool & technique that help BBL in detecting any deterioration in corporate and medium enterprise clients account and trigger Bank's problem accounts at an early stage so that proper attention can be given to avoid any losses. An Early Alert Report (EAR) is developed by respective RM and sent to CRM within 07 days for identification of weakness and other discrepancy. On the basis of market information/ industry position or other subjective issues which has some strong ground, CRM may recommend transferring the status of a regular account to EAA status.

3.11 Legal Procedure:

SAM & CI deals with managing impaired assets, Non-Performing Loan and the associated legal aspects.

3.12 Account Transfer Procedure:

When an account is being downgraded to SS and below, a Request for Action (RFA) along with a checklist should be completed by RM with the help of CRM division and forwarded to Head of Special Asset Management & Credit Inspection" (HOSAM&CI) for acknowledgement.

3.13 Non Performing Loans Account Monitoring:

Nonperforming loans (NPLs) refer to those financial assets from which banks no longer receive interest and/or installment payments as scheduled. As the account is handed over to SAM & CI, WB & MB, the account is assigned to an account manager within SAM, who will review all documentation, meet the customer with RM and prepare a Classified Loan Review (CLR) report. The CLR must be approved by the Chief Credit Officer and copied to the Head of Corporate

Banking. The initial CLR should highlight any documentation issues, loan structuring weakness, proposed workout strategy and seek approval for any loan loss provisions that are necessary (Please see Appendix for details of initiatives taken for NPLs).

Table: C Initiatives Taken for Non Performing Loans

Step	Overdue Period	Action Plan	Initiative taken Department / Division
	0 days	For each corporate customers, letter to be generated to inform about expiry of the existing limit, at least two months ahead of the expiry date and due date for installment	Corporate Banking Division
1	1 to 30 days	Pursue over telephone for adjustment/payment of overdue installment / interest and make a diary note. Issue letter-informing about account fallen overdue and request for regularization	Corporate Banking Division
2	31 to 45 days	Persuasion over telephone to be continued Issue 1st reminder	Corporate Banking Division
3	46 to 59 days	Issue 2nd reminder for adjustment Visit customer and submit a visit report Check security documents	Corporate Banking Division Wholesale Banking Operation
4	60 to 89 days	Issue 3rd reminder for adjustment Report as EAA by Corporate/CRM Call report	Corporate Banking Division Corporate CRM SAM & CI, WB & MB
5	90 to 179 days	Treat as Special Mention Account (SMA) Charge interest into Suspense Issue notice to the borrower at least one month ahead of classification stating that the account is going to be classified. Final reminder demanding payments and informing of the consequences i.e. warning of legal action in case of default.	Corporate Banking Division
6	180 to 269 days	Borrower to be transferred to SAM & CI through prescribed format with proper justification Letter to Guarantor referring to above efforts seeking their cooperation/asking for adjustments.	Corporate Banking Division SAM & CI, WB & MB
7	270 to 329 days	Review all documents (internally/Externally) Meet the customer Classified Loan Review Report	SAM & CI, WB & MB
8	330 to	Meet the customer Site visit Strategy preparation for	SAM & CI, WB &

	420 days	reschedule/exist/case filling under NI Act and Artha RIN Circulate the defaulter names to different Banks/NBFI	MB
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CHAPTER: 4

Analysis, Result and Discussion, Conclusion

4.0 Analysis, Result and discussion:

As we all know to overcome challenges faced by SME is not easy. Both the government and individual organization need to concern about it. Some general instructions already discussed previous section. This section will recommend some policy could be adapted by BRAC Bank Ltd specifically

To overcoming the barriers discussed in previous section following policies can be implemented

- Decrease the interest rate- Because many of their competitors are providing loans at a lower rate. For example most of the competitors banks providing loan at 18-22% interest rate. High interest rate is the result of high cost of fund, so they must source fund at lower cost.
- Prepare the Customer Relationship officers more comprehensively and realistically so that customers may not face any trouble while getting and repaying the loan.
- Some times CROs, bank staffs or direct sales tem select potential borrowers in order to meet sales target. It's a major reason of defaulter. So BRAC bank should not put excessive pressure on employees because at the end of the day it hampers bank reputation.
- Organize entrepreneurs meeting to train them up according to the business type.
- Prepare retail division staffs specially front line employees about SME vastly. Because most people do come to retail branch in order to get information's.
- A loan approval procedure is lengthy. This should be reducing.
- Borrower's assessment and monitoring system should be stricter. Current defaulter rate says that there are some weakness in loan approval and monitoring system.
- More media converge is needed to inform potential borrowers about products and services. There TV advertisement and radio coverage could be strong media.
- BRAC bank can share common platform in order to provide SME loan. It can jointly work with other financial institutes without hampering profits. For example entrepreneur training season could be arranged jointly with SME Foundation.
- Increase marketing activities in the urban area because other competing industries are given huge ad in urban area which helps them to increase their customer base.
- Analyze customers' behavior that what type of customer makes default and stop giving them SME loan.
- Risk Management department's audit report should be more strict and reliable so that possible defaulter may not get the loan.
- Increase the remuneration and compensation package for the entry and mid-level management otherwise BBL can't retain the efficient and experienced employees

4.1 Conclusion:

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

4.2 Attachment and References:

My attachment was with the Supervisor of SME Banking Division of BRAC Bank Limited called Sobuj Roy. He was working for BRAC Bank more than 5 years.

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- 7) Training provided by BRAC Bank Ltd.
- 8) Articles of Bangladesh Bank

Website:

1. <http://www.bangladesh-bank.org/>
2. <http://www.bracbank.com/>

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