





Internship Report
On
SME Activities of BRAC Bank Limited

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Subject: Submission of Report on SME Activities of BRAC Bank Limited.

Dear Madam,

I would like to thank you for assigning me this subject to prepare the internship report. This task has been given me the opportunity to explore one of the most important aspect of the BRAC Bank loan which is known as SME loan. I have completed my internship practically in BRAC bank from 1st February 2010 to 30th April 2010.

The topic of my report is “*SME Activities of BRAC Bank Limited*”, contains a comprehensive study on the small and medium enterprise loan in BRAC Bank Limited. It was a great pleasure for me to work on the above-mentioned subject.

I tried my best to put meticulous effort for the preparation of this report. Any shortcomings or flaw may arise as I am very much novice in this aspect. I will wholeheartedly welcome any clarification and suggestion about any view and conception disseminated in my report.

Sincerely yours,

Khondhokar Mammun Ahmed
ID: 06104030

Acknowledgement

All praises to almighty Allah who has created me and has given me opportunities and strength to work with people. This internship report might never have been completed without the necessary practical knowledge, assistance of many books, articles, websites, and primary data. It enhanced my knowledge on SME activities as well as banking business. Thanks to all those persons, who have assisted me, providing me co-operation, books and articles. I would like to express my special gratitude to **Syeda Rownak Afza**, Senior Lecture, BRAC Business School, BRAC University for his supervision, co-operation and advises.

I was placed in SME Reconciliation Department of BRAC Bank Limited to work as an intern from February 1st 2010 to April 30th 2010. The members of BBL (BRAC Bank Limited) management were very co-operative and helpful. They helped me through providing various data, guidance and direction. I am grateful to Mr. Shyamal Kumar Biswas, AVP & Senior Manager, Reconciliation, Central Support & Operation Helpdesk Department of BRAC Bank Limited for his cooperation and necessary support.

Finally I want to express my special thanks to Nighat Mumtaz, Manager, Monitoring, and SME Administration for giving his valuable time and adequate information. I am also grateful to all other employees of SME Reconciliation Department for their support and assistance.

Executive Summary

BRAC Bank Limited is a scheduled Commercial Bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as Private Limited Company on May 20, 1999 under the Companies Act, 1994. Its operation started on July 4, 2001 with a vision to be the market leader through to providing all sorts of support to people in terms of promoting corporate and small entrepreneurs and individuals all over the Bangladesh. At present the Bank operating its business by 69 Branches. BRAC Bank is the first local commercial banks that proving online banking service to its customers from the very beginning of its starts. BRAC Bank, for the first time among local commercial banks, starts providing loan facilities to small and medium trading, manufacturing and service oriented enterprises all over the country. The Bank has already established its network in different area of the country with assistance of BRAC.

BRAC Bank is trying to develop economic condition of the country. So the bank provides loan facility 3 to 30 lacs taka to that small and medium enterprise that has no easy access to banks/financial institutes. The bank already established 91 Zonal offices and 429 unit offices all over the country and 1309 Customer Relation Officers (CRO) providing door-to-door service to clients. Till April 2009, the bank provides loan facilities to 265,000 clients which amount is Tk. 10,000 crore. The success of SME will largely depends on the selection of a business and man behind the business. BRAC Bank provides this facility to those whose business operation is minimum one year and environment friendly business. It provides no loan facility to tobacco business. The business should be legally registered and must have valid trade license. The entrepreneur should be physically able, preferably between the ages 25 to 50. Entrepreneur must have the necessary technical skills to run the business and acceptable social standing in the community i.e. people should speak highly of him/her. BRAC Bank gives equally important to the guarantor to getting the SME facility. The guarantor must have the ability to repay the entire loan and is economically solvent. The guarantor should know the entrepreneur reasonable well and should preferable live in the same community.

SME loan can be repaid in two ways, 1) In equal monthly loan installment with monthly interest payment. 2) By one single payment at maturity, with interest repayable a quarter ends residual on maturity. Customer relation officers search new potential customer by providing door-to-door service. They talk with clients and monitor their manners, activities of their business and provide the loan to the potential customers. The customer relation officers also monitor the borrower's activities after the loan disbursement. Monitoring also facilitates the build up of an information base for future reference.

Bank has to prepare the periodic reconciliation statements to identify any mismatch. Reconciliation is the process of systematically comparing the balance of bank statement with the balance as per the company's ledger and explaining any differences and taking necessary measures to correct the wrong entries. It is an important internal control mechanism of the bank.

The responsibilities of reconciliation of BRAC Bank are centralized and given to Central Operations. There is a separate devoted team under the Central Operations for identifying the unmatched items, analyzing the same and guide to the initiating departments to do the rectification. Reconciliation section of Central Operations prepares and submits a status report on monthly basis and the same to all concerned departments and Operational Risk Management Departments for their information and monitoring. Also submits a status report to MD & CEO and DMD, CIO and Head of Operations for their information.

The core competence of the BRAC Bank is to provide the fastest loans to the clients in this country. To retain this competitive advantage BRAC Bank would provide computer and palmtop facilities whether they can give fastest services to clients than other banks. Also to convey the customer focus, BRAC Bank is trying to reduce collateral securities than other banks. It provides more collateral free secured loans to capture the market. Regarding the services by the CRO, almost all clients are satisfied by get these quick facilities from them. In the survey it is found that most of the clients give a suggestion to

decrease the interest rate so I think BBL management look after this things from the view point of customer. They also look after the remuneration packages of CRO and entry level employees and promotional activities regarding SME because it is low and incompetent compare to other contemporary bank. Though it is pioneer division of this bank, I tried to give an in-depth analysis for every factor, which relates the SME division from the perspective of customer satisfaction and dissatisfaction.

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Part One: Organization Part

1.0 Introduction

BRAC Bank Limited, with institutional shareholdings by BRAC, International Finance Corporation (IFC) and Shorecap International, started its journey in 2001 and in just 8 years proved to country's fastest growing bank. The Bank operates under a "double bottom line" agenda where profit and social responsibility goes hand in hand as it strives towards a poverty-free, enlightened Bangladesh. BRAC Bank Limited is a scheduled commercial bank in Bangladesh. It established under the Banking Companies Act, 1991 and its operation started on July 4, 2001 with a vision to be the market leader through to providing all sorts support to people in term of promoting corporate and small entrepreneurs and individuals all over the Bangladesh.

The bank consist of major divisions named 1) Corporate banking, 2) Retail banking, 3) Treasury, 4) Small & Medium Enterprise (SME). At present the Bank operating its business by 69 branches. BRAC Bank is the first local commercial banks that proving online banking service to its customers from the very beginning of its starts.

BRAC Bank, for the first time among local commercial banks, starts providing loan facilities to small and medium trading, manufacturing and service oriented enterprises all over the country.

1.1 Origin of the Report

As a part of the Internship Program of Bachelor of Business Administration course requirement, I am assigned for preparing a report on the activities that I am currently doing at BRAC Bank Limited (BBL) for the period of 12 weeks starting from February 1, 2010 to April 30, 2010. At BRAC Bank Limited (BBL), I am assigned in the SME Reconciliation Department.

1.2 Objective

The broad objective of this project:

1. How BRAC BANK Ltd operates SME banking operation around the country though its extensive network
2. Why Market concentration and product diversification are considered the main strategies for expanding the SME business.

1.2.1 Specific Objective

To support the broad objectives better we have developed some specific objectives. These are:

1. How BRAC BANK Ltd operates SME banking operation around the country though its extensive network
 - What is the Structure of SME division of BBL
 - History of BRAC Bank SME
 - SME Product Details
 - Operation Process of SME Loan Disbursement of BBL
2. Why Market concentration and product diversification are considered the main strategies for expanding the SME business.
 - Market segmentation
 - Bases for segmenting consumer market
 - Target consumer
 - Target market
 - Differentiated marketing
 - Developing marketing mix
 - SWOT Analysis

1.3 Scope

The report has three parts. First part is the organization part where I covered brief about the organization. Second part is the job part where I covered what I did in the office. Though I worked in a project of SME Reconciliation department but I also covered the reconciliation process. In the third part, this is assign by supervisor, SME Activities of BRAC Bank Limited. In this part I covered how BRAC Bank operate SME banking through its extensive network and why market concentration and product diversification are considered the main strategies for expanding the SME business.

1.4 Limitation

The study has suffered from a number of barriers –

- Data from BRAC Bank is highly confidential for the outside people and access to software is not provided.
- Time is also a big constraint for this research. The topic of this report is vast in compare to time.
- It was difficult to communicate with the customers, as many of them were unable to give time for interview

1.5 Methodology

The study was totally based on primary data and secondary data. As the report has three parts, the organization part and job part data was collected from secondary sources books, brochures, leaflets, files, published reports and official web site of BRAC Bank Limited. For SME related information I took short interview of the SME Department employees. Moreover I had a four days attachment in the chawkbazar SME sales and service centre. Apart from this, Annual reports of BRAC Bank and different SME related journals used as a secondary data.

2.0 Overview of the BRAC Bank Limited

BRAC Bank Ltd, a full service commercial bank with Local and International Institutional shareholding, is primarily drive by creating opportunities and pursuing market niches not traditionally met by conventional banks. BRAC Bank has been striving to provide “best-in-the-class” services to its diverse range of customers spread across the country under an on-line banking platform.

Today, BRAC BANK Limited, one of the latest generation of commercial banks which started its journey on the 4th of July 2001 with a vision to be the absolute market leader through providing the entire range of banking services suitable to the needs of modern and dynamic banking business as well as to promote broad based participation in the Bangladesh economy through the provision of high quality banking services. The unique strength of BRAC Bank lies in the fact that BRAC one of the world’s largest private development organization is its key shareholder and the bank’s vision are thus aligned with those of BRAC.

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 build a “just, enlightened, healthy, democratic and poverty free Bangladesh”. BRAC Bank fulfills the purpose by reaching for high standards in doing everything for their customers, shareholders, associates and communities upon, which the future prosperity of their company rests.

BRAC Banks envisages providing mass financing by increasing access to economic opportunities for all individuals and business in Bangladesh with a special focus on currently under-served enterprises across the rural-urban spectrum

BRAC Bank is surviving in the large banking arena through its unique and competitive products and it is the only local bank providing 100% integrated on-line banking services. BRAC Bank Limited consists of four major business divisions namely Corporate Banking Division, Retail Banking Division, Small and Medium Enterprise (SME) and Foreign Trade & Treasury. Corporate Division provides full range of commercial banking products and services to any

potential corporate clients including multinationals, large or medium local corporate, NGOs, institutional bodies.

Retail Division offers a wide array of lucrative and competitive banking products to the individual customers of the bank. Currently there are six lending products and a number of other attractive new products will be launched shortly. It also offers different types of term deposit scheme and attractive STD & Savings deposit schemes giving interest on daily balance.

As part of the total banking solution it has introduced an innovative and one of its kinds Remittance Service under the style and name “Secured & Easy Remittance Service” (SERS). The aim of the program is to introduce easy and secured remittance service whereby people will be comfortable and secured in remitting funds without hassle and delay. Using the countrywide network of BRAC comprising more than 1100 field offices the SRS will ensure secured and only 24 hour lead time delivery of remittance anywhere in Bangladesh.

BRAC Bank Limited, hereinafter called BBL, is a first growing third generation-scheduled commercial bank incorporated on 20th May 1999 as a public limited company under Companies Act, 1994 with multinational collaboration including IFC of The World Bank Group & Shore Cap. BBL started its operation on 4th July 2001. The main sponsor of the bank is the BRAC. The Bank is pioneer and focused on pursuing unexplored market niches in the Small and Medium Enterprise Business, which hitherto has remained largely untapped. BBL believes, this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh. BBL caters the banking services to its rapidly growing customers through 69 branches and 429 SME Unit Offices.

2.1 Corporate Vision

Building a profitable and socially responsible financial institution focused on market and business with growth potential, thereby assisting BRAC and shareholders to build a “Just, enlightened, healthy, democratic and poverty free Bangladesh”.

2.2 Corporate Mission

- Sustained growth in “Small and Medium Enterprise” Sector
- Continuous low-cost deposit growth with controlled growth in retail assets.
- Corporate assets to be funded through self-liability mobilization. Growth in assets through syndications and investment in faster growing sectors
- Continuous endeavor to increase non-funded income
- Keep our debt charges at 2% to minimum a steady profitable growth
- Achieve efficient synergies between the Bank’s branches. SME unit offices and BRAC field offices for delivery of remittance and Bank’s other product and services
- Manage various lines of business in a fully controlled environment with no compromise on service quality
- Keep a diverse, far flung team fully motivated and driven towards materializing the Bank’s vision into reality

2.3 Core Values

- Value the fact that one is member of the BRAC family
- Creating an honest, open and enabling environment
- Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- Strive for profit and sound growth
- Work as team to serve the best interest of our owners
- Relentless in pursuit of business innovation and improvement
- Value and respect people and make decisions based on merit
- Base recognition and reward on performance
- Responsible, trustworthy and law-abiding in all that we do

2.4 Corporate Chronicle and information

- Registered office: 1, Gulshan Avenue, Gulshan 1, Dhaka-1212
- Company registered number: C – 37782(2082) of 1999
- Inauguration of Bankign operation: 4th July 2001
- First SME unit office: 1st January 2002
- Signing with Shorecap as investor: 29th December 2003
- Signign with IFC as investor: 8th May 2004
- First ATM installed: 3rd April 2005
- Preferential share issued: 31st January 2006
- Signing with Infosys and 3i Infotech for changing Bank's IT platform: 1st August 2006
- 24x7 Phone banking opening: 9th September 2006
- Intial public offering of shares held in 2006
- Listing with CSE: 24th January 2007
- Listing with DSE: 28th January 2007
- Commencent of share trading in DSE and CSE: 31st January 2007
- Credit card Launching: February 06, 2007
- 2500 remittance deliver point Gulshan-1, Dhaka-1212
- Introduced probashi Banking: April 14, 2007
- Launching of travel related services (TRS); November 20, 2007
- Auditor
S.F Ahmed & Co
Chartered Accountants
- Legal Advisor
Law valley, shajan Tower, Commercial Block
- Tax Advisor
Delwar Hossain & Associates
- 50th Branch: Bashundhara, H- 193, Block B, Safwan Road, Bashundhara R/A
- 100th ATM: Alliance Franciase, 26 Mirpur Road

2.5 LOGO

The logo of BRAC Bank has been prepared keeping in mind the goal of the organization. The square structure of the logo means solid and strong.

The Golden Color in the lower portion of the logo means the ‘Golden Bangladesh & her fertile land’.

The Blue color in the upper portion means ‘the sky with enormous & unlimited opportunity’.

The white colored curve means ‘Growth and Progress’.

White circles in the blue color mean the flashing sun that gives light to everywhere.



2.6 Products and Services

2.6.1 SME Banking

BRAC Bank, being the youngest bank, took a step to break away from usual tradition and tapped into the true suburb entrepreneurial initiatives.

Today, with over 10,000 crores of loans disbursed till date, BRAC Bank is country's largest SME financier that has made more than 265,000 dreams come true!

If you have a dream on which you trust, let us make it true together.

Loan products	Deposit Products
<ul style="list-style-type: none"> ➤ Annono Rin ➤ Apurbo Rin ➤ Aroggo Rin ➤ Digoon Rin ➤ Prothoma Rin ➤ Trade Plus ➤ Business Equity Loan ➤ Proshar Rin ➤ Bizness Loan ➤ Suppliers Finance 	<ul style="list-style-type: none"> ➤ Prapti Current Account

2.6.2 Wholesale Banking

BRAC Bank offers a full array of Financial Services to Corporations and Institutions. Having access to the deepest end of the country, BRAC Bank is there to assist businesses in Bangladesh. With us on your side, you have the power of local knowledge with the capabilities of global standard.

Corporate Banking	Cash Management	Custodial Service
<ul style="list-style-type: none"> ➤ Overdraft ➤ Short term loan ➤ Lease finance ➤ Loan against trust receipt ➤ Word order finance ➤ Emerging Business ➤ Syndication ➤ Term loan ➤ Project finance ➤ Bill purchase ➤ Bank guarantees <p>Trade finance</p> <ul style="list-style-type: none"> ➤ Letter of Credit ➤ Letter of Guarantees 	<ul style="list-style-type: none"> ➤ Cash and Trade overview ➤ Liability products ➤ Securities services 	<ul style="list-style-type: none"> ➤ Probahi Biniyog

2.6.3 Probashi Banking

When you send your hard-earned money from abroad to dear ones at the farthest end of Bangladesh, ask them to collect it from over 3,500 pay out locations of BRAC Bank.

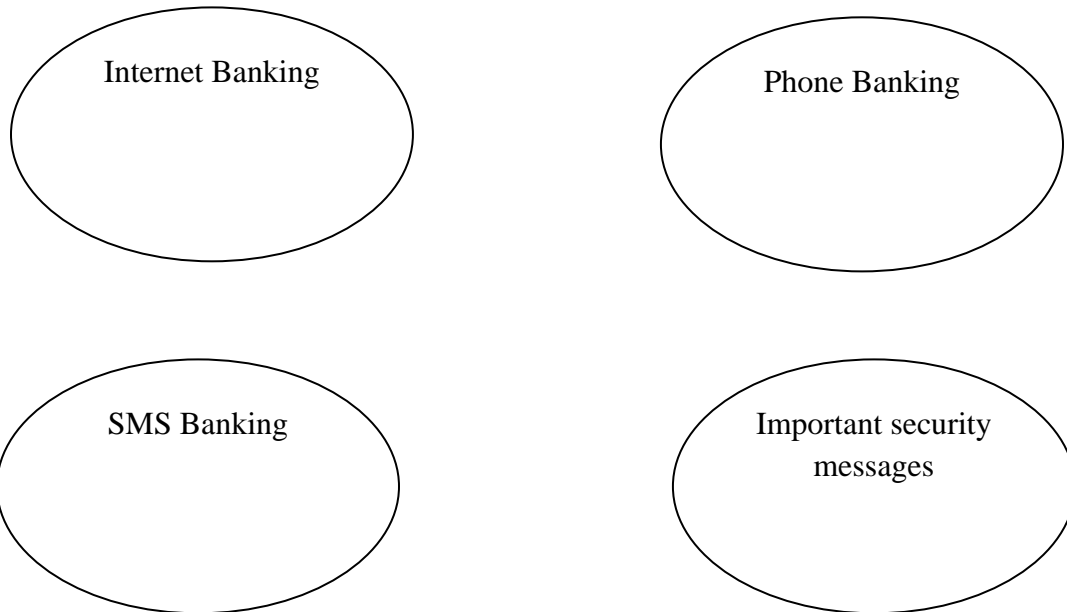
Every month, Probashi Banking executes around 150,000 transactions; which has made BRAC Bank one of the largest players among private commercial banks in channelizing inward remittance in the country.

And with ELDORADO, now you can withdraw money from any of the Eldorado member banks in addition to BRAC Bank outlets - that's too, instantly!

Accounts & Deposits	Investment	Remittance info
<ul style="list-style-type: none"> ➤ Probahsi current A/C ➤ Probahsi saving A/C ➤ Probahsi fixed depositi ➤ Probahsi abiram ➤ Probahsi DPS 	<ul style="list-style-type: none"> ➤ Probahsi wage Earners bond ➤ US Dollar premium & investment Bond ➤ Probahsi Biniyog 	<ul style="list-style-type: none"> ➤ Western Union money transfer ➤ Exchange Houses

2.6.4 E-Banking

With over 100 outlets, 300 ATMs and over 500,000 plastics in the market, BRAC Bank offers you a wide range of financial solutions to meet your everyday need.



2.7 Management of BRAC Bank Limited

Boards of directors are the sole authority to take decision about the affairs of the business. Now there are 7 directors in the management of the bank. All the directors have good academic background and have huge experience in banking sector. Mr. Fazle Hasan Abed is the chairperson of the bank. The board of directors holds meetings on a regular basis. The current organogram, management teams and board of directors' name are given in the appendix 1.

2.8 Departments of BRAC Bank Limited

If the jobs are not organized considering their interrelationship and are not allocated in a particular department it would be very difficult to control the system effectively. If the departmentalization is not fitted for the particular works there would be haphazard situation and the performance of a particular department would not be measured. BRAC Bank Limited has done this work very well from the very beginning. Departments listed are given in the appendix part 2.

Part Two: Job Part

3.0 Introduction

The SME, Probashi and Cash management business of Brac Bank Limited is mostly dependent on corresponding banking relationship. BRAC Bank has to open accounts with the other banks in the remote areas where banks representation not available. The corresponding bank accounts are used for SME disbursement, realization, remittance and cash management purpose. Every month we have found a huge number of entries un-reconciled between the bank and the corresponding banks book.

Bank has to prepare the periodic reconciliation statements to identify any mismatch. Reconciliation is the process of systematically comparing the balance of bank statement with the balance as per the company's ledger and explaining any differences and taking necessary measures to correct the wrong entries. It is an important internal control mechanism of the bank.

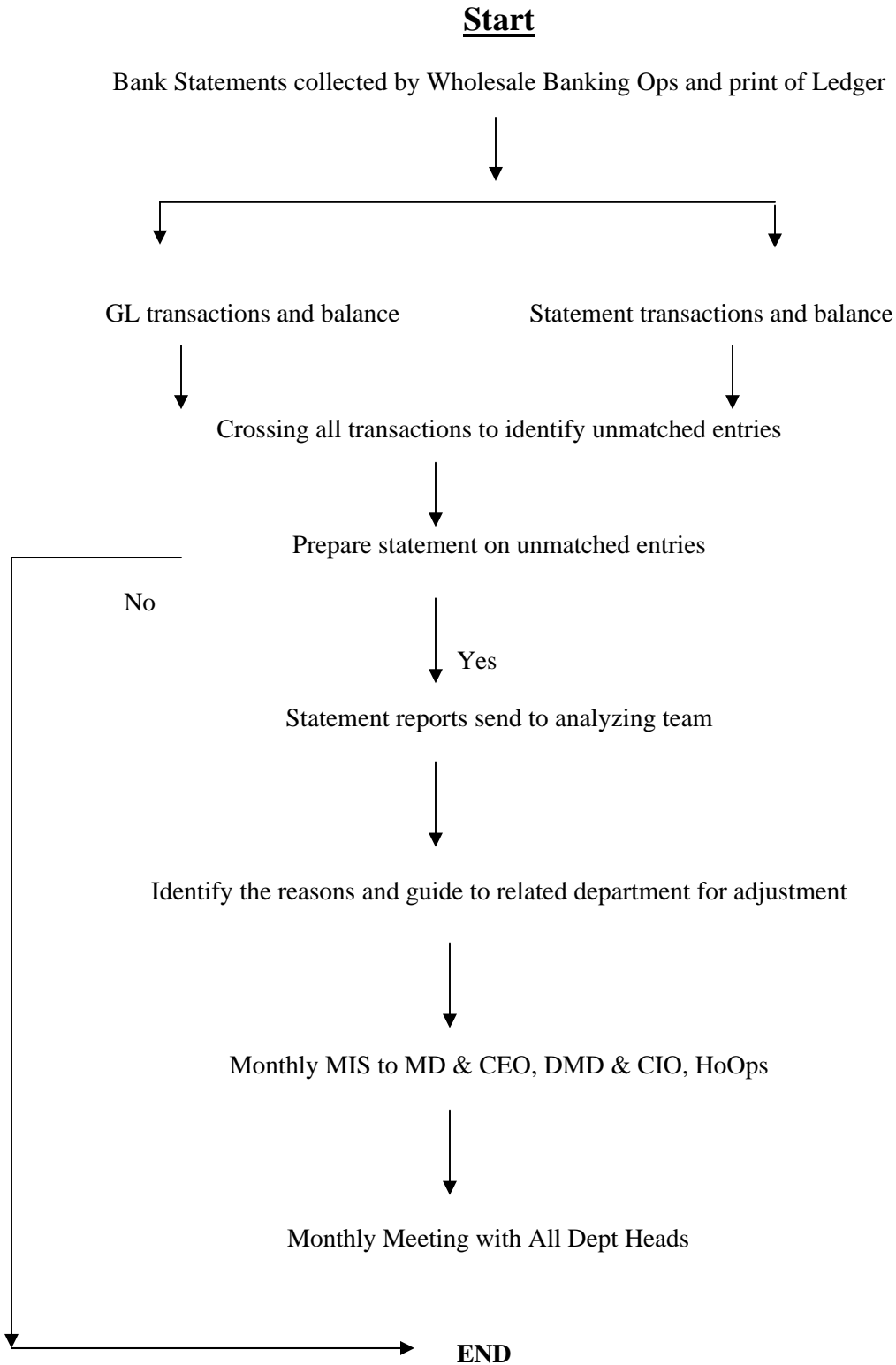
The responsibilities of reconciliation of BRAC Bank are centralized and given to Central Operations. There is a separate devoted team under the Central Operations for identifying the unmatched items, analyzing the same and guide to the initiating departments to do the rectification. Reconciliation section of Central Operations prepares and submits a status report on monthly basis and the same to all concerned departments and Operational Risk Management Departments for their information and monitoring. Also submits a status report to MD & CEO and DMD, CIO and Hoed of Operations for their information.

Why Reconciliation?

To identify the nature of reconciliation items and adjusts these to ensure that the profit and loss and balance sheet reflect the true net position of the bank at the consolidated level.

1. Enhance the control environment.
2. Minimize the enterprises risk

3.1 RECONCILIATION – PROCESS FLOWCHART



3.2 Description of Process Flow Chart

3.2.1 Statement collection

Wholesale Banking Operations Department is responsible for collecting the Bank statements from correspondence Bank by 7th of the following month. Concern staff of WBO collects Mother A/c statements. SME CRO's will collect Child A/c statements and send those to FIS by 1st week of every month. After receiving a/c statements FIS will deliver to original statement to Central Operations by 10th of every month for reconciliation and preserve a copy duly received by Central ops. If any pending or found any problems in the bank statements Wholesale Banking Operations Department will communicate with the concerned CRO/ZM of SME for sending the corrected copy to Central Operations Department within 05 working days from the date of receipts.

3.2.2 Reconciliation Process

- i) After receiving Bank statement from Wholesale Banking Operations Department, Reconciliation Team takes print of the GL account and cross/match all entries between Bank statements and GL account to identify unmatched entries.
- ii) Reconciliation statements of all unmatched entries are prepared by identifying team and send to analyzing team for adjustment.
- iii) Respective department will provide all supporting documents if required by reconciliation team within 2/3 working days for analyzing entries

3.2.3 Analysis & Adjustment

Adjustment team prepare a statement of all identified mismatch entries with supporting documents and send the same to respective departments to pass the necessary correction entries for adjustments

Upon receipt the statement (Adjustment advice) from Central Operations, respective departments will pass the correct entries within 03 working days and send a copy to Central Operations for recording.

3.3 BANGLADESH BANK RECONCILIATION

3.3.1 Reconciliation Process

After receiving Bank statement from Wholesale Banking Operations Department, Reconciliation Team takes print of Office account ledger and cross/ matches all entries between Bank statements and Office ledger and identifies unmatched entries.

After identifying the entries the Identification wing prepare the reconciliation statement of all unmatched entries and send to Analyzing team for Adjustment.

Analysis & Adjustment

After analyzing all un adjusted entries, Analysis and Adjustment team will prepare a statements with supporting documents and send it to concern departments to pass the necessary entries for adjustments.

REPORTS and MIS

Reports

- Prepares the detail monthly reconciliation statement of Inter- branch and send it to Bangladesh Bank as per Bangladesh Bank DOS circular no-2 dated January 28, 2007.

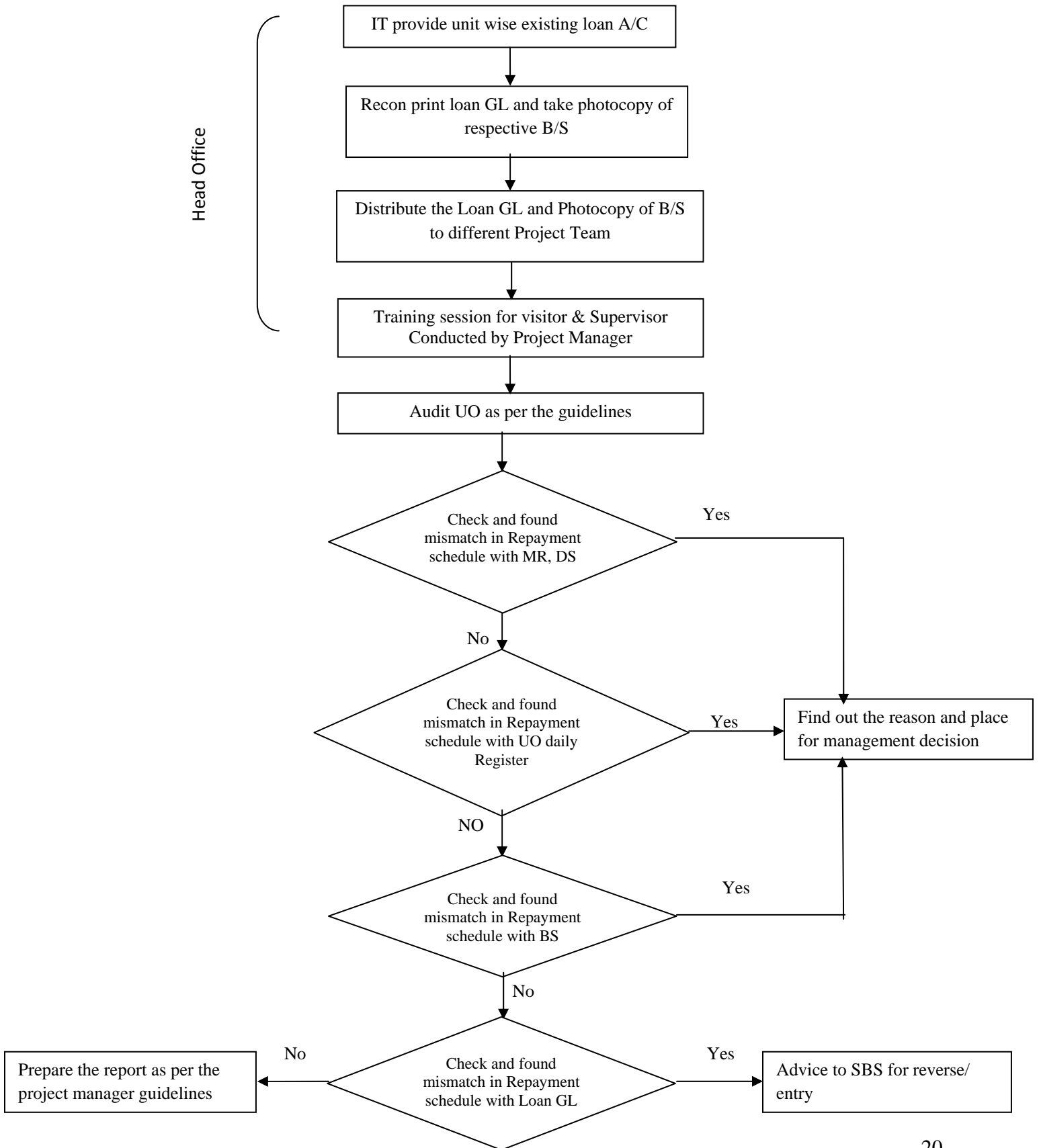
MIS

- Prepares an aging analysis and forward it to:
 - Managing Director and CEO
 - Deputy Managing Director
 - Chief Information Officer
 - Head of operations
 - All Concerned Department /Branch for information & necessary action

Meeting with Related Departments

- Arrange monthly meeting with all related departments regarding the status of reconciliation.
- Minutes of the meeting are circulated to all participants.

3.4 Process Flow for Reconciliation Project



Part Three: Project Part

4.0 Definition of SME

An SME is defined as, “A firm managed in a personalized way by its owners or partners, which has only a small share of its market and is not sufficiently large to have access to the stock exchange for raising capital”. SMEs ordinarily have few accesses to formal channels of finance and depend primarily upon savings of their owners, their families & friends. Consequently, most SMEs are sole proprietorships & partnerships. As with all definitions, this one is not perfect. Depending on context therefore definition of an SME will vary.

Despite the common features globally, countries do not use the same definition for classifying their SME sector. Also, a universal definition does not appear feasible or desirable. SMEs have been defined against various criteria. The three parameters that are generally applied by the Governments to define SMEs are:

- Capital investment in plant and machinery
- Number of workers employed
- Volume of production or turnover of business

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.

A quantitative definition in each national context is, however, advantageous, as it makes it easier to target macro-level policies for a specific group of enterprises. The countries with such definitions have recorded a higher growth rate in the SME sector. This indicates that the more precise the definition, the more effective the transaction of policies intended to benefit the sector with actual results. In countries where no definition exists, the enterprises are in a disadvantageous position.

Definition of SME as per Bangladesh Bank

Organizations not a public limited company meet the following criteria:

Enterprise	Criteria	Trading/Services	Manufacturing
Small Enterprise	Number of Staff (Not More than)	25	50
	Fixed Asset (Except Land & building)	BDT 50 Thousand – BDT 50 Lac	BDT 50 thousand – BDT 1.5 Crore
Medium Enterprise	Number of Staff (Not more than)	50	150
	Fixed Asset (Except Land & building)	BDT 50 Lac – BDT 1 Crore	BDT 1.5 Crore – BDT 20 Crore

Definition of SME as Per BRAC Bank

Based on the bank's perspective of SME and its stumbling blocks and considering the context of Socio-economic status of our country SME investments become:

Small & Medium investment	BDT 0.3 million to BDT 5.0 million
---------------------------	------------------------------------

4.1 SME History of BRAC Bank

He wants to see poverty banished forever. This has been his single-minded pursuit in life. Ever since a devastating cycle wreaked havoc on the lives of the people and property in the coastal regions of pre-independence Bangladesh 1970, everything changed for a young chartered accountant. The young man was so moved by the death and destruction that he, along with some friends, dedicated to set up HELP to carry out relief and rehabilitation efforts. Later after the independence of Bangladesh the young man sold his flat in London and decided to set up a relief and rehabilitation center in the war ravaged Bangladesh. He never looked back.

He is Sir Fazle Hasan Abed, the founder and chairperson of BRAC, the world's largest NGO, arguably in terms of size and operation. BRAC has been working relentlessly to realize the hidden potential of mankind, especially the ones who are most deprived of opportunities.

It is this same vision that motivated him to come up with a bank that could realize the untapped potentials of this country. Traditionally banking in Bangladesh has mainly addressed the mid to large sized businesses or the professionals. When Sir Fazle Hasan Abed established BRAC Bank he did it with the goal to serve the highly motivated group of entrepreneurs who wanted to break out of the vicious cycle of poverty and take control of their own future. We call them the "Missing Middle". His long cherished dream of availing quality finance services to these small to medium businesses finally come to reality. BRAC Bank proud to be the pioneering and largest SME bank in Bangladesh, discharging over 10,000 crore taka in SME loan and helping fulfillment of more than 256,000 dreams that change hundreds and thousands of lives everyday.

SME banking division of BRAC Bank Limited has successfully made a mark in creating platform for small and medium entrepreneurs in "Access to Finance", the key to the prime obstacle towards growth of SMEs. Since inception BRAC Bank upholds the motto to finance the "Missing Middle" the underserved market segment of SMEs. Years of market knowledge and understanding, committed resources, countrywide coverage and well aligned strategies have made the bank an expert in SME financing and the bank has successfully developed an examined and successfully model in SME financing in Bangladesh.

The bank has incorporated double bottom line approach in its operation –

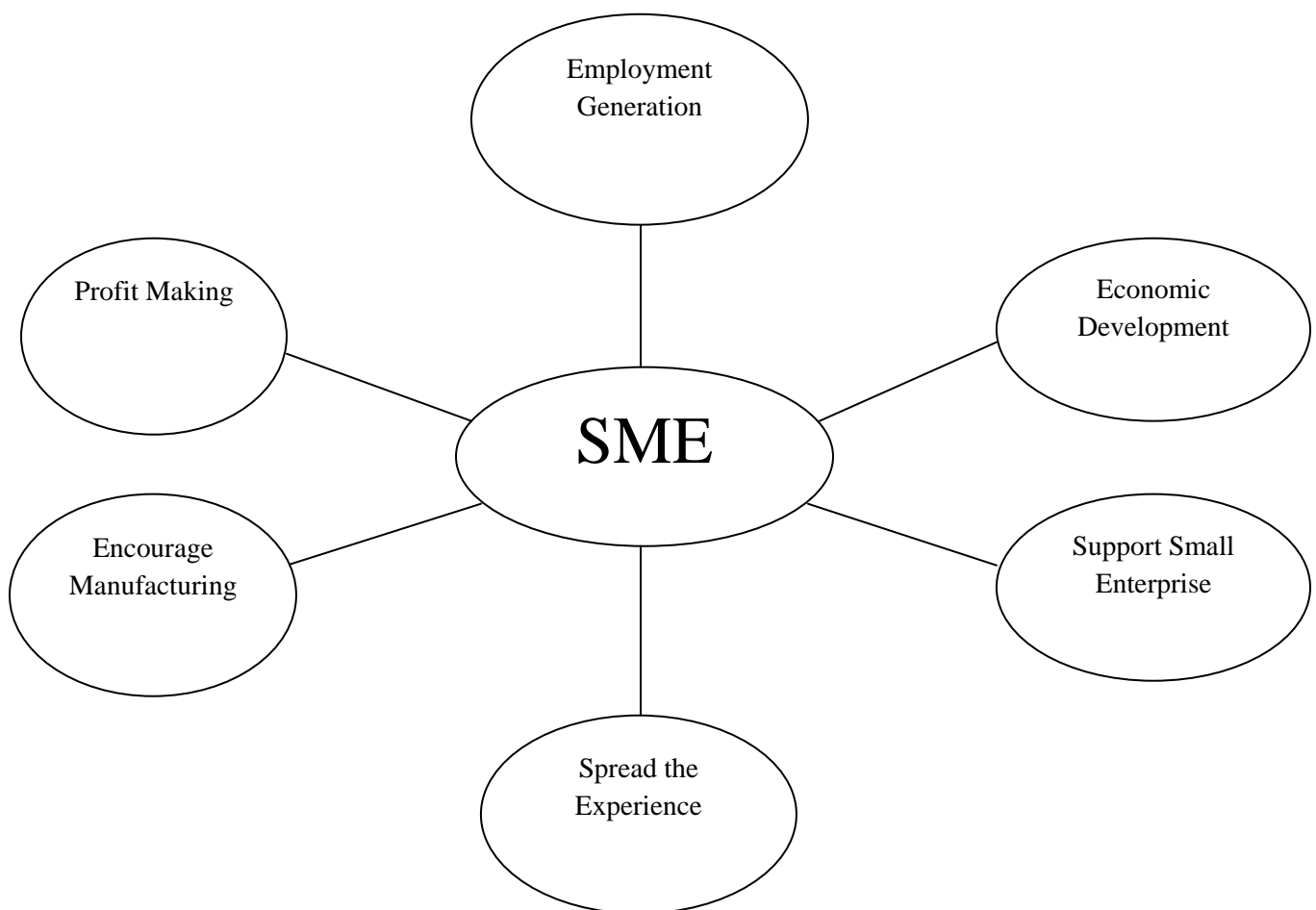
- 1) Making profit by mobilizing fund from urban to rural areas.
- 2) Performing social responsibility by creating an entrepreneurial class.

Along with Small & Medium Enterprise financing, SME banking division is also actively working in creating awareness and imparting knowledge to SMEs about financial record keeping, dealing with modern banks and industry best practices in SME operation. In an attempt to ensure customer awareness and to strengthen the relationship with customers, SME banking division arranged informative campaigns and road shows for SMEs located across the country.

4.2 Importance of SME

The main focus of BRAC Bank is to develop human and economic position of a country. Its function is not limited only to providing and recovering of loan but also try to develop the economy of a country.

So reasons for this program from the viewpoint of BBL:



4.2.1 Support Small Enterprise

The small enterprise, which requires BDT 2 to 30 lacks loan, but they have no easy access to the banks/financial institutions. For example: In case of Anonno loan, an amount of 3 to 8 lacks is provided without any kind of mortgage.

4.2.2 Economic Development

Economic development of a country largely depends on the small and medium scale enterprises. Such as, if we analyze the development history of Japan, the development of small & medium scale enterprises expedite the development of that country.

4.2.3 Employment Generation

The bank gearing employment opportunities by two ways: Firstly, by providing loan to the small enterprises expanding, these businesses require more workers. Secondly, Small & Medium Enterprise (SME) program requires educated and energetic people to provide support to entrepreneurs.

4.2.4 Profit Making

SME program is a new dimensional banking system in the banking world. Most of the CROs are providing door-to-door services to the entrepreneurs. Entrepreneurs are satisfied by the service of the bank and make profit.

4.2.5 Encourage Manufacturing

The focus of BRAC Bank is to encourage manufacturing by the entrepreneurs who produce by purchasing various types of materials. CRO try to educate them to produce material if possible because if they can produce in line of purchase profits will be high.

4.2.6 Spread the Experience

Another reason of BRAC Bank is to spread the knowledge on the importance of SME banking regarding various businesses. The customer services officer share their knowledge from various businesses and tries to help the entrepreneurs who have shortage of the gathered knowledge. CRO's who are the driving force of SME division of BRAC Bank also gather knowledge about various businesses and make stronger knowledge base.

4.3 SME Products

4.3.1 Anonno Rin

This is a small scale loan designed to finance small scale trading, manufacturing and service ventures, especially to aid the purchase of fixed assets and to finance working capital.

Eligibility

- ✓ Entrepreneurs aged between 18 to 60 years
- ✓ Entrepreneurs with minimum 2 years experience in the same line of business
- ✓ A business which must be a going-concern with more than 1 year in operation

Maximum Amount

- ✓ From minimum BDT 3 lac up to maximum of BDT 8 lac

Features

- ✓ Loan without mortgage
- ✓ For excellent borrowers who have paid or paying in due times, we offer discounted rates
- ✓ Quick, quality banking throughout the country
- ✓ Potential women entrepreneurs will also get the facilities of this loan

4.3.2 Apurbo Rin

In order to help our SME borrowers for financing working capital or to purchase fixed assets, BRAC Bank offers APURBO. It caters to the need of entrepreneurs who are operating in trading, manufacturing, service, agriculture, non-farm activities, agro- based industries and other sectors of our economy.

Eligibility

- ✓ Entrepreneurs having a minimum of 3 years of some business activities
- ✓ A business which must be a going concern for 3 years
- ✓ Age minimum 25 years and maximum up to 60 years

Maximum Amount

- ✓ Starting from BDT 8 lac to maximum of BDT 30 lac

Features

- ✓ Without mortgage loan below 10 lac
- ✓ Simple loan processing for expanding your business
- ✓ Quick disbursement
- ✓ Disbursement in one or two installment
- ✓ Flexible monthly repayment loan

4.3.3 Pathshala Rin

This is a loan designed to meet the needs of small and medium sized private educational institutions, such as kindergartens, schools and colleges etc.

Eligibility

- ✓ A small & medium educational institute that is in operation for minimum 3 years
- ✓ The institution should be sole proprietorship, partnership, private limited company or society
- ✓ The educational institute must be a profit making concern

Maximum Amount

- ✓ Minimum BDT 3 lac to maximum BDT 30 lac

Features

- ✓ Without mortgage for loan below 10 lac
- ✓ Loan for fixed assets purchase & civil construction
- ✓ Loan repayment can be spread up to 4 years
- ✓ Minimum documentation
- ✓ Monthly repayment loan
- ✓ Quick disbursement
- ✓ Flexible interest rate based on security

4.3.4 Aroggo Rin

This loan is suitable for private clinics, diagnostics centers and doctors' chambers to purchase fixed assets under equated monthly installments.

Eligibility

- ✓ Institutions with at least 2 years in operation & profit making concern
- ✓ Doctors having 5 years of experience

Maximum Amount

- ✓ Minimum of 3 lac to maximum of 30 lac

Features

- ✓ Loan without mortgage up to 8 lac

- ✓ Easy loan processing
- ✓ Loan repayment schedule is spread up to 3 years
- ✓ 1% loan processing fee
- ✓ Flexible interest rate based on security

4.3.5 Digoon Rin

DIGOON RIN is a loan facility for Small and Medium enterprise. This product's main objective is to help various Small and Medium entrepreneurs to meet their short-study cash flow shortages or bridge the fund-flow gaps.

Double loan on your deposit. For your business expansion, you do not need to encash your savings rather you can take double amount of loan on your deposit

Eligibility

- ✓ Entrepreneur having minimum 2 years of business activities
- ✓ The business which must be going concern for 2 years
- ✓ Aged between 18 years to 55 years

Maximum Amount

- ✓ Minimum of 5 lac to maximum of 30 lac BDT

Features

- ✓ Double amount of loan on your deposit
- ✓ Attractive return against the deposit
- ✓ Flexible repayment plan monthly installment and single installments
- ✓ Quick disbursement

4.3.6 Supplier Finance

SUPPLIER FINANCE is a loan facility for the enlisted Suppliers of various large retailers, marketing companies, distributors, exporters etc. This product's main objective is to help various Suppliers to meet their short-study cash flow shortages or bridge the fund-flow gaps.

Eligibility

- ✓ If you are an enlisted supplier of a corporate house with which BRAC Bank has a corporate tie-up
- ✓ Have minimum 3 years of continuous operation
- ✓ Have 1 year continuous relationship with the purchasing firm

Maximum Amount

- ✓ Minimum BDT 3 lac up to maximum BDT 30 lac

Features

- ✓ Equal monthly installment and revolving loan facility
- ✓ 1% of loan amount as the processing fee

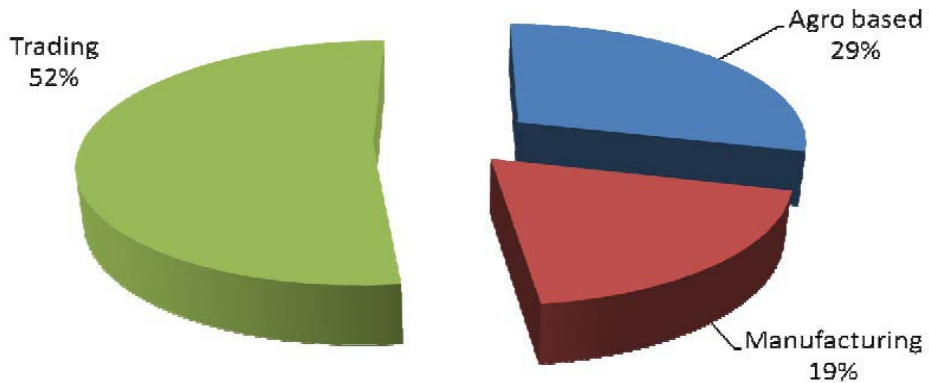
4.4 SME Network Coverage



4.5 Highlights of SME Banking Division of BRAC Bank

Number of Unit offices	429
Number of Staff	2,104
No of Loan disbursed (cumulative)	202,101
Cumulative Disbursement (in million BDT)	84,170.31
No. of outstanding Account	120,685
Portfolio in amount (in million BDT)	32,996.18
Amount of Deposit (in million BDT)	3,352.6
No of SME Sales & service Center	30

4.6 Sector wise Distribution of SMEs



4.7 Obstacles and Challenges faced BRAC Bank Limited in SME

At the beginning phase of the SME, BRAC Bank Limited faced lots of obstacles and challenge. There was a shortage of capital, absence of high technology, high employee turnover, lack of Skills entrepreneur, no trade license of businessman etc. These problems are describe in brief in below -

4.7.1 Financial Constraint

At the very beginning of the SME, BRAC Bank have financial constraints. BRAC Bank does not have enough liquid money so that they failed to satisfy every customers need.

4.7.2 Absence of High Technology

Absence of high technology was another constraint for the BRAC Bank limited. At that time they do not have strong inter-banking software so that they failed to contact with different SME service centre.

4.7.3 High Employee Turnover

In 2001 employee turnover rate was pretty high. BRAC Bank does not have any legal bindings to their employees. Employees quit their job according to their wish. So it also hampers the SME Service.

4.7.4 Lack of Skills Entrepreneur

At that time entrepreneurs were not educated enough. They do not have sufficient skills about the different types of paper requirement. It hampers the loan processing time.

4.7.5 Trade License

Trade license was another major problem for BRAC Bank. Most of the business man does not have their business trade license. Without proper documents it was quite hard to sanction the loan.

4.7.6 Poor Physical Infrastructure

Inadequate supply of necessary utilities like electricity, water, roads and highways hinder the growth of SME sector.

4.7.7 Employee Skills

At that time employees do not have sufficient knowledge about SME. It was costly to train all the employees. So lack of proper training to employees was another obstacle for SME growth.

4.7.8 Lack of Information

At that time SME just got a new shape in our country. So no one has clear idea about it. So vague and wrong information were passed among the people.

4.8 Steps Taken to Overcome the Obstacles

In order to overcome the above mentioned obstacles BRAC Bank started follow some steps, these steps were -

4.8.1 BRAC Bank started to expand their SME network

In 2001 BRAC Bank Limited their SME loan business with 4 SME sales and service center. Gradually they have started to expand their network. Now they have 429 SME sales and service center.

4.8.2 Training Session for employees

At the very beginning of SME operation employees do not have sufficient knowledge to handle the customer. Besides at that time there were lack of educate employees to join this sector. So BRAC Bank started to train up employees those who have started to join in SME division.

4.8.3 Orientation Session for Borrowers

Besides training with the employees BBL also started to train the borrowers also. Most of the borrowers are not educate at all. Even they don't pass the S.S.C or H.S.C. So BBL started to organize orientation session for a group of borrowers.

4.8.4 Tried to Overcome Financial Constraint

At the very beginning BBL investment was low in the SME loan. Gradually they have started to invest huge in the SME. As they have a strong background of shareholders.

4.8.5 Educate the Entrepreneurs

At that time most of the entrepreneurs just passed the S.S.C or H.S.C level. So they have a very poor knowledge about the banking transaction. They come for the loan but they don't have any trade license. So educate the entrepreneurs were other steps to overcome the obstacles.

4.8.6 Employee Commitment

As employee turnover was quite high so BBL started to give handsome remuneration to their employees. They started to provide some extra facilities to their employees. Besides they also started to take contract sign for 2 or 3 years from the employees.

4.8.7 Advancement of Technology

BRAC Bank Limited also started to develop their technology. In consequent of this they have transfer their software from MBS to Finacle. Now the respective department can easily find out whether the particular borrower paid his installment or not.

4.9 Different Business Wings of SME Banking

4.9.1 Women Entrepreneur Cell (WEC)

Women Entrepreneurs cell (WEC), one of its kinds in the banking industry of Bangladesh, was launched in 2006 under SME banking division with an objective to offer access to formal finance along with training and technical assistance to the women entrepreneurs across the country

Portfolio	
No of Clients	Outstanding Amount
3530	101.31 crore

Cumulative Disbursement	
Clients	Amount
4182	148.96

4.9.2 Manufacturing Business Unit (MBU)

The manufacturing business unit was launched in august 2007 under SME banking division. The objective of launching this unit is to better serve the manufacturing sector by providing sector-focused and other services.

4.9.3 Supplier and Distributor Business Unit (SDF)

Supplier and distributor finance unit was launched in September 2007 to engine the growth of linkage industry, an indispensable sector for any industry.

4.9.4 Commercial credit unit (CCU)

The commercial and credit (CCU) was launched in October 2007 with the objective of providing financial services in the trade finance sector with pre and most important facilities.

4.9.5 Deposit mobilization unit

The unit caters the deposit product requirement i.e of transaction and fixed deposit account opening and account maintenance of SMEs across the country. In addition this business wing also educate SME's towards modern banking and encourages maintaining regular banking transaction.

4.10 Selection of Potential Enterprise for SME

4.10.1 Enterprise selection Criteria

The success of SME will largely depend on the selection of a business and man behind it. In terms of the business (Enterprise), the following attributes should be sought:

1. The business must be in operation for at least one year
2. The business should be environment friendly, no narcotics or tobacco business
3. The business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever applicable.
4. The business should be in legal trade, i.e.; smuggling will not be allowed or socially unacceptable business will not be entertained.
5. The business must have a defined market with a clear potential growth
6. The business must be located ideally close to the market and the source of its raw materials/suppliers. It should have access to all the utilities, skilled manpower's that are required.
7. Any risk assessed by the management in turn will become a credit risk for the bank. So effort should make to understand the risk faced by the business.

4.10.2 Entrepreneur Selection Criteria

In order to understand the capability of the management behind the business, the following should be assessed:

1. The entrepreneur should be physically able and in good health, preferably between the age of 25-50. If he/she is an elderly person closer to 50, it should be seen what the succession process will be and whether it is clearly defined or not.
2. The entrepreneur must have the necessary technical skill to run the business, i.e. academic background or vocational training, relevant work experience in another institution or years of experience in this line of business.
3. The entrepreneur must have an acceptable social standing in the community (People should speak highly of him), he should possess a high level of integrity (doesn't cheat anyone, generally helps people), and morally sound (Participates in community building)
4. The entrepreneur must possess a high level of enthusiasm and should demonstrate that he is in control of his business (Confidently replies to all queries) and has the ability to take up new and fresh challenges to take the business forward.
5. Suppliers or creditors should corroborate that he pays on time and is general in nature
6. Clear-cut indication of source of income and reasonable ability to save.

4.10.3 Guarantor Selection Criteria

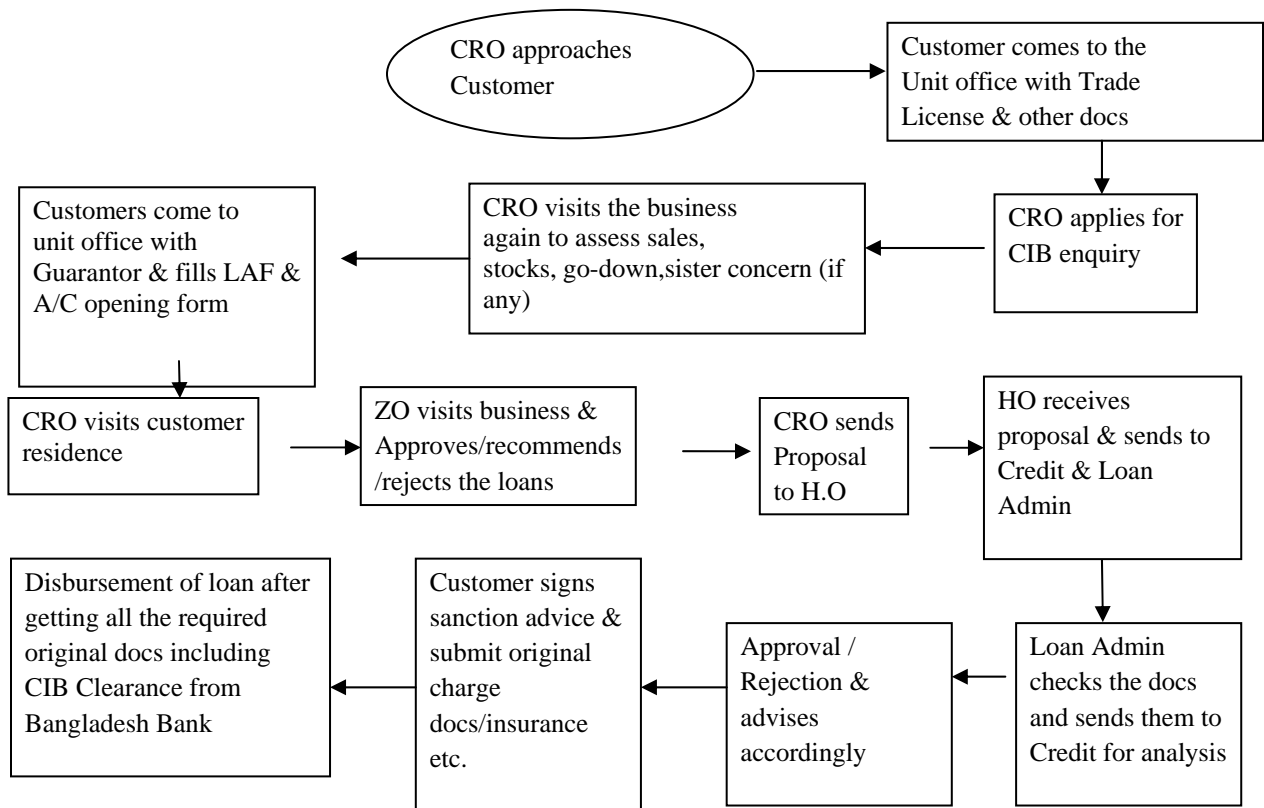
Equally important is the selection of a guarantor. The same attribute applicable for an entrepreneur is applicable to a guarantor. In addition he should possess the followings:

1. The guarantor must have the ability to repay the entire loan and is economically solvent (check his net worth)
2. The guarantor should be aware about all the aspect of SEDF loan and his responsibility
3. Govt. and semi-govt. officials can be selected as a Guarantor such as schoolteacher, college teacher, doctor etc.
4. Police, BDR and Army persons, political leaders and workers, and religious leader cannot be selected as a guarantor.
5. The guarantor should know the entrepreneur reasonable well and should preferably live in the same community.

4.11 SME Loan Process Flow

When a customer comes to the unit office for a loan request, first he/she meets with the customer relationship officer to discuss about the loan, which loan product is suitable for him/her. After then the following process takes place.

Flow Chart for processing SME Loans



4.12 Terms and Condition of SME Loan

The SME department of BRAC Bank will provide small loans to potential borrower under the following terms and condition:

- The potential borrowers and enterprises have to fulfill the selection criteria
- The loan amount is between Tk 2 lacs to 30 lacs.
- SME will impose loan processing fees for evaluation/ processing a loan proposal as following;

Loan Amount	Loan Processing Fee
2 lacs to 2.99 lacs	Tk 5000
3 lacs to 5 lacs	Tk 7500
5.01 lacs to 15 lacs	Tk 10,000
15.01 lacs to 30 lacs	Tk 15,000

Table 4.1: Loan processing fees

- Loan can be repaid in two ways:
 - a) In equal monthly loan installment with monthly interest payment, or
 - b) By one single payment at maturity, with interest repayable a quarter end residual on maturity
- Loan may have various validates, such as, 3 months, 4 months, 6 months, 9 months, 12 months, 15 months, 18 months, 24 months, 30 months and 36 months.
- The borrower must open a bank account with the same bank and branch where the SME has its account

- Loan that approved will be disbursed to the client through that account by account payee cheque in the following manner: Borrower name, Account name, Banks name and Branch's name
- The loan will be realized by 1st every month, starting from the very next month's whatever the date of disbursement, through account payee cheque in favor of BRAC Bank Limited A/C. With Bank's named and branches name
- The borrower has to issue an account payable blank cheque in favor of BRAC Bank Limited before any loan disbursement along with all other security.
- The borrower will install a signboard in a visible place of business or manufacturing unit mentioned that financed by "BRAC Bank Limited".
- The borrower has to give necessary and adequate collateral and other securities as per bank's requirement and procedures.
- SME, BRAC Bank may provide 100% of the Net Required Working Capital but not exceeding 75% of the aggregate value of the Inventory and Account Receivables. Such loan may be given for periods not exceeding 18 months. Loan could also be considered for shorter periods including one time principal repayment facility, as stated in loan product sheet.
- In case of fixed asset Financing 50% of the acquisition cost of the fixed asset may be considered. While evaluating loans against fixed asset, adequate grace period may be considered depending on the cash generation after the installation of the fixed assets. Maximum period to be considered including grace period may be for 36 months.

4.13 Monitoring

Monitoring is a system by which a bank can keep track of its clients and their operations. So monitoring is an essential task for a CRO to know the borrowers activities after the loan disbursement. This also facilitates the buildup of an information base for future reference.

4.13.1 Importance of Monitoring

Through monitoring a CRO can see whether the enterprise invested the sanctioned amount in the pre-specified area of his business, how well the business is running, the attitude of the entrepreneur, cash credit sales and purchase, inventory position, work in process and finished goods etc, This information will help the CRO/BRAC Bank to recover the loan accruing to the schedule and to take the necessary decisions for repeat loans. Moreover, monitoring will also help to reduce delinquency. Constant visit over the client /borrower ensures fidelity between the bank and the borrower and tends to foster a rapport between them.

4.13.2 Area of Monitoring

The purpose is to know the entire business condition and all aspects of the borrowers so that mishap can be avoided.

i. Business Condition: The most important task of the CRO to monitor the business frequently, it will help him to understand whether the business is running well or not, and accordingly advice the borrower, whenever necessary. The frequency of monitoring should be at least once month if all things are in order.

ii. Production: The CRO will monitor the production activities of the business and if there is any problem in the production process, the CRO will try to help the entrepreneur to solve the problem. On the other hand the CRO can also stop the misuse of the loan other than for the purpose for which the loan was disbursed.

iii. Sales: Monitoring sales proceed is another important task of the CRO it will help him to forecast the monthly sales revenue, credit sales etc. which will ensure the recovery of the monthly loan repayments from the enterprise as well as to take necessary steps for future loans.

iv. Investment: It is very important to ensure that the entire loan has been invested in the manner intended. If the money is utilized in other areas, then it may not be possible to recover the loan.

v. Management of raw materials: In case of a manufacturing enterprise, management of raw materials is another important area for monitoring. If more money is blocked in raw materials then necessary, then the enterprise may face a fund crisis. On the other hand the production will suffer if there are not enough raw materials.

4.13.4 Monitoring System

The CRO can consider the following thing for monitoring:

i. The CRO will monitor each business at least once a month. He/she will make a monitoring plan/ schedule at the beginning of the month. During monitoring the CRO must use the prescribed monitoring form and preserve in the client file and forward a copy of the report to SME head office immediately.

ii. A SME branch will maintain the following files: The file will contain Purchase Receipt, Delivery Memo's, and Quotations. In addition, all other papers related to furniture and fixture procurement

iii. Other fixed assets and refurbishment: All fixed assets and refurbishment related papers such as purchase receipt, delivery memo's, quotation, guarantee and warrantee papers, servicing related papers and any other paper related to fixed assets and refurbishment will be in this file.

iv. Lease agreement file: This file will contain all papers related to lease agreement between the SESDS office and owners of the leased premises.

v. Individual client file: Individual files are to be maintained for each borrower and that will hold loan application, Loan Proposal, Copies of Loan Sanction Letter, Disbursement Memo, Monitoring Report, CIB application and Report, Credit report from other bank and all other correspondents including bank receipt.

vi. Statement file: All types of statement sent to SME head office will be kept in this file chronologically

vii. Office instruction file: All kind of office instruction regarding administration should be kept in this file.

viii. Operating instruction and guideline files: All kind of office instruction and guidelines related to operating should be kept in this file

ix. New forms introduction file: All minutes of meeting, whenever held, should be kept in this file.

x. Security documents and legal aspect file: One set of security documents and lawyer's opinions and suggestions regarding issue will be kept in this file. The original should be send to SME head office on a weekly basis

xi. Survey form file: After conducting survey, all survey will be kept in this file chronological.

4.14 Closing Procedure of SME Loan

▪ Pre Closing manual activities

1. Receive SMS/Fax requesting for closing: The borrowers repay the loan as per repayment schedule. When the repayment is being complete the borrower request the unit office/CRO to close his loan account. The unit office/CRO sends a SMS/Fax the loan administration division requesting to close the loan account of the respective borrower.
2. Print the SMS/Fax: Receiving the request from the respective unit office/CRO, the loan administration division takes a paper print and takes necessary steps to close the account.
3. Bring the loan file from archive: The loan account file of the respective borrower is brought from the archive. And the documents of file are checked with MBS record.
4. Obtain approval from the concern authority: it is require the permission of concerned authority to close the loan. If concerned authority approved the closing of the loan account then next initiatives are taken.
5. Checking in Finacle: The loan administration division checks the loan status in MBS. If there is any difference found with the SMS/Fax from unit office and MBS then deposits sleeps are re-checked. Then the loan administration division calculates the total balance of the loan account (Ledger balance + buffer interest +Excise duty)
6. SMS sent to concern CRO: Loan administration division sent an SMS to the concerned CRO informing the current balance of the requested loan account.
7. Receive and print closing SMS/Fax checking & Freezing: The concerned CRO send a final SMS to loan administration division informing that the respective borrower cleared all his liabilities regarding the loan. The loan administration division takes paper print of the SMS, check it and finally close the loan account.

Finacle Entries for Loan closing

1. Pre Closign data entry: Completing the manual activities, the loan administration division enters some information to MBS for future requirement and complete following tasks:
 - ✓ Interest/provision charging & print voucher
 - ✓ Charges collection & print voucher
 - ✓ Final repayment entry & print voucher
 - ✓ Final repayment entry checking
 - ✓ Repayment voucher posting
2. Activate account closing in Fianacle: Completing above mentioned tasks, the loan administration division finally close the requested loan account in MBS.

▪ Post closing manual activities

1. Rechecking with deposit slip: Completing MBS activities, the loan administration re-checks all deposit sleeps of the loan account. If there is any error found then it is immediately resolved, otherwise the file sends to the archive for future requirements. The client may take repeat loan in future and then information from this file will help to approve and disburse loan, which will minimize risk. If the client asks to return security then the loan administration releases security completing following tasks:
 - ✓ Documents photocopy before security release
 - ✓ Closing certificate issuing and security realese
2. Daily finacle updating for loan closing: Finally the authorized officer of the loan administration division update the banking software Finacle by closing the respective loan account.

5.0 SME Relates With Modern Marketing Concept

The goal of modern marketing concept is the customer satisfaction and this satisfaction comes through integrated marketing efforts. In terms of SME the goal is to economic development of our country through meeting and exceeding customer needs better than competition. In terms of customer orientation, SME provides the best facilities to customers regarding their needs. SME provides unsecured loans up to 8 lacs which none of other banks provide. In spite of integrated effort, SME is a team-based organization. CRO go to the door-to-door business and by depending on them, BBL gives loan to clients. By this BBL gets the direct feedback from the customers about their needs and wants. BBL analyzes the customers' wants and tries to give them the product that the customer wants.

Though it is team base management bank, the corporate goals can be achieved and gaining trust of management satisfies customers.

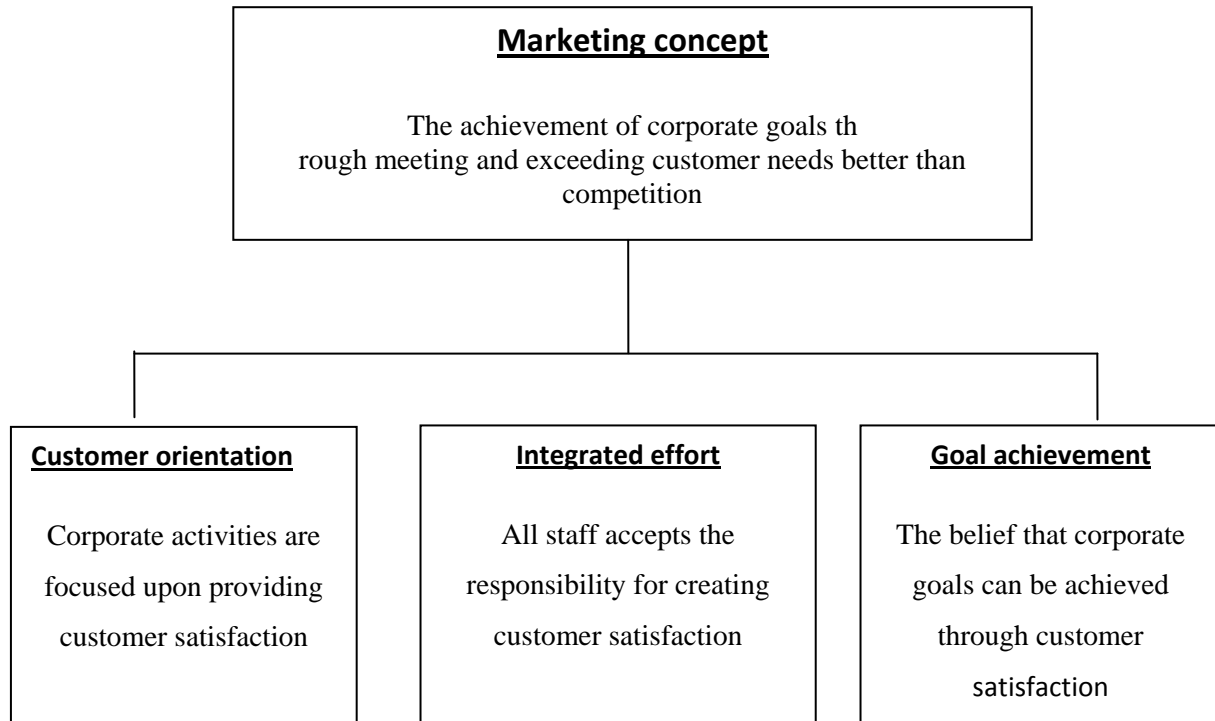


Figure 5.2: Marketing Concepts for SME

5.1 Marketing Processes Relate to SME

Basically strategic plans define the organizations overall mission and objective. Within each business unit, marketing plays a role in helping to accomplish the overall strategic objectives.

5.1.1 Market Segmentation

The market consists of many types of customers, products and needs and the marketer has to determine which segments offer the best opportunity for achieving company objectives. SME segments the market into three categories: Trading, Manufacturing, and Service. In trading business, there are different kinds like retailer, wholesaler, food business, general stores etc. in manufacturing, there are mills, bakery, press business, etc and also except purchasing manufacturer organization also take loans to meet the working capital requirements. In service business, there are pathology, hospitals and satellite business. Though in our country there is not much manufacturing organization, so most of the demands go for trading business. However it is a small and medium enterprise, therefore it focuses on small loan clients that are small types of business like trading, manufacturing, and service. Basically manufacturing clients take medium or low amount of loan during short period of time.

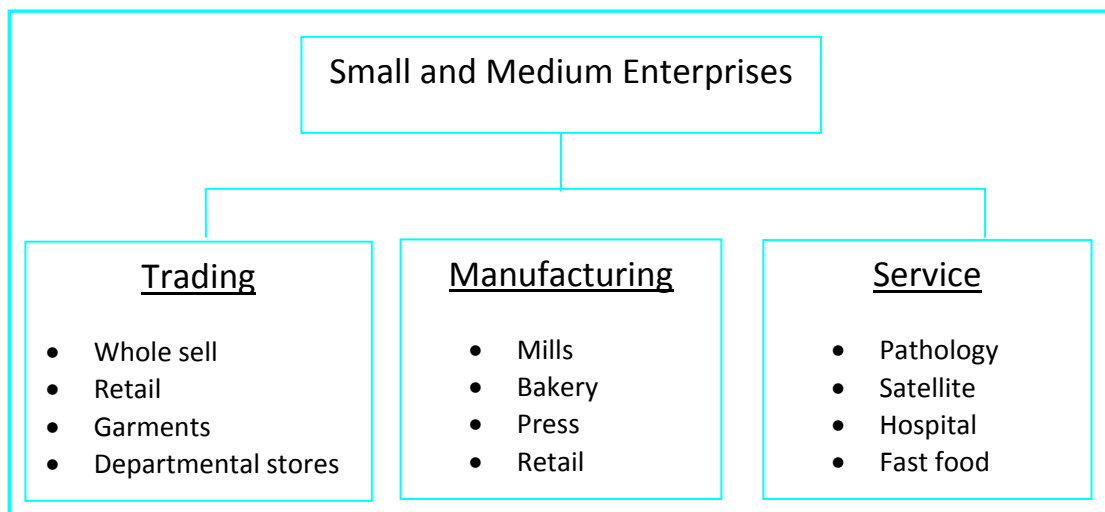


Figure: Market Segmentation of SME

5.1.2 Bases for Segmenting Consumer Markets

There is no single way to segment a market. A market has to try different segmentation variables, alone and in combination, to find the best way to view the market structure.

5.1.2.1 Geographic segmentation: Dividing a market in to different geographic units such as nations, states, region, countries, cities, or neighborhood. In terms of SME, it targets every region around the country in terms of small business. Now the SME has almost 429 unit offices to provide credit facilities to the clients around the country. Each of the SME unit offices mainly setup the district levels around the city but not in the rural or undeveloped areas. However, where the potential enterprises/businesses are more, SME try to develop unit office at that particular region/area to capture the entire market.

5.1.2.2 Demographic Segmentation: Dividing the market in to groups based on demographic variables such as age, sex, family, income, education, religion, and nationality. In terms of SME, in some cases it is very strict. If one who has Hindu religion and live close to the border, SME would have very careful to provide loans to those clients. SME provide loans 20-60 aged peoples. SME is restricted to provide loans more than age of 65.

5.1.2.3 Behavioral Segmentation: Behavioral segmentation divides buyers in to groups based on their knowledge, attitude, uses or responses to a product. Many marketers believe that behavior variables are the best starting point for building market segments. In terms of SME, few clients would be found those who had done Masters and most of clients are secondary or higher secondary pass. But basically SME segments clients at least whether the clients can understand his/her own business. SME gives very importance on attitude. At the first sight if any client behaves rough then CRO never go to that particular client.

5.2 Target Consumer

To succeed in today's competitive marketplace, organization must be customer centered and keeping them by delivering greater value. But before it can satisfy customers, organization must first understand their needs and wants. There are too many different kinds of consumers with too many different kinds of needs and some organizations in a better position to serve certain segments of the market. In terms of SME of BRAC bank, their target customers are small and medium enterprises. BRAC bank SME target customers those who have minimum income of 40-70 thousand Tk. per month. Mostly entrepreneur's in our country is illiterate. Some of them are higher secondary and BSC graduate. So SME mainly targeted those clients who actually understand his own business. There are three sectors of target customers which SME follows: Trading, Service and Manufacturing. Basically according to the clients demand, SME support them financially to enhance their business.

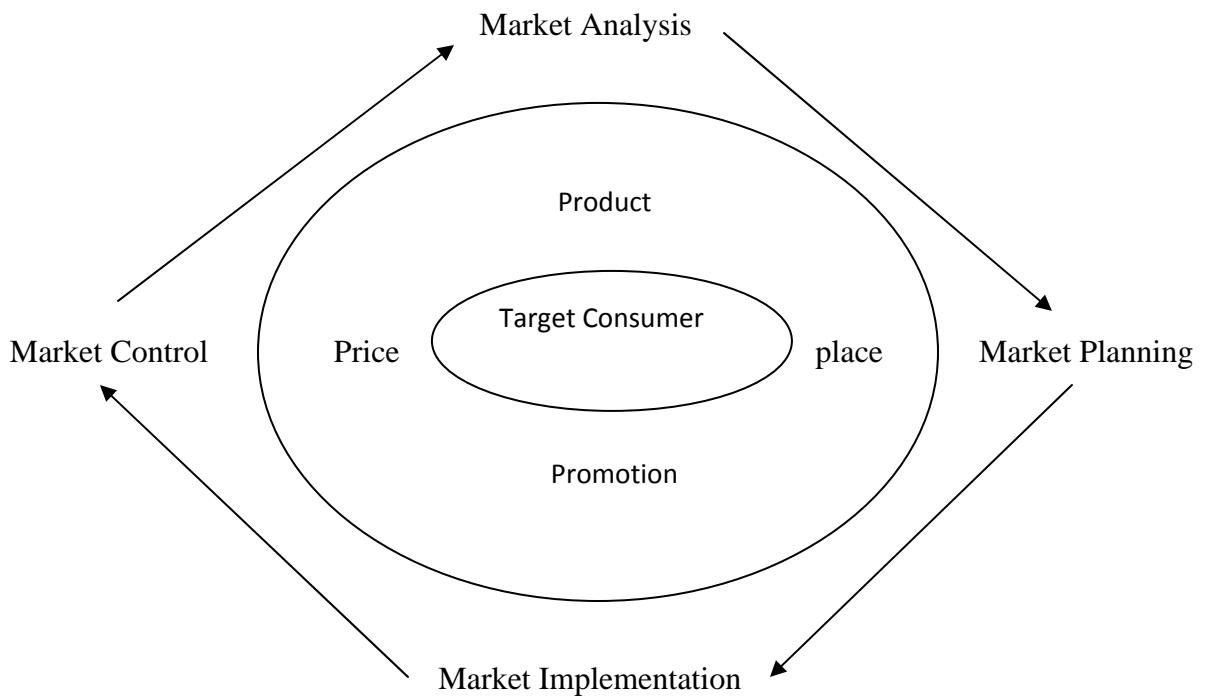


Figure: Factors Influencing BBLs Marketing Strategy

5.3 Target Market

It is the process of evaluation of each market segment and after then selecting one or more segments to enter into the target market. In terms of SME, the scope is specified in which the target market is small and medium enterprise. However, SME is restricted for leather, jewelry, and alcohol business.

5.4 Differentiated marketing: Using a differentiating marketing strategy, an organization decides to target several markets or niches and designs separate offers for each. Basically it provides the loan within 25 days and gives the highest months to repay the loan than other banks. In terms of trading business, if the business is not too big then SME is not allow to give more than 20 months to repay the loan. On the other hand, in case of manufacturing business, if the business is too big then SME gives the client gross period and more than 30 months to repay the loan. SME also categorizes the dealings with the customers in A, B & C groups.

A-Categories officers are dealing with the educated clients, like masters or above or highly social client.

B-Categories officers are dealing with the undergraduate or normal standard clients.

C- Categories officers are dealing with the non-educated or illiterate normal clients.

5.4.1 Market Positioning

Market positioning means to occupy a clear, distinctive and desirable place relative to accomplish products in the minds of target consumers. To meet the customer demands, SME already establish different offices across the country. Before taking the loan CRO clearly defines to the clients regarding SME policies and repayment schedules. To positioning in the market, SME not only provide loan but also they give some valuable ideas to enhance the clients business and for economic development.

Once a company decides in which segments of the market it will enter, it must decide what positions it wants to occupy in those segments. A products positioning in the way the product is defined consumers mind relative to competing product.

Main head office of SME is in Dhaka city and rest of its unit offices are spread out surrounding the country. Each unit office consist of 2 or 3 CRO who provides door to door services, they even work at night. Many banks have field officers but could not carry out the unit office facilities. So BRAC bank can reach to the potential clients at anywhere in the country. The CRO of SME never say to the customer at the first impression that interest rate is 24%. They try to make understand to the clients mind that 2% per month or equal monthly payment as well as many benefits.

5.4.2 Unique Selling Propositions Facilities- the main facility of SME is to provide quick service to the clients, which might take 15 to 20 days. Hypothecation loans are collateral security free which other banks take securities. If any clients got serious problem in business after taking SME loans then it gives reschedule to repay the clients loan. While taking repeat loan SME provide various facilities to the clients.

5.4.3 Different features- IFC and Shore banks are going to carry out equity participation with BRAC bank. It will deposit more funds to provide more loans to the clients, which cover around the whole country

5.4.4 Different services- to get the loan, client do not have to go in bank directly. All sorts of work are done by the CRO for clients to have the loan quickly. In terms of necessities CRO go to clients home and bring repayments of the loan. In favor of clients, CRO also work in holidays.

5.4.5 Marketing Strategies for Competitive Advantages

To be successful the company must do a better job than its competitors for satisfying target consumers. Thus marketing strategies must be geared to the needs of consumers and also to the strategies of competitors. The core competency of SME is that it already set up the business around the country and marketing officers go to the door to door to the clients. On the other hand, it provides the highest amount for unsecured loans than other banks. In addition, it provides extremely quick services to clients by getting the loan.

5.5 Developing Marketing Mix

The set of controllable tactical marketing tools- product, price, place and promotion that the organization blends to produce it wants in the target market. The many possibilities can be controlled into four groups of variables known as the **four P's**: Product, Price, Promotion and Place.

5.5.1 Product

Means the goods and services combination the company offers to the target market. In view of SME, they have short term and medium term loans whether CRO provide quick and quality services to clients. Customer service is another element of product strategy. A company designs its products and support services to profitability meet the needs of target customers. Short terms products means 3/6/9/12 months loan and midterm product means 15/18/24/30/36 months loan. For example- in Eid occasion most cloth merchants want short-term loan to carry out a profitable business.

5.5.1.1 Short Term Products

Easy repay- these categories of products are easy repaid for the clients. When the pick season comes like Christmas/Eid/Puja then these short-term products could be required for the clients. If the clients can exercise these types of loan at the pick season then clients business carry out like hot cakes and easily can repay the loan to BRAC bank.

Short-term fund requirement- without pick season, many clients could have required short funds to hold the tender or dealership. BRAC bank would be a good hand for the clients to have that dealership.

5.5.1.2 Mid Term Products

Proper Utilization- on average, clients get these categories of loan for 18 to 24 months. So clients can easily utilize the money regarding the prospect of the business.

Easy repay- though it is a long time repayment schedule, so clients make the profits to get the required amount of loan and repay the loan in a monthly basis.

5.5.2 Price

Price is the amount of money customers have to pay to obtain the products. In terms of SME of BRAC bank, clients have to pay a certain amount of processing fees and stamp costs to get the loan. One of the factors that affect the company's own pricing moves. For example- many banks have processing fees with 1% or 2% additional charge and other miscellaneous costs. But BRAC bank has withdraws other costs and charges to carry out in the competitive market.

- **Costly-** BRAC bank SME interest rate is 24%. So it is little bit of costly by the competitive edge but the client gets this loan within very short period of time. In this situation client cannot think about the interest rate because at the right time they get the loan, which they can exercise in their business, can yields profits.
- **Easy sanction-** If the CIB (Credit Information Bureau) is being cleared from Bangladesh Bank and all information is being transparent from client then the loan is become sanctioned in favor of client.
- **All time consultancy-** Whether the customers take loan or not, CRO's give the moral advices to the clients for the development of the business.

5.5.3 Place (Distribution)

It includes company's activities that make the product available to target consumers. SME already spread out its unit offices around the country. SME tries to reach each and every small business enterprise to meet client's demands. Marketing channel decisions are among the most important decision that management faces. Management must make channel decision carefully, incorporating today's needs with tomorrow like selling environment. SME of BRAC bank already has 429 unit offices, which is spread throughout the country and 1309 CRO's working under these unit offices. These officers have respective selected supervisors who directly report to the SME main head office. So SME division has everywhere in Bangladesh to serve all respective clients.

5.5.4 Promotion

It means activities that communicate the merits of the product and persuade target customers to buy it. For example- up to 8 lacs taka SME don't take collateral security to provide loan. Also for the repeat borrowers SME discounts up to 6% interest rate and Tk. 1000 for the respective client. Advertisement is one of the major elements in promotion. SME is focusing customers by printing various leaflets, magazines and showing banners in front of their respective unit offices.

5.4.1 Door to door service- it is a door-to-door customer services to clients. CRO knock the door of the business enterprise whether the client has required any loan or not.

5.4.2 Market to non-Bank people: Some clients do not maintain any account in the bank. They are dealing by cash. By providing BRAC bank loans, these sorts of clients can be attached with the banks. In addition, they can understand more about banking and can have a good relationship with them.

6.0 Comparative analysis of SME Credit Scheme of Six Different Banks currently Available in Bangladesh

About the Sample Banks

Dhaka Bank Ltd.

The Bank started branch operations at Belkuchi Sirajgonj in April 2003. Prior to the Bank's intervention, the weaving community did not have the financial strength to stock their products till "Eid ul Fitr" when the annual sale takes place. Traders were taking advantage to the situation by buying up entire productions at low prices and liquidating stocks just before "Eid". With financial services from Dhaka Bank Limited, the weavers have converted to power looms, significantly increased profitability and reduced the involvement of middlemen. Already they have identified several clusters and are working on improving access to finance within these clusters.

Dutch-Bangla Bank Ltd.

Dutch-Bangla Bank Limited (the Bank) is a scheduled commercial bank. The Bank was established under the Bank Companies Act 1991 and incorporated as a public limited company under the Companies Act 1994 in Bangladesh with the primary objective to carry on all kinds of banking business in Bangladesh. The Bank is listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. DBBL a Bangladesh European private joint venture scheduled commercial bank commenced formal operation from June 3, 1996. The Bank commenced its banking business with one branch on 4 July 1996. The bank opened SME windows in 2001.

Prime Bank Ltd.

As per decision of the Board of Directors of Prime Bank Ltd. in its 78th meeting held on 17.11.1999, "Small & Medium Enterprise (SME) Cell" has already been established at Head Office under the Credit Division. Now the bank can replicate quality anywhere in the world. So, the competitive differentiation comes from swiftness to market and innovation. And in this

regard, small companies' right down to the individual can beat big bureaucratic companies ten out of ten times.

Mercantile Bank Ltd

Mercantile bank is a third generation commercial bank. It has opened SME windows in 1999 to encourage the small business activities.

Eastern Bank Ltd

Small and Medium Enterprises (SME) in Bangladesh contributed 25% of gross domestic product (GDP) and 80% of the industrial jobs of the country in 2004. According to ADB, the country's estimated 6 million SMEs and micro enterprises firms of less than 100 employees have a significant role in generating growth and jobs. This is a sector that has its own distinct needs and requires specialized focus. Eastern Bank Ltd. (EBL) has launched SME Banking in early 2005 with this view in mind. Eastern Bank Ltd. Services in SME:

- Provide SMEs with easy access to financing.
- Deliver products that ensure superior returns to our customers.
- Orient customers with industry trends, regulatory issues etc, for their success.
- Value long-term relationship banking

BRAC Bank Ltd.

The BRAC Bank Ltd started its operation in 2001. The SME portfolio includes

- Prothoma Rin Exclusively designed for women
- Anonno Rin This is a small-scale loan
- Apurbo Rin In order to help our SME
- Supplier Finance

6.1 Criterion for Sample Selection:

The banks for comparative analysis have been chosen in the basis of the following criterion:

6.1.1 Loan size

1. Prime Bank Ltd – Taka 1 Lac to Taka 75.00 Lacs
2. Dhaka Bank Ltd - Taka 0.50 Lac to Taka 50.00 Lacs
3. Eastern Bank Ltd- Taka 1 Lac to Taka 300.00 Lacs
4. Mercantile Bank Ltd- Taka 0.50 Lac to Taka 2.00 Lacs
5. Dutch-Bangla Bank Ltd- Taka 3 Lac to Taka 50.00 Lacs
6. BRAC Bank Ltd- Taka 3 Lacs to Taka 30.00 Lacs

Among the banks EBL offers the highest loan amount to the customers where as the BRAC bank offers the lowest loan to its customers.

6.1.2 Rate of interest

1. Prime Bank Ltd – 13% to 15% p.a.
2. Dhaka Bank Ltd - 12% to 13% p.a.
3. Eastern Bank Ltd- 14% to 15% p.a.
4. Mercantile Bank Ltd- 15% p.a.
5. Dutch-Bangla Bank Ltd- 13% to 15% p.a.
6. BRAC Bank Ltd- 18% to 24% p.a.

In terms of interest rate the Dhaka Bank Ltd offers the lowest rate of interest to its customers. The highest rate is charged by BRAC Bank Ltd. The Mercantile Bank Ltd. have the only bank that offers fixed rate for any loan customers.

6.1.3 Loan processing fees

1. Prime Bank Ltd – .50 % of the loan amount.
2. Dhaka Bank Ltd - .00 % of the loan amount.
3. Eastern Bank Ltd- not available
4. Mercantile Bank Ltd- not available
5. Dutch-Bangla Bank Ltd- not available
6. BRAC Bank Ltd- .50 % of the loan amount

All the banks do not provide data about loan processing fees to their customers. The prime bank and BRAC bank limited only charges .50% as loan processing fess

6.1.4 Period of loan

1. Prime Bank Ltd – 1 to 5 years.
2. Dhaka Bank Ltd – 1 to 3 years.
3. Eastern Bank Ltd- up to 1 year.
4. Mercantile Bank Ltd- up to 2 years.
5. Dutch-Bangla Bank Ltd- 1.5 to 5 years.
6. BRAC Bank Ltd- 1 to 3 years.

Among the banks the highest loan maturity date is offered by DBBL and Mercantile Bank Limited offers the lowest maturity period

6.1.5 Mode of Finance

1. Prime Bank Ltd – Term loan and working capital loan
2. Dhaka Bank Ltd – Term loan and working capital loan
3. Eastern Bank Ltd- Only working capital loan

4. Mercantile Bank Ltd- Only term loan

5. Dutch-Bangla Bank Ltd- Only term loan

6. BRAC Bank Ltd- Only term loan

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

6.1.6 Comparative Analysis of SME Credit Scheme of Six Different Banks

Name of the Bank	Operation Started	Loan Size	Rate of Interest	Loan processing Fees	Period of Loan	Mode of Fiannce
Dhaka Bank	2003	Taka 0.50 Lac to Taka 50.00 Lacs	12% to 13% p.a.	.00 % of the loan amount.	1 to 5 years.	Term loan and working capital loan
Dutch Bangla	2001	Taka 3 Lac to Taka 50.00 Lacs	13% to 15% p.a.	not available	1 to 3 years	Term loan and working capital loan
Prime	1999	Taka 1 Lac to Taka 75.00 Lacs	13% to 15% p.a.	.50 % of the loan amount.	up to 1 year	Only working capital loan
Mercantile	1999	Taka 0.50	15% p.a.	not	up to 2	Only term

SME Activities of BRAC Bank Limited

		Lac to Taka 2.00 Lacs		available	years	loan
Eastern	2005	Taka 1 Lac to Taka 300.00 Lacs	14% to 15% p.a.	not available	1.5 to 5 years	Only term loan
BRAC Bank	2001	Taka 3 Lacs to Taka 30.00 Lacs	18% to 24% p.a.	.50 % of the loan amount	1 to 3 years	Only term loan

6.1.7 Management

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

6.1.8 Portfolio Size of different banks in SME Sector

(TK in Crore)

Serial NO	Name of the Bank	Portfolio Size
1	BRAC Bank Limited	950.00
2	Eastern Bank Ltd	300.00
3	Prime Bank Limited	108.44
4	Dutch Bangla Bank Limited	16.38
5	Mercantile Bank Limited	6.63
6	Dhaka Bank Limited	5.72

SME Activities of BRAC Bank Limited

	Total	1387.17
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From the table we can see that the BRAC bank has the highest investment in the SME sector followed by Eastern Bank Ltd. in second position. While the Prime Bank Ltd., Dutch-Bangla Bank Ltd., Mercantile Bank Ltd. and Dhaka Bank Ltd. are third, forth, fifth and sixth respectively.

6.2 Portfolio Size of Six different banks in SME Sector

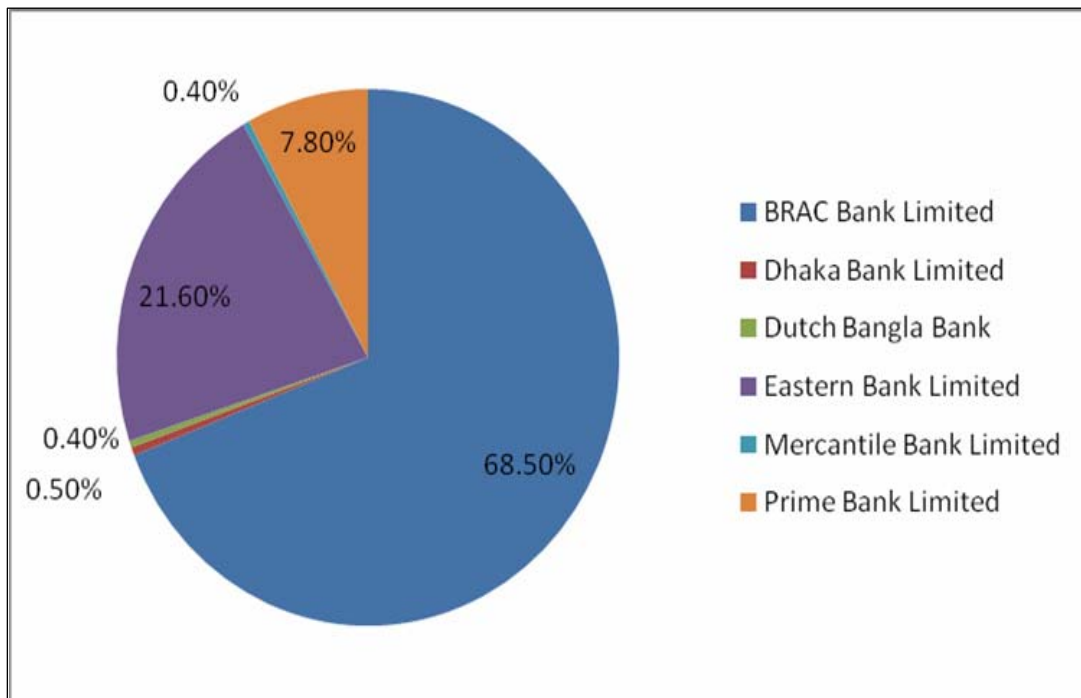


Figure: portfolio size of six different Banks in SME Sector

7.0 SWOT Analysis

The comparison of Strengths, Weaknesses, Opportunities and Threats is normally referred to as a SWOT analysis. Its central purpose is to identify the strategies that will create a firm-specific business model that will best align, fit, or match a company's resources and capabilities to the demands of the environment in which its operates. It helps the organization to identify how to evaluate its performance and scan the macro environment, which in turn would help organization to navigate in the turbulent ocean of competition.

<p style="text-align: center;">Strength</p> <ul style="list-style-type: none"> • Company reputation • Sponsors • Top management • Facilities and Equipment • Interactive corporate culture • Team work at mid level and lower level 	<p style="text-align: center;">Weakness</p> <ul style="list-style-type: none"> • Advertising and promotion • NGO Name (BRAC) • Low remuneration package
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • Huge untapped sub-urban and rural SME market. • International operation 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • Multinational banks • Up-coming banks

8.0 Findings

BRAC bank plays a vital role in the SME sector of Bangladesh. Up to April 2010, BBL provides loans for 265,000 clients and in total 10,000 crore TK. BBL is the pioneer in the SME loan sector. They have taken different strategies for the development of this sector, because it is the main profitable product of BBL. In the recent years they launched different types of SME loan product for mitigate the different target customers needs. Throughout the survey analysis and 3 months internship period this reports found some shortfalls of SME sector of BBL. The findings of this report are given below:

- Most of the customers want to reduce the interest rate and increase tenure.
- Some customers are not satisfied with the attitude/behavior of CROs.
- Huge number of documents in the helpdesk causes delay in the disbursement process
- Zonal office can approve up to 5 lacs, but at present the percentage of repeat customer's increase rapidly and most of the cases they apply for more than 5 lacs.
- Lack of marketing activities in the urban area, whereas other competitors are giving more ad at different spot.
- The remuneration package for the entry and the mid level management is considerably low. The compensation package for BBL entry-level position even lower than the contemporary banks.
- Some of the borrowers do not install a signboard in a visible place of business or manufacturing unit mentioned that financed by "BRAC Bank Limited".

8.1 Recommendation

For better improvement of SME, BBL can consider the following recommendation:

- Reduce the interest rate because most of their competitors are providing loans at a lower rate for example most of the competitors banks providing loan at 12-15% interest rate
- 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.
- Give proper training to the CROs with some real life problem because they are all in all for SME loan. Sometimes they made a mistake which results in customer harassment, increase processing time and charges.
- Look after CROs activities by the ZOs because sometimes they are hiding information and make mistakes to prepare financial statements and other documents.
- Increase amount of SME loan approval by the Zonal officer, at present they can approve up to 5 lacs.
- Increase amount up to 10 lacs without collateral security for providing loans
- Recruit fresh ZOs from outside to control CRO grievances (since present ZOs are mostly promoted CROs who have joined the Bank all most at same time).
- Frequently check clients are perform all the terms and condition of SME loan.
- Provide loans to the leather and jewelers industry, because leather is the 3rd exporting product so it is better to encourage them for the economic development of Bangladesh
- Increase the remuneration and compensation package for the entry and mid level management otherwise BBL can't retain the efficient and experienced employees.

8.2 Conclusion

It is a great pleasure for me to have practical exposure in BRAC Bank Limited because without practical exposure it couldn't be possible for me to compare the theory with practice and it is well establish that theory without practice is blind.

There are number of commercial banks operating their activities in Bangladesh. The BRAC Bank Limited is a promising one in them. For the future planning and the successful operation in achieving its prime goal in this current competitive environment this report can be guideline.

SME is the most emerging sector to expand and BRAC Bank has every potentiality to explore the SME business throughout the country. This report presents some significant ways to meet the future challenges in SME business. Nevertheless, the success of SME banking depends on the expertise and dedication of the field level officers. That is why continuous training and motivation is very much relevant to run the SME banking successfully.

9.0

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APPENDIX 1**Board of Directors**

Muhammad A. (Rumee) Ali	Chairman & Director
Quazi Mohammad Shariful Ala (nominated by BRAC)	Director
Nihad kabir	Director
Shib Narayan kairy	Director & Chairman of Board Audit committee
Tamara Hasan Abed	Director
Dr. Hafiz G.A. Siddiqi	Depositor Director
Mark A. Coffey (Nominated by SHORECAP INTERNATIONAL LIMITED)	Director
Mr. A. E. A. Muhaimen	Managing Director and CEO

Mangement Committee

A.E.A Muhaimen Managing Dierector & CEO	
Syed Mahbubur Rahman (Deputy Manging Director)	Mohammad Mamdudur Rashid (Deputy Managing Director)
Tarique Amin Bhuiyan (Chief Information Officer)	Rais Uddin Ahmad Company Secretary and Head of Legal Regulatory & Internal Control)
Nabil Mustafizur Rahman (Chief Credit Officer)	Syed Faridul Islam (Head of SME Banking)
Tahniyat Ahmed karim (Head of Human Resource)	Firoz Ahmed khan (Head of Retail Banking)
Mahammed Rahmat pasha (Head of treasury & Financial Institution)	Khwaja Shahriar (Head of Cash Management Custodial Service & Probashi Banking)
K.M. Adnan Masud (Head of corporate Bank)	Shah Alam bhuiyan (Head of Operation and Acting Head of Operational Risk Management)

Md. Sarwar Ahmed Head of IAM-SME & Retail Banking	Zeeshan Kingshuk Huq (head of corporate Affairs)
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Appendix 2

Departments of BRAC Bank Limited

- Human Resources Department
- Financial Administration Department
- Asset Operations Department
- Credit Division
- SME Division
- Internal Control & Compliance Department
- Marketing & Product Development
- Impaired Asset Management
- Remittance Operation Department
- Treasury Front
- General Infrastructure Service
- Treasury Back
- Information Technology Department
- Customer Service Delivery
- Payment Service
- Cards Division
- Secured Remittance department
- Women Entrepreneur Cell
- Cash Management
- Call Center

Appendix 3

SME Banking Organogram

