

**Report on**  
**SME Portfolio Management of Mercantile Bank PLC**

**By**  
**APARNA DAS**  
**Student ID: 21364085**

An internship report submitted to the BRAC Business School in partial fulfillment of the requirements for the degree of Master of Business Administration

BRAC Business School  
BRAC University  
January, 2024

© 2024. BRAC University  
All rights reserved

## **Declaration**

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

**Student's Full Name & Signature:**

---

**APARNA DAS**  
**Student ID: 21364085**

**Supervisor's Full Name & Signature:**

---

**RIYASHAD AHMED**  
Assistant Professor  
BRAC Business School  
BRAC University

## LETTER OF TRANSMITTAL

Riyashad Ahmed  
Assistant Professor  
BRAC Business School  
BRAC University  
Subject: Submission of Internship Report.

Dear Sir,

In accordance to your advice and guidance, I have prepared my Internship Report on “**SME Portfolio Management of Mercantile Bank PLC**”. In this report, I have focused on the important information which will cover the purposes of the report.

I have tried to showcase my experiences and learnings, which I have gained in these Three months of internship. I am assuring that I will be ready for any type of clarification and explanation when required.

Thank you

Sincerely Yours  
**Aparna Das**  
ID - 21364085  
BRAC Business School  
BRAC University  
January 13, 2024

## **Non-Disclosure Agreement**

This agreement is made and entered into by and between Mercantile Bank PLC and the undersigned student at BRAC University APARNA DAS, Student ID No. 21364085.

## **ACKNOWLEDGEMENT**

At first, I want to give thanks to Almighty God. Then I would like to express my appreciation to all the people who assisted and guided me to complete this. A significant number of people have helped me directly/indirectly to prepare this report. Also, a special gratitude to my internship supervisor, Mr. Riyashad Ahmed (Assistant Professor, BRAC Business School), whose constant guidance helped me a lot regarding certain topic of this report. I would also like to thank Mr. Md. Fakhruzzaman Chowdhury (Executive Vice President & Head of Branch), Mr. Abu Saleh Md. Ibrahim (First Vice President & Manager Operations) of Mercantile Bank PLC, Motijheel Branch for giving their precious time in providing all the information. I am also grateful to all those people who gave their minimum effort and contribution to complete this report.

During the completion of the report, I faced some hardship, but eventually I managed to complete it within time, which would not have been possible without the guidance of certain people.

## **EXECUTIVE SUMMARY**

At present Banks have become an essential part of our life. It acts as a safeguard for our wealth. In Bangladesh the number of banks is increasing day by day. For this reason, competition is also increasing day by day. At this competitive market Mercantile Bank PLC created its image through its services to the customers. Mercantile Bank PLC started its journey as a new commercial bank in June 1999 with a clear mission for effective banking services and socio-economic development in the country. There are 152 branches in the Bank by 2023. The branches are always ready to prepare better service for their clients. I am an intern at Mercantile Bank PLC, Motijheel Branch. For the last 2 months I worked in the Credit department.

The main function of a bank is to balance its assets and liabilities effectively. And Mercantile Bank PLC always effectively manages the resources and liabilities and achieves continual success and prosperity. With the focus on driving productivity with a sustainable improvement in business performance, it is managed in a disciplined and intelligent way.

# TABLE OF CONTENTS

<b>Chapter</b>	<b>Chapter Titles</b>	<b>Page</b>
<b>Declaration</b>		2
<b>Letter of Transmittal</b>		3
<b>Non-Disclosure Agreement</b>		4
<b>Acknowledgement</b>		5
<b>Executive Summary</b>		6
<b>Table of Contents</b>		7
<b>CHAPTER ONE</b>	<b>Overview of Internship</b>	9
1.1	My Information	9
1.2	Internship Information	9
1.3	My Activity	10
<b>CHAPTER TWO</b>	<b>Overview of the Organization</b>	11
2.1	Background	11
2.2	Objective of the Report	12
2.3	Scope of the Report	13
2.4	Methodology	13
2.5	Limitations	14
2.6	History	15
2.7	Vision, Mission, Corporate Philosophy	16
2.8	Corporate Governance	18
2.9	Products and Services of Mercantile Bank PLC	20
<b>CHAPTER THREE</b>	<b>SME Loan and Portfolio of Mercantile Bank PLC</b>	21
3.1	SME Financing: Bangladesh Bank (BB) Regulations	21
3.2	Regulations	23
3.3	Areas of SME Financing	32
3.4	Implementation Status of SME Financing at MBPLC	33
3.5	Mercantile Bank PLC's SME Financing Division	38
3.6	Findings	43

<b>Chapter</b>	<b>Chapter Titles</b>	<b>Page</b>
3.7	Recommendations	44
3.8	Conclusion	46
	<b>Bibliography</b>	48



# CHAPTER ONE

## OVERVIEW OF INTERNSHIP

### 1.1 My Information

Name: Aparna Das

ID: 21364085

Program: Master of Business Administration

Major: Finance

### 1.2 Internship Information

**Period:** Three Months

**Company Name:** Mercantile Bank PLC

**Department:** General Banking, Foreign Trade, SME

**Address:** Motijheel Dhaka.

**Internship Company Supervisor's Information:**

Md. Fakhruzzaman Chowdhury, Executive Vice President & Head of Branch)

## 1.3 My Activity

My banking journey at Mercantile Bank PLC began with a comprehensive rotation across key departments. I gained valuable experience in customer service (front desk), accounting (clearing & cash), specialized areas like foreign exchange (import), and even loan processing (SME).

- **Front Desk:** Opened diverse accounts, issued cheques, and honed customer interaction skills.
- **Clearing:** Processed cheques (both own and other banks) for customer payments.
- **Cash Department:** Managed cash deposits, maintained proper storage, and prepared daily reports.
- **Accounts Department:** Reconciled vouchers and ensured clean cash handling.
- **Foreign Exchange (Import):** Learned intricacies of Letter of Credit (LC) forms and SWIFT messaging.
- **SME Lending (Brief stint):** Gained insights into loan processing, problem identification, types, and sector allocation.

This diverse exposure gave me a strong foundation in banking operations, specialized knowledge, and adaptability to different roles.

### **Improvements:**

**Conciseness:** Removed unnecessary repetitions and redundancies.

**Structure:** Organized information by department and key tasks.

**Formal tone:** Used professional language appropriate for a resume or cover letter.

**Focused on impact:** Highlighted skills and knowledge gained.

# **CHAPTER TWO**

## **OVERVIEW OF THE ORGANIZATION**

### **2.1 Background**

Mercantile Bank PLC (MBPLC) is dedicated to providing top-notch services to its customers through a diverse range of financial products and strategic fund management. The bank plays a crucial role in driving the country's economic growth by supporting trade and commerce, fostering industrialization, boosting exports, creating employment opportunities for young professionals, and promoting microfinance initiatives to alleviate poverty and enhance the overall quality of life.

SME Loans are of paramount importance to achieving the bank's objectives, as they constitute a significant portion of the bank's total revenue. Therefore, the bank's success hinges on its ability to manage its available resources effectively and judiciously. In essence, prudent and efficient credit portfolio management is essential for the bank's prosperity.

The effectiveness of credit management is assessed based on established standards of safety, liquidity, and profitability, as well as dynamic factors such as the nature and extent of risk, interest rates or margins, SME loan spreads, and SME loan disbursements. In all business dealings, officers and employees must uphold the principles of honesty and integrity while safeguarding the interests of the bank's depositors and shareholders. They must strictly adhere to the Banking Laws, Rules, and Regulations of the Government of Bangladesh, the instructions and guidelines issued by the Bangladesh Bank, and Head Office directives that impact the bank's business practices. Ultimately, the key to safe, liquid, healthy, and profitable credit operations lie in the sound judgment exercised

by executives and officers making lending decisions, coupled with their in-depth understanding of borrowers and market conditions.

To make informed SME loan decisions and ensure loan quality, lending officers must be equipped with comprehensive information that assesses the borrower's creditworthiness and potential risks. This includes evaluating the borrower's character, management competence, capacity, ability to provide collaterals, and external conditions that may affect their ability to meet financial obligations.

## **2.2 Objective of the Report**

### **General Objective**

The primary objective of this study is to conduct a comparative analysis of SME loans at Mercantile Bank PLC (MB PLC) and assess the current state of SME lending at the bank.

### **Specific Objectives**

This study will focus on the following specific areas:

- 1. Credit Management System Activities:** Examine the activities and processes involved in MBL's credit management system for SME loans.
- 2. Credit Lending Procedures:** Analyze the procedures and guidelines followed by MB PLC when granting credit to SME customers.
- 3. Performance Analysis:** Evaluate the performance of MBL's Asset Product and Liability Product for SME loans over the past six months.
- 4. SME Loan Operations:** Provide a detailed overview of the operational procedures for SME loans, including their associated benefits and eligibility criteria.

5. **Customer Satisfaction:** Assess the level of satisfaction among SME loan customers at MB PLC.
6. **Unexplored Opportunities:** Identify potential opportunities and competitive advantages that MB PLC could leverage to enhance its SME loan offerings.
7. **Recommendations:** Based on the findings of the study, provide recommendations to MB PLC for improving its SME loan products, services, and processes.

## 2.3 Scope of the Report

This report provides a comprehensive overview of SME loans at Mercantile Bank PLC, encompassing the following key aspects:

1. **SME Loan Landscape:** An in-depth analysis of the overall SME loan landscape, including its significance, growth trends, and challenges.
2. **Problem Identification:** Identification and evaluation of common problems faced by SME borrowers, such as access to finance, collateral requirements, and complex application processes.
3. **SME Types and Sector Allocation:** A breakdown of the various types of SMEs served by Mercantile Bank Ltd., along with an analysis of the bank's SME loan allocation across different sectors.

## 2.4 Methodology

### Primary Sources

Major source of Primary information is discussing with the Operation Manager, Senior Colleagues, Credit In-charge and Head of Branch.

## **Secondary Sources**

Sources for secondary information are given below:

### **Internal Sources:**

- Annual Report of the Bank

### **External Sources:**

- Credit Policy of Mercantile Bank PLC.
- Internet

## **2.5 Limitations**

Given the tight deadline of three months and the need to balance the report with ongoing office work, time constraints could pose a significant challenge in gathering the comprehensive information required for a thorough analysis of SME loans. Due to these time limitations, certain aspects of SME lending may not be adequately addressed in this study, considering the vastness and complexity of the SME sector.

Confidentiality of data could also present a hurdle during the research process. Every organization maintains certain confidential information that is not readily shared with external parties. While Mercantile Bank was cooperative in providing confidential information for the report, it was understood that sensitive information would be handled with discretion and not divulged beyond the scope of the report. Despite the competitive nature of the market, Mercantile Bank demonstrated openness in sharing confidential information, recognizing the importance of the study and its potential contribution to the bank's SME lending operations.

## **2.6 History**

### **Mercantile Bank PLC: A Public Limited Company**

Mercantile Bank PLC is a public limited company incorporated under the Bank Companies Act of 1991. Its shares are listed on the Dhaka Stock Exchange and the Chittagong Stock Exchange. The bank offers a wide range of products and services, including retail banking, corporate finance, Islamic finance, asset management, equity brokerage, and security. It has 152 branches across Bangladesh and employs approximately 2,300 people.

### **Leadership and Governance:**

The bank's leadership has faced several challenges in recent years. In 2013, Bangladesh Bank, the country's central bank, found that a director of Mercantile Bank, Md Shahabuddin Alam, was involved in illegal transactions with subsidiaries of the SA Group of Industries. In 2018, the Anti-Corruption Commission sued four directors of Mercantile Bank for helping two individuals secure a loan mortgaging government property.

Despite these challenges, Mercantile Bank has remained a significant player in the Bangladeshi banking sector. In 2022, Bangladesh Securities and Exchange Commission approved Mercantile Bank Unit Fund, an open-ended mutual fund. The bank also announced plans to purchase commercial real estate from its chairman, Morshed Alam.

### **Key Highlights:**

- ✓ Public limited company with limited liability
- ✓ Listed on Dhaka Stock Exchange and Chittagong Stock Exchange
- ✓ Offers a wide range of products and services
- ✓ 152 branches across Bangladesh

- ✓ Employs approximately 2,300 people
- ✓ Mercantile Bank launched an open-ended mutual fund in 2022.
- ✓ Mercantile Bank announced plans to purchase commercial real estate from its chairman in 2022.

## **2.7 Vision, Mission, Corporate Philosophy [Source: Mercantile Bank PLC Website]**

### **Vision:**

Would make finest corporate citizen.

### **Mission:**

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

### **Objectives:**

#### **Strategic objectives:**

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



## **Core Values:**

### **1. Customer delight**

Customer satisfaction pervades all our activities. We appreciate that Customer's satisfaction is critical for our success.

### **2. Innovation**

Spurring innovation for reinforcement of our business. Origination and materialization of change management for attainment of perfection and we believe change is always constant

### **3. Ethical Values**

We continue to be responsible, ethical, sincere and transparent in our thoughts and actions.

### **4. Caring for Human Resources**

Realization of latent potentialities of employees, respecting individual worth and dignity to ensure smooth career progression as well as welfare orientation in Human Resources Management policy and practices.

### **5. Commitment**

We always keep high on the agenda of our commitment towards valued depositors as their trustworthy custodian and to maintain the same spirit for all other stakeholders.

### **6. Socially Responsible**

Constant endeavor to act and respond in a socially responsible manner keeping in mind society and our country. To care for our environment.

### **7. Shareholders Value**

Creation and Maximization of values for our shareholders.

### **Corporate Philosophy:**

Our customers, employees and shareholders are equally important to us. We want to achieve strong corporate growth through FINANCIAL INCLUSION. We provide solutions at a minimum cost based on a high level of satisfaction of all segments of our customers, thus also contributing to the prosperity of our employees and shareholders. With a firm commitment to provide better customer services, we are constantly developing innovative and technologically advanced products and services that satisfy our customer needs. We offer cutting edge compensation package and good work environment to our employees. We never forget our shareholders to make them pleased with financial well-being and increase their shares value. This has given us a path to the growth and progress.

## **2.8 Corporate Governance**

### **Board of Directors**

The Board of directors consists of 12 members.

### **Executive Committee**

All routine beyond the delegated powers of management is decided upon by or routed through ‘Executive Committee’ subject to ratification by the board of Directors.

### **Audit committee**

In line with the guidelines of Bangladesh Bank, a three-members audit committee of the board of directors been formed to assist the board in matters related to audit and internal control system of the Bank.

Board of Directors



A. S. M. Feroz Alam  
Vice Chairman



Md. Anwarul Haque  
Vice Chairman, Board of Directors & Chairman, Risk Management Committee



Al-Haj Akram Hossain (Humayun)  
Chairman, Executive Committee



Dr. Gazi Mohammad Hasan Jamil  
Independent Director & Chairman, Audit Committee



M. Amanullah  
Director



Md. Abdul Hannan  
Director



Alhaj Mosharref Hossain  
Director



M.A. Khan Belal  
Director



Mohammad Abdul Awal  
Director



Dr. Md. Rezaul Kabir  
Independent Director



Md. Qamrul Islam Chowdhury  
Managing Director & CEO

Board of Directors of Mercantile Bank PLC [Source: Mercantile Bank PLC Website]

## **2.9 Products and Services of Mercantile Bank PLC**

### **Deposit Products:**

- MBL Nari Sanchaya Prokolpo.
- Non-Resident Investor's Taka Account (NITA).
- MBL Kotipoti Monthly Savings Scheme.
- Current Deposit Account.
- Savings Account.
- Special Noticed Deposit Account.
- Fixed Deposit Account.

### **Loan Products:**

- Home Loan.
- Car Loan.
- Personal Loan.
- Education Loan.
- Education Loan.
- Secured Overdraft.

## CHAPTER THREE

### SME LOAN AND PORTFOLIO OF MERCANTILE BANK PLC

#### 3.1 SME Financing: Bangladesh Bank (BB) Regulations and Areas of SME Financing and Refinance Facilities

**Small and Medium Enterprises (SMEs)** are a vital force in both financial inclusion and driving GDP growth. Bangladesh is actively utilizing SMEs to achieve inclusive finance by:

- **Creating jobs:** SMEs generate significant employment opportunities, contributing to economic stability and development.
- **Developing entrepreneurs:** By encouraging and supporting entrepreneurship, SMEs foster innovation and contribute to a thriving economy.
- **Alleviating poverty:** SMEs provide income-generating opportunities, particularly in underserved areas like rural communities.
- **Empowering women:** The growth of women entrepreneurship through SMEs leads to increased female participation in the workforce and promotes gender equality.

Bangladesh Bank's role in bolstering the SME sector:

Recognizing the significance of SMEs, Bangladesh Bank plays a crucial role in their development:

- **Supportive initiatives:** Bangladesh Bank provides various support programs and resources to SMEs, facilitating their growth and success.
- **Regulatory framework:** Bangladesh Bank establishes regulations and guidelines to ensure the sustainable development of the SME sector.

- **Collaboration:** Bangladesh Bank collaborates with various stakeholders, including banks, non-banking financial institutions, and other organizations, to promote financial inclusion for all businesses.

This report will begin by providing an overview of the different SME definitions according to Bangladesh Bank guidelines.

Enterprise	Nature of Business	Definition			Maximum Credit Exposure (per client)
		Value of Fixed Assets	Number of Employees	Annual Turnover	
<b>Cottage</b>	-	Less than Tk 10 Lac	Up to 15 workers including household members	-	Tk 15 Lac
<b>Micro</b>	Trading	Less than Tk 10 Lac	Maximum 15 persons	Maximum Tk 200 Lac	Tk 50 Lac
	Service	Less than Tk 10 Lac	Maximum 15 persons	-	Tk 25 Lac
	Manufacturing	Tk 10 Lac to Tk 75 Lac	16 to 30 persons or less	-	Tk 100 Lac
<b>Small</b>	Trading	Tk 10 Lac to Tk 200 Lac	16 to 50 persons	-	Tk 500 Lac
	Service	Tk 10 Lac to Tk 200 Lac	16 to 50 persons	-	Tk 500 Lac
	Manufacturing	Tk 75 Lac to Tk 1500 Lac	31 to 120 persons	-	Tk 2000 Lac
<b>Medium</b>	Trading	-	-	-	-
	Service	Tk 200 Lac to Tk 3000 Lac	51 to 120 persons	-	Tk 5000 Lac

	Manufacturing	Tk 1500 Lac to Tk 5000 Lac	121 to 300 persons (in case of RMG max no of worker will be 1000)	-	Tk 7500 Lac
--	---------------	-------------------------------	---	---	-------------

[Source: BB SMESPD Circular No-2 Dated September 05, 2019]

**SME Financing Guidelines**

Classification:

- If a firm falls under different grades based on different criteria, the higher grade will be considered. This rule does not apply to garment and labor-intensive firms.
- Only trading firms classified as Micro or Small Enterprises are eligible for SME financing.

**3.2 Regulations**

**Regulation 1: Source and Capacity of Repayment and Cash Flow Backed Lending**

- Banks must identify the borrower's repayment sources and assess their capacity based on asset conversion cycles and projected cash flow.
- Banks should analyze conditions and prospects within the borrower's specific industry.
- Key business drivers, risks, and mitigation strategies should be identified and documented.
- Banks need to assist borrowers lacking financial expertise in preparing cash flow projections.

**Regulation 2: Personal Guarantees**

- All SME loans require personal guarantees from the owner(s).
- In limited companies, guarantees from all directors (except nominees) are required.

### **Regulation 3: Per Party Exposure Limit**

#### **Maximum exposure per SME depends on its classification:**

➤ **Cottage:** Tk 15.00 lac

➤ **Micro:**

1. Trading: Tk 50.00 lac
2. Service: Tk 25.00 lac
3. Manufacturing: Tk 1.00 crore

➤ **Small:**

1. Trading: Tk 5.00 crore
2. Service: Tk 5.00 crore
3. Manufacturing: Tk 20.00 crore

➤ **Medium:**

1. Service: Tk 50.00 crore
2. Manufacturing: Tk 75.00 crore

#### **Maximum exposure for working capital finance:**

1. Up to 100% of net required working capital, or
2. 75% of inventory and receivables (whichever is lower)

Maximum exposure for fixed asset purchase:

Up to 90% of the purchase price



#### **Regulation 4: Aggregate Exposure Limit on Small Enterprise Sector**

Each bank's aggregate exposure to the SME sector must not exceed specified limits.

The limit of aggregated exposure of a Bank on SME sector is given below:

<b>Percentage of Classified SE Advances to Total Portfolio of SE Advances</b>	<b>Maximum Limit</b>
Below 50%	10 times of equity
Below 10%	6 times of equity
Below 15%	4 times of equity
Up to and above 15%	Up to the equity

#### **Regulation 5: Limit on Clean Facilities**

To encourage smaller loans, banks can decide on security requirements for loans up to Tk. 10.00 lac. (However, our bank allows collateral-free term loans for SMEs up to Tk. 8.00 lac.) Guidelines for security requirements for larger loans are provided in Regulation 6.

#### **Regulation 6: Securities**

Following Regulation 5, SME facilities must be secured as follows:

##### **a) Loans up to Tk. 10.00 lac**

At a minimum, banks must take charge over the assets being financed. (However, our bank requires hypothecation of all fixed and floating assets, personal guarantees from the spouse and two other individuals, and cheques for collateral-free loans up to Tk. 8.00 lac.)

##### **b) Loans from Tk. 10.00 lac to Tk. 7500.00 lac**

- Hypothecation on inventory, receivables, advance payments, plant & machinery.
- Mortgage over immovable properties with registered Power of Attorney.
- Personal guarantees of spouse/parents/family members.
- One third-party personal guarantee.

## **Regulation 7: Loan Documentation**

For all SME loan disbursements, banks must obtain the following documents (as applicable):

### **Standard Documents:**

- Loan Application Form (signed)
- Acceptance of Sanction Advice terms and conditions
- Trade License

### **Partnership Firm:**

- Certified copy of Registered Partnership Deed or a Deed on a Tk. 300 non-judicial stamp (registered/notarized)

### **Limited Company:**

- Certificate of Incorporation (certified by RJSC and attested by Managing Director) with an up-to-date list of Directors (Form XII)
- Board Resolution for availing credit facilities and authorizing representatives for document execution and account operation
- Undertaking not to change company management or its memorandum and articles without prior bank permission
- Copy of the last audited financial statement for the past 3 years (as applicable and subject to Regulation 10)

### **Additional Documents (Limited Company):**

- Personal Guarantee of all Directors, including Chairman and Managing Director
- Certificate of registration of charges over fixed and floating assets by RJSC&F
- Certificate of registration of amendment of charges over fixed and floating assets by RJSC (for repeat loans or changes in terms and conditions)

- Demand Promissory Note
- Letter of hypothecation for stocks and goods
- Letter of hypothecation for book debts & receivables
- Letter of hypothecation for plant & machinery
- Charge on fixed assets
- Personal Letter of Guarantee

**Optional Document:**

- Insurance policy for 110% of stock value covering all risks with bank's mortgage clause in joint name of the bank and client (where practical)

**Regulation 8: Margin Requirements**

Banks must follow the minimum margin requirements set by Bangladesh Bank (if any).

**Regulation 9: Credit Information Bureau (CIB) Clearance**

When considering SME loan applications, banks should carefully evaluate the credit report of the borrower and their group obtained from the Bangladesh Bank's Credit Information Bureau (CIB).

The requirement to obtain a CIB report will be governed by Bangladesh Bank's rules and regulations as they may change.

## **Regulation 10: Minimum Conditions for Loan Exposure**

- **Financial Statements:**

1. For limited companies or exposures exceeding Tk. 40.00 lac, banks must obtain a copy of financial statements audited by a practicing Chartered Accountant for analysis and record.
2. For fully secured loans by liquid assets, financial statements signed by the borrower are sufficient.

- **Books of Accounts:**

1. Many non-limited companies (sole proprietorships/partnerships) might not have proper accounting records or prepare cash flow projections due to limited resources and expertise.
2. In such cases, banks are expected to assist borrowers in developing their books of accounts according to prescribed formats.

- **Loan Application and Borrower Information:**

1. Each bank shall create their own Loan Application Form and Borrower's Basic Fact Sheet.
2. No loan approval/provision (including renewal, enhancement, or rescheduling) will be granted until the prescribed Loan Application Form is accompanied by a signed and sealed Borrower's Basic Fact Sheet.

### **Regulation 11: Proper Loan Utilization**

1. Banks must ensure that SMEs utilize loans properly and for the intended purposes.
2. Banks should develop and implement an appropriate system for monitoring loan utilization.

### **Regulation 12: Restriction on Facilities to Related Parties**

Banks cannot provide any loan exposure to an SME where any of its directors, shareholders, employees, or their immediate family members hold any percentage of the SME's share capital.

### **Regulation 13: Classification and Provisioning for Assets**

#### **Loans/Advances:**

- Banks must follow the prescribed prudential guidelines for classifying their SME loan portfolio and setting provisioning requirements.
- In addition to time-based criteria, banks must perform a subjective evaluation of both performing and non-performing loan portfolios to assess risk. Based on this evaluation, any loan account, including performing ones, may be classified and potentially downgraded further if deemed necessary. This evaluation should consider the borrower's creditworthiness, cash flow, account activity, security adequacy (including realizable value), and loan documentation.
- Apart from specific provisioning requirements, banks must create a sufficient general provision across their entire small enterprise loan portfolio. Therefore, all banks must maintain a general provision of 0.25% of outstanding SME assets in their books at all times.

**Timing of Creating Provisions:**

At least on a quarterly basis, banks must review the collectability of their loan/advance portfolio and document their evaluations. Any shortfall in provisions identified during these quarterly assessments must be immediately addressed in the banks' books of accounts, following the revised Bangladesh Bank guidelines issued from time to time.

**Regulation 14: Loan Repayment Procedure**

- To ensure smooth loan repayment, banks are advised to:
  - Obtain a letter of authority from the client authorizing the bank to debit their account for loan installments as per the loan agreement.
  - Obtain a memorandum of deposit of cheque from the client.
  - Collect fully prepared and valid signed post-dated cheques for each installment, specifying the amount and date according to the repayment schedule.

**Other Important SME Financing Guidelines:**

- Prioritize small enterprises and women entrepreneurs: Ensure at least 10% (preferably 15%) of total SME loans are disbursed to women entrepreneurs to qualify for refinance facilities from Bangladesh Bank.
- Loan sizing:
  - Loan sizes up to Tk. 5.00 crore for Trading and Service and Tk. 20.00 crore for Manufacturing are considered Small Enterprise loans.
  - Loan sizes up to Tk. 50.00 crore for Service and Tk. 75.00 crore for Manufacturing are considered Medium Enterprise loans (as per Bangladesh Bank guidelines).

- Area-based SME cluster financing: Ensure area-based SME cluster financing by forming monitoring cells and cluster development committees.
- Focus on manufacturing and service industries: Place emphasis on selecting these sectors as they generate more employment opportunities.
- Promptly solve SME-related problems: Take prompt steps to resolve SME-related issues at the field and branch level.
- Reduce loan processing time: Minimize the time gap between loan application and disbursement.
- Settle customer disputes quickly and logically: Ensure swift and fair resolution of any disputes faced by SME customers.
- Prioritize SME in CIB requests: Mark CIB request letters for SME customers with "SME Priority."
- Capacity building for SME officials: Organize training programs to improve the skills of SME-related officials.
- Coordinate between head office and branches: Ensure smooth communication and collaboration between head office management and branches on SME issues.
- Entrepreneurship development training: Organize training and workshop programs on "Entrepreneurship Development" with the support and participation of Bangladesh Bank officials.
- Disclose SME financing statistics: Publicly disclose SME financing statistics, including details on SME products, number of SME customers, sector-wise loan disbursement and outstanding amounts, and employment creation figures. This information should be available on the bank's website and prominently displayed at branches.

- Dedicated desks for women entrepreneurs and SME financing: Establish dedicated desks for women entrepreneurs and SME financing at branch level, preferably staffed by female officers.

### 3.3 Areas of SME Financing

According to Bangladesh Bank's SME Credit Policy & Programs, some of the important areas of SME financing include:

- |                            |                              |   |
|----------------------------|------------------------------|---|
| • Agro-processing products | • Handicrafts                | • Printing & packaging                                      |
| • Agriculture equipment    | • Hardware & tools           | • Rice mill/Chatal  |
| • Bakery                   | • Herbal medicine            | • Software & ICT (Information and Communication Technology) |
| • Cold storage             | • Hospital & clinic          | • Stationery products                                       |
| • Computer products        | • Hotel & restaurant         | • Vehicles' body making                                     |
| • Cosmetics & toiletries   | • Jute goods                 | • Drug/medicine store                                       |
| • Dry fish processing      | • Leather & leather goods    | • Fertilizer & pesticides                                   |
| • Electronic items         | • Light engineering products |   |
| • Footwear items           | • Mobile phone accessories   |   |
| • Frozen foods             | • Plastic products           |   |
| • Garments & hosiery       | • Pottery                    |   |
| • Furniture items          |                              |   |



### **3.4 Implementation Status of SME Financing at Mercantile Bank PLC**

Mercantile Bank PLC has taken significant steps to ensure the balanced and steady growth of its SME portfolio since October 2007. These initiatives include:

- **Dedicated SME Desks:** Establishing SME Desks and dedicated desks for Women Entrepreneurs at all branches to provide specialized support to SME customers.
- **Growing Portfolio:** As of December 2021, the outstanding SME loan amount stands at Tk. 3420.00 Crore, demonstrating the bank's commitment to the sector.
- **Diverse Product Range:** Offering 8 (eight) different types of SME financing products tailored to meet the specific needs of various businesses.

This information suggests that Mercantile Bank PLC is actively supporting the growth of the SME sector in Bangladesh. The establishment of dedicated desks and a diverse product range indicates the bank's commitment to providing specialized services to SME businesses. The substantial outstanding loan amount highlights the success of these initiatives and Mercantile Bank PLC's position as a key player in SME financing within the country.

However, for a more comprehensive understanding of MBL's implementation status, it would be beneficial to have information on the following:

- Specific details of the 8 SME financing products offered by Mercantile Bank PLC.
- The criteria and processes for applying for these products.
- The success rate of loan applications and any challenges faced by SME borrowers.
- The impact of MBL's initiatives on the growth and development of SME businesses in Bangladesh.

With this additional information, we can gain a more complete picture of Mercantile Bank PLC's contribution to the SME sector and assess the effectiveness of its implementation strategies.

**Eight SME financing products offered by Mercantile Bank PLC:**

1. CHAKA (Term Loan).
2. ANANNYA (Women Entrepreneur's Loan).
3. SAMRIDDHI (Continuous Loan).
4. MOUSUMI (Short Term Single Payment Seasonal Loan).
5. SANCHALAK (A mix of term, time & Continuous credit).
6. UNMESH (Foreign Trade Financing).
7. FACTORING OF RECEIVABLES.
8. UDAYAN (Seed Capital for Start-up Business).

Details of the schemes of the refinance facility Mercantile Bank PLC is receiving from Bangladesh Bank is given below:

<b>Nature of Refinance</b>	<b>Target Group</b>	<b>Loan Limit per Instance/Borrower</b>	<b>Interest Rate at the Borrower Level</b>	<b>Loan Tenure</b>
Women Entrepreneurs under BB fund	Women Entrepreneurs in the SME segment	Tk 0.5 Lac to 50 Lac	@ 5%	1 to 5 years
Mercantile Bank PLC Instruction circular no 2627/2021 dated 24.08.2021 and 2620/2021 dated 11.08.2021				
Agro-Based Product	Entrepreneurs in the agro-based product processing	Of different amounts	@ 7% but in case of women	1 to 5 years

Processing under BB fund	industries in 37 categories as specified by BB		Entrepreneur rate to be 5%	
Mercantile Bank PLC Instruction circular no 1433/2015 dated 29.01.2015				
ADB assistance refinance scheme “SMEDP-2 for CMSME Sector”	All Entrepreneurs of CMSME	Tk 300 Lac for CMS and Tk 500 Lac for Medium Enterprise	@ 6%	2 to 5 years
Working Capital facility under stimulus package of BB	All Entrepreneurs of CMSME who are affected by COVID-19 pandemic	Of different amounts	@ 4%	1 year
SMESPD circular no 04 dated 13.04.2020 and 26.04.2020				
Startup fund	New Entrepreneurs	Of different amounts	@ 4%	Maximum 5 years
SMESPD circular no 04 dated 29.03.2020				

## Summary of Mercantile Bank PLC's SME Loan Process:

### 1. Area Allocation and Prospect Scouting:

- Individual credit officers are assigned specific market areas or product clusters for identifying potential SME borrowers.
- Each officer conducts an initial market survey and submits a report with potential customer lists to the Relationship Manager/In-charge SME Desk.

### 2. Customer Visits and Assessment:

- Credit officers visit potential customers' businesses and prepare detailed reports on their business status.

- The Relationship Manager/In-charge SME Desk reviews the report and may conduct their own visit if necessary.
- The Head of Branch makes a preliminary decision on loan approval based on the reports.

### **3. Loan Processing and Approval:**

- If the Head of Branch approves, the SME Desk processes the loan proposal for sanction/forward to Head Office.
- Head Office may conduct additional due diligence before final approval.

### **4. Loan Monitoring and Recovery:**

- As per Bangladesh Bank's Regulation 11, loan utilization for the intended purposes is mandatory.
- Credit officers regularly visit borrowers, monitor their business activities, and analyze their financial statements.
- Loan utilization reports signed by authorized officers and the Head of Branch are maintained for future reference.
- Credit officers maintain due date diaries to follow up with customers and record actions taken and commitments made.

### **Key Points:**

- MBL employs a systematic approach to identifying, assessing, and supporting SME borrowers.

- Regular monitoring and follow-up are crucial for ensuring proper loan utilization and repayment.
- The process adheres to Bangladesh Bank's regulations and aims to promote the sustainable growth of SME businesses.

**Additional Information:**

Though the provided information provides a good overview, additional details would be helpful for a clearer understanding:

- Specific criteria used for assigning areas and selecting potential customers.
- Standardized formats for survey reports and visit reports.
- Guidelines or thresholds used for preliminary loan approval decisions.
- Frequency of customer visits and reporting requirements.
- Specific actions taken during follow-up activities.

With these details, one can better understand the effectiveness of Mercantile Bank PLC's SME loan process and its contribution to the development of the sector.

### **3.5 Mercantile Bank PLC's SME Financing Division [Source: Annual Report-2022 Mercantile Bank PLC]**

#### **Purpose:**

- Support the growth and development of Small and Medium Enterprises (SMEs) in Bangladesh.
- Provide tailor-made loan solutions to meet the specific needs of SMEs.

#### **Responsibilities:**

- Ensure compliance with Bangladesh Bank regulations and internal bank policies.
- Support branches in providing quality services to SME customers.
- Implement strategies to reach out to new potential customers.
- Monitor and manage the bank's SME loan portfolio.

#### **Organizational Structure:**

- Led by the Managing Director & CEO.
- Dedicated team under the direct supervision of the Chief Risk Officer (CRO) and Chief Small Business Officer (CSBO).

#### **Overall Impact:**

Mercantile Bank PLC's SME Financing Division plays a significant role in supporting the growth of the SME sector in Bangladesh. The division's commitment to providing quality services and tailor-made loan solutions has resulted in a strong and growing portfolio of SME customers.

**Additional Information:**

For a more comprehensive understanding of Mercantile Bank PLC's SME Financing Division, the following information would be helpful:

- Specific types of loan products offered to SMEs.
- Criteria for loan eligibility.
- Interest rates and repayment terms.
- Average loan size.
- Success rate of loan applications.
- Challenges faced by the division in supporting SMEs.
- Future plans and initiatives for the SME division.

By providing this additional information, the impact and effectiveness of Mercantile Bank PLC's SME financing activities can be better assessed.

**Core Competencies:**

- Easy & Simple Loan processing.
- Highly skilled and dedicated SME Credit Team
- Efficiently managing 6 (Six) Refinance agreement with Bangladesh Bank.
- Empowering Women Entrepreneurs.

**Key Information 2022 (as of 2022):**

- Established in 2006, the division has grown to serve 6,826 SME customers.
- Number of Credit Proposals processed 9,487
- The portfolio of SME loans amounted to BDT 37,517.50 million.

- Amount of new loan sanctioned 2,364.20 million.
- Growth in 2022 over 2021 9.68%
- Sanctioned loans in different sectors declared by Bangladesh Bank for refinancing facilities, receiving BDT 2533.60 million as refinance claim.
- Organized a month-long training program for 25 new entrepreneurs in collaboration with Bangladesh Bank, facilitating fresh loans for their business needs.
- Conducted visits to 71 CMSME customers to attract new customers and retain existing ones.
- Participated in various SME Fairs across different divisions of the country to increase awareness among potential customers.
- Signed agreements for 3 refinancing schemes, including Post COVID-19, Term Loan Refinance Scheme, and SME Foundation.

### **Challenges and Opportunities for Mercantile Bank PLC's SME Financing Division**

#### **Challenges:**

- Excess finance in Trading Sector: This sector is currently exceeding the mandated limit of 40%, potentially limiting opportunities for other sectors.
- Limited financing in Cluster Sector: This sector presents untapped potential for growth, but access to financing remains limited.
- Shortage of Rural Financing: The division has not met the mandated level of rural financing, indicating a need for increased outreach in rural areas.
- Underrepresentation of Women Entrepreneurs: Women entrepreneurs only account for 3.27% of the portfolio, significantly below the 15% target.



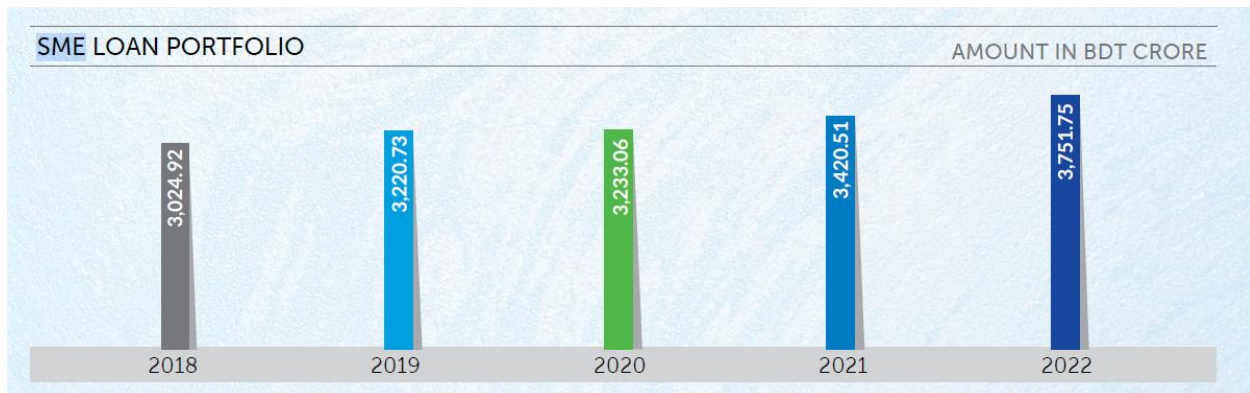
- Low Number of New Proposals: The division received fewer new proposals in 2022, suggesting a need for improved customer acquisition strategies.

### **Opportunities:**

- Low General Provision Requirement: The current requirement of 0.25% offers room for improved profitability.
- Off-Balance Sheet Financing: Exploring options for financing without utilizing bank funds can unlock additional resources.
- Refinance Scheme Benefits: Lower interest rates available under the refinance scheme can make SME lending more attractive.
- Branch Interest Benefit: Branches can benefit from increased SME financing activities.
- Positive Impact on CAMELS Rating: SME financing can contribute to a higher CAMELS rating, indicating improved financial health.
- Diversification: Expanding into manufacturing, service, women, green finance, agro, rural, and other sectors can stimulate growth.
- Loss Branch Recovery: Utilizing the refinance scheme can help struggling branches recover.
- Collateral-Free Loans: The Credit Guarantee Scheme offers opportunities for collateral-free loans, reducing barriers for borrowers.

## Mercantile Bank PLC's Last 5 years SME Portfolio Trend

The outstanding balance of SME loan has reached to Tk. 3,751.75 crore as on December 2022 constituting more than 24% growth compared to year 2018.



Mercantile Bank PLC's Last 5 years SME Portfolio Trend [Source: Annual Report-2022 Mercantile Bank PLC]

## Mercantile Bank PLC's SME Financing Division: Way Forward 2023

Based on the provided information, here are Mercantile Bank PLC's SME Financing Division's key strategies for 2023:

### Customer Acquisition and Retention:

- Maintain strong relationships with existing customers: This ensures continued business and strengthens the division's customer base.
- Develop strategies to acquire new customers: This is crucial for achieving growth and expanding the SME loan portfolio.

### Sectoral Focus:

- Prioritize loan disbursement for sectors with refinance facilities available: This leverages additional resources and expands financing opportunities for specific sectors.

- Increase the share of medium sector loans in the overall portfolio: This aims to support larger businesses and their growth potential.

#### **Risk Management and Innovation:**

- Utilize the Credit Guarantee Scheme: This reduces credit risk associated with unsecured loans, encouraging greater lending activity.
- Focus on Start-Up Loans: This caters to the needs of young entrepreneurs, fostering innovation and supporting new businesses.

#### **Overall, these strategies demonstrate Mercantile Bank PLC's commitment to:**

- Enhancing customer relationships and growing its SME loan portfolio.
- Supporting specific sectors with higher potential and economic impact.
- Promoting innovation and supporting young entrepreneurs through Start-Up Loans.
- Managing credit risk effectively through the Credit Guarantee Scheme.

This strategic approach positions the division for continued success in 2023 and beyond, solidifying its role as a key contributor to the development of Bangladesh's SME sector.

### **3.6 Findings**

#### **1. Inefficiency in Loan Sanctioning Process:**

- Lack of sufficient executives/officers in the credit division
- Lengthy loan approval process, discouraging potential borrowers
- Bottlenecks in disbursement mode, charge documents, and Head Office approvals
- Delays in final decision, sometimes taking months

## 2. Unequal Distribution of Loans Across Sectors:

- MBL prioritizes certain sectors and neglects others, despite their potential.
- This limits access to financing for businesses in various industries.

## 3. Non-compliance with Policy and Guidelines:

- MBL's practices deviate from their own policies and Bangladesh Bank guidelines.
- This raises concerns regarding transparency and adherence to regulations.

## 4. Discrimination in Sector-wise Loan Breakup:

- The current distribution of loans favors specific sectors, neglecting the needs of others.
- This creates an uneven playing field and limits opportunities for diverse businesses.

## 5. Lack of Customized Loan Schemes:

- MBL lacks tailor-made loan options for various classes of people within the SME sector.
- This restricts access to financing for specific segments of the population.

## 6. High Interest Rates and Inconvenient Terms:

- The effective interest rates on SME loans are considered high, discouraging potential borrowers.
- The terms and conditions of loan agreements are viewed as inconvenient and burdensome.

### **3.7 Recommendations**

- Increase staffing in the credit division to expedite loan processing.
- Streamline the loan approval process by simplifying procedures and reducing bottlenecks.
- Diversify loan portfolio across various sectors based on their potential and economic impact.
- Ensure strict adherence to internal policies and Bangladesh Bank guidelines.

- Develop customized loan schemes targeting specific classes of people within the SME sector.
- Review and adjust interest rates and terms and conditions to be more competitive and borrower-friendly.

**Additional Recommendations:**

- Implement strategies to shift focus from the Trading Sector to other sectors with higher potential and growth opportunities.
- Develop targeted initiatives to increase financing in the Cluster Sector and rural areas.
- Implement dedicated programs and outreach strategies to attract and support women entrepreneurs.
- Analyze and address the reasons for the low number of new proposals and develop strategies for improvement.
- Implement innovative financing solutions that utilize the low general provision requirement and off-balance sheet options.
- Actively promote and leverage the lower interest rates offered under the refinance scheme.
- Develop strategies to diversify the SME loan portfolio across various sectors.
- Utilize the refinance scheme to support struggling branches and improve their performance.
- Explore and implement the Credit Guarantee Scheme to offer collateral-free loans and increase loan accessibility.
- Consider developing a more detailed and comprehensive strategic plan with specific, measurable, achievable, relevant, and time-bound (SMART) goals.

- Regularly monitor and evaluate the effectiveness of implemented strategies and make adjustments as needed.
- Invest in staff training and development to enhance their skills and knowledge in SME financing.
- Collaborate with other stakeholders, such as government agencies and NGOs, to expand outreach and access to financing for SMEs.

By addressing these major findings and implementing the recommended improvements, Mercantile Bank PLC can improve its SME loan policies and procedures, ensuring a more efficient, equitable, and accessible lending environment for businesses across various sectors in Bangladesh. Also, Mercantile Bank PLC's SME Financing Division can ensure the successful execution of its strategic plan and achieve its goals for 2023.

### **3.8 Conclusion**

This analysis confirms Mercantile Bank PLC's position as a strong and effective Bank in the Bangladeshi financial system.

#### **Key Strengths:**

- Solid performance and financial stability
- Modern and forward-looking approach
- Commitment to providing high-quality financial services
- Contribution to economic growth through various initiatives
- Vision to be the best private commercial bank in Bangladesh

**Areas for Improvement:**

- Address inefficiencies in the SME loan sanctioning process
- Ensure equitable distribution of loans across different sectors
- Adhere strictly to internal policies and Bangladesh Bank guidelines
- Develop customized loan schemes for specific customer segments
- Review and adjust interest rates and terms to be more competitive
- Increase transparency and accessibility of SME loan information

By addressing these areas for improvement, Mercantile Bank PLC can further strengthen its position as a leading financial institution and contribute significantly to the development of the Bangladeshi economy, particularly the SME sector.

## **BIBLIOGRAPHY**

- ✓ Annual Report (2022) of Mercantile Bank PLC.
- ✓ Interview with the Manager and Operations Manager of Mercantile Bank PLC, Motijheel Branch.
- ✓ Circulars of Mercantile Bank PLC.
- ✓ Brochures and publications of Mercantile Bank PLC's products.
- ✓ Bangladesh Bank guidelines for SME loan.
- ✓ Website of Mercantile Bank PLC [www.mblbd.com](http://www.mblbd.com)