

# **Daffodil International University**



## **Internship Report On**

### **An Comparative Analysis among Different Types of Small and Medium Enterprise (SME) Loan Products of BRAC Bank Limited (BBL)**

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**Internship Report**  
**On**  
**An Comparative Analysis among Different Types of**  
**Small and Medium Enterprise (SME) Loan Products of**  
**BRAC Bank Limited (BBL)**

**Prepared For**  
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September, 2015

Nusrat Nargis,  
Assistant Professor,  
Faculty of Business Administration  
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**Subject: Application for the Submission of Internship Report.**

Dear Madam,

I am Shameem Uddin, Bearing ID# 133-14-1266. I am student of Department of Business Administration, Faculty of Business and Economics; I have successfully completed my internship program in BRAC Bank Limited. During this period of three months I have got some unique opportunities to go through some fruitful job experiences. Those experiences enabled me to bridge the gap between classroom learning and real life situations to a great extent.

Now as a mandatory part of this internship program, I am submitting my internship report entitled **“An Comparative Analysis among Different Types of Small and Medium Enterprise (SME) Loan Products of BRAC Bank Limited (BBL)”**. I have tried to put in my best effort for this report and enjoyed working on this report. I will be pleased to be available if any further explanation is required.

Thanking you.

Yours sincerely,



.....

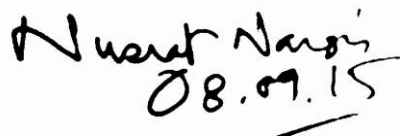
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### Letter of Authorization

This is certify that **Shameem Uddin**, ID **133-14-1266**, a student of Daffodil International University Of MBA program has completed the internship Report titled “**An Comparative Analysis among Different Types of Small and Medium Enterprise (SME) Loan Products of BRAC Bank Limited (BBL)**”, Under my Supervision. I am pleased to state that he has worked hard in preparing this report and he has been able to present a good picture of the concerned organization. The and finding presented in the report seem to be authentic.

He is permitted to Submit the internship Report.

I wish his every Success in life.



Nusrat Nargis  
08.09.15

.....  
Ms. Nusrat Nargis  
Assistant Professor  
Department of Business Administration  
Faculty of Business & Economics  
Daffodil International University

## **Student Declaration**

This is Shameem Uddin the Student of Masters of Business Administration (MBA), at Daffodil International University And declaring that this internship report on the topic “**An Comparative Analysis among Different Types of Small and Medium Enterprise (SME) Loan Products of BRAC Bank Limited (BBL)**” Head office has not been previously submitted to any other University/College /Organization for any academic qualification/ Certificate/ Diploma or any other degree. The internship report contains no material previously published or written by anyone except where due reference is made in the text of the thesis.it has been prepared for the fulfillment of my MBA program.



.....  
Shameem Uddin  
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Program MBA  
Major Finance

## ACKNOWLEDGEMENT

The successful accomplishment of the report “**An Comparative Analysis among Different Types of Small and Medium Enterprise (SME) Loan Products of BRAC Bank Limited (BBL)**” is the outcome of the contribution of a number of people, especially those who took the time and effort to share their thoughts and suggestions to improve this report. At the beginning, I would like to pay my humble gratitude to the Almighty Allah for giving me the ability to work on this report.

My deepest appreciation is to my internal supervisor **Nusrat Nargis**, Assistant Professor Faculty of Business Administration, Daffodil International University, without her Guidance and assistance; this report would not have seen the daylight.

I also express my sincere gratitude to my external supervisor, **Faisal Uddin Ahmed, Manage (BACH)** BRAC Bank Limited for spending his precious time with me in answering my queries. Without his help it would have been very tough for me to prepare this report.

I would like to give special thanks to those SME loan borrowers who helped me a lot by providing information.

## EXECUTIVE SUMMARY

As a requirement of MBA program from Department of Business Administration, Daffodil International University, I have completed my internship from SME operations of BRAC Bank Limited. I have prepared my report with the objective of making comparison among different types of SME loan products of BRAC Bank Limited. For this study, I have collect different information through face to face interview with respective personnel of the organization and conduct questionnaire survey with SME loan customers. In the survey, non-probability convenience sampling was followed and the study has conducted only in Dhaka city, especially in two SME units. Some limitations such as time constraint, unavailability of data and unavailability of loan borrowers are faced during this study.

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' support to people in term of promoting corporate, small entrepreneurs and individuals all over the Bangladesh. It enlisted with Dhaka & Chittagong Stock Exchange in beginning of 2006. BRAC Bank will be a unique organization in Bangladesh. The bank consists of major divisions named 1) Corporate banking, 2) Retail banking, 3) Probashi banking and 4) Small & Medium Enterprise (SME). At present the Bank operating its business by 36 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 through different types of loan products. Bank has already set off different types of SME loan products to support small and medium enterprises that have no easy access to banks/financial institutes. So the bank provides loan facility 3 to 30 lacs taka to that that has no easy access to banks/financial institutes. 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. She/he 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. SME, BRAC Bank may provide 100% of net required working capital but not exceeding 75% of the aggregate value of the inventory and account receivable. Normally, organizations meet their working capital from overdraft loan but BRAC Bank designed the loan to meet working capital but as term loan which is repaid in installment. The customer relation officers also monitor the borrowers' activities after the loan disbursement. Monitoring also facilitates the build up of an information base for future reference.

Asset Operation Department acts as the last line defense of the bank. This division is responsible for the complete disbursement, recovery and closing procedures. The procedures start from the sanction of the SME loan. The respective select potential enterprise, collect confidential information about the enterprise, open clients account in the respective bank where BRAC Bank has its own account, filled up CIB form and send it to the Asset Operation Department. Then the Asset Operation Department starts its activities. The Asset Operation Department sends the CIB form to the Bangladesh Bank to know the CIB status of the applicant. If the report found clean then it send back to the unit office for send proposal for the loan. Then the unit office sanction loan and send it again in Asset Operation Department for disbursement. The Asset Operation Department then prepare a loan file and checks all necessary documents, prepare a list and disburse it. Then the Asset Operation Department starts enter all information regarding the loan in the banking software "Millennium Banking System (MBS)" which includes initial ID generation,



loan account opening, risk fund collection, activation of the loan. Post disbursement manual activities includes repayment schedule send to unit office, documents stamp cancellation, send the loan file to archive. Recovering activities include receive SMS/Fax for installment deposit, entry the installment information to MBS, print vouchers, cross check SMS/Fax and solve problems, repayment voucher check and posting. Closing activities includes receive SMS/Fax requesting for closing, bring the loan file from archive, obtained approve to closing from the concern authority, checking in MBS, SMS sent to concern customer relation officer (CRO), receiving and print closing SMS/Fax.

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. 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.

From the last seven month's SME loan disbursement of BRAC Bank Limited, Anonno has more than 90% of all loans. Almost half of customers of different loans have taken small scale loan in earlier time. Most of the SME borrowers have taken loan first time from BBL. People choose Anonno and Prothoma for flexible collateral; Apurbo, Proshar and Digoon for flexible interest rate and installment. Most of loan has given with amounting BDT 3lac to 10lac though Anonno or Anonno Gold has more contribution among the all loans. Duration of maximum loan is between 2 to 3 years and most of the borrowers repaid 7 to 20 no of installments. The investment is mainly BDT 10lac to 20lac in the business of SME borrowers and most of them have 2 to 3 employees in their business. So SME loan of BBL make a productive contribution for the country and well being rural people.

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# Chapter-1

## Introduction

## **1.1 INTRODUCTION**

Internship program is a prerequisite for completing the MBA program from the Department of Business Administration, Daffodil International University. Before completion of the program, a student must go through the internship program. As the classroom discussion alone cannot make students aware about the real life situation, therefore it is an opportunity for the students to know about the practical environment of the real Business world through this program. The duration of internship program is three months. It is a stimulating opportunity and a valuable experience for me to view real Business world. Working in BRAC Bank Limited helped me in enriching my theoretical knowledge by transforming my conceptions to the real life situations.






## **1.2 OBJECTIVES OF THE REPORT:**

### **1.2.1 Broad Objective:**

*The broad objective of the report is the comparative analysis among different types of Small and Medium Enterprise (SME) loan products of BRAC Bank Limited.*

### **1.2.2 Specific Objective:**

The specific objectives are –

-  To analyze the SME loan processing activities in the BRAC Bank Ltd.
-  To evaluate the enterprise selection criteria to providing different types of SME loan.
-  To identify the customers preference among the SME loan products of BRAC Bank Limited.
-  To identify the **2010-2014** SME loan products offered by the BRAC Bank Limited.
-  To identify some problems regarding SME Loan Of BRAC Bank limited.

## **1.3 SCOPE:**

I have done my internship in the Small and Medium Enterprise (SME) operations of BRAC Bank Limited and it opened the door of being familiarized with the banking environment. I have got an opportunity to gather experience by working in the activities of the department and earn knowledge about small and medium enterprise Business. The area of concentration of this report is confined in making comparison among different types of SME's loan products of the BRAC Bank Limited. The study has conducted only in the Dhaka city, especially in two SME units.

#### **1.4 METHODOLOGY:**

To meet the objectives of the report, different methodologies have been used to acquire and analyze the data. To assess the overall activities of Corporate Banking Group, mainly observation method is used and face to face interview with SME operations managers. To evaluate the enterprise selection criteria to provide different types of SME loan, face to face interview is conducted with the respective officers of the bank. To identify the customers' preference among the SME loan products of the BRAC Bank Limited and identify the economic the economic implications of SME loan products offered by the BRAC Bank Limited, questionnaire survey has been used with SME's loan customers. In this research the number of respondents has been restricted to the small and medium enterprise Businesses who take SME loan from Mogbazar and Motijheel unit office of BRAC Bank Limited. In the survey non-probability convenience sampling was followed. The number of respondents was 100 (Anonno or Anonno Gold 75, Apurbo 6, Prothoma 9, Proshar 3, Digoon 1 and others loan 6). The allocation of respondents among SME loan products was based on the last seven months (July 07 – Jan 08) SME loan disbursement of BRAC Bank Limited. After collecting the data; the analysis is done mainly with the help of application software like MS-Excel.

#### **1.5 SOURCE OF DATA:**

To make the report significant, two sources of data have been used in this report. They are –

##### **1.5.1 Primary Sources**

The sources of data are:

- Personal interview with the Operations managers of BRAC Bank Limited.
- Face to face conversation with the respective officers of the bank.
- Questionnaire survey to SME loan borrowers.

##### **1.5.2 Secondary Sources**

The sources of data are:

- Annual Report of BRAC Bank Limited
- Periodical reports of SME banking of BRAC Bank Limited.
- Different publications regarding banking functions and guild line for different SME products.
- Website of BRAC Bank Limited as a theoretical source of information



### **1.6 LIMITATION:**

Despite the diligent efforts given in preparing the report, it succeeded only to skim through the surface of the ocean on this subject. Therefore the views expressed in this report are likely to be restricted by limitations. A number of limitations are associated while preparing the report. They are summarized below –

- **Time Constraint:** The duration of the study was only three months. So it was not possible to reflect all activities in the report in such a short period of time.
- **Unavailability of data:** Some vital information would have made this report more fruitful. But as those data were confidential in nature, it was not provide by the authority.
- **Unavailability of Loan Borrowers:** Loan borrowers are so much busy with their variety of Business activities and not available in their Business point. So it makes some difficulties to conduct survey in different SME units of BRAC Bank Limited.

# Chapter-2

## Background of the Organization

### **Background of the Organization:**

Banking Industry is one of the most promising industries of our country. Commercial banks are the primary contributors to the economy of a country. These help to flow funds from surplus unit to deficit unit and through this it facilitated the efficient allocation of the resources as well as accelerated economic growth. This sector is moving towards new dimension as it is changing fast due to the competition, deregulation and financial reforms.

A fully operational Commercial Bank, BRAC Bank Limited focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which till then has remained largely untapped within the country. In the last five years of operation, the Bank has disbursed over BDT 2100 crore in loans to nearly 50,000 small and medium entrepreneurs. Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh. The Bank operates under a "double bottom line" agenda where profit and social responsibility goes hand in hand as it strives towards a poverty-free, enlightened Bangladesh.

### **2.1 CORPORATE PROFILE OF BRAC BANK LIMITED**

Address	BRAC Bank Limited 1 Gulshan Avenue , Gulshan -1 Dhaka 1212
Phone	+880-2-8824051-4
Fax	+880-2-8813543
E-Mail	<a href="mailto:enquiry@bracbank.com">enquiry@bracbank.com</a>
Web Site	<a href="http://www.bracbank.com">www.bracbank.com</a>
Chairman	Fazle Hasan Abed
Managing Director	Syed Mahbubur Rahman
Auditors	Rahman Rahman Huq. Chartered Accounts  9 Mohakhali C/A Dhak-1212.

## **2.2 HISTORICAL BACKGROUD OF BRAC BANK LIMITED (BBL)**

BRAC Bank is a listed commercial bank established under the Banking Companies Act, 1991 and incorporated as a public company limited by shares on 20 May, 1999 under the Companies Act, 1994 in Bangladesh. The primary objective of the Bank is to carry on all kinds of banking activities. The Bank has started operations from 04 July, 2001. It enlisted with Dhaka & Chittagong Stock Exchange at the beginning of 2013.

BRAC Bank has a unique institutional shareholding between BRAC, the International Finance Corporation (IFC), the commercial arm of the World Bank Group, and Shore Cap International, a concern of Shore Bank Corporation, 9 America's first and leading community development and environmental Banking Corporation. A fully operational Commercial Bank, BRAC Bank focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which till now has remained largely untapped within the country. Almost 40% of BRAC Bank's clients had no prior experience with formal banking. The Bank has 355 regional marketing unit offices offering services in the heart of rural and urban communities and employs about 1,200 Business loan officers – around 70% of total staff.

BRAC Bank Limited, a full service commercial bank with Local and International Institutional shareholding is primarily driven by creating opportunities and pursuing market niches not traditionally met by conventional banks. It 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.

The reason BRAC Bank Limited is in Business is to build a profitable and socially responsible financial institution focused on markets and Businesses with growth potential, thereby assisting BRAC and stakeholders to build an enlightened, healthy, democratic and poverty free Bangladesh. Which means to help make communities and economy of the country stronger and to help people achieve their dreams? It fulfills the purpose by reaching for high standards in everything it does: For its customers, shareholders, associates and communities, upon which the future prosperity of its company depends.





Remarkably, BRAC Bank, despite being one of the newest Banks in the country, has attained a reputation for being in the forefront of the industry. Its retail Business and 10 corporate Businesses have gained new ground over the last two years and today BRAC Bank can claim itself to be among the top financial service providers.

BRAC Bank began its operations with a mind to provide formal banking services to all levels of people in the urban, semi-urban and rural spectrum, and through the nearly 300 unit offices across the country, the Bank has seen that goal a long way through - providing Bangladesh with a degree of service and professionalism that the traditionally underserved class could ever dream of.

The issue manager, in addition to the issuer company, shall ensure due compliance of the above mentioned conditions and shall submit compliance report thereon to the Commission within seven days of expiry of the aforesaid fifteen days' time period allowed for refund of the subscription money.”

Since inception in July 2001, the Bank's footprint has grown to 26 branches, 355 SME unit offices and 37 ATM sites across the country, and the customer base has expanded to 210,000 deposit and 55,000 borrowers through 2013. In the last four and half years of operation, the Bank has disbursed over BDT 2,100 crore in loans to nearly 50,000 small and medium entrepreneurs. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh.

### **2.3 ACHIEVEMENTS**





-  Fastest growing bank in the country for the last two years
-  Leader in SME financing through 350 offices
-  Biggest suit of personal banking & SME products
-  Large ATMs (Automated Teller Machine) & POS (Point of Sales) network

### **2.4 CORPORATE VISION**

The vision of BRAC Bank Limited is *“Building a profitable and socially responsible financial institution focused on Markets and Business with growth potential, thereby assisting BRAC and stakeholders build a “just, enlightened, healthy, democratic and poverty free Bangladesh”.*

### **2.5 CORPORATE MISSION**

BRAC Bank has got a number of corporate missions –

-  To maintain continuous growth in the “Small and Medium Enterprise (SME)” sector.
-  To have sustained low cost deposit growth with controlled growth in Retained Assets.
-  To fund Corporate Assets through self-liability mobilization and the growth in assets through Syndications and Investment in fast growing sectors.
-  To make an attempt to increase fee based income.

- To keep our Debt Charges at 2% to maintain a steady profitable growth.
- To efficiently coordinate between the bank's Branches, SME Unit Offices and BRAC field offices for delivery of Remittance and Bank's other products and services.
- To manage various lines of Business in a fully controlled environment with no compromise on service quality.
- To keep a diverse, far flung team fully motivated and driven towards materializing the bank's vision into reality.

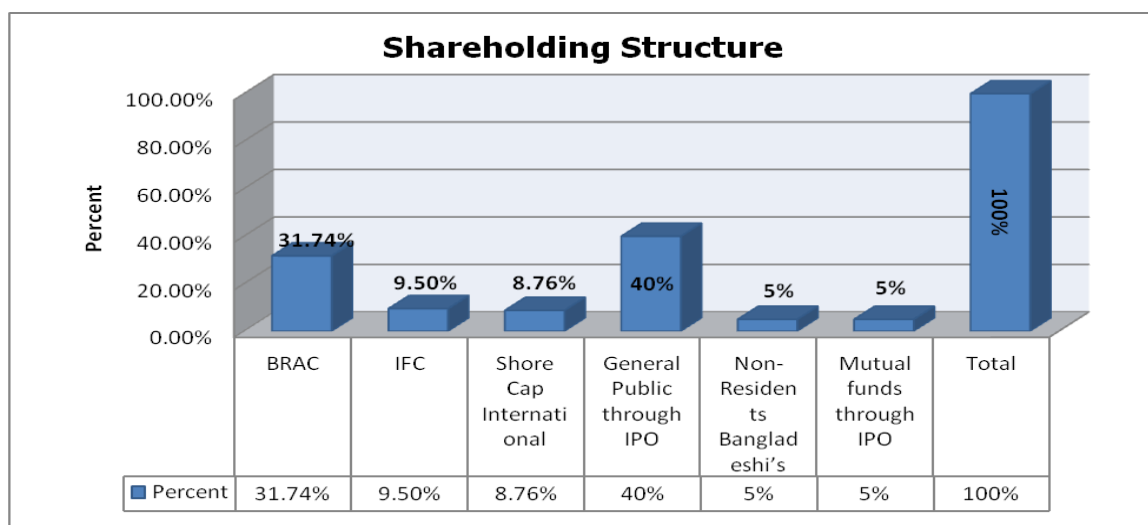
## **2.6 OBJECTIVES OF BBL**

BRAC Bank will be the absolute market leader in SME Business throughout Bangladesh. It will be a world – class organization in terms of service quality and establishing relationships that help its customers to develop and grow successfully. It will be the Bank of choice both for its employees and its customers, the model bank across the globe.

## **2.7 CORPORATE VALUES OF BBL**









- BBL wants to create an honest and open enabling environment
- BBL has a strong customer focus and wants to build relationships based on integrity, superior service and mutual benefit
- It endeavors for profit and growth
- All the employees of BBL has to work as a team to serve the best interest of its owners
- BBL is in relentless pursuit of Business innovation and improvement
- It always values and respects people and makes decision based on merit
- BBL bases recognition and reward on performance
- BBL is responsible, trustworthy and law-abiding in all it does

## 2.8 BOARD OF DIRECTORS AND ORGANIZATIONAL STRUCTURE



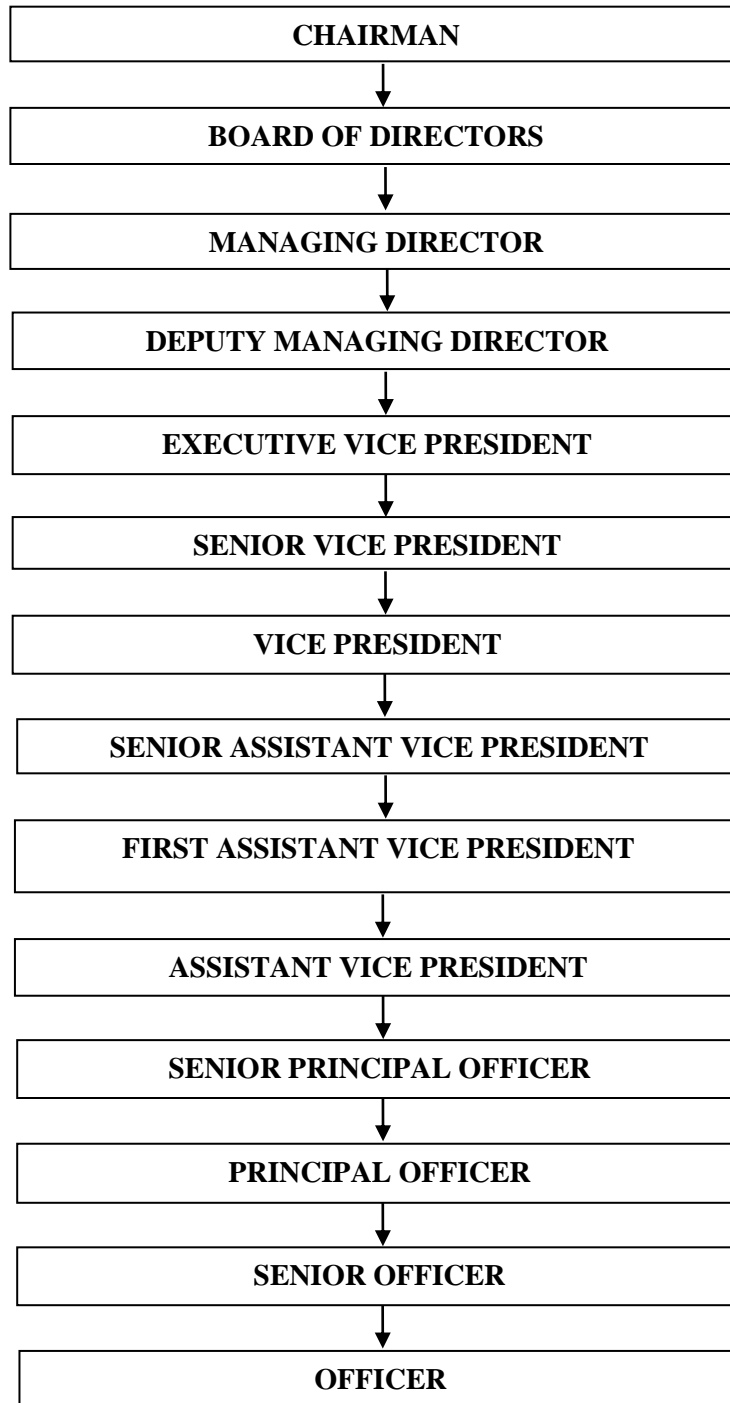
**Fig-1:** Shareholding Structure of BRAC Bank Limited

**Table-1:** List of Board of Directors

 <p>Sir Fazle Hasan Abed, KCMG Chairman</p>		
 <p>Muhammad A. (Rumee) Ali Director</p>	 <p>Shib Narayan Kairi Director</p>	 <p>Tamara Hasan Abed Director</p>
 <p>Nihad Kabir Director (Independent)</p>	 <p>Dr. Hafiz G.A. Siddiqi Director</p>	 <p>Zahida Ispahani Director</p>
 <p>Syed Mahbubur Rahman Managing Director and CEO</p>		



**2.8.3 The Management Hierarchy of BRAC Bank Limited is given below:**




## **2.9 MAJOR FUNCTIONS OF BBL**

The primary objective of the Bank is to carry on all kinds of banking Businesses. At present the Bank has 166 (One hundred sixty six) branches, 86 zonal offices and 392 unit offices of SME.


### **2.9.1 Basis of Accounts:**

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the first schedule (Sec 38) of the Bank Companies Act 1991, Bangladesh Accounting Standard (BAS-30), Companies Act-1994 and the forms of financial statements as prescribed by Bangladesh Bank vide BRPD circular No. 14 dated 25 June 2003.


### **2.9.2 Loans and Advances Particulars:**


 General provision on:


- Unclassified loans and advances 1%
- Small enterprise 2%
- Consumer finance for house building loan and loans for professional setup 2%
- Consumer finance 5%
- Special mention account 5%

 Specific provision on:

- Substandard loans and advances 20%
- Doubtful loans and advances 50%
- Bad/ loss loans and advances 100%

 Interest on loans and advances is calculated on daily product basis, but charged and accounted for monthly and quarterly on accrual basis.

 Provision for loans and advances is made based on the period and review by the management and instruction contained in Bangladesh Bank BRPD Circulars No. 16 dated 6 December 1998, 09 dated 14 May 2001, 10 dated 20 August 2005, 19 and 20 dated 20 December 2005 and 8 dated 8 February 2013 respectively.

 Interest is calculated on classified loans and advances as per BRPD Circulars No. 16 of 1998, 09 of 2001 and 10 of 2005 and recognized as income on realization.

### **2.9.3 Fixed Assets and Depreciation:**

- Fixed assets have been accounted for at cost less accumulated depreciation.
- Depreciation is charged on straight-line method rates varying from 10% to 33%. Depreciation on fixed assets has been charged in the following month of acquisition. Depreciation on fixed assets disposed off has not been charged in the month of disposal.
- Leasehold premises are written-off over the term of lease agreement and such amortization has been accounted for accordingly on half-yearly basis.

### **2.9.4. Foreign Currency Transactions:**

Assets and liabilities in foreign currencies are translated into Taka at mid rates prevailing on the balance sheet date, except bills for collection, stock of travelers cheque and import bills for which the buying rate is used on the date of the transaction. Gains or losses arising from normal fluctuation of exchange rate are charged to revenue.

### **2.9.5 Provident Fund:**

Provident fund benefits are given to the staff of the bank in accordance with the registered provident fund rules. The Commissioner of Income Tax, Large Tax Payers Unit, Dhaka has approved the Provident Fund as a recognized provident fund within the meaning of section 2(52) read with the provisions of part - B of the First Schedule of Income Tax Ordinance 1984. The recognition took effect from 1 January 2003. The fund is operated by a Board of Trustees consisting 11 (eleven) members of the bank. All confirmed employees of the bank are contributing 10% of their basic salary as subscription of the fund. The bank also contributes equal amount of the employees' contribution to the fund. Interest earned from the investments is credited to the members' account of half yearly basis. Members are eligible to get both the contribution after 3 years continuous service from the date of their membership.

### **2.9.6 Foreign Exchange Risk Management:**

Foreign exchange risk is defined as the potential change in profit/loss due to change in market prices. Today's financial institutions engage in activities starting from imports, exports and remittances involving basic foreign exchange and money market to complex structured products. Within the Bank, Treasury department is vested with the responsibility to measure and minimize the risk associated with bank's assets and liabilities. All treasury functions are clearly demarcated between treasury front office and back office. The front office is involved only in dealing

activities and the back office is responsible for all related support and monitoring functions. Treasury front and back office personnel are guided as per BB (Bangladesh Bank) core risk management and their job description. They are barred from performing each other's job. As mentioned in the previous section, 'Treasury Front Office' and 'Treasury Back Offices' has separate and independent reporting lines to ensure segregation of duties and accountability but also helps minimize the risk of compromise. Dealing room is equipped with Reuter's information, a voice screens recorder for recording deals taking place over phone. Counter party limit is set by the Credit Committee and monitored by Head of treasury. Trigger levels are set for the dealers, Chief Dealer and head of Treasury. Any increase to trigger limit, the head of Treasury requires approval from the higher authority. Before entering into any deal with counter party, a dealer ensures about the counter party's dealing style, product mix and assess whether the customer is dealing in an appropriate manner.

#### **2.9.7 Prevention of Money Laundering:**

In recognition of the fact that financial institutions are particularly vulnerable to be used by money launderers, BRAC Bank has established Anti Money Laundering Policy. The purpose of the Anti-Money Laundering Policy is to provide a guide line within which to comply with the laws and regulations regarding money laundering both at country and international levels and thereby to safeguard the bank from potential compliance, financial and reputation risk. KYC procedure has been set up with address verification. As a part of monitoring account transaction- the estimated transaction profile and high value transactions are being reviewed electronically. Training has been taken as a continuous process for creating/developing awareness among the officers.

#### **2.9.8 Asset Liability Management (ALM):**

Changes in market liquidity and or interest rate exposes Bank's Business to the risk of loss, which may, in extreme cases, threaten the survival of the institution. As such emphasize has given so that the level of balance sheet risks are effectively managed, appropriate policies and procedures are established to control and limit these risks and proper resources are available for evaluating and controlling these risks. The Asset Liability Committee (ALCO) of the bank monitors Balance Sheet risk and liquidity risks of the Bank. Asset liability Committee (ALCO) reviews country's overall economic position, Bank's Liquidity position, ALM Ratios, Interest Rate Risk, Capital

Adequacy, Deposit Advanced Growth, Cost of Deposit and yield on Advance, F.E. Gap, Market Interest Rate, Loan loss provision adequacy and deposit and lending pricing strategy.

#### **2.9.9 Lease Rental:**

Lease hold assets have been accounted for as operating lease and accordingly lease rentals have been charged to revenue in these temporary financial statements for the period 1 January 2013 to 31 March 2013. Accounting of leased assets will, however, is done as per Bangladesh Accounting Standard (BAS)-17 "Leases" considering the leases as finance lease in preparing yearend financial statements.

#### **2.10 VARIOUS FUNCTIONAL DEPARTMENTS**

BBL activities are performed through functional departmentalization. So, the departments are separated according to the functions they perform (HR, Personal Banking, etc.). There are 6 major functional departments at BBL: Human Resources, Services, Small and Medium Enterprises (SME), Retail, Corporate Banking and Cards. Within these major departments there are some other subsidiary departments that allow smooth operation of their own major departmental function. A graphical presentation of all the departments is shown in the following page. A brief functional description of these departments is provided below.



**Syed Mahbubur Rahman**  
Managing Director & CEO



**Mohammad Mamdudur Rashid**  
Deputy Managing Director



**Ishtiaq Mohiuddin**  
Deputy Managing Director



**Rais Uddin Ahmad**  
Group Company Secretary,  
Head of Legal & Regulatory  
Affairs and CAMLCO



**Nabil Mustafizur Rahman**  
Chief Risk Officer



**Firoz Ahmed Khan**  
Head of Retail Banking



**Mahmoodun Nabi Chowdh**  
Head of Corporate Banking



**Shah Alam Bhuiyan**  
Head of Operations



**Fatema Rizwana**  
Head of Human Resources



**Syed Abdul Momen**  
Head of Small Business



**Md. Mahbubul Alam**  
Head of Learning & Development



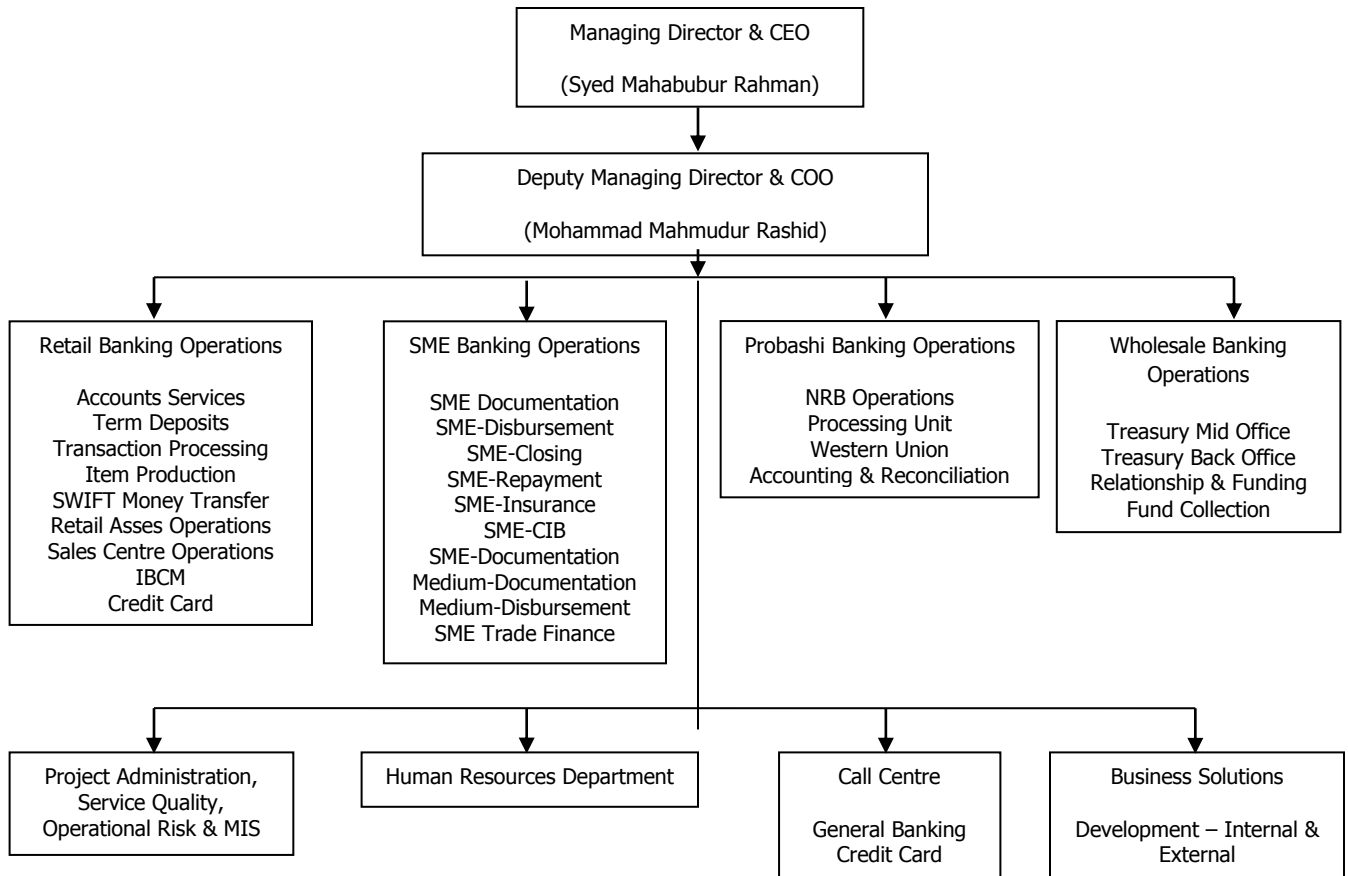
**Md. Shaheen Iqbal**  
Head of Treasury and Financial Institutions



**Parvez Sajjad**  
Chief Financial Officer



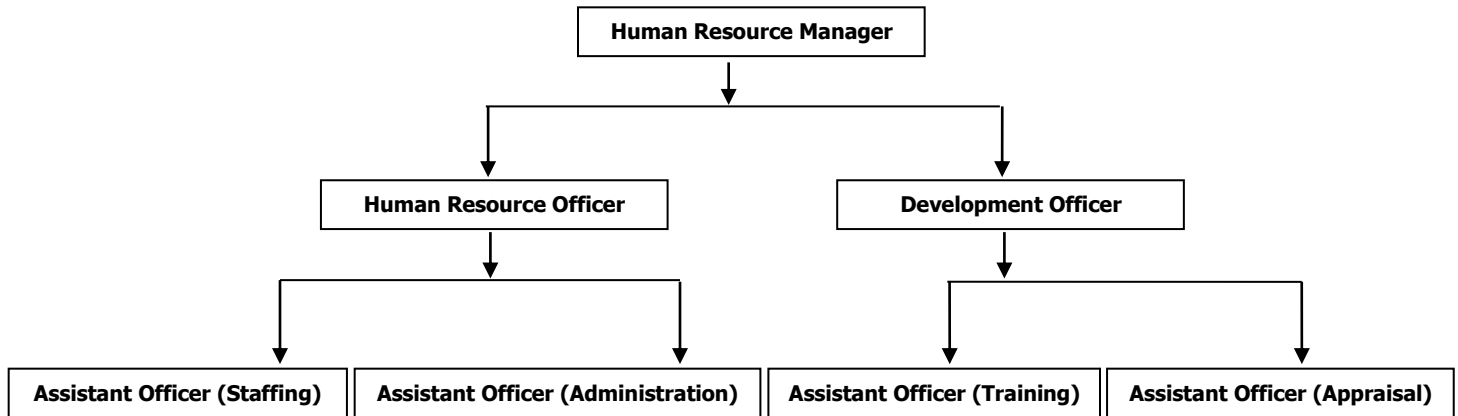
**Zara Jabeen Mahbub**  
Head of Communication  
& Service Quality



### 2.10.1 Human Resources Department:

The Human resource Manager heads this department. The major functions of this department are Recruitment, Training and developments, Personnel Services and Security. The HR department is much concerned with the discipline that is set up by the BBL group. BBL group has got strict rules and regulations for each and every aspect of banking, even for non-banking purposes; i.e. The Dress Code. All these major personnel functions are integrated in the best possible way at BBL, which results in its higher productivity. The Human resource officer monitors the employee staffing and administration activities. The Training officer supervises Training, development & rotation activities. The structure of the HR department is shown below:

**STRUCTURE OF HUMAN RESOURCE DEPARTMENT –**




**RECRUITMENT, TRAINING AND DEVELOPMENT:** BBL Bangladesh limited follows a standard procedure for recruitment and selection. However there is no set time period when this recruitment and selection takes place. Each Departmental head places the requisition for recruitment to the Human resource officer, if any vacancy is created due to (1) Retirement, (2) Resignation (3) Death, or (4) Extra work load. The process for the recruitment of personnel for managerial and non-managerial level differs slightly but the basic steps are same in both the cases. The steps are –

- i. Initial Screening
- ii. Screening by Departmental Heads
- iii. Filling of the BBL Job Application Form
- iv. Screening on the basis of SAF
- v. Initial Interview
- vi. Selection for written test
- vii. Written test
- viii. Evaluation of test papers
- ix. Selection of Final interviewees
- x. Final interview
- xi. Documentation Check
- xii. Medical Examination
- xiii. Probationary Appointment
- xiv. Confirmation




In order to enhance the efficiency of the employees, BBL gives emphasis on the both theoretical and practical training for its personnel. All the training and development programs are aimed at two basic reasons - (1) skill development (2) motivation through counseling and persuasion to change value system. For the top management or senior Managers there is provision for overseeing training arranged by BBL group. For the mid - level manager or other managerial level there is provision for regional training courses. Besides, for non-management level there are training programs arranged in different institutions and also within the organization. For the operatives, various on the job - training program are conducted within the company. Finally, BBL follows a performance based promotion system for all levels of its employees.

 **PERFORMANCE APPRAISAL:** The Company follows both rating and descriptive systems for the performance appraisal. Although the appraisal system is non – participative, the employees are annually assessed with a joint consultation with their immediate supervisor and departmental head. Rating is mainly done on the factors such as – Knowledge of work, Accuracy and Reliability, Speed, General intelligence, Sense of responsibility and duty, Diligence, Initiative and self-confidence, Readiness to work for and with others.

#### **2.10.2 Services Department:**

This is an integral and vital part of the bank. The services department ensures smooth operation and functioning within and between all the departments of BBL. It also provides continuous support to the core banking activities of BBL. The Manager of Services heads this department who formulates and manages various critical issues of the services function of BBL. He is followed by a group of executives who are the heads of various secondary divisions that operate within the services department. The services department is considered to be the backbone of all other departments. The various subsidiary divisions within this department are Administration, IT, Internal Control (IC), Network Services Center (NSC).

 **INFORMATION TECHNOLOGY (IT):** This department gives the software and hardware supports to different departments of the bank. As BBL is engaged in online banking, the role of IT is very crucial for the bank. This department is the most active department of BBL where employees always stand by to solve any problems in the system. The managers and executives of IT division work continuously to develop the total IT system of BBL so that it can be operated with ease, accuracy and speed.

- **INTERNAL CONTROL:** BBL has internal auditors who visit on regular basis and submit the report to the higher authority for audit purposes. This gives different departments the chance to know their mistakes and take necessary corrective actions. Again, the Bank annually administers a companywide audit program to evaluate the overall performance of the bank in Bangladesh.
- **NETWORK SERVICE CENTRE (NSC):** This department can be described as the ‘Power House of BBL Bangladesh. NSC does the back office job for the bank. The main four jobs that are performed by NSC are Clearing, Scanning of signature cards, issuing checkbooks and sending & receiving Remittances. NSC looks after the clearing process of BBL and makes necessary contact with the central bank for maintaining account flows. All the customer signatures are scanned in this department and are entered into the system. NSC also issues checkbook for new and old accounts based on requisition from various branches. ‘Remittance’ is a banking term, which means ‘Transfer of funds through banks’. When a bank remits on behalf of its customers, it is termed as outward remittance. On the other hand, when the bank receives the remittance on behalf of the bank, it is inward remittance. The following are the methods that NSC used to remit money for customers: Telegraphic Transfer (TT), Demand Draft (DD) & Cashier’s Order.

### **2.10.3 Small and Medium Enterprise (SME)**

BBL has established strong infrastructure for SME financing all over the country. BBL is the market leader in SME financing. Disbursement in SME financing has been increasing significantly. SME five years Business Plan provides the road map of maintaining the leadership position of BBL. At present, Government and Non-Government supports for promoting SME in Bangladesh encouraged different banks for participating more in SME financing. The experience in SME financing provided BBL strategic strength to maintain its growth of assets by extending its network in untapped areas in the country.

The most valuable natural resource of Bangladesh is its people. As a nation we struggled for our independence and now the attainment of economic uplift is the main goal. Micro lenders are working here in the financial field, providing very small amount and on the other hand regular commercial banks have been providing bigger amount of loans to larger industries and trading organizations. But the small and medium entrepreneurs were overlooked. This missing middle group is the small but striving entrepreneurs, who because of lack of fund cannot pursue their

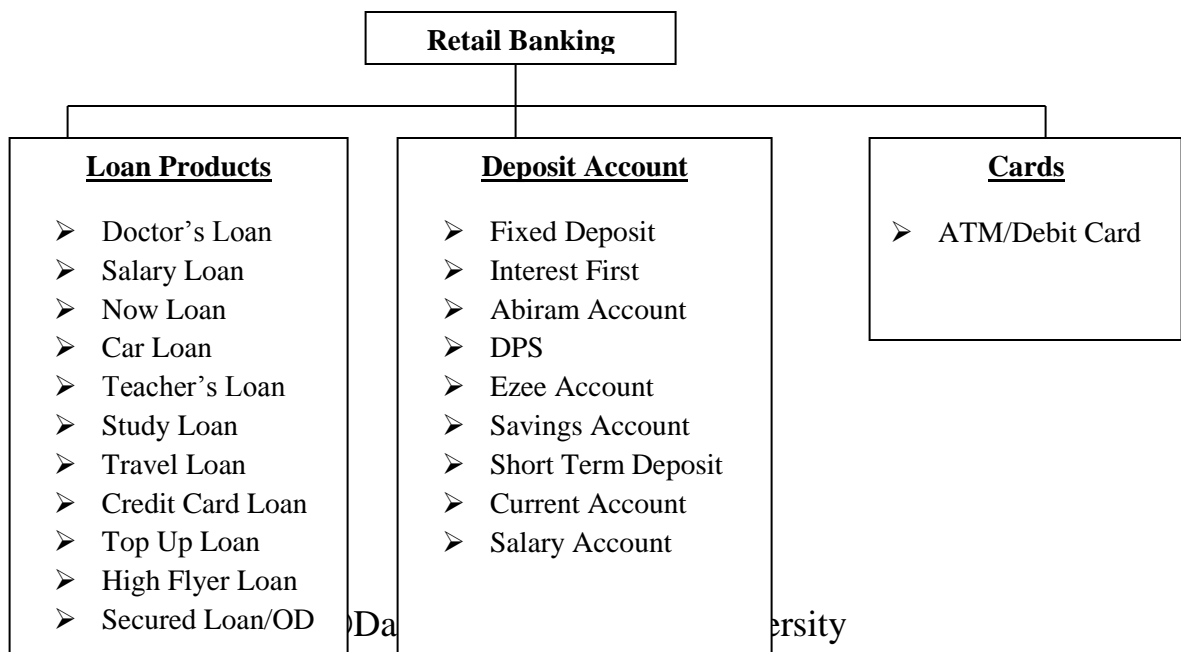
financial uplift, as they have no property to provide as equity to the commercial banks. With this end in view-BRAC Bank Limited was opened to serve these small but hard working entrepreneurs with double bottom line vision. As a socially responsible bank, BRAC Bank wants to see the emancipation of grass-roots level to their economic height and also to make profit by serving the interest of missing middle groups. 50% of our total portfolio usually collected from urban areas, are channeled to support these entrepreneurs who in future will become the potential strength of our economy. We are the market leaders in giving loans to Small and Medium Entrepreneurs. We have been doing it for the last five years.

#### SME Loan Products-

- |                            |                       |            |
|----------------------------|-----------------------|------------|
| 1) Anonno or Anonno (Gold) | 2) Apurbo             | 3) Proshar |
| 4) Prothoma                | 9) Supplier Finance.  |            |
| 5) Digoon Rin.             | 10) Super Supply Loan |            |
| 6) AroggoRin.              | 11) Business Loan     |            |
| 7) Pathshala Rin.          | 12) Cash Secured Loan |            |
| 8) Opurbo Rin.             | 13) Trade Plus        |            |

#### **2.10.4 Retail Banking:**

Retail is the most flourishing department of BBL Bangladesh. This department basically deals with the management of products and services offered to individual consumers. Within a span of only seven years, BBL Retail has grown tremendously and is still growing with its innovative products and service offerings. Manager of retail is the person behind the amazing growth of Retail department in BBL Bangladesh. Chief of Retail manages and supervises the Personal Banking activities of the branch network of BBL Bangladesh. The products & services are -

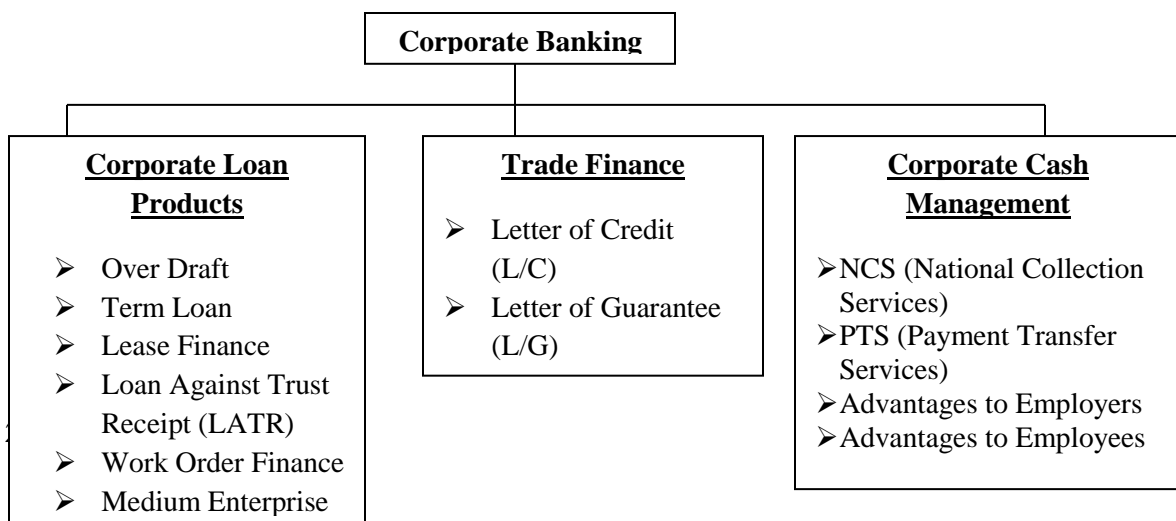


This division of BBL provides financial services to organizational clients. Whether it is locally or around the nation, BBL offers a comprehensive range of services that can be tailored to the individual needs of the company. Two offices of BBL offers corporate banking services to corporate clients. These are the Dhaka Head Office and Chittagong office. Corporate Banking of BBL includes Corporate Institutional Banking (CIB). These sub-divisions are discussed briefly in the following sections:

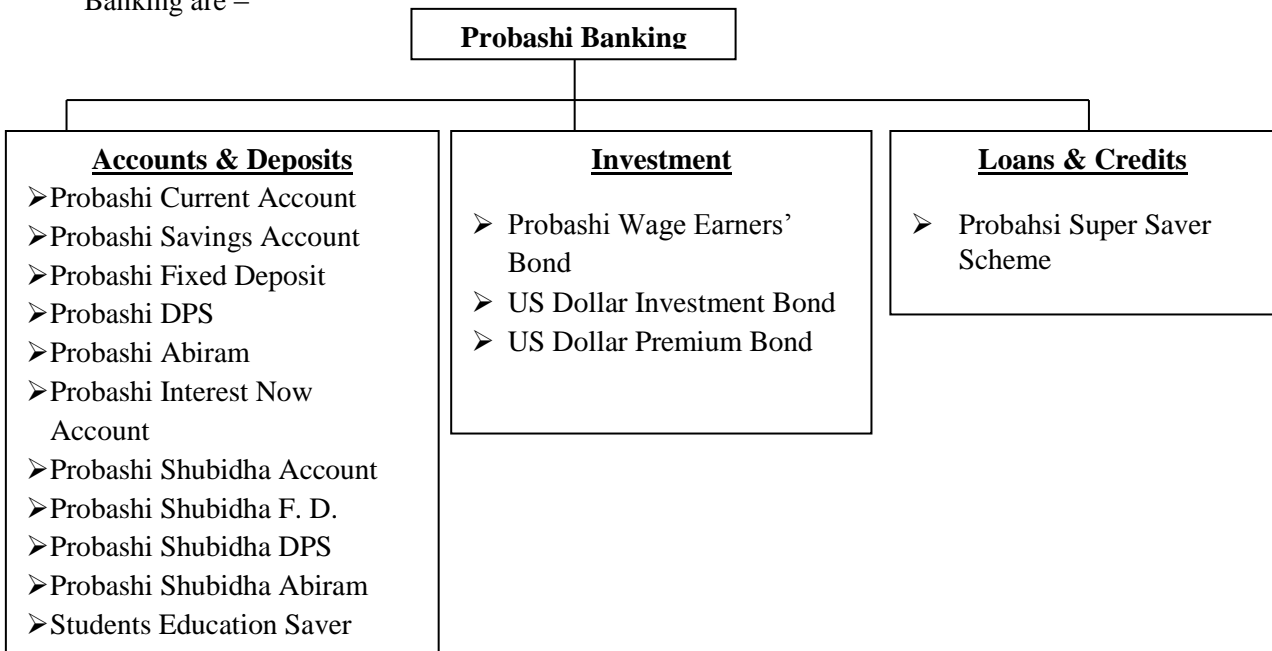
■ **CORPORATE INSTITUTIONAL BANKING:** Operating through the major centers and in close liaison with BBL Investment Bank, Corporate and Institutional Banking provides the full range of the Group's capabilities at nationwide, with a particular focus on payments and cash management, trade and securities custody. BBL also offers local financial institutions and banks access to wide range of financial services available on countrywide. The services are tailored to suit the needs of the companies. CIB has a separate wing: Relationship management department.

■ **RELATIONSHIP MANAGEMENT DEPARTMENT:** The Relationship Management (RM) department consists of various relationship managers who are assigned to different corporate client to better satisfy their needs. These RM's communicate with the clients and are solely responsible for the companies they deal in. Any information regarding a corporate client must be communicated through the respective RM assigned to that corporate client. A relationship manager may be assigned more than one company and this decision depends on the Head of Corporate Banking.

Corporate Banking products & services are such as:

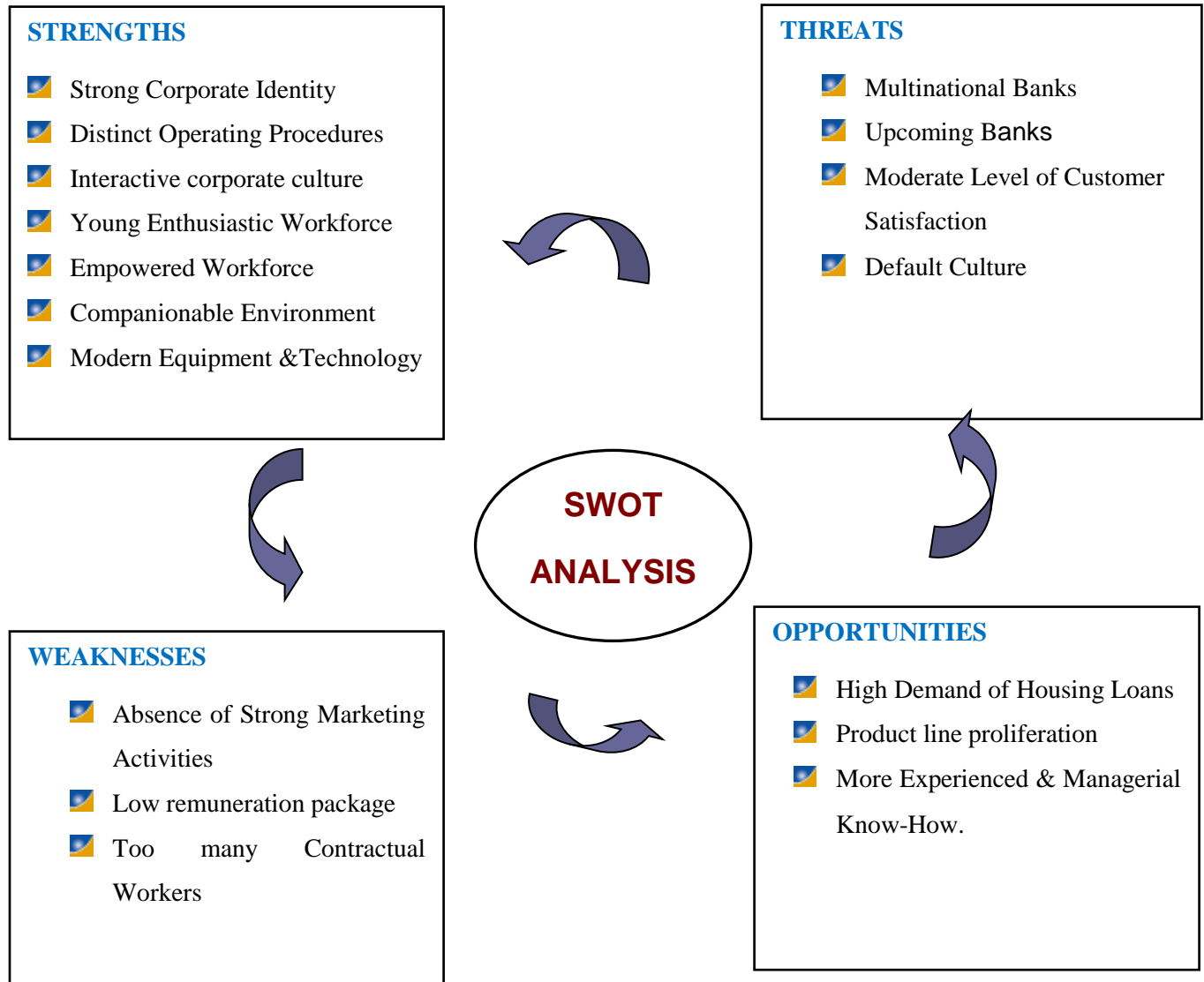


Remittance service is one of the core Business areas of BRAC Bank. The Bank has introduced a highly secure, innovative and quality Remittance service based on advanced technology. Through this service any one can send money to his/her relatives from abroad even to the remotest area of the country within maximum of 72 hours. At present BRAC Bank is considered one of the top most leading Banks in serving Probashi Bangladeshis. No other banks in Bangladesh have offered such a wide range of products and quality service to the NRB segment so far. These wide ranges of product and service are backed by a very dynamic IT security and Business support team of BRAC Bank. BRAC Bank's Probashi Banking Service is also pioneering investment opportunities for NRBs into Bangladesh. On January 2008, the Secure Remittance Service of BRAC Bank has been renamed as "Probashi Banking Service" by enhancing its function and expanding its footprint in the international Business more. The products and services of Probashi Banking are –



### 2.11 SWOT ANALYSIS OF BRAC BANK LIMITED

SWOT analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. 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.



# Chapter-3

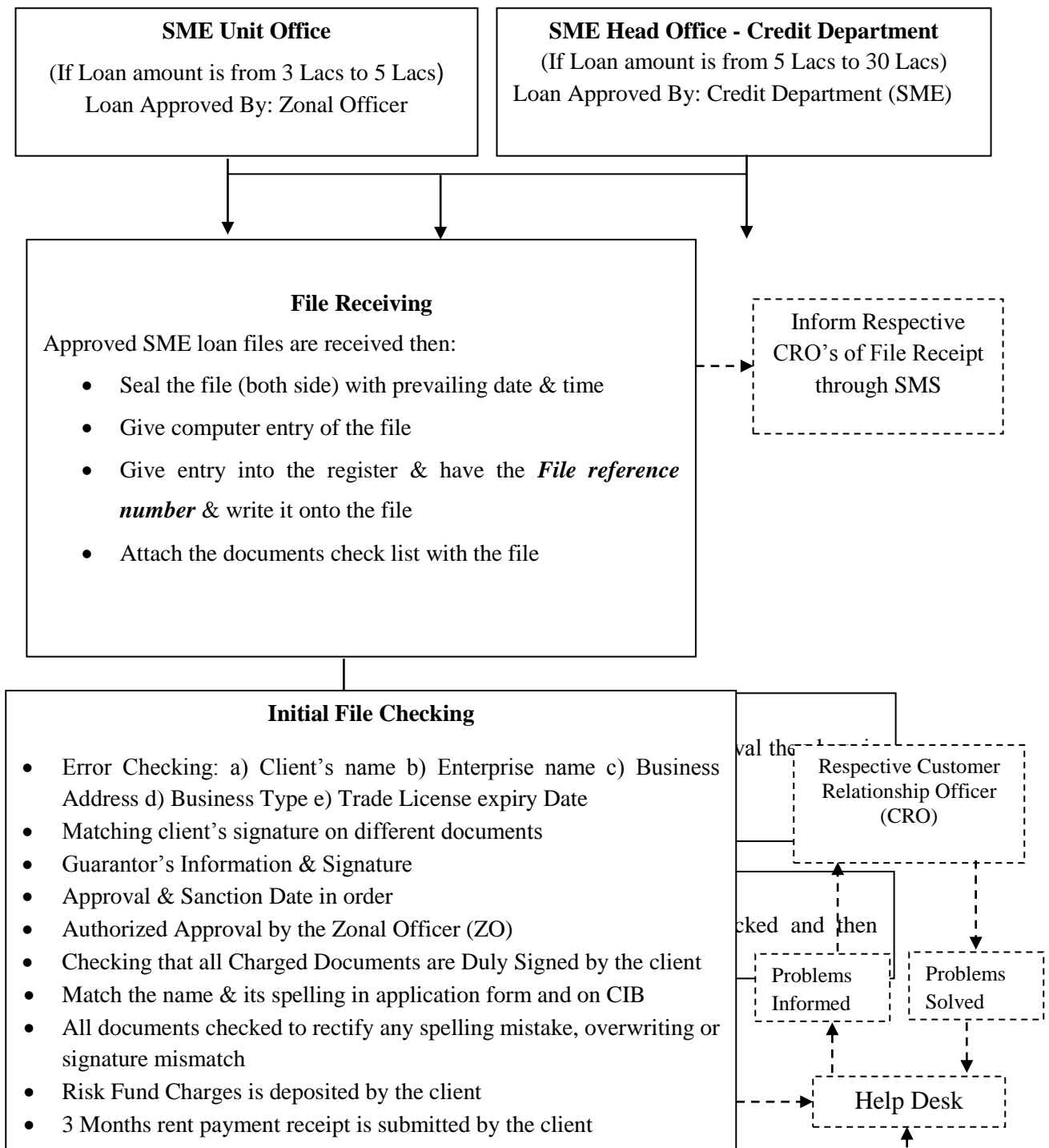
## **Overview of SME Loan Processing Activities**

### 3.2 SMALL AND MEDIUM ENTERPRISE (SME) ASSET OPERATIONS PROCESS:

This Core sub division of AOD is classified into four segments:

- Documentation Team: This Team Checks documents to rectify any related deficiency.
- Disbursement Team: This team does activities related to loan disbursement is done.
- Help Desk: This wing conveys document deficiency to and handles query of Customer Relationship Officers (CRO's).
- Realization Team (Previously Repayment Team): This team works for installment Collection by the clients.

The process flow of SME Assets Operations is stated herewith:







### Disbursement List Preparation

- The following banks can work on behalf of BRAC Bank Limited in situation where Clients could not have an account with BRAC Bank Limited:
  - a) Rupali Bank
  - b) Pubali Bank
  - c) Janata Bank
  - d) Agrani Bank
  - e) Bangladesh Krishi Bank
  - f) City Bank
- Disbursement into the clients account in the stated situation is made through Treasury Department



### Loan Disbursement

Loan is disbursed into clients link account with collection of necessary charges



### 1. Voucher Entry

#### 1. Disbursement:

Client's Loan Account-----Dr.

Client's Link Account-----Cr.

#### 2. Loan related charges:

Client's Link Account-----Dr.

Charges-----Cr.

#### Charges:

The client through Risk Fund Charges (RFC) provides charges at the time of loan application:

- Risk fund charge
- VAT
- Stamp Charge
- Insurance Charge
- Stationery
- CIB Report fee

1 or 1.5% of Loan amount

15% of Risk fund charge

Digooon Rin, Pathshala: 920 Taka only,  
Other SME Loans: 620 Taka only

Calculated amount

10 Taka only (Flat)

100 Taka (Flat)

In case of Repeat Lon:

- Early Settlement Fee (ESF) 2000 (Flat)

- VAT on ESF

15% of ESF

After voucher entry a **transaction number** is generated against the posting



### Voucher Posting

Voucher is Checked and finally posted

- Directly to BRAC Bank Limited by officers of SME Asset Ops **OR**,
- From BBL Account maintained to the clients on the given situation in the in the stated Banks account Treasury respective through



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### Post Disbursement Activities





- Guarantor's data entry
- Security / Collateral details entry

### **Loan Account Closing:**

Loan Account closing process is briefly explained below:

- I. CRO's send loan-closing request (through SMS) mentioning the clients name and account number to the realization team. Moreover, a provisional statement is also prepared & sent by the CRO that contains the installment payment status and outstanding balance.
- II. The Realization team then matches the client's ledger balance with the balance amount calculated by the CRO.
- III. In case of any discrepancy the respective CRO is immediately informed otherwise further steps are followed.
- IV. The team then informs the CRO about the *Total Repaid Amount (TRA)* and *Outstanding Balance (OB)*.
- V. An Early Settlement Fees is collected and necessary steps are taken to close the Loan account.






### **3.3 LOAN SANCTION ACTIVITIES**

-  **SELECT POTENTIAL ENTERPRISE:** For SME loan, in this step the CRO conduct a survey and identify potential enterprise. Then they communicate with entrepreneurs and discuss the SME program.
-  **LOAN PRESENTATION:** The function of CRO is to prepare loan presentation based on the information collected and provided by the entrepreneur about their Business, land property (Where mortgage is necessary)
-  **COLLECT CONFIDENTIAL INFORMATION:** Another important function of a CRO is to collect confidential information about the client from various sources. The sources of information are suppliers regarding the client's payment, customers regarding the delivery of goods of services according to order, various banks where the client has account, which shows the banks transactions nature of the client.
-  **OPEN CLIENTS ACCOUNTS IN THE RESPECTIVE BANK:** When the CRO decided to provide loan to the client then he/she help the client to open an bank account where BRAC bank has a STD a/c. BRAC bank will disburse the loan through this account. On the other hand the client will repay by this account. Although there is some exception occur by the special permission of the authority to repay by a different bank account.

- **FILLED UP CIB FORM:** CRO give a CIB (Credit Information Bureau) form to the client and the client fill and sign in it. In some case if the client is illiterate then the CRO fill the form on behalf of the client. Then CRO send the filled and signed form to the SME, head office.
- **SENDING CIB TO BANGLADESH BANK:** The SME, head office collects all information and sends the CIB form to Bangladesh Bank for clearance. Bangladesh Bank return this CIB form within 10-12 days with reference no.
- **CIB REPORT FROM BANGLADESH BANK:** In the CIB report Bangladesh Bank (BB) use any of the following reference no:
  - **NIL:** if the client has no loan facility in any bank or any financial institution then BB (Bangladesh Bank) use 'NIL' in the report
  - **UC (Unclassified):** if the client has any loan facility in any bank or financial institution and if the installment due 0 to 5.99 then BB use UC in the report
  - **SS (Substandard):** if the client has any loan facility in any bank or financial institution and if the installment due 6 to 11.99 then BB use SS in the report
  - **DF (Doubtful):** if the client has any loan facility in any bank or financial institution and if the installment due 12 to 17.99 then BB use DF in the report
  - **BL (Bad lose):** if the client has any loan facility in any bank or financial institution and if the installment due 18 or above then BB uses BL in the report. This report indicates that the client is defaulter and the bank should not provide loan the client.
- **LOAN DECISION CONSIDERING CIB REPORT:** Considering CIB report, BRAC bank decide whether it will provide loan the client or not. If the bank decides to provide loan then the SME of head office keep all information and send all papers to the respective unit office to apply with all necessary charge documents.
- **LOAN SANCTION:** The respective unit office sanction loan to the client if it is 2 to 5 lacs and the send the sanction letter including all necessary charge documents to the loan administration division for disbursement the loan. If the amount higher than 5 lacs then the respective unit office sends the proposal to SME, head office for sanction. The head of SME sanction the loan and send the sanction letter including all documents to the loan administration division for disbursement and inform the respective unit office regarding sanction of the loan

### **3.4 DISBURSEMENT OF SME LOAN**

#### **3.4.1 Pre Disbursement Manual Activities**

-  **PREPARE LOAN FILE:** Receiving all documents, Loan Administration Division prepares a loan file with all documents received from the unit office.
-  **CHARGE DOCUMENTS CHECKING:** The loan administration division checks all charge documents. Following charge documents are checked:
  - ✓ Money receipt (Risk fund).
  - ✓ Sanction letter.
  - ✓ Demand promissory note (With stamp of Tk 20/=)
  - ✓ Letter of arrangement (With stamp of Tk 150/=)
  - ✓ General loan agreement (With stamp of Tk 150/=)
  - ✓ Letter of undertaken (With stamp of Tk 150/=)
  - ✓ Letter of stocks and goods (With stamp of Tk 150/=)
  - ✓ Letter of hypothecation book debt and receivable (With stamp of Tk 150/=)
  - ✓ Letter of disbursement
  - ✓ Photocopy of trade license (attested by CRO)
  - ✓ Insurance (Original copy)
  - ✓ Blank cheque with signature (one cheque for full amount and others same as no of installment on Favor of BRAC bank, no date, no amount)
  - ✓ Two guarantors (one must be Spouse/parents)
  - ✓ If the loan provide for purchase of fixed assets or machineries and if the loan amount is over Tk. 50,000/= then the stamp of a certain amount is require)
-  **DOCUMENTS DEFICIENCY AND PROBLEM RESOLVING:** If there is any error found then it informed to the respective CRO. If the application form is not filled properly then the file send to the CRO to fill the application properly. If any document error found then the loan administration division asked the CRO to send the require documents and the file stored to the loan administration division.
-  **PREPARE DISBURSEMENT LIST:** The loan administration division lists all new sanctioned clients' details and send a request to the treasury through internal mail.
-  **DISBURSEMENT OF THE AMOUNT:** Sending the list to the treasury of BRAC bank for disburse the amount, the treasury disburse the amount to the client through the mother

account of the clients bank. BRAC bank disburse amount through any of the following banks corporate branch nearer the BRAC bank head office and the corporate branch of the respective bank send the amount to the client account in the respective branch. These banks are: BRAC Bank Limited, The City Bank Limited, Janata Bank, Bangladesh Krishi Bank, Pubali Bank and Agrani Bank.

- **MESSAGE SENT TO THE UNIT OFFICE:** Completing the disbursement, loan administration division sent a SMS to the respective CRO informing the disbursement of the sectioned loan.

### 3.4.2 MBS entries for loan disbursement

- **INITIAL ID GENERATION:** After sending the list to the treasury, the loan administration division generates an initial ID against the borrower. Entering required information, the banking software MBS automatically provide a ID no for the borrower.
- **LOAN ACCOUNT OPENING:** According to the ID, the loan administration division opens a loan account in MBS against the borrower. Entering all required information, the MBS automatically give an account no. For the borrower.
- **COST CENTER ASSIGN:** The loan administration division enter the following information in MBS:
  - Security details set-up
  - Guarantor details set-up
  - Loan other details set-up
- **RISK FUND COLLECTION:** The loan administration division opens a different account risk fund of the client. This is known as loan processing fees. Receiving the risk fund, the loan administration division prints voucher and posting the voucher in the MBS. The amount of risk fund is not refundable.
- **ACTIVISION OF THE LOAN:** Loan administration division do the following tasks to activate the loan:
  - Loan sanction details set-up
  - Repayment schedule set-up and printing
  - Loan activation
  - Disbursement and CC wise voucher print
  - Disbursement voucher posting

### 3.4.3 Post Disbursement Manual Activities

- **REPAYMENT SCHEDULE SENT TO UNIT OFFICE:** Completing the disbursement of the sanctioned amount the loan administration division prepare a repayment schedule in MBS and send it to the unit office. CRO from the unit office collect it and reached to the respective client. The client repays the loan according to this schedule.
- **LOAN DETAILS MBS ENTRY:** The loan administration division enters details information regarding the loan in MBS. Each officer has an ID no in MBS and if there is any error found then the respective officer would be responsible for it. So everyone remains alert at the time of MBS entry.
- **DOCUMENT STAMP CANCELLATION:** The loan administration division cancels all document stamps. In future if any client found defaulter and the bank file sued against him then stamps of these document help to get the judgment favor of the bank. But If these stamps are not canceled then the judgment may not on favor the bank.
- **SEND THE LOAN FILE TO ARCHIVE:** completing all activities, loan administration division sends the loan file to the archive for future requirement. In future if any document of the loan account requires then the bank can collect the file from archive and get the necessary document. If the clients take repeat loan then it is not require applying all documents because his all documents stored to the bank.

### **3.5 SME LOAN RECOVERY PROCEDURES**

- **RECEIVE SMS/FAX FOR INSTALLMENT DEPOSITS:** When the borrower repays any installment of the loan then he/she informs it to the unit office/CRO. Then the unit office/CRO sends a SMS through mobile phone or a Fax to the loan administration division informing the repayment. Loan administration division collects these SMS /Fax and takes a paper print of these SMS.
- **ENTRY THE INSTALLMENT INFORMATION TO MBS:** Loan administration division entry the repayment installment information to the banking software MBS.
- **PRINT VOUCHERS:** Completing the entry, the loan administration division takes paper print of all vouchers in a prescribed yellow paper.
- **CROSS CHECK SMS/FAX AND SOLVE PROBLEMS (IF ANY):** The loan administration is responsible for all entry in MBS. If the there is any error found in future then the respective officer who is entering these information in MBS will be liable for it. User ID will easily identify it. So they always aware to ensure the correct entry. Completing the entry of

information, they print a hard copy and cross check it with the SMS/Fax. If there any error found then it is solved and ensure the correct information entry.

- **REPAYMENT VOUCHER CHECK AND POSTING:** If it confirmed that all entering information are correct and there are no error, then the responsible officer of the loan administration division post it to MBS. If one time posted, it is not rectifiable without permission of the higher authority. So the loan administration is always aware regarding the recovery procedures of SME loan.

### **3.6 CLOSING PROCEDURES OF SME LOAN IN BRAC BANK:**

#### **3.6.1 Pre-closing manual activities**

- **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.
- **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
- **BRING THE LOAN FILE FROM ARCHIVE:** The loan account file of the respective borrower brought from the archive. Cross-checked the documents of file with MBS record.
- **OBTAINED 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.
- **CHECKING IN MBS:** 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)
- **SMS SENT TO CONCERNED CRO:** Loan administration division sent an SMS to the concerned CRO informing the current balance of the requested loan account.
- **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.

#### **3.6.2 MBS entries for loan closing**

■ **PRE CLOSING 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

■ **ACTIVATE ACCOUNT CLOSING IN MBS:** Completing above mentioned tasks, the loan administration division finally close the requested loan account in MBS.

■ **POST-CLOSING MANUAL ACTIVITIES:**

- a) **Re-checking with deposit slip:** Completing MBS activities, the loan administration re-check all deposit sleeps of the loan account. If there is any error found then immediately resolves it 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 release
- b) **Daily MIS updating for loan closing:** Finally the authorized officer of the loan administration division update the banking software MBS (Millennium Banking System) by closing the respective loan account.



# Chapter-4

## **Evaluation of Selection Criteria's for Providing Different Types of SME Loan**

#### **4.1 SELECTION OF POTENTIAL CUSTOMERS FOR SME LOAN:**

##### **4.1.1 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:

- The Business must be in operation for at least one year.
- The Business should be environment friendly, no narcotics or tobacco Business.
- The Business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever applicable.
- The Business should be in legal trade, i.e.; smuggling will not be allowed or socially unacceptable Business will not be entertained.
- The Business must have a defined market with a clear potential growth.
- 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.
- 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.

##### **4.1.2 Entrepreneur Selection Criteria**

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

- 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.
- 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.
- The entrepreneur must have and acceptable social standing in the community (People should speak highly of him), he should possess a high level of integrity (Does not cheat anyone, generally helps people), and morally sound (Participates in community building).

- 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.
- Suppliers or creditors should corroborate that he pays on time and is general in nature.
- Clear-cut indication of source of income and reasonable ability to save.

#### **4.1.3 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:






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

#### **4.2 COMPARATIVE CRITERIA FOR DIFFERENT TYPES OF SME LOANS**

In our economy, there are varieties Business activities which need diversified support of financial or capital facilities. For the better support to Small and Medium Enterprise (SME) Business and economic development of Bangladesh, BRAC Bank Limited has introduced different types of SME loan products. Comparative criteria for different types of SME loans are as follows:

- Eligible Nature of Business and Purpose of Loan
- Eligibility of Entrepreneur and Business
- Loan Ceiling
- Duration of Loan
- Interest Rate and Loan Processing Fee
- Security Requirement
- Repayment Capacity of Enterprise

#### 4.2.1 Eligible Nature of Business and Purpose of Loan

-  **ANONNO OR ANONNO (GOLD), APURBO:** Anonno or Anonno (Gold) and Apurbo are loan facility for small sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. spread all over Bangladesh through our unit offices across the country. These products offer terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase under Equated Monthly Installment loan facility or Single Installment loan facility.
-  **DIGOON LOAN AND BUSINESS LOAN:** These two are also loan facilities for small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. spread all over Bangladesh through our unit offices across the country. These products offer terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase. 'Business Loan' have some extra purpose such as advance payment for existing Business premises, new premises for existing Business and office/Business premises renovation or expansion. 'Digoon Loan' has two types of product one is Businesses that are not subject to significant volatility in sales due to seasonality and other is for Businesses which are subject to high degree of seasonality in sales. To avail 'Digoon Loan' facility the enterprise has to give 50% and 50% to 30% for 'Business Loan' cash security (Fixed deposited of BRAC Bank) of the loan amount.
-  **PROSHAR** is a loan facility only for small and medium sized manufacturing industries spread all over Bangladesh through our unit offices across the country. The product offers terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase under Equated Monthly Installment loan facility.
-  **PROTHOMA RIN** is a loan facility for small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. which are operated by women entrepreneur, spread all over Bangladesh through our unit offices across the country. The product offers terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase. 'Prothoma' has two types of product, one is Businesses that are not subject to significant volatility in sales due to seasonality and other is for Businesses which are subject to high degree of seasonality in sales.
-  **AROGGO:** The main objective of launching this loan is to finance private Hospital, Clinics, Diagnostic centers and Private health service provider to further broaden our SME customer base. Through Aroggo loan, health centers will get the opportunity to upgrade their medical

- facilities or expand Business. This will contribute to the overall enhancement of health facilities available in Bangladesh.
- **CASH SECURED LOAN** is a loan facility for small and medium size trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. spread all over Bangladesh through our branches or unit offices across the country. This loan facility is also for those entrepreneurs who want to start a new Business. The product offers terminating loan facilities for any purpose related to Business. There are two types of loan facility in the product i.e. Secured Loan and Secured Overdraft. These facilities are fully secured by fixed deposit of BRAC Bank.
  - **PATHSHALA** is a loan for educational institutions, spread all over Bangladesh, through SME Unit offices across the country. This product's specified target customer segments i.e. small and medium sized private educational institutions like kindergartens and schools.
  - **SUPER SUPPLY LOAN** is a loan facility for small & medium sized Supply Business spread all over Bangladesh through our branches/SME unit offices across the country where Supplier & Distributor Finance has its operation. The product is a combination of Overdraft and Revolving loan facility. The enterprise will get 25% of the loan amount as overdraft & 75% of the loan amount as Revolving limit facility
  - **SUPPLIER FINANCE** is a loan facility for the enlisted Suppliers of various large retailers, marketing companies, distributors, exporters etc. For the purpose of working capital finance under Equated Monthly Installment loan facility respective customer can withdraw the loan amount at a time and repayment can be made in equated monthly installment (EMI's). Under Revolving Loan facility a loan limit will be set and the customer can withdrawn the loan limit in maximum 4 drawdown (minimum 25% of the loan limit in each withdrawn).repayment shall be made in a single installment and interest will be served on a monthly basis. To avail this loan facility; BRAC Bank, particular corporate house and the enlisted supplier of particular corporate house have to sign a tripartite agreement.
  - **TRADE PLUS** is a loan facility for small & medium sized Imports oriented Business spread all over Bangladesh through our branches across the country. There are three types of Trade Plus facilities such as 1) Letter of Credit Sight (one off) 2) Revolving Letter of Credit and 3) LATR-Product Parameters. The product offers various funded and non funded facility for the import oriented Business for import goods that are legally permitted to import, to locally

purchase goods that are legally permitted to trade with in the country and incurring day to day expenses.

#### 4.2.2 Eligibility of Entrepreneur and Business

■ **ANONNO OR ANONNO (GOLD):** Age of proprietor/partners/Key persons of Limited Company should be 18 years to 60 years at the time of application and the Business should be minimum 1(One) year continually in operation. For Anonno, the entrepreneur must have minimum 2(two) years' experience in the same line of Business for loan up to tk. 5lac and 4(four) years' experience for loans over tk. 5lac. For Anonno (gold), the experience of proprietor/partners/Key persons of Limited Company must have minimum 1(One) year experience in the same line of Business.

■ **APURBO:** Foreigner/foreign investor having valid legal Papers (BOI permission) and has been residing Bangladesh for at least 2 (two) years. The entrepreneur must have minimum 3 (three) year's experience in the same line of Business Minimum 25 years and maximum up to 60 years less tenor of the loan but in case of company this age limit may be relaxed for the Directors other than the Chairman and the Managing Director. The Business must be a going concern with a minimum of 3 (three) years in operation. In case of private limited company, the Managing Director must have minimum 5(five) years of experience in the same line of Business and have full control over the Business.





■ **PROTHOMA:** Age of entrepreneurs should be 18 years to 55 years at the time of application and age of the Business must have minimum 1(one) year of continuous Business history. The entrepreneur must have minimum 2(two) years of experience in the same line of Business.

■ **DIGOON LOAN:** For proprietorship concerns, age of entrepreneurs should be 18 years to 55 years at the time of application and the Business must have minimum 2(one) year of continuous Business history. The entrepreneur must have minimum 2(two) years of experience in the same line of Business.

For partnership concerns, age of entrepreneurs must be 25 years to 55 years at the time of application and for limited company, it is must be 24 years to 60 years. For both concerns, the Business must have minimum 3(three) year of continuous Business history and key persons must have minimum 4(four) years of experience in the same line of Business.

- **AROGGO:** Age of entrepreneurs should be 25 years to 60 years at the time of application and the Business must have minimum 2(two) year of continuous Business history. The entrepreneur must have minimum 3(three) years of experience in the same line of Business. For loan in personal name, the person must be a certified doctor having minimum 5(five) years' experience in the same line of Business and age should be 30 years to 60 years.
- **BUSINESS LOAN:** Age of entrepreneurs should be 25 years to 60 years at the time of application and the Businesses must have minimum 3(three) year of continuous Business history. The entrepreneurs must have minimum 3(three) years of experience in the same line of Business.
- **PROSHAR:** Age of entrepreneurs should be 25 years to 60 years at the time of application and the Businesses must have minimum 2(two) year of continuous Business history. The entrepreneurs must have minimum 2(two) years of experience in the same line of Business.
- **CASH SECURED LOAN:** Age of entrepreneurs should be 18 years to 60 years at the time of application and the Businesses need not any continuous Business history. The entrepreneurs must have minimum 6(six) months of experience in the same line of Business.
- **PATHSHALA:** Tenure of educational institute must be 3(three) years of operation for loans up to 5lac and 5(five) years of operation for loans amounting to 5lac or above. Institution must be located in the same address for at least 6(six) months.
- **SUPER SUPPLY LOAN:** Age of entrepreneurs should be 25 years to 55 years at the time of application and the Businesses must have minimum 1(one) year of continuous Business history. The entrepreneurs must have minimum 2(two) years of experience in the same line of Business.
- **SUPPLIER FINANCE:** Minimum 3 years of continuous operation and 1 year of continuous Business relationship with the purchasing firm. For proprietorship concerns, age of entrepreneurs must be 25 years to 55 years at the time of application and for limited company, it is must be 24 years to 60 years. For limited company, yearly sales/revenue of the Business should be BDT 20 million and yearly net income should be BDT 1 million.
- **TRADE PLUS:** For three types of trade plus, as annual sales turnover, minimum deposit of BDT 20lac in the mother account in last one year for trading and manufacturing Business and BDT 10lac for service Business. Average monthly income at least BDT 17,000 for Facility-1&3 and BDT 40,000 for Facility-2. But, for facility-1 Letter of Credit Sight (One Off), it is not required for 100% LC margin.

#### 4.2.3 Loan Ceiling:

-  **ANONNO OR ANONNO(GOLD) AND APURBO:** Loan ceiling for Anonno is BDT 2.00lac to BDT 8.00lac. For Anonno(gold), minimum BDT 3.00lac and maximum below BDT 10.00lac. for Apurbo, minimum BDT 8.00lac and maximum below BDT 30.00lac. (a) For Anonno and Apurbo amount of loan is determined by maximum 75% of the sum total of average inventory and regular receivables of the last year in case of working capital finance. For Anonno(gold) it may be maximum up to 100% of the net required working capital. (b) In case of fixed assets purchase- maximum up to 75% of the purchase price or acquisition cost of fixed asset but the debt equity ratio in fixed assets investment in the projected year (after purchase of new fixed assets) would not be more than 1 (one) for Anonno and Apurbo.. For Anonno (gold), it is maximum up to 90% of the purchase price or acquisition cost of fixed asset.
-  **PROTHOMA:** Loan ceiling for this loan is BDT 3.00lac to BDT 10.00lac. (a) In case of working capital finance amount of loan is determined by maximum 80% of the sum total of average inventory and regular receivables of the last year or maximum 80% of the last 1(one) year average monthly bills or work orders. (b) In case of fixed assets purchase- maximum up to 75% of the purchase price or acquisition cost of fixed asset but the debt equity ratio in fixed assets investment in the projected year (after purchase of new fixed assets) would not be more than 1(one).
-  **SUPPLIER FINANCE:** Loan ceiling for this loan is BDT 3.00lac to BDT 30.00lac. Amount of loan is determined by maximum 80% of the last 1(one) year average monthly bills or work orders of particular corporate house.
-  **PROSHAR AND DIGOON LOAN:** For Proshar,, minimum BDT 3.00lac and maximum below BDT 30.00lac For Digoon, minimum BDT 5.00lac and maximum below BDT 30.00lac. (a) For Proshar, amount of loan is determined by maximum up to 100% of the net required working capital or maximum 75% of the sum total of average inventory and regular receivables of the last year whichever is lower in case of working capital finance and for Digoon, it is maximum 75%. (b) In case of fixed assets purchase- maximum up to 90% of the purchase price or acquisition cost of fixed asset but the debt equity ratio in fixed assets investment in the projected year (after purchase of new fixed assets) would not be more than 1 (one) for Proshar. For Digoon, it is maximum up to 75% of the purchase price or acquisition cost of fixed asset.



- **BUSINESS LOAN:** Loan ceiling for this loan is BDT 10.00lac to BDT 50.00lac. Amount of loan is determined by maximum 60 times monthly installment capacity.
- **PATHSHALA:** Loan ceiling for this loan is BDT 3.00lac to BDT 30.00lac. (a) Amount of loan is determined by maximum up to 75% of the purchase price or acquisition cost of fixed asset but the debt equity ratio in fixed assets investment in the projected year (after purchase of new fixed assets) would not be more than 1 (one) in case of Fixed assets purchase. (b) in case of Civil construction (only for expansion)- maximum up to 50% of the cost but the debt equity ratio in civil construction investment in the projected year (after expansion of new Civil Construction) would not be more than 1(one).
- **AROGGO:** Loan ceiling for this loan is BDT 2.00lac to BDT 30.00lac. Amount of loan is determined by Maximum up to 75% of the purchase price but the debt equity ratio in fixed assets investment in the projected year (after purchase of new fixed assets) would not be more than 1(one).
- **CASH SECURED LOAN:** Loan ceiling for this loan is BDT 3.00lac to BDT 30.00lac. There are two categories in this loan –Secured Loan (SL) and Secured Overdraft (SOD). (a) For Secured Loan (SL) facility, amount of loan is 80% to 100% of the face value of Fixed Deposit. (b) For Secured Overdraft (SOD) facility, it is 80% to 95% of the face value of Fixed Deposit.
- **SUPER SUPPLY LOAN:** Loan ceiling for this loan is BDT 3.00lac to BDT 30.00lac. Amount of loan is determined by maximum 75% of the sum total of average inventory and regular receivables of the last year or maximum three times of the last 1(one) year average monthly bills or work orders.
- **TRADE PLUS:** There are three types of facilities in Trade plus. For facility-1&3; loan ceiling is BDT 3.00lac to 30.00lac and for facility-2; it is BDT 5.00lac to 30.00lac. In facility-1; LC margin is 100% perishable goods and LC margin is negotiable but minimum LC margin is 25% for other than perishable goods. For facility-2; LC margin is minimum 10% but (value of LC – LC margin) will not more than 30lac. Amount of LC limit is determined by maximum (100% of last one year's average outstanding LC value X 2) for facility-2 and maximum (LC value – LC margin) for facility-3

#### 4.2.4 Duration of Loan

- **ANONNO OR ANONNO (GOLD), DIGOON LOAN, PROTHOMA AND AROGGO:** For single installment facility; tenure of these loans are 3 months to 9 months and for equated monthly installment (EMI) facility; it is 12 months to 36 months.
- **APURBO AND PATHSAHLA:** For equated monthly installment (EMI) facility; tenure of this loan is 12 months to 48 months.
- **PROSHAR:** For working capital finance maximum tenure will not exceed 48 months and fixed assets loan tenure can be maximum 60 months. For Loan 3 to below to 10lac – 12 to 36 months, for Loan above 10lac to 15lac – 12 to 48 months and for Loan above 15lac to 30lac – 12 to 60 months.
- **BUSINESS LOAN:** For Loan 10 to below to 20lac – 12 to 36 months, for Loan above 200lac to 50lac – 12 to 48 months
- **CASH SECURED LOAN:** For equated monthly installment facility, tenure of this loan is 12 months – 60 months.
- **SUPER SUPPLY LOAN:** Validity of loan limit is 1 (one) year. Loan tenor of each withdrawal for revolving limit facility is 1 to 12 months while repayment is equated monthly installments and 1 to 6 months while single installment. But both of these do not exceed validity of loan limit.
- **SUPPLIER FINANCE:** For equated monthly installment loan facility, tenure of this loan is 12 months – 18 months and 1 to 9 months for revolving loan facility depending on bill maturity date.
- **TRADE PLUS:** For Letter of Credit Sight (one off), LC tenure is maximum 180 days and validity up to tenure. Tenure is 180 days per deal and validity is 1 year for Revolving Letter of Credit. Loan tenure is maximum 3 months and LC tenure is maximum 180 days.

#### 4.2.5 Interest Rate and Loan Processing Fee

Interest rate is the cost for loan which repay with loan monthly or annually. Loan processing fee means the fees bank charges to loan for the various costs from the application of loan to disbursement of the loan. Other fees and charges include- loan application fees, documentation charge, insurance fees (with VAT), early settlement fee, security replacement fee, reschedule fee and restructure fee.

- **ANONNO OR ANONNO (GOLD):** Interest rate for Anonno is 24% p.a at monthly rest for loan amounting BDT 2.00 to 8.00lac for 1<sup>st</sup> time, 22% p.a for repeat of 1<sup>st</sup> time and 20% p.a for

repeat of 2<sup>nd</sup> time. Interest rate for Anonno (gold) is 18.5% p.a for 1<sup>st</sup> time, 17.25% p.a for of 1<sup>st</sup> time repeat and 17% p.a for 2<sup>nd</sup> time repeat. Loan processing fee for Anonno is 1% and 2.5% for Anonno (gold) of the required loan amount plus VAT, other charges- BDT 5930, insurance fee- as per prescribed schedule and early settlement fee- 2% of the last 3 months average outstanding balance (if outstanding is settled before 90% of the loan tenure) or 1% (if outstanding is settled at or after 90% of the loan tenure).

■ **APURBO:** Interest rate for Apurbo is 17% p.a at monthly rest for loan amounting BDT 8.00 to below 15.00lac and 16% p.a at monthly rest for loan amounting BDT 15.01 to 30.00lac. Loan processing fee for Apurbo is 1% of the required loan amount plus VAT and it is 0.75% for 1<sup>st</sup> time repeat and 0.5% for 2<sup>nd</sup> time repeat.






■ **PROTHOMA:** Interest rate for Prothoma is 22% p.a at monthly rest and for repeat loan interest rate will be reduced by 2% from the previous rate each time but it will not be less than 18%. Loan processing fee for Prothoma is 1% of the required loan amount plus VAT, other charges- BDT 7100.

■ **DIGOON LOAN:** Interest rate for Digoon Loan is 17% p.a at equated monthly installment facility and 18% p.a at single installment facility. Loan processing fee for Digoon Loan is 1.5% of the required loan amount plus VAT.

■ **PROSHAR:** Interest rate for Proshar is 21% p.a (floating) at monthly rest for loan amounting BDT 3.00 to below 10.00lac for repeat loan interest rate will be reduced by 1% from the previous rate each time but it will not be less than 19%. It is 16% p.a (floating) at monthly rest for loan amounting BDT 10.01 to 30.00lac but interest will not be reduced for repeat loan. Loan processing fee for Proshar is 2% plus VAT for loan amounting BDT 3.00 to below 5.00lac, 1.5% plus VAT for loan amounting BDT 5.01 to below 10.00lac and 1% plus VAT for loan amounting BDT 10.01 to 30.00lac, other charges BDT 5,300, early settlement fee- 2% of the outstanding balance and multi disbursement fee: 0.25% on the value of each withdrawal (from 2<sup>nd</sup> withdrawal).

■ **BUSINESS LOAN:** Interest rate for Business Loan is 18% p.a (floating) under commercial lending sector. Loan processing fee for Business Loan is 1.5% of the required loan amount plus VAT, other charges BDT 5,300, early settlement fee- 3% of the outstanding balance (not applicable for repeat loan) and panel interest – 2% on overdue amount.


■ **PATHSHALA:** Interest rate for Pathshala is 24% p.a at monthly rest for loan amounting BDT 3.00 to 10.00lac, 17% p.a at monthly rest for loan amounting BDT 10.01 to 15.00lac and 16%

- p.a at monthly rest for loan amounting BDT 15.01 to 30.00lac. As for FDR security; 13% p.a interest will be charged if loan is 100% secured by cash and 16% p.a interest will be charged if loan is cash secured by 50% - 99%. Loan processing fee for Pathshala is 2% plus VAT for loan amounting BDT 3.00 to below 5.00lac, 1.5% plus VAT for loan amounting BDT 5.01 to below 10.00lac and 1% plus VAT for loan amounting BDT 10.00 or above.
- 
**AROGGO:** Interest rate for Aroggo is 20% p.a at monthly rest for loan amounting BDT 2.00 to 8.00lac, 17% p.a at monthly rest for loan amounting BDT 8.01 to 15.00lac and 16% p.a at monthly rest for loan amounting BDT 15.01 to 30.00lac. In case of FDR security; 13% p.a interest will be charged if loan is 100% secured by cash and 16% p.a interest will be charged if loan is cash secured by 50% - 99%. Loan processing fee for Aroggo is 2% plus VAT for loan.
  - 
**CASH SECURED LOAN:** (a) Secured loan (SL) facility, - 3% p.a spread over FDR interest rate for loan 100% of the face value of FDR, 2.5% p.a spread over FDR interest rate for loan 90% of the face value of FDR and 2% p.a spread over FDR interest rate for loan 80% of the face value of FDR. (b) Secured Overdraft (SOD) facility - 3% p.a spread over FDR interest rate for loan 95% of the face value of FDR, and 2% p.a spread over FDR interest rate for loan 80% of the face value of FDR. But minimum lending rate is 12.5% p.a, mid-rate 14.5% p.a (variable). Loan processing fee for Aroggo is 0.5% plus VAT for loan and other charges is BDT 4,100.
  - 
**SUPER SUPPLY LOAN:** (a) Interest rate is 17% for overdraft loan facility and 20% for revolving loan facility at loan amount BDT 4.00 to below 10lac. (b) Interest rate is 16% for overdraft loan facility and 18% for revolving loan facility at loan amount BDT 10.00 30lac. Loan processing fee for Super Supply Loan is 1% of the required loan amount plus VAT, relationship fee-0.1% for each withdrawal plus VAT (for revolving facility), renewal fee-0.5% of the total loan amount plus VAT, other charges BDT 8,300, early settlement fee- 3% of the outstanding balance and panel interest – 2% on overdue amount.
  - 
**SUPPLIER FINANCE:** Interest rate for Aroggo is 22% p.a at monthly rest for loan amounting BDT 3.00 to below 10.00lac, 17% p.a at monthly rest for loan amounting BDT 10.0 to below 15.00lac and 15% p.a at monthly rest for loan amounting BDT 15.01 to 30.00lac. Loan processing fee for Supplier Finance is 1% of the required loan amount plus VAT.
  - 
**TRADE PLUS:** Interest rate for different Trade Plus is 17% to 18% p.a (floating) under commercial lending sector. Loan processing fee for Trade Plus is 1% of the required loan





amount plus VAT; other charges BDT 8,900 to 11,900 and early settlement fee- 3% of the outstanding balance.

#### **4.2.6 Security Requirement:**

- **ANONNO OR ANONNO (GOLD) AND PROTHOMA:** The necessary securities needed for these loan are as follows:
  - Hypothecation on the stocks, property, receivables, advance payments, furniture & fixtures.
  - Personal Guarantees of Spouse/Parents/brother(s)/ Sister(s)/ other family members.
  - One third party personal guarantee /PG of directors if limited company.
  - Postdated cheque for each installment and one undated cheque for full loan value including full interest or one undated cheque for full loan value including full interest (as decided by the management).
  - Registered mortgage of landed property (in case of Jewelry Business, Brick field, Fish/shrimp, Transportation, commercial Complex, Sand & stone, Fishing Boat, Petrol Pump, Nursery, Horticulture, PISCI Culture, product of Banana Betel Leaf, Paddy, jute & other crop production).
  - Any other security as deemed fit on a case- to –case basis.
  - Other usual charge document.
- **APURBO:** The securities for this loan are same with Anonno or Anonno (gold). The only difference are equitable mortgage of landed property for loan amounting BDT 8.00 to 15.00lac and registered mortgage of landed property for loan amounting BDT above 15.01 to 30.00lac.
- **PROSHAR:** The securities for this loan are same with Anonno or Anonno (gold) amounting loan BDT 3.00 to 10. The only difference is for loan amounting BDT above 10.00 to 30.00lac, registered mortgage of land property (minimum force sale value 125% of the loan amount) or FDR minimum 30% of the loan value and registered mortgage of land property (minimum force sale value 70% of the loan amount), original Security receipt (Fixed deposited of BRAC Bank)and Letter of Lien and Set-off over Deposit Accounts, Memorandum of Deposit of Securities
- **DIGOON LOAN:** Securities are same as like Anonno. But the difference is 50% of the loan amount covered by cash equivalents (Fixed deposited of BRAC Bank).

- 
**PATHSHALA AND AROGGO:** The extra securities needed for these loans rather than loans mentions above are as follows:
    - Insurance Policy for 110% of the stock value covering specific risks with bank's mortgage clause in joint name of the bank and the client for loan amounting BDT 2 to 30lac.
    - Irrevocable general power of attorney to sell the mortgaged property without the intervention of the court for loan amounting BDT 10 to 30lac.
    - Equitable mortgage of landed property(in Sole Proprietor/Partner/Director's name) for loan amounting BDT 10.01 to 15.00lac and
    - Registered mortgage of landed property (in Sole Proprietor/Partner/Director's name) for loan amounting BDT 15.01 to 15.00lac

OR (for3&4)

  - Cash cover partial or full (not mandatory) in the form of readily cashable, mutual fund unit certificates and deposits/fixed deposits in our Bank or in other Banks if the entrepreneur/owner offers/agrees to furnish.
- 
**BUSINESS LOAN AND CASH SECURED LOAN:** The extra securities needed for these loans are such as original Security receipt (Fixed deposited of BRAC Bank) and Letter of Lien and Set-off over Deposit Accounts, Memorandum of Deposit of Securities.
- 
**SUPER SUPPLY LOAN:** Securities needed for this rather than Anonno are BRAC Bank FDR 25% of the loan amount for loan BDT 4 to below 10lac and Registered mortgage of land property (minimum force sale value 125% of the loan amount) or Registered mortgage of land property + FDR (Face value of FDR and force sale value of Registered mortgage of land property = 100% of the loan limit)
- 
**SUPPLIER FINANCE:** Securities needed for this rather than Anonno are Tripartite Agreement among the Bank, borrower and purchasing firm with regard to the assignment of the supplier's bills to the Bank for loan amounting BDT 3 to 30lac and Registered Mortgage of landed property for loan amounting BDT 10 to 30lac .
- 
**TRADE PLUS:** Securities needed for this rather than Anonno are such as – (1) Cash security 25% of loan limit, original Security receipt (Fixed deposited of BRAC Bank) and Letter of Lien and Set-off over Deposit Accounts, Memorandum of Deposit of Securities for loan

amount BDT 5 to 10lac (2) Registered mortgage of land property (minimum force sale value 125% of the loan amount) or Registered mortgage of land property (minimum force sale value 75% of the loan amount) & cash security 25% of the loan value for loan amount BDT 10 to 30lac.

### **3.2.7 Repayment Capacity of Enterprise:**

In case of Single Installment Loan facility, monthly or annual profit will not be considered as the source of repayment, rather the source would be the sales proceeds of the inventory at maturity (the repayment time usually will be determined just at the end of the peak season/sales or highest collection month).and for Equated Monthly Installment loan facility, varies for different loan products.

- **ANONNO OR ANONNO (GOLD) AND PROTHOMA:** Equated Monthly Installment loan facility: Monthly installment should be maximum 80% of average monthly net profit.
- **APURBO AND PROSHAR:** Monthly installment should be maximum 85% of average monthly net profit.
- **DIGOON LOAN AND SUPPLIER FINANCE:** Monthly installment should be maximum 75% of average monthly net profit.
- **PATHSHALA AND AROGGO:** Monthly cash flow (tuition, fees, other charges etc.) should cover 120% of the monthly installment.
- **BUSINESS LOAN:** (Average monthly Income X Permissible DBR) – Other monthly financial obligations. Debt Burden Ratio for monthly Income below 1 lac – 50%, monthly Income above 1 lac to 2.5 lac- 55% and monthly Income above 2.5 lac – 60%.

# Chapter-5

## **Identification of Customers Preferences**

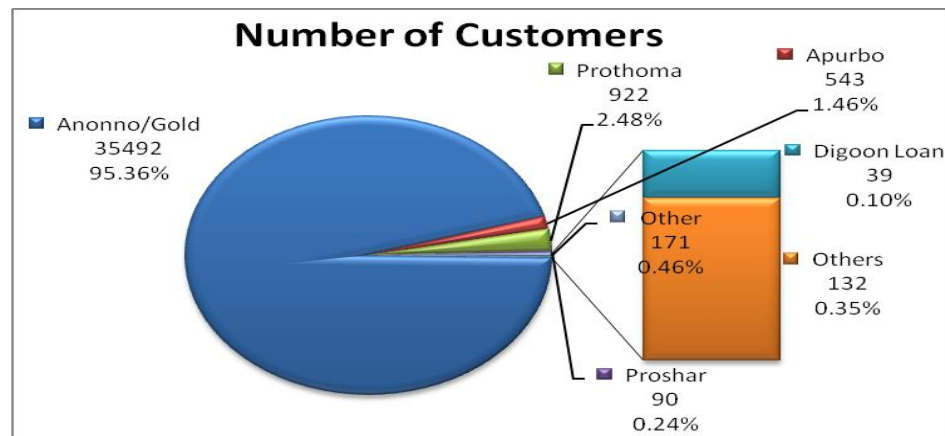


## 5.1 NUMBER OF CUSTOMERS IN DIFFERENT SME LOAN PRODUCTS

From the view, it is clear that Anonno or Anonno (gold) which is about 95%, dominating the others types of SME loans products. Anonno (gold) is new product of BRAC Bank Ltd which is nothing but a revised version of previous Anonno. Prothoma is the second position with 2.5% in the SME loan products which provide loan facility for women entrepreneurs. Apurbo has about 1.5% share which is providing medium scale loan for the customers who require some large amount than Anonno.

**Table-2:** Number of Customers

Loan Type	No of customers	Contribution (%)
Anonno/Gold	35492	95.36%
Apurbo	543	1.46%
Prothoma	922	2.48%
Proshar	90	0.24%
Digoon Loan	39	0.10%
Others	132	0.35%
<b>Total</b>	<b>37218</b>	<b>100%</b>



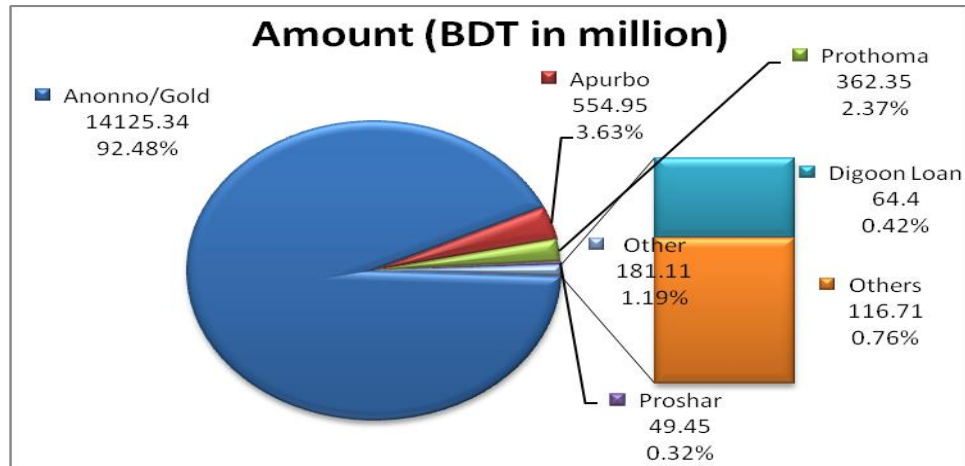
**Fig-2:** No of Customers in SME Loan Products last Seven Months

## 5.2 AMOUNT OF LOAN DISBURSE TO DIFFERENT SME LOANS

Here, it is shown that during last seven month **Table-3:** Amount of Loan Disburse (last 7mns) from July 2014 to January 2015. about BDT 14,125 million loan has disburse to Anonno or Anonno (Gold), in second about BDT 555 million disburse to Apurbo and thirdly BDT 362 million disburse to Prothoma. Proshar, Diggon, Business Loan, Aroggo, Pathshala and others

Loan Type	Amount (BDT in million)	Contribution (%)
Anonno/Gold	14125.34	92.48%
Apurbo	554.95	3.63%
Prothoma	362.35	2.37%
Proshar	49.45	0.32%
Digoon Loan	64.4	0.42%
Others	116.71	0.76%
<b>Total</b>	<b>15273.2</b>	<b>100%</b>

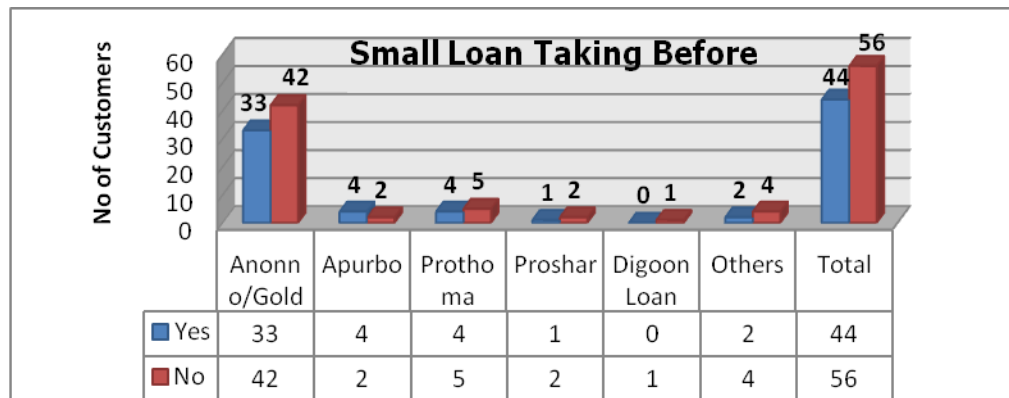
loan make some contribution in BBL SME loan products.



**Fig-3:** Amount of Loan Disburse to Different SME Products during Last Seven Months

### **5.3 CUSTOMERS HABIT TO SMALL SCALE LOAN:**

Conducting interview with SME loan borrowers, 44% of Anonno, 66% of Apurbo, and about 45% of prothoma borrowers taking small scale before this from different NGO's- BRAC, Grameen and financial co-operative.

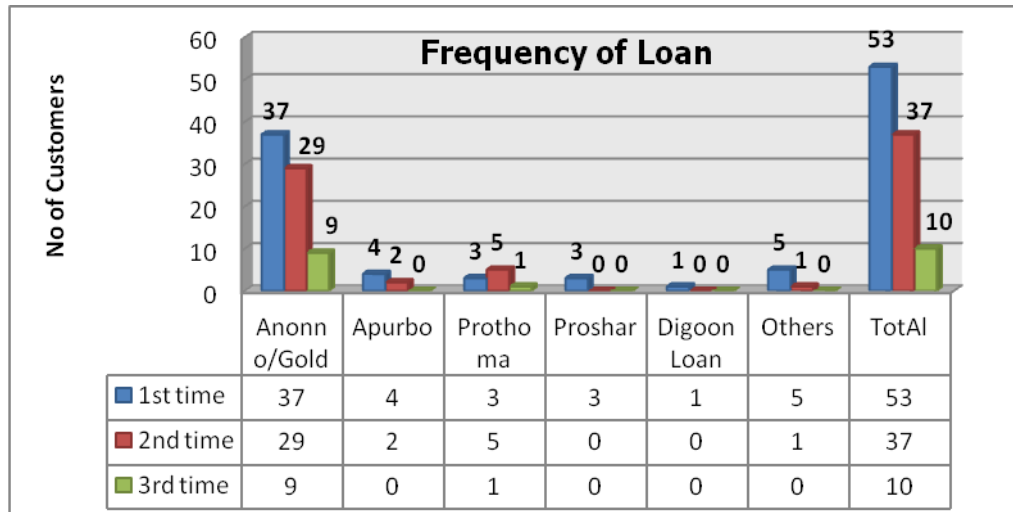


**Fig-4:** Customers Habit to Small Scale Loan

### **5.4 BORROWERS LOYALTY WITH BRAC BANK LIMITED (BBL):**

From the graphical views of survey results, borrowers of Prothoma loan are more trust worthy compared with other SME borrowers. About 55% of prothoma and 39% of Anonno,said t t is their second time loan from BRAC Bank. 49% of Anonno, 67% of Apurbo, 33%of Prothoma , and

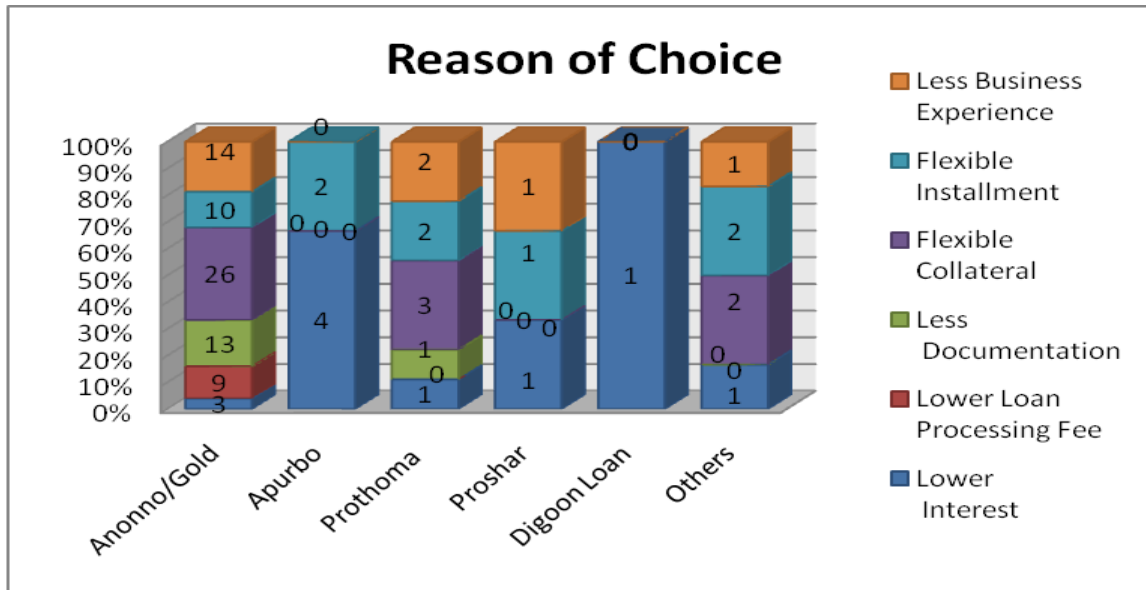
100% Proshar' customers mention that they take loan for the first time from BBL. And 12% of Anonno & Prothoma borrowers said they take loan for third time from BBL.



**Fig-5: Frequency of Loan**

### **5.5 REASON OF CHOOSING LOANS AMONG DIFFERENT TYPES OF SME LOAN**

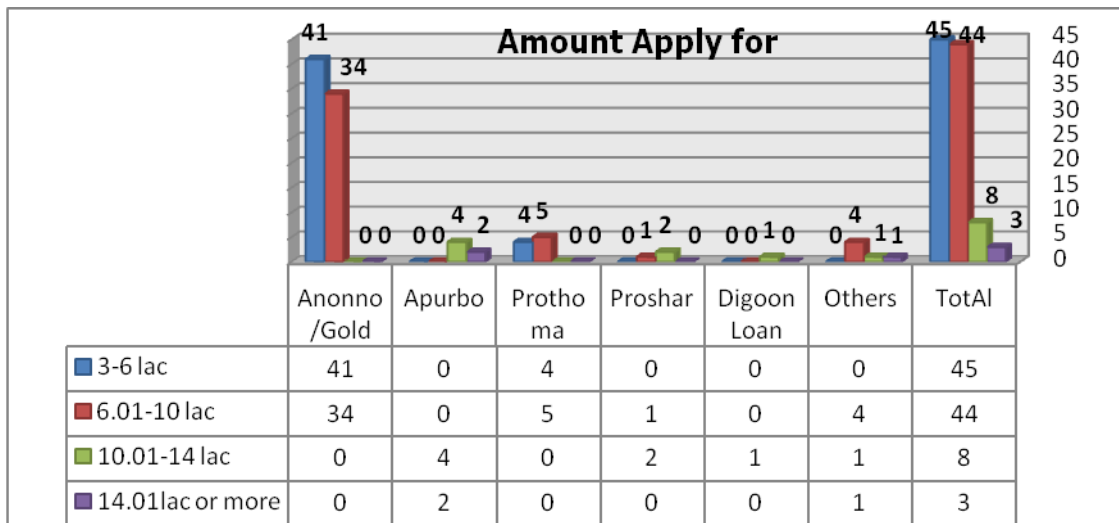
From Anonno or Anonno (gold) borrowers, about 35% choose this for flexible collateral; about 19% for less Business experience, 17% for less documentation and 13% for flexible installment. 67% of Apurbo holder choose this for lower interest rate. 33% of Prothoma customers choose it for flexible collateral. Proshar is chosen by borrowers because of lower interest, flexible installment and less Business experience requirement. And Digoon is for lower interest rate. From other loans are chosen mainly flexible collateral and installment.



**Fig-6:** Reason of Choosing Loans from SME Loan of BBL

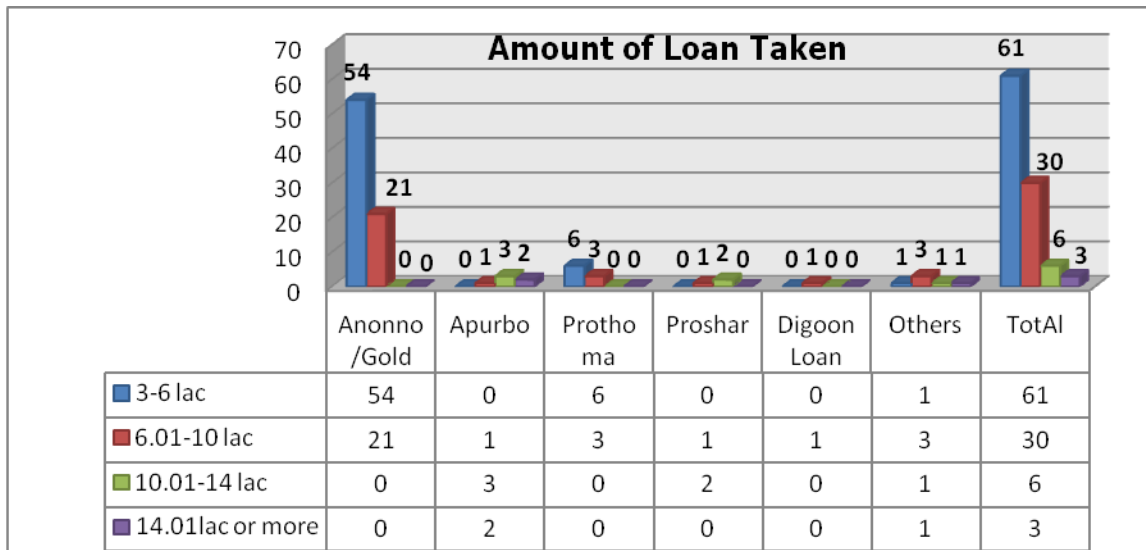
#### **5.6 DIFFERENCE BETWEEN AMOUNT OF LOAN APPLY FOR AND TAKEN:**

Almost 89% borrowers applied for BDT 3 to 10lac while 49% of that portion was from BDT above 6 to 10lac. Though 91% loans has sanctioned for amounting BDT 3 to 10lac, only 33% of the loans are amounting BDT above 6 to 10lac. Only few percent of loans are medium scale loan



**Fig-7:** Amount of Loan Apply for

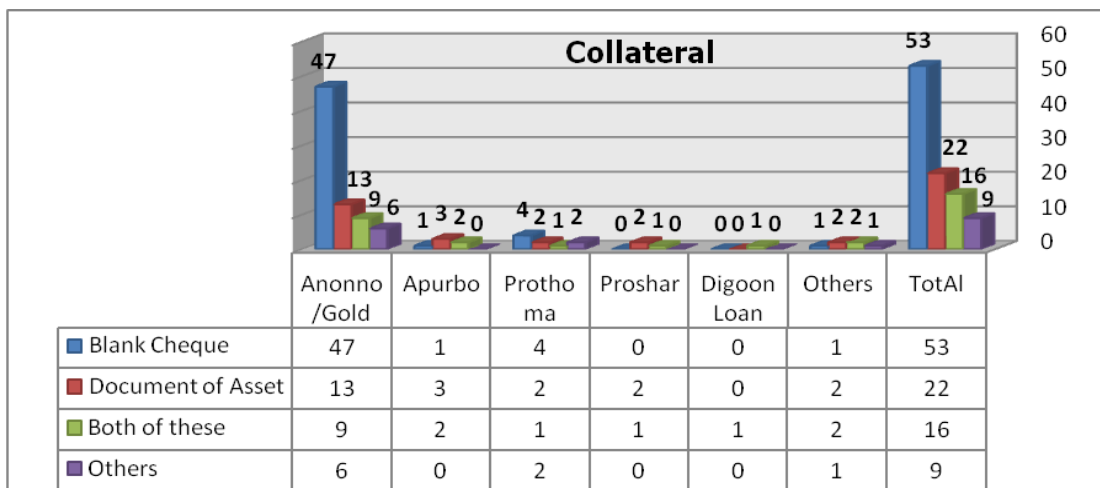
amounting BDT above 10 to 30lac. It is shown that large amount of loan is given to Proshar, Apurbo, Aroggo and Business loan. From the surveys, it is found that Apurbo and Business Loan get loan amounting BDT above 14lac because these two loans are those which has large amount of turn over. So it is clear that BRAC Bank Limited is very conscious about sanctioning large amount of loan.



**Fig-8: Amount of Loan Taken**

#### **5.7 COLLATERAL GIVEN BY DIFFERENT BORROWERS:**

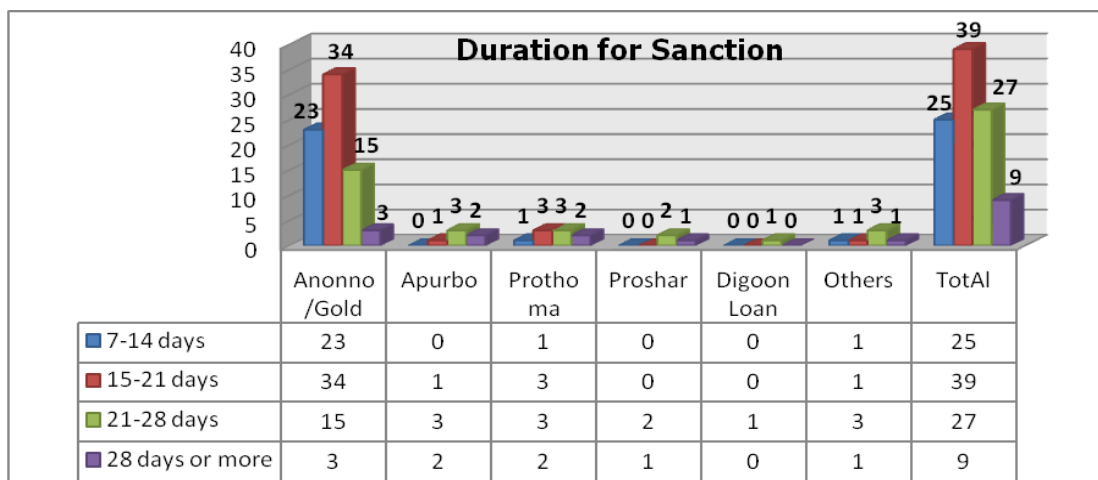
From the market, it is identified 53% of the SME borrowers pledge link account's Blank Cheque as collateral for loan, 22% borrowers pledge documents of registered assets and 25% pledge both of these and other collateral. Here, most of the Anonno and Prothoma loan borrowers pledge only Blank Cheque because most of them take small scale loan.



**Fig-9: Types of Collateral for Different Loans**

### **5.8 DURATION FOR SANCTIONING LOAN (FROM APPLICATION TO DISBURSEMENT):**

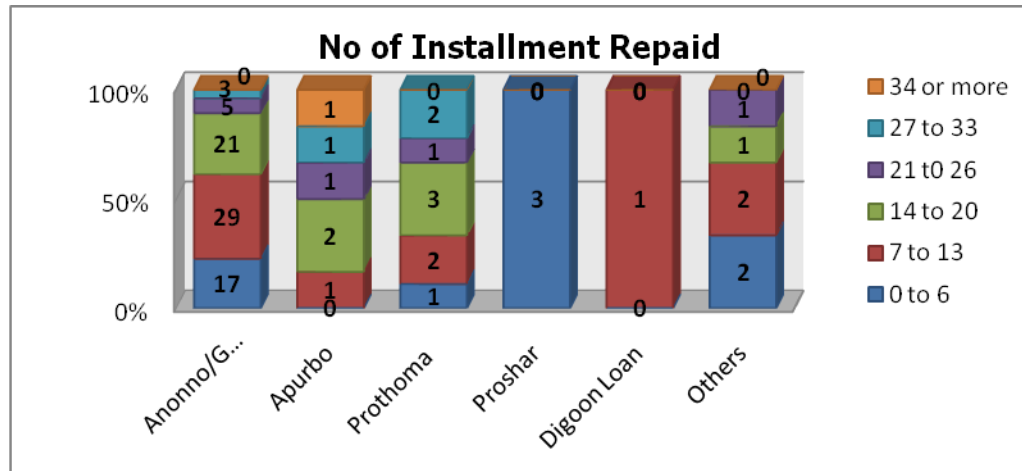
Thirty nine percent (39%) borrowers said they had to wait 15 to 21 days after application for the disbursement of loan, 27% need to wait for 21 to 28 days, and 25% wait for 7 to 14 days. and only 9% borrowers wait for 28 days or more which are mainly large amount of loan have to make sanction from high level authority. Most of the Anonno loan (76%), borrowers have to wait for 7 to 21 days. Because this type of loan is mainly small scale loan which sanctioned by front line manager.



**Fig-10: Duration of Sanctioning Loan**

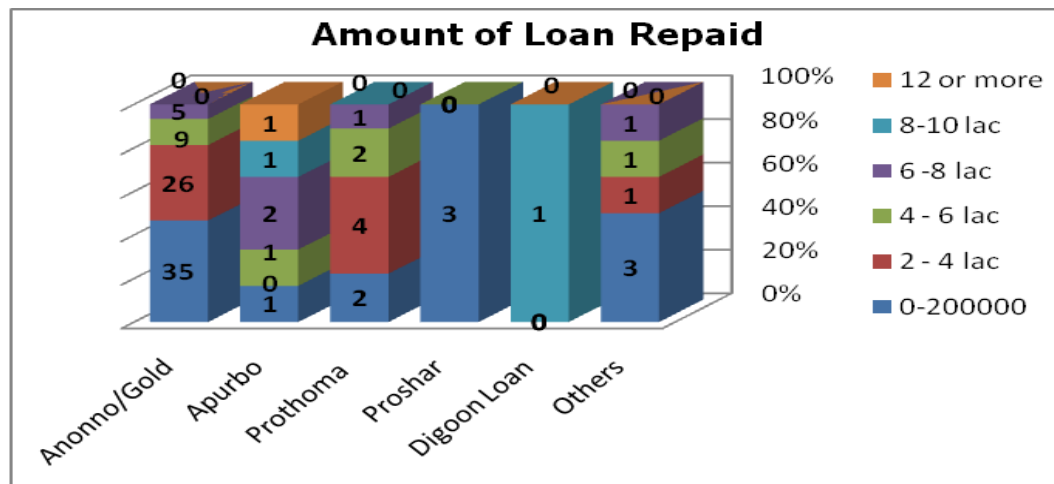
### **5.9 NUMBER OF INSTALLMENT AND AMOUNT OF LOAN REPAID BY BORROWERS:**

Most of the Anonno (67%) repaid about 7 to 20 no of installments and 23% repaid 0 to 6 no of installments. Most of the Apurbo and Prothoma (33%) repaid 14 to 20. And all Proshar borrowers repaid only 0 to 6 no of installments because proshar is new ly launched loan product.



**Fig-11:** Number of Installment Repaid by Borrowers

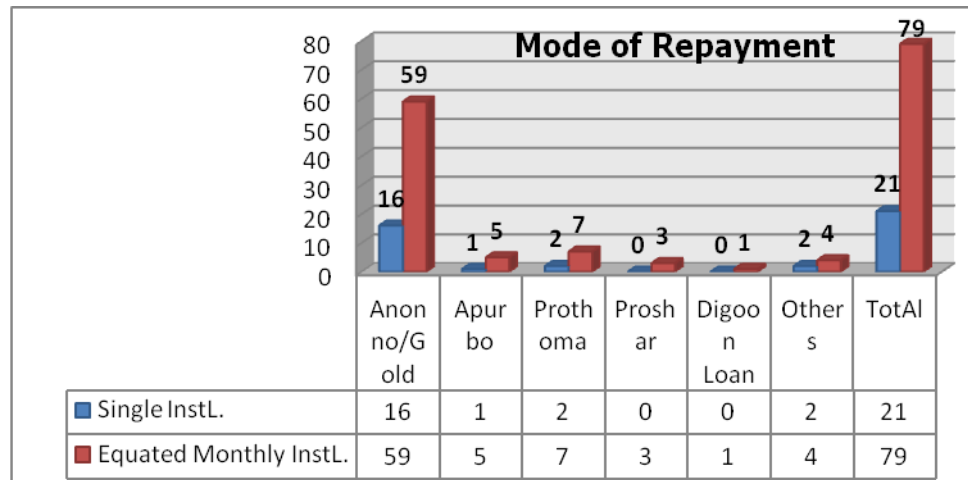
Most of the Anonno borrowers (81%) repaid BDT 0 to 4lac, 33% of Apurbo repaid BDT 6 to 8lac and 44.44% of Prothoma repaid BDT 2 to 4lac.



**Fig-12:** Amount of Loan Repaid by Borrowers

### **5.10 CHOICE OF MODE OF REPAYMENT:**

Most of the SME borrowers (79%) like to repay their loan with equated montly installment system. From Anonno (78.67%), Apurbo(83%), Prothoma (78%) and others (67%) borrowers would like to repay loan through equated monthly installment system. Most of Proshar and Digoon loan borrowers like equated montly repayment mode.

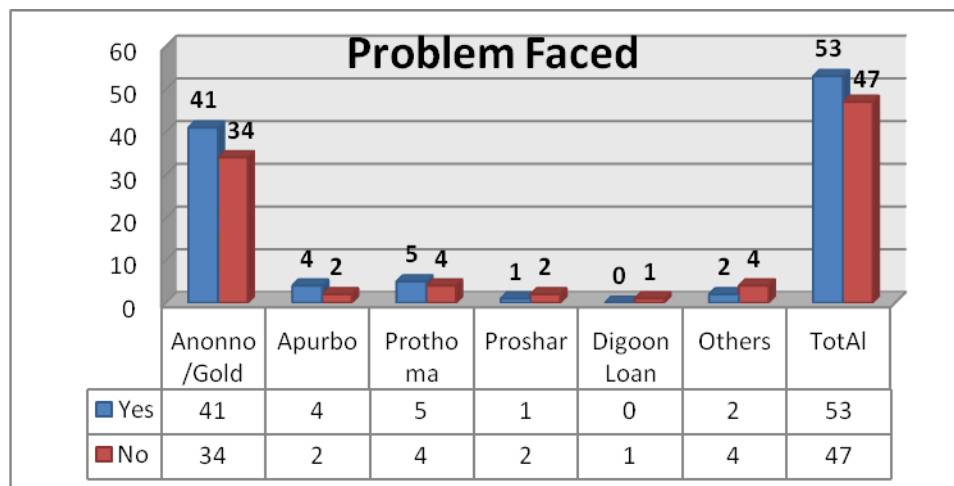


**Fig-13: Mode of Repayment System**

### **5.11 PROBLEM FACED DURING TAKING OR PERIOD OF LOAN BY BORROWERS**

Fifty three percent (53%) SME borrowers said that they various problem- miscommunication of customer relationships officers (CRO), delay to disburse loan, some extra charge during application, release security after closing, misbehavior of CRO for few days late of repayment. From Anonno (55%), Apurbo(67%), Prothoma (56%), Proshar&Digoon (25%) and others (33%) borrowers mention about this types of problem during taking or the period of these SME loans.





**Fig-14:** Problem Faced by Borrowers

# Chapter-6

## **Economic Implications of SME Loan Products of BBL**

## 6.1 INVESTMENT IN BUSINESS OF SME BORROWERS:

Investment makes economic growth and expand Business which generate income for people as well for the country. About 92% of Anonno borrowers have investment amounting BDT 5lac to 15lac, and 67% of Apurbo borrowers have investment about BDT 15lac to 25lac. About 78% of Prothoma loan borrowers have investment of BDT 5 to 15lac and 67% of Proshar have investment of BDT 20 to 25lac or more. From the others some Business loan and Aroggo borrowers have large amount of investment. So different types of SME loans help the economy through expanding investment in small and medium enterprise Business.

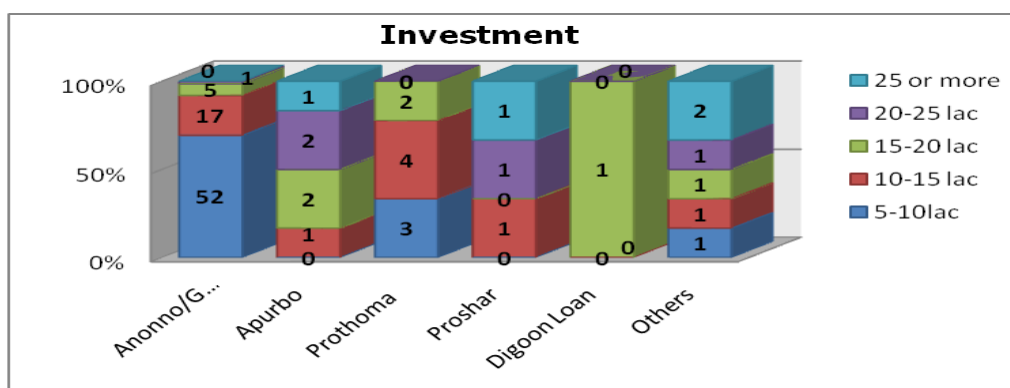


Fig-15: Investment in Business of SME Borrowers

## 6.2 EXPERIENCE IN BUSINESS OF SME BORROWERS:

Most of small and medium enterprise borrowers (87%) are experience in Business for 3 to 5 years. So they can generate more products or services for people through SME loan facilities of BRAC Bank limited and through their earned knowledge & skills over the period of time.

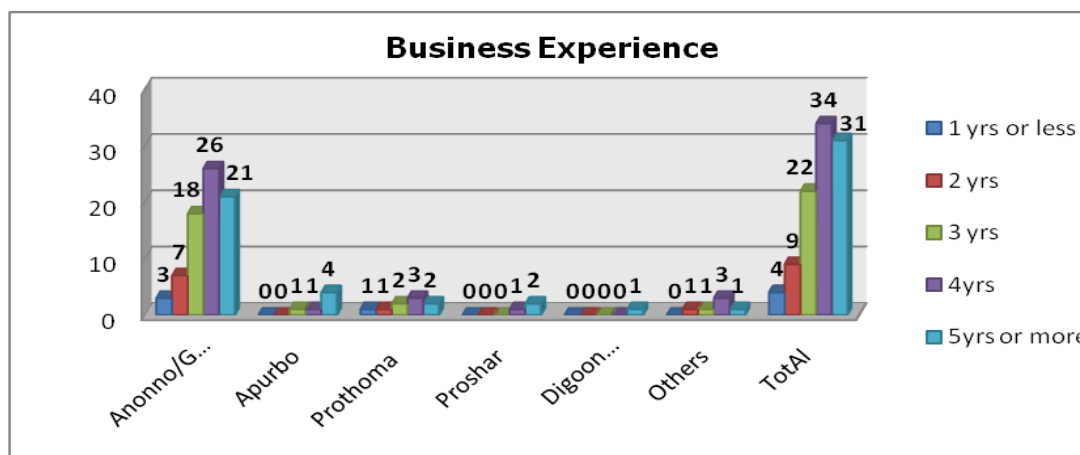
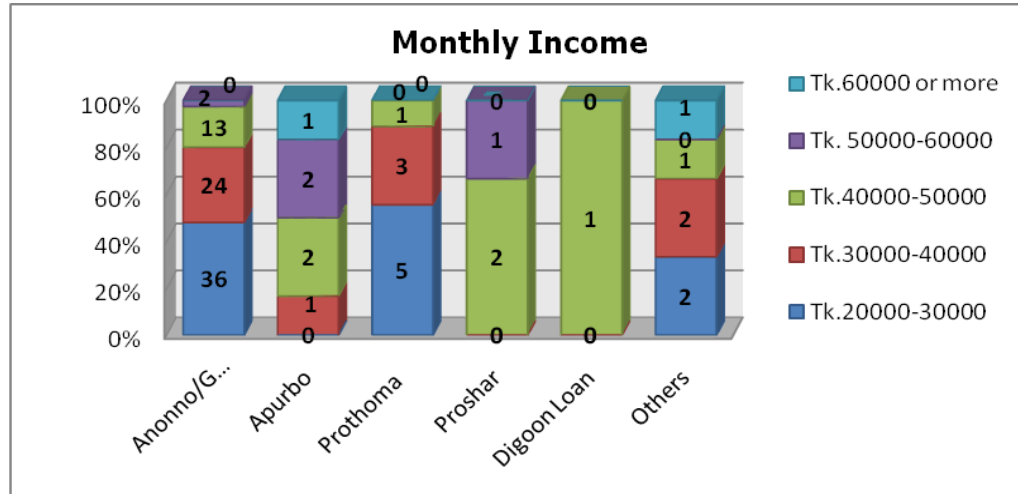


Fig-16: Business Experience of the Borrowers

### **6.3 MONTHLY INCOME FROM BUSINESS**

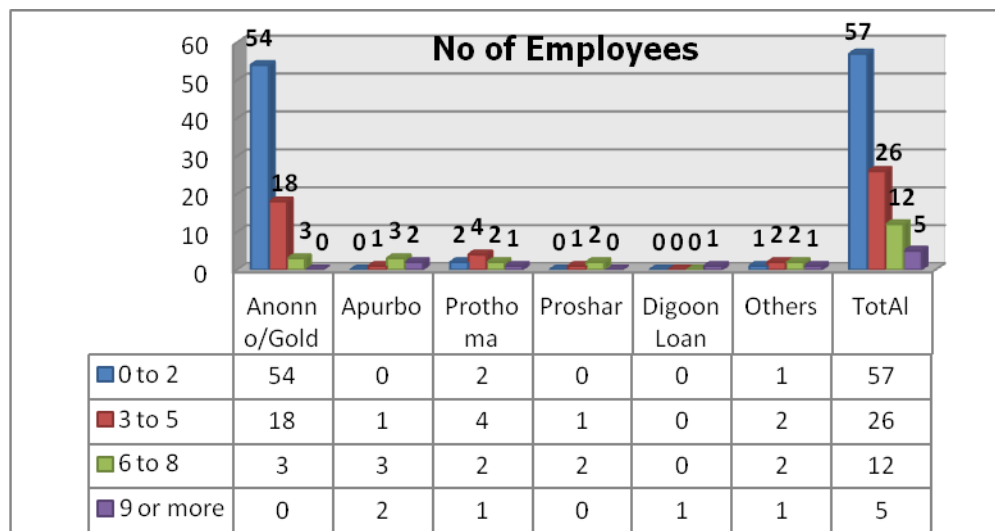
Most of Anonno (80%) borrowers make Tk. 20000 to 50000 of monthly income from their Business, 67% of Apurbo borrowers make monthly profit of Tk. 40000 to 60000, 89% of Prothoma borrowers make Tk. 20000 to 40000 as monthly income from their respective Business. Most of Proshar and Digoon loan borrowers make monthly profit of Tk.40000 to 60000. This profit increase people income which develop the standard of living of people in the economy.



**Fig-17: Average Monthly Income of Borrowers**

### **6.4 NUMBER OF EMPLOYEES WORKED:**

Small and medium enterprise Businesses makes large number of employment for potential people of the economy. About 57% of borrowers have at least 1 to 2 employees, 26% of borrowers have 3 to 5 number of employees.



**Fig-18: Number of Employees in the Business**

### **6.5 WILLINGNESS OF EXTENDING LOAN WITH BRAC BANK LIMITED**

Most of the SME borrowers (72%) have willingness to extend their loan with BRAC bank. It is from 75% of Anonno, 83% of Apurbo, 67% of Prothoma & Proshar and 50% of others loan borrowers are willing to extend their existing loan with BRAC Bank Limited.

**Table-4: Extention of Loan with BBL**

Loan Type	Yes	%	No	%
Anonno/Gold	56	74.67	19	25.33
Apurbo	5	83.33	1	16.67
Prothoma	6	66.67	3	33.33
Proshar	2	66.67	1	33.33
Digoon Loan	0	0.00	1	100.00
Others	3	50	3	50
Total	72		28	

### **6.6 NATURE OF BUSINESS**

General store and Cloths store comprise the highest number of respondents in the survey. There are respectively 31 and 22 respondents in general store and mobile phone shop category. There are 17 respondents from Hardware & Auto parts store and 13 Mobile Phone shop which includes public phone, servicing and seller of the new set only or comprising with other service. Seven (7)

respondent's type of Business in the survey is poultry shop. Ten (10) respondents' has other types of Business.

**Table-5:** Nature of Business of Borrowers

Type of Business	Frequency
General store	31
Hardware store & Auto parts	17
Cloths Store	22
Mobile phone Shop	13
Poultry Shop	7
Others	10

# Chapter-7

**Finding,  
Recommendation  
&  
Conclusion**

### **Findings:**

- In its almost 1 years of operations, BRAC Bank has disbursed approximately Tk 22,000 crore loan to 4 lakh SME entrepreneurs across the country
- The finance has created direct employment to 13 lakh people. The bank also extended support to 8,000 women entrepreneurs with Tk 360 crore loans till date.
- SME loan financing is increased by 17.63% than previous (2013) year.
- Largest network channel to reach maximum clients.
- Specialized management team and experience personnel in the sector
- Door –to-door service is provided by customer relationship officers
- Focus on highest collateral free loan to customers.
- BRAC Bank is established focusing on missing middle or SME.

### **Recommendation :**

This study suggests that some development-oriented steps can be considered to make the credit appraisal system and credit management more effective further. These steps will help to keep the appraisal system and credit management ready to meet any possible challenge and to grab any further opportunity as well as to remove the problems lying with the existing credit appraisal system and credit management currently can be as follows:

- As credit is the major source of earning of the bank. The bank should maintain an adequate process to select the officer for this job. Because the performance of this institution depends on the quality and the performance of loan officers. If banks fail to select the proper employee for the proper position, they will fall in a big trouble.
- In credit management, it is conventional that credit proposal must be supported by a complete qualitative and quantitative analysis. More importance should be given on refund of loans out of funds generated by the borrower from their Business activities (Cash flow) instead of realization of money by disposing of the



securities held against the advance, which is very much uncertain in the present context of Bangladesh.

- While investigating a loan proposal the banker should give due emphasis on the character of the borrowers. Among the five Cs (character, capacity, capital, conditions and collateral) character should come before the credit proposal in evaluation by bankers. Character here means the willingness of the borrowers to repay the loan. Business people having good character will make their best efforts to repay the loans in time and will work with open mind and cooperatively with their bankers even if their Businesses face serious financial difficulties.
- Non-professional handling of credit disbursement has some type of relation with loan default; therefore Banks should give proper guidelines to the employees in sanctioning a loan. They should arrange special training program only for the employees working under loan division to give knowledge about different loans and how to handle it. If the requirements have been practiced properly, that will definitely increase the skills of employees in sanctioning the loans.
- It is observed that banking sector follows one rigid period in each case for considering a loan sub-standard, doubtful and bad/loss. This is permissible but in the context of Bangladesh it is not logical to term a loan bad/loss when it exceeds 12 months. Rather it would be logical to divide the period of doubtful loans in terms of different stages like doubtful for more than 9 months and less than 12 months, doubtful for more than 12 months but less than 18 months and doubtful for more than 18 months. The rate of provision is to be charged according to this slap. After practicing this technique, when the provisioning shortfall of the banks will be over, banking sector should finally adopt international standard.
- Management lobbying has unique and deeper relation with loan default. Though the impact is negative but it has significant relationship with loan default. As it is an internal problem of the banks, so the individual top level employees should value law and order of the banks. The top level employees should use their power properly and should not illegally relate with the borrower's in sanctioning loans.

### **Conclusion :**

The banking sector of any country plays a vital role in the economic activities. In Bangladesh the financial development sectors and the economic development sectors are closely related. Today the private commercial banks are also playing a significant role in this regard. The Government of Bangladesh has attached highest importance to the development of Small and Medium Enterprises (SMEs) in Bangladesh. At present SMEs in Bangladesh generate large amount of employment and making much contribution of GDP growth. SMEs are in fact the very backbone of the economy of Bangladesh. BRAC bank promotes broad-based participation in the Bangladesh economy through the provision of high quality and modern banking services. SME loan is one of such quality product through which they offer the small and medium entrepreneurs a quality banking services and earn the maximum profit as well. 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. 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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