



EAST WEST UNIVERSITY

Project On: Al-Arafah Islami Bank Ltd & MBL

Project Name: Compares Between

Al-Arafah Islami Bank Ltd & MBL

There overall banking concept

And

There performance in financial sectors

Course Code: BUS- 498

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Letter of Transmittal

19th, December 2010

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Sub: Submission of project paper

Dear Sir:

With due respect, gratitude and appreciation, I would like to present this project paper on “**Compares between Al-Arafah Islami Bank Limited and MBL**” as a Project Paper for my BBA degree at East West University. The project work gave me the opportunity to put my skills and capacity to the test under several circumstances and to solve challenges associated with my academia and work. I have used several kinds of methods to gather information to do the competitive analysis. The methods include web browsing and documentation. In the analysis both primary and secondary data were used.

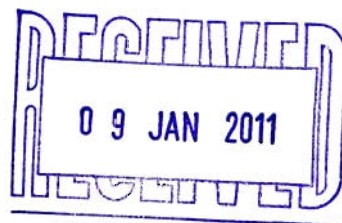
The best efforts were applied to match the theoretical concepts to complete this project with real life situation. The whole work was challenging and very much enjoyable.

Sincerely Yours

Md. Shamsur Rashid

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Executive Summary

The Banking industry is one of the most attractive industries in Bangladesh. Every year, this industry is growing at a higher pace. With this growth the modernization of banking systems has also improved a lot. The entrance of multinational banks in the country and simultaneously the emergence of Private Commercial Banks have made this business very competitive.

AL-ARAFAH ISLAMI BANK LIMITED has been incorporated on 27th August 1995 in Dhaka, Bangladesh as a public limited company with the permission of the Bangladesh Bank; AIBL commenced formal commercial banking from the June 2, 1996.

Credit Management is mainly concerned with the credit disbursement and recovery. In order to strengthen credit Management and recovery position of the loans/advances by bank it has been decided by AIBL to follow some tools and technique for credit appraisal. With the use of such tools AIBL credit Management has shown their efficiency.

MBL is a unique characteristic in its loan Management. To make it sure that there will be no bad loan in its loan portfolio, MBL established a loan monitoring and supervision cell headed by an Assistant Vice president under the nursing of its chief advisor Lutfar Rahaman Sharkar. They frequently visit customer premises/business whether the loan amount which is taken is used properly or not, sometimes it happens that customers need more fund or other type facilities to run its business profitably. The monitoring authority takes necessary steps to meet the customers need.

I have focused and analyzed on credit management process of Mercantile bank Limited. MBL as a new bank in Bangladesh but its contribution socio-economic development of Bangladesh greater significant. Though my topics were connected on credit management I tried to identify the process of disbursement loan, performance and problems of the bank as a whole. I have found a fewer number of factors impede the achievement of ultimate goals of MBL. It is not easy to find the solution for the inexperience's researchers like me. But I do believe that suggestion mention in below will obviously increase the efficiency of MBL. Some of this measure will be needed for long term to be implemented and others are short term.

In this report I mainly focused to appraise on AL-ARAFAH ISLAMI BANK & Mercantile Bank Limited. I tried to give an overview of the principal activities and

performance of AL-ARAFAH ISLAMI BANK LIMITED & Mercantile Bank. Lastly I
sort out the problems and tried to give some solutions to overcome those problems.

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1.1 BACKGROUND OF THE STUDY:

To achieving high economic growth is the basic principles of present economic policy .In achieving the objectives, the banking sector plays an important role. The banking sectors channel resources through deposit mobilization and providing credit for different business venture .The successful running of a bank business depends upon how effectively the credit management recovered the funds. Al-Arafah Islami Bank Ltd .as new commercial bank in Bangladesh responsibility bestows upon it to ensure efficient and effective banking operation in a sound manner. The main objectives of AIBL are.

To ensure the safety of depositor and give them different types of credit facilities. Consumer credit is one of its kinds of credit facility which help limited income people to buy any house hold effects including car, computer and other consumers durable.

Credit Management is mainly concerned with the credit disbursement and recovery. In order to strengthen credit Management and recovery position of the loans/advances by bank it has been decided by AIBL to follow some tools and technique for credit appraisal. With the use of such tools AIBL credit Management has shown their efficiency.

1.2 OBJECTIVE OF THE STUDY:

The main objective of the study is to introduce the Credit management system of Al-Arafah Islami bank Ltd and its effectiveness in this regard. The specific objectives of the study are as follows:

- ⇒ To understand the need and objective of Credit Management.
- ⇒ To explain the meaning and concept of Credit Management
- ⇒ To gather comprehensive knowledge on overall banking functions of AIBL
- ⇒ To acquire in depth knowledge about AIBL Credit Management functions.
- ⇒ To identify the weakness and problem in successful / effective Credit Management System and suggest accordingly.



1.3 SOURCE OF DATA

The study required various types of information past and present policies, procedures and methods of Credit Management Both primary and secondary data available have been used in preparing this report:

Source of Data:

Primary sources:

a) Primary sources:

- ✓ Discussion with officials of Al- Arafah Islami Bank Limited
- ✓ Experts opinions and comments

b) Secondary sources:

- ✓ Relevant books, Newspaper, journals etc.
- ✓ Monthly Reports
- ✓ Published documents
- ✓ Office circular
- ✓ Other published papers, documents and reports.

1.4 METHODOLOGY OF THE STUDY:

The study cover the period January' 2000 to December 2000,of Main Branch, MBL. Row data collected from various sources required to be processed, tabulated, edited for the purpose of the study. After processing data I have applied various statistical tools for getting meaningful results. Those techniques are Ratio analysis, Trend and graphical presentation such as pie chart, Bar, Graph has been used.

1.5 ABBREVIATION USED:

During the analysis, the most used abbreviations are

- # AIBL for Al-Arafah Islami Bank Limited.
- # LRA for Leading Risk Analysis.
- # LTR for Loan against Trust Receipt
- # PAD for Payment against Document
- # SOD for secured overdrafts

1.6 LIMITATION OF THE STUDY:

Although I have obtained whole hearted co-operation from employee of AIBL Main Branch Office in Dhaka. They were extremely busy, so they were not able to give me much time as they and I would like. On the way my study, I have faced to give me much time, as they and me would like. On the way of my study, I have faced the following problems, which may be termed as limitations/ shortcoming of the study.

These are

- **Short time period:** The major limitation of the study was shorter time period. For an analytical purpose adequate time is required. But I was not given adequate time to prepare such as depth study.
- **Non-availability of adequate data:** To understand the facts about the study in realistic way and more clearly the quantitative expression of information is represented by data. But at the Bank is the newer one. That's why I could not provide necessary secondary data in all area of the study.
- **Lesser Experience:** Experience makes a man efficient such kind of research activity is done by me for the first time. That's why inexperience creates obstacle to follow the systematic and logical research methodology.

A PORTFOLIO OF AL-ARAFAH ISLAMI BANK LIMITED

2.1 HISTORY AND BACKGROUND:

Banking system occupies an important place in a nation's economy. A banking institution is indispensable in a modern society. It plays a pivotal role in the economic development of a country. Against the background of liberalization of economic policies in Bangladesh, Al-arafah islami Bank Limited emerged as a Islamic mudaraba bank to provide efficient banking services with a view to improving the socio-economic development of the country.

AL-ARAFAH ISLAMI BANK LIMITED has been incorporated on 27th August, 1995 in Dhaka, Bangladesh as a public limited company with the permission of the Bangladesh Bank, AIBL commenced formal commercial banking from the June 2, 1996 .

There are thirty Sponsors involved in creating AIBL, the sponsors of the Bank have a long heritage of trade, commerce and industry. They are highly regarded for their entrepreneurial competence. The sponsors happen to be members of different professional groups among whom are also renowned banking professionals having vast range of banking knowledge. There are also members who are associated with financial institutions like insurance companies, leasing company's etc.

2.2 MECHANISM:

Commercial banking is the core activity of BIBL. The bank serves all types of customers ranging from individuals to corporate entities, both private and public.

The standard services offered by AIBL include:

- One customer services for all banking needs of the customer.
- Customer counseling.
- Personalized services and relationship banking.
- Deposit banking.
- Loan and advances.

- Export and import facilities.
- Inland and foreign remittance facilities.
- Leasing and lease financing.
- Capital market operation.

To reach the objectives, AIBL has its basket of services, among others.

- In house know how for feasibility study and strategic planning.
- Automated and computerized offices.
- Global network banking facilities.

2.3 OPERATING RESULT:

The total gross profit of TK 41.19 cores as on December 31, 2000.

2.4 DEPOSITS:

The bank mobilized total deposits of TK. 6415.79 million as on December 31.12.1999. Competitive interest rates, sustained deposit mobilization efforts of the Bank, and increasing customer confidence in the Bank contributed to the notable growth in deposits. Efforts are being made to broaden the deposit base while reducing the average cost of funds.

2.5 ADVANCES:

The bank has formulated its policy to give priority to small and medium businessmen while financing large-scale enterprises through the formation of a consortium of banks. The total loans and advances of the Bank stood at TK 391 core as on December 31, 2000.

2.6 CONSUMER CREDIT:

The bank has introduced a Micro Credit Scheme entitled 'Customer Credit Scheme' to cater to the credit needs of low-income groups for domestic durable. The Customer Credit Scheme has attracted a good response from customers.

2.7 THE STRUCTURE:

The organizational structure and corporate governance of Al-arafah Islami Bank Limited strongly reflect its determination to establish, uphold and gain a stronger footing as an organization which is customer-oriented and transparent in its management.

2.8 BOARD OF DIRECTORS:

The board of Directors consists of 26 members elected from the sponsors of the bank. The board of Directors is the apex body of the Bank and 6 members in SHARIAH COUNCIL .

2.9 BOARD COMMITTEES:

The Board of Directors who also decide the composition of each committee determines the responsibilities of each committee.

2.10 EXECUTIVE COMMITTEE:

All routine matters beyond delegated powers of management are decide by or routed through the Executive Committee, subject to ratification by the Board of Directors.

2.11 POLICY COMMITTEE:

All matters relating to the principles, policies, rules and regulations, ethics etc. for operation and management of the Bank are recommended by the committee to the Board of Directors.

2.12 CAPITAL ADEQUACY:**Authorized Capital**

The Authorized capital of the Bank is TK. 253.00 million of 2530000 ordinary shares of Tk. 100 each.

Issued, Subscribed and Paid-up Capital

The Issued, Subscribed and Paid-up Capital of the Bank is TK. 126.50 million of 1260000 ordinary shares of Tk. 100 each fully paid-up in cash.

BIS Capital Adequacy Ratios

In accordance with the instruction of Bangladesh Bank, Central Bank of the country, the bank adopted BIS risk-adjusted capital standards to measure capital adequacy. Banks in Bangladesh are required to maintain the ratio of minimum 8%.

(Figure In Million TK.)

Particulars	Amount
Tier I Capital	252.22
Paid-up capital	245.00
Statutory Reserve	2.29
General Reserve	0.34
Retained Earnings	4.59

Tier II Capital	8.84
1% Provision against unclassified loans & advances	8.68
Exchange Equalization Fund	0.16
Total Risk-Adjusted Capital	261.06
Total Risk-Weighted Assets	905.50

Capital	Minimum Requirements	
Adequacy ratio	8.00%	28.83%
Tier I	4.00%	27.85%
Tier II		0.98%

The Bank's Capital Adequacy Ratio stood at 28.83%, with Tier I capital ratio of 27.85% as of December 31, 1999. The total risk-adjusted capital was TK. 261.06 million as of December 31, 1999, of which Tier I amounting to TK. 252.22 million i.e. 96.61% of total risk-adjusted capital. The total risk-weighted assets of the Bank amounted to TK. 905.50 million as of December 31, 1999.

2.13 CORRESPONDENT RELATIONSHIP

The Bank has the established correspondent relationship with a number of foreign banks namely Citibank N. A., Bank of Tokyo-Mitsubishi Ltd., Standard Chartered Bank, American Express Bank, MashreqBank, Commerzbank, Habib Bank AG Zurich etc. The Number of foreign correspondents established by the Bank is 70 on December 31, 1999. Efforts are being continued to further expand the correspondent relationship to facilitate Bank's growing foreign trade transactions.

2.14 HUMAN RESOURCES DEVELOPMENT

In today's competitive business environment, only the quality of human resources makes the difference. The bank's commitment to attract the best person to work for it and the

adaptation of the latest information technologies is reflected in the efforts of the Bank in the development of its human resources. In the face of today's global competition the Bank envisages to develop highly motivated workforce and to equip them with latest skills and technologies. A good working environment promotes a high level of loyalty and commitment, devotion and dedication on the part of the employees.

The bank has recruited sixty-six university graduates with bright academic background as probationary Officers to build up a create of its own and has already provided them with intensive training in banking. The Bank sent a number of officers to Bangladesh Institute of Bank Management and other training institutes for specialized training on various aspects of banking. The Bank is contemplating to set up a Training Institute for providing training facilities to its executives/officers. The Bank believes in professional excellence and considers its working force as its most valuable asset and the basis of its efficiency and strength.

2.15. MANAGEMENT

The Board of Directors consists of eminent personalities from commerce and industry of the country. Mr. Md. Abdul Jalil, the founder Chairman of the Board of Directors, is a businessman besides being an eminent personality of the country. The Government has been pleased to induct him as a Senior Cabinet Minister with the portfolio of Commerce. As such, Mr. Toufique Rahman Chowdhury has been given responsibilities of the Chairman of the Board of Directors in place of the Founder Chairman. Mr. Toufique Rahman Chowdhury has served different commercial banks for about 21 years in senior capacities. He is also engaged as the CEO of a Computer Software Development Industry which aims at boosting up software export, data processing and imparting training Information Technology & Business Studies with commitment to offer research facilities and creation of intellectual capital.

The Bank is manned and managed by highly qualified and efficient professionals. The Chief Executive Officer of the Bank Mr. M. Taheruddin who has rich experience of managing both the nationalized and the private sector banks as Managing Director. Mr.

Lutfar Rahman Sarkar, the chief Advisor of the Bank, is the former Governor of the Central Bank of Bangladesh. He brings with him a wealth of experience of managing both the public and private sector banks.

2.16 R & D INVESTING INTO THE FUTURE:

The growth of banking is essentially the result of Research and Development. Such activities require the investment of substantial money and a set of highly qualified personnel with multidisciplinary background. Although it is not possible at this stage to undertake R&D activities similar to those of a bank in the developed countries, Mercantile Bank Limited has established a core Research and Planning Division comprising skilled persons from the very inception of the Bank.

2.17 OFFICE AUTOMATION

Basic accounting system of the Bank branches has been fully computerized to minimize cost and risks and to optimize benefits and increase overall efficiency for improved services. The Bank is capable of generating the relevant financial statements at the end of the day. On-line Banking is going to be introduced by the Bank soon.

2.18 FINANCIAL PRODUCTS AND SERVICES

Mercantile Bank Limited has launched a number of financial products and services since its inception. Among them Monthly Saving Scheme, Monthly Benefit Scheme, Double Amount Deposit Scheme, Consumer Credit Scheme, Small Loan Scheme and Lease Finance Scheme have achieved wide acceptance among the people.

Monthly Savings Scheme:

The prime objective of this scheme is to encourage people to build up a habit of saving. In this scheme, one can save a fixed amount of money every month and get a lucrative lump sum amount of money after five and ten years.



Monthly Benefit Scheme:

In this scheme, one has to deposit a fixed amount of money for five years and in return he will receive benefits on monthly basis. Benefits start from the first month of opening an account under the scheme and continue up to five years.

Double Amount Deposit Scheme:

Under this scheme, depositor's money will be doubled in a six-year period and the scheme is one of the highest yielding deposit schemes in Bangladesh.

Consumer Credit Scheme:

Consumer Credit is a relatively new field of collateral-free finance of the Bank. People with limited income can avail of this credit facility to buy household goods including car, computer and other consumer durables.

Small Loan Scheme:

This scheme has been evolved especially for small shopkeepers who need credit facility for their business and cannot tangible securities.

Lease Finance:

This scheme has been designed to assist and encourage the genuine and capable entrepreneurs and professionals for acquiring capital machinery, medical equipment's, computers and other items which may help them to be economically self-reliant. Terms and conditions of this scheme have been made easier than ever before in order to help the potential entrepreneurs to acquire equipment's of production and services and repay earnings on the basis of 'Pay as you earn'.

Doctors' Credit Scheme:

Doctors' Credit Scheme is designed to facilitate financing to new doctors' established doctors, clinics and hospitals.

Rural Development Scheme:

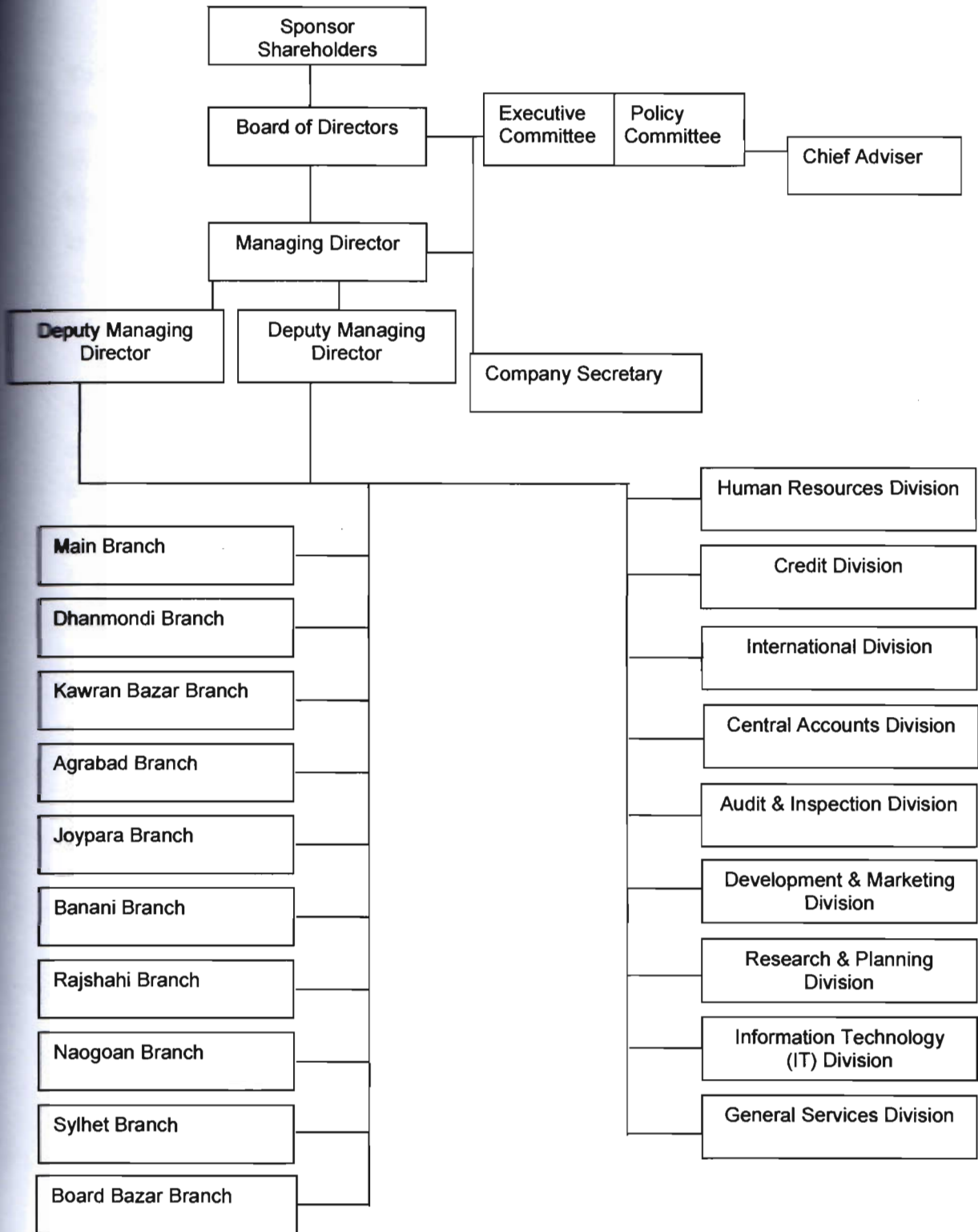
Rural Development Scheme has been evolved for the rural people of the country to make them self-employed through financing various income generating projects. This scheme is operated through the rural branch of the Dhaka.

In addition, scheme like One-Stop-utility Service, and Woman Entrepreneurs' Credit Scheme will be introduced soon.

2.19 ACHIEVEMENT:

Highest growth rate of the banking sector in 2000.

Organization Chart



MANAGEMENT OF CREDIT

To have crystal clear idea about the Credit Management / Administration of MBL critical analysis of the following are essential:

- a) Credit policy of the Bank.
- b) Credit Sanctioning Authority of MBL
- c) Processing and screening of credit proposal

3.1 CREDIT POLICY OF MBL:

MBL Credit policy contains the views of total macro-economic development of the country as a whole by way of providing financial support to the Trade, Commerce and Industry. Throughout its credit operation MBL goes to every possible corners of the society. They are financing large and medium scale business house and Industry. At the same time they also takes care entrepreneurial through its operation of Lease finance and some Micro Credit, Small Loan Scheme, etc. As a part of its Credit policy MBL through it's Credit operation maintains Commitment for social welfare. The bank is coming up with a scheme where the under privileged Children will be given financial support for education and self-employment.

From operational aspects it is observed that as a matter of policy-

- i) MBL put emphasis on the customer I,e the 'Man' and the "Business not on the Security" in selecting borrowers.
- ii) It takes care of diversity in credit portfolio.
- iii) It takes care in maintaining proper 'Mix' of short, medium and Long term finance in its Credit portfolio usually they do not go for long term Finance for a period not exceeding 5 years.
- iv) Charging of interest is flexible depending on the insist of the proposal and the customer.

3.2 CREDIT SANCTIONING AUTHORITY OF MBL

MBL believes in decentralization of power and authority. Because of the evil of subordination may creep in the chain of command if authority is not well defined and properly implemented with a view to ensuring prompt efficient services to its multitude of plans spread far and wide, the bank envisages delegation of optimum power to its executives and officials at different levels of operation.

In order to implement the system of delegation of power effectively and to derive the desired for the bank as well as the executive concerned, bank has developed a system to ensure that delegated authority by the executive can be evaluated realistically and qualitatively.

The basic guideline they follow to achieve the objective of delegation of authority is-

- i) The Managing Director can exercise all the powers vested in other executives of the bank.
- ii) Other Than Managing Director, the delegation of powers is exercised by the executives only to when such power is delegated.
- iii) The Managing Director may suspend exercise of delegated power of any executive through specific or general order.

Delegated powers are expected to be exercised by the Authorized Executives judiciously keeping the bank interest in mind. In exercising the powers so delegated Authorized Executives shall also have credit restriction, tools and regulations as governed by banking company Act, Bangladesh bank and other usual credit norms. However, the following guidelines are laid down before the executives of MBL for exercising the delegated power:

- i) The borrower must be a man of integrity, and must enjoy good reputation in the market.
- ii) The borrower must have the capacity and capability for utilizing credit properly and profitably.

- iii) The enterprise of the borrower must be viable and profitable. That is proposal of the borrower must be evaluated properly and carefully so as to ascertain its profitability. The enterprise must be able to generate sufficient fund for debt and servicing.
- iv) A customer to whom credit is to be allowed should be far as possible within the command area.
- v) No sanctioning officer can sanction any credit to any of his near relations and to any firm/company where his relations have financial interest.
- vi) There shall be no power to sanction clear advance.

3.3 PROCESSING AND SCREENING OF CREDIT PROPOSAL:

There are some common regulatory governed by Banking Companies Act, Bangladesh Bank and the Law of the State which or to be followed strictly at the time of screening a credit proposal. In addition, credit proposals are appraised critically by MBL Credit officer from various angles to judge their feasibility or viability of the proposal.

The customers at the branches of the bank place credit proposals. When a customer comes with a credit proposal, the Credit Department of the Branch makes an open discussion with the customer on different issues of the proposal to judge worthiness of the proposal and customer. If the proposal seems to be worth while in all respects then the proposal is placed before the credit committee of the bank. After thorough discussion, if the committee agrees in principle the proposal is sanctioned as per the delegated business power of the branch. However, if the magnitude of the proposal is beyond the delegated business power of the branch they forward it to the Head Office with recommendation for sanction/approval.

On receiving the proposal, the Credit Division of Head office place the proposal in the Head office Credit Committee. The Committee further analyses proposal critically and if agree in principle they sanction the same as per delegated business power. Again if the merit and magnitude of the proposal is beyond the delegated business power of the Head

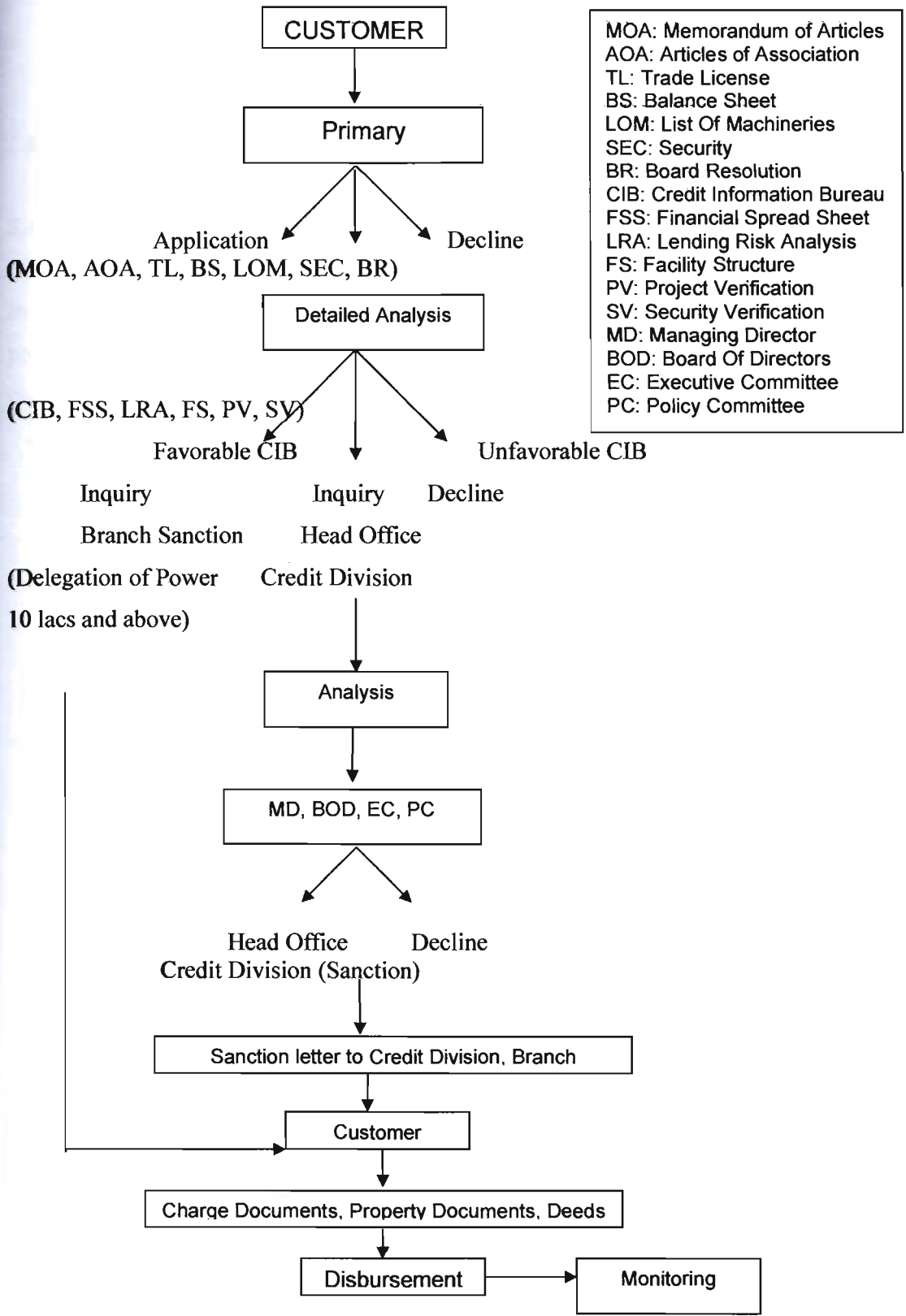
office Credit Committee/Managing Director they forward proposal to the Board of the Bank with recommendation for approval.

If the proposal is found unviable at he Branch level they decline the same from their desk. In the same way, proposals are also declined from the Head Office Credit Committee and from Board if it is not feasible one.

It is pertinent to mention that there is a Credit Committee at the Branch headed by the branch incumbent and at the Head office headed by the Managing Director. Branch Manager and the Managing Director of the Bank are authorized to exercise business power up to the extent as delegated to them. Beyond delegation of the Managing Director, the approving authority is the Board. However, the Board of Directors again authorized a Committee of the Board consisting a number of Directors namely “the Executive Committee” to exercise business power up to an extent so delegated to them.



FLOW CHART OF PROCESSING OF LOAN





3.4 TOOLS FOR APPRAISAL CREDIT

3.4.1 THE C'S OF GOOD AN BAD LOAN

In addition to the formal credit appraisal, the credit officer of MBL try to judge the possible client based on some other criteria. These criteria are called the C's of good and bad loans. These C's are described bellow.

- **Character** Make sure that the individual or company you are lending to
Has outstanding integrity.
- **Capacity** Make sure that the individual or company you are lending to
Has the capability of repaying your loan.
- **Conditions** understanding the business and economic conditions can and
Will change after the loan is made.
- **Capital** Make sure that the individual or company you are lending to
Has an appropriate level of investment in the company.
- **Collateral** Make sure that there is a “second way out” of a credit but do
not allow that to drive the credit decision.
- **Complacency** Do not rely on past history to continue. Stay alert to what can
go wrong in any loan.
- **Carelessness** Remember that documentation, follow-up and consistent
Monitoring are essential to high quality loan portfolios.
- **Communication** Share credit objectives and credit decision-making both
Vertically and laterally within the bank.
- **Contingencies** Make sure that you understand the risks, particularly the
Downside possibilities and that you structure and price the loan
Consistently with that you structure and price the loan
Consistently with that understanding.

- Competition Do not get swept away by what others are doing.

3.4.2 LRA (LENDING RISK ANALYSIS)

LRA stands for lending risk analysis. This is a financial tool used for analyze the risks associated in a loan proposal. According to Bangladesh Bank order every Bank has to conduct LRA for every loan amounting Tk 1 Core and above. MBL is a frequent user of this technique.

This technique are divides all risks into two broad aspects.

- 1) Business risk.
 - 2) Security Risk.
- (1) Business risk- This risk can be analyzed from two aspect
- (a) Industry risk.
 - (b) Company risk.
- (a) Industry risk: Industry risk can be sub-divided into two segments.
- (i) Supply risk-
 - (ii) Sales risk
- (i) Supply risk- It analyze the risk or failure due to disruption in the supply of input.
- (ii) Sales risk- This risk arises from the failure due to disruption of sales.
- (b) Company risk- This risk can be sub-divided into two sectors.
- (i) Company position risk
 - (ii) Management risk
- (i) Company position risk- It is two types
- (a) Performance risk
 - (b) resilience risk
- (a) Performance risk- By analyzing performance risk a credit officer can be sure what is the risk that the company position is so weak that it can perform well enough to repay the loan, given expected external conditions.

(b) Resilience risk- By analyzing resilience risk a credit officer can analyze what the risk of Failure is due to lack of resilience to unexpected external condition.

(ii) Management risk- (a) Management competency risk.

(b) Management integrity risk.

(a) Management competency risk is the risks of failure due to competency of the management, which run the company.

(b) Management integrity risk is that type of risk, which occurred due to lack of Management integrity.

(2) Security risk

Security risk is basically two types. These are

(a) Security control.

(b) Security covers risk.

(a) Security control risk: Security control risk is that type of risk when bank fails to realize the security.

(b) Security covers risk: Security covers risk is that type of risk when the realizes security value is less than the exposure.

3.4.3 SWOT ANALYSIS

This is a technique used by the credit officers to evaluate credit proposal submitted by company especially by the production concern. Hers “S” stands for strength “W” for weakness, “O for opportunity and “T” for threat.

Strength

This analyzes the inherent of the company, resilience, brand loyalty, endowments etc.

Weakness

This analyze the inherent weakness of a company, such as management, supply risk, etc.

Opportunity

This analyzes the opportunity, which will be available to a company in near future, such as tax, incentives, export credit facilities, etc.

Threat

This analyze the threats which may face by the company such as legal barrier, withdraw of tax, exemption, international law, withdraw of most favorable nation (MFN) and GSP facilities etc.

3.4.4 CIB REPORT FROM BANGLADESH BANK:

It stands for Credit Information Bureau report. CIB is a department run by Bangladesh Bank to help the all-banking and financial Institutions by providing the latest report in the customers, who enjoy credit for facilities more than 10 Lac Taka. According to Bangladesh Bank order no bank provide only credit facilities more than Tk 10 Lac, without having CIB report from Bangladesh Bank. If there is any adverse report on any customer, which represent-classified loan no bank can provide any credit facilities to that customer. This is a unique facility provided by BB to all its member / financial institutions. Even the central Bank of India does not provide this type of facility through there is some credit rating agencies in India. This report includes various latest information's on the customer having outstanding liability of Tk 10 Lac and above and recently BB is making arrangement to make it to Tk 1 Lac and above. In addition to legal obligation this report helps a credit officer to evaluate a customer along with its all sister concerns / partners.

3.5 CREDIT MONITORING/SUPERVISION

3.5.1 Mercantile Bank Perspective.

MBL is a unique characteristic in its loan Management. To make it sure that there will be no bad loan in its loan portfolio, MBL established a loan monitoring and supervision cell

headed by an Assistant Vice president under the nursing of its chief advisor Lutfar Rahaman Sharkar. They frequently visit customer premises/business whether the loan amount which is taken is used properly or not, sometimes it happens that customers need more fund or other type facilities to run its business profitably. The monitoring authority takes necessary steps to meet the customers need.

3.5.2 Bangladesh Bank Perspective

The Bangladesh Bank formulates and implements monetary and Bank supervision policies and advises the Government on economic policy within the framework of the Bangladesh Bank order 1972. The Banking companies company Act, 1991 and the Financial Institutions Act, 1993 that give the Bangladesh Bank general powers to direct banks and financial institutions to conduct monetary policy and to specify and implements prudential rules and requirements.

Bangladesh Bank is empowered to conduct inspection of the scheduled Bank under section, 44 of Banking companies Act, and 1991. Section 44 of the Act says the Bangladesh Bank at any time may either, or its own motion or on being directed to do so by the Government shall, cause an inspection to be made by one or more of its of any banking company and its books of account.

An inspection team normally consisting of a Deputy Directors as a team leader and two Assistant Directors inspects each bank branch. In case of large branches having advances of Tk. 5.00 core and above a Joint Director leads the inspection team instead of a Deputy Director. The leader of the team fixes up time and place where the team will meets on the date of inspection. The leader of the team is supplied with a directive for inspection, which is addressed to the Manager of the branch concerned. The team reaches the concerned bank branch before it opens for transactions and cash is brought out of the vault. The first duty of the team is to take into their custody casebook and general ledger before starting physical verifications of cash balance. It includes the verification of foreign currencies, prize bonds, and stamps and stamp papers and stack of checkbooks, D.D. forms and shares & securities. Usually the books of accounts of the book are examined as on a particular date but inspecting officer must examine the records

portioning to the period subsequent to last inspections, specially to find out cases of violation of Bank Company Act, 1991, Credit restrictions and other instructions issued by Bangladesh Bank and Government from time to time.

DOCUMENTATION AGAINST LOANS AND ADVANCES:

4.1 DOCUMENTATION:

A document is a written statement of facts of proof or evidence arising out of particular transaction which on placement may bind the parties there to answerable and liable to the court of law for satisfaction of the charge in question.

The execution of documents in proper form and according to the requirements of law is known as documentation. The documentation does establish a legal relationship between the lending bank and the borrower. The terms and conditions of loans and advances, the securities charged and the repayment schedule are recorded in writing. Proper documentation is a sinequanon to safeguard the future interest of the bank.

Document is necessary for the acknowledgement of debt by the borrower and charging of securities to the bank by him. Proper and correct documentation is essential not only for the safety of an advance but also necessary for talking legal action against the debtors in case of non-repayment of dues.

4.2 ADVANTAGES OF DOCUMENTATION:

It is essential that the proposal defines clearly the purpose of the facility, the sources of repayment, the agreed repayment schedule, the value of security and the customer relationships considerations implicit in the credit decision.

Where security is to be accepted as collateral for the facility all documentation relating to the security shall be in the approved form.

All approval procedures and required documentation shall be completed and all securities shall be in place, prior to the disbursement of the facilities.

General documentation as required for different kinds of advance are enumerated below. There may be requirement of specific banking or legal documents to secure a credit according to sanction terms and conditions, which should also be obtained in addition to the following

- Procures a written evidence of transaction.
- Identifies the borrowers, co-borrowers and guarantors.
- Identifies the security.
- Identifies the nature of charge created by the bank.
- Include proactive clauses to safeguard the interest of the bank.
- Accepted as evidence in the court of law.
- Complies the requirements of B.B. and other instructions/regulations etc. of individual bank for better management of advances.
- Certain documents give a right to file a summary suit.

4.3 STEPS IN DOCUMENTATION:

- Obtaining the documents.
- Stamping (Stamp Act – 1899)
- Witnessing
- Execution of Documents
- Registration of Documents (assignment on the body of an Insurance Policy, Mortgage deed, Advance to a limited company etc.

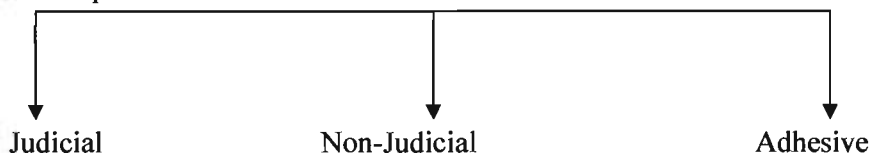
4.4 INSTRUMENTS/DOCUMENTS:

- a) Charge documents.
- b) Other standard documents.
- c) Other specified documents as advice by legal Advisor/Retainer.

4.5 STAMPING

Execution of documents should be done with stamping as required under Stamps act.

Kinds of Stamps



4.6 EXECUTION OF DOCUMENTS:

Documents to be executed by the parties concerned competent to do so either in official capacity or in personal capacity as the case may be. In some cases such documents are required to be executed in presence of witness.

The following precautions are to be taken at the time of executions of documents:

- a) Documents to be filed in and are executed in the presence of manager or an authorized officer of the bank.
- b) The client should sign in according with the specimen signature recorded with the bank.
- c) If the documents consists of more than one page. All the pages are to be signed by the executions at the end of the form and also at the end of the schedule of securities.
- d) Mention of date and place of execution in a document is mandatory.
- e) After execution/Registration of documents, these should be entered in to the Register duly scrutinize and initiated by an authorized officer of the Bank.

4.7 COMMON COMPULSORY DOCUMENTS:

- Letter of Acceptance about the terms and conditions laid down in sanction Advice.

- D.P. note (depending on the types of borrowers).
- Letter of arrangement.

Besides there are other documents that are to be obtained depending on the types Advance. Such as:

LOAN:

- D.P. Note.
- Letter of partnership (in case of partnership concerns) or resolution of the Board of Directors (in case of Limited Companies).
- Letter of arrangement.
- Letter of disbursement.
- Letter of pledge (in case of pledge of goods).
- Letter of hypothecation (in case of hypothecation of goods).
- Trust Receipts (in case of LTR facility).
- Letter of lien and ownership/share transfer form (in case of advance against shares).
- Letters of lien for packing credits(in case of Packing credits)
- Letters of lien (in case of advance against FDR).
- Letter of lien and transfer authority (in case of advance against PSP, BSP etc)
- Legal documents for mortgage of property (as drafted by Legal Advisor).
- Copt of sanction letter mentioning details of terms and conditions duly acknowledge by the borrower.
- Insurance Policy (if required).

OVERDRAFTS:

- D.P. Note.
- Letter of partnership (in case of partnership concerns) or resolution of the Board of Directors (in case of Limited Companies).
- Letter of arrangement.
- Letter of continuity.

- Letters of lien (in case of advance against FDR).
- Letter of hypothecation (in case of hypothecation of goods).
- Letter of lien and ownership/share transfer form (in case of advance against shares).
- Letter of lien and transfer authority (in case of advance against PSP, BSP etc)
- Legal documents for mortgage of property (as drafted by Legal Advisor).
- Insurance Policy (if required).

CASH CREDIT:

- D.P. Note.
- Letter of partnership (in case of partnership concerns) or resolution of the Board of Directors (in case of Limited Companies).
- Letter of arrangement.
- Letter of continuity.
- Letter of hypothecation [in case of Cash Credit (Hypo)].
- Letter of pledge/Agreement of Pledge [in case of Cash of Credit (pledge)].
- Legal documents for mortgage of property (as drafted by Legal Advisor).
- Insurance Policy (if required).

BILLS PURCHASED:

- D.P. Note.
- Letter of partnership (in case of partnership concerns) or resolution of the Board of Directors (in case of Limited Companies).
- Letter of arrangement.
- Letter of hypothecation of bill
- Letter of acceptance, where it calls for acceptance by the drawer.

5. LOANS AND ADVANCE

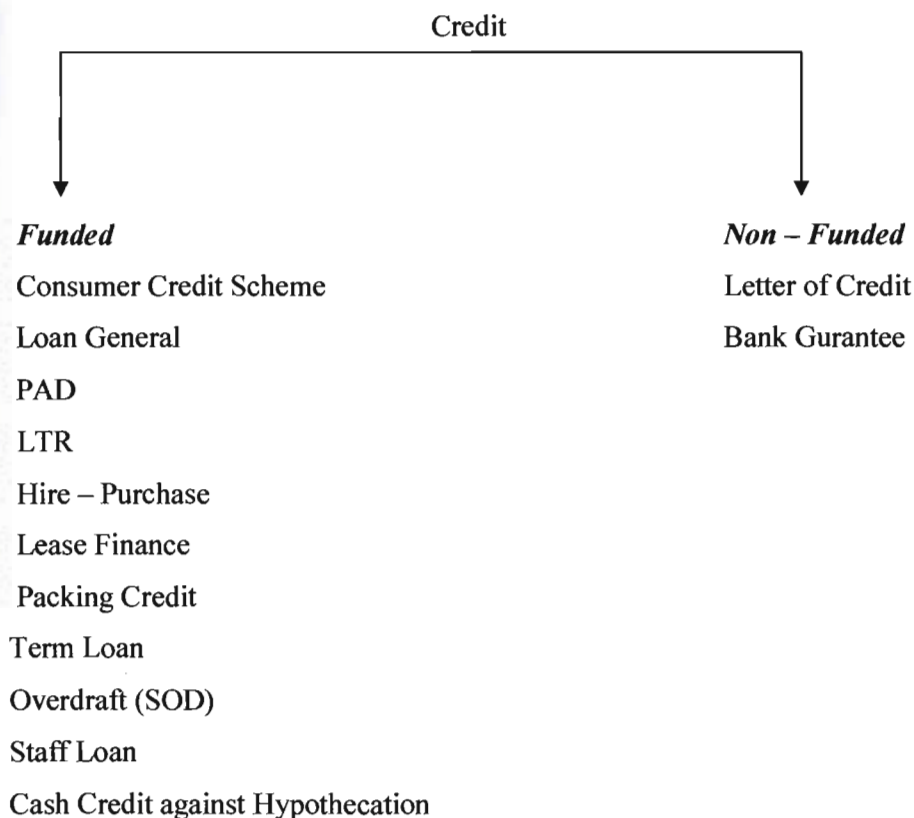
This section lends the funds what the bank mobilizes through its various deposit accounts. This is the second function of banks two generic functions – deposit mobilization and credit creation. Since major part of banks income is derived from credit and since the money banks credited is customers' fund, bank should take extreme caution in lending. Otherwise, defaulted loan may increase. If defaulted loan increases, banks' profitability and credit – giving capacity will fall which in turn may result in bank run.

Credit is continuous process. Recovery of one credit gives rise to another credit. In this process of revolving of funds, banks earn incomes in the form of interest. A bank can invest its funds in many ways. Bank makes loans and advances to traders, businessmen, and industrialist. Moreover nature of credit may differ in terms of security requirement, disbursement provision, terms and condition etc.

Mercantile Bank Limited deals with the money from the depositor repayable on demand. So, it can not afford to lock up its fund for long periods. MBL usually grant short-term advances, which are utilized to meet the working capital requirements of the borrower. Only a small portion of a bank's demand and time liabilities is advanced on long term basis where the banker usually insists on a regular repayment by the borrower in installments.



The credit facilities extended by MBL can be divided in to two ways:



6.1 DETAIL OPERATION MECHANISM OF EACH CRITERIA:

Letter Of Credit:

Letter of credit (L/C) can be defined as a ‘Credit Contract’ whereby the buyer’s bank is committed (on behalf of the buyer) to place an agreed amount of money at the seller’s disposal under some agreed conditions. Since the agreed conditions include, amongst other things, the presentation of some specified documents, the letter of credit is called Documentary Letter of credit. The uniform Customs & Practices for documentary Credit (UCPDC) published by International Chamber of Commerce (1993). Revision, publication No. 500 defines Documentary credit:

Any arrangement, however named or described, whereby a bank (the “Issuing bank”), acting at the request and on the instructions of a customer (the “Applicant”) or on its own behalf,

- i) Is to make a payment to or to the order of third party (the beneficiary), or is to accept and pay bills of exchange (Drafts) drawn by the Beneficiary, or
- ii) Authorizes another bank to effect such payment, or to accept and pay such bills of exchange (Drafts)
- iii) Authorizes another bank to negotiate, against stipulated document (s), provided that the terms and conditions are complied with.

Opening or issuing letter of credit is one of the important services provided by MBL.

A letter of credit is a document authorizing a bank to pay the bearer a specified sum of money; it provides a useful means of settlement for a foreign trade transaction, the purchaser establishing a credit in favor of his at a bank.

Letters of credit are two types:

- i) Traveler’s letter of credit issued for the convenience of the traveling public; and
- ii) Letter of commercial credit issued for the purpose of facilitating trade transaction.

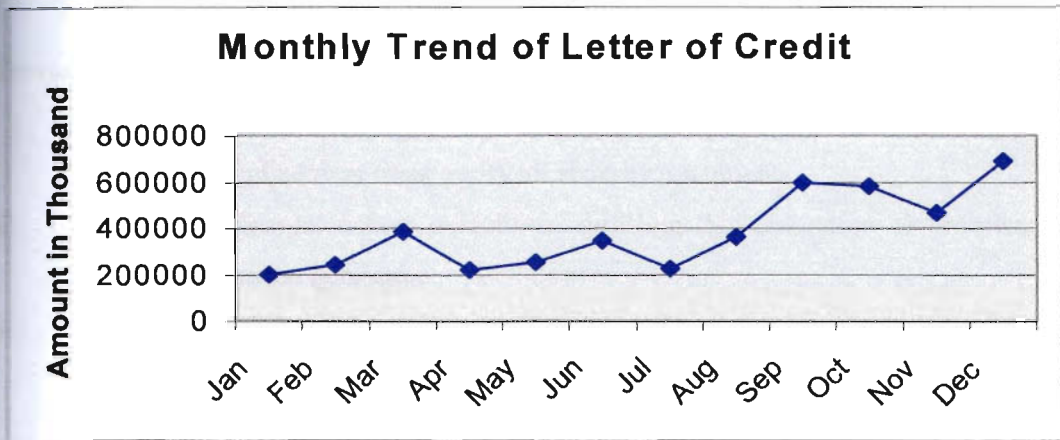
Eligibility: Letter of credit facilities are given to exporter, manufacturers/producers.

Terms of Conditions:

- i) It should stipulate the name of the loan /credit/Grant.
- ii) It should bear the name of the designated bank.
- iii) Items mentioned in the LCA Form must contain with the permissible items.
- iv) The bank officers periodically inspect the goods and verify that they conform to the quantity and quality etc. as mentioned in the particular letter of credit.
- v) In case of first class customers, the facility may, however, be granted against firm contracts with overseas buyers.

Rate of Commission: 0.4% for 90 days

0.6% for 120 days.



Source: Main Branch, MBL

From the graph it is observed that MBL advances a significant amount in letter of credit. The trend shows that the advances on letter of credit increase month by month.

BANK GUARANTEE:

A contract of guarantee has been defined under section 126 of contract Act. As “a contract to perform or discharge the liability of a third person in case of his default”. The person giving the guarantee is called the “surety” or “guarantee” the person on whose account the guarantee is given is called the “Principal Debtor” and the beneficiary of the guarantee is called the “creditor”.

The banker is very often requested by his customer to issue guarantees on their behalf to a third party. By this guarantee, banks committed to make an unconditional payment of certain amount of money to the third party if the customer (on whose behalf it gives guarantee) becomes liable, or creates any loss or damage to the third party. That is, bank guarantee is a contingent liability for the bank. For giving such guarantee bank requires

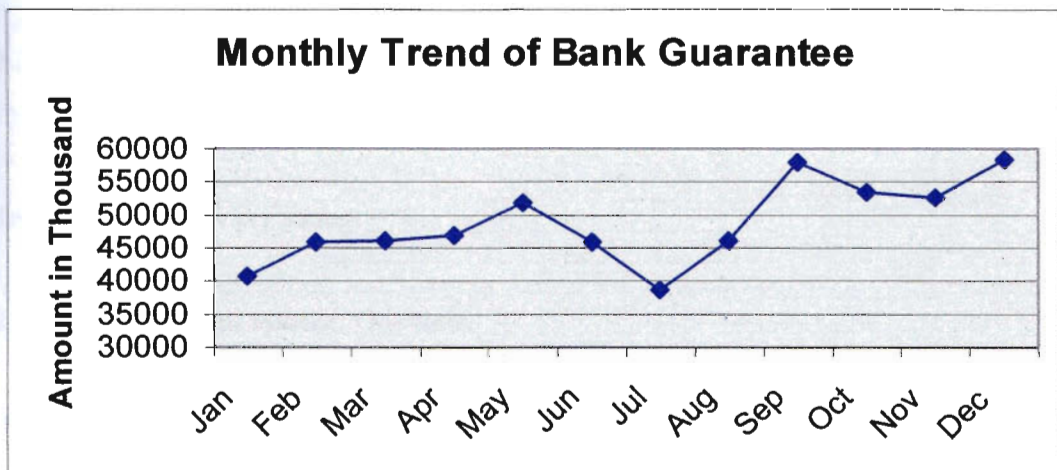
security from the customer and charges an commission. In MBL Bank it is 3% per annum. Ordinarily the guarantee is limited to certain period of time after which banker is no longer liable to pay any claim by the third party.

Terms and conditions:

- i) The banks legal advisor must verify all security documents.
- ii) When the principal debtor defaults in fulfilling this obligation or promise the liability bestow on guarantee.
- iii) Bank reserves the right to cancel or amend the terms and condition partly or wholly at its direction without assigning any reason.

Commission:

MBL commission rate is 0.5% quarterly.



Source: Main Branch, MBL

From the graph it is observed that advances of Bank Guarantee are very steady compare to other advances. As on December 2000 the amount of TK. 58376 thousand was advance in bank guarantee.

LOAN GENERAL:

Short term, Medium term and long term loans allowed to individual/form/industries for a specific purpose but for a defined period and generally repayable by installment fall under this head. This type of lending are mainly allowed to accommodate financing under the

- I. Large and medium scale industry
- II. Small and cottage industry
- III. Very often term financing for (a) agriculture and (b) Others are also included here.

When an advance is made in a lump sum repayable either in fixed monthly installments or in lump sum and no subsequent debit is ordinarily allowed except by way of interest, incidental charges, etc it is called a loan. The whole amount of loan is debited to the customer's name on a loan account to be opened in the ledger, and, is paid to the borrower either in cash or by way of credit to his current/saving account.

Eligibility: Loans are normally allowed to those parties who have either fixed source of income or who desire to pay it in lump-sum.

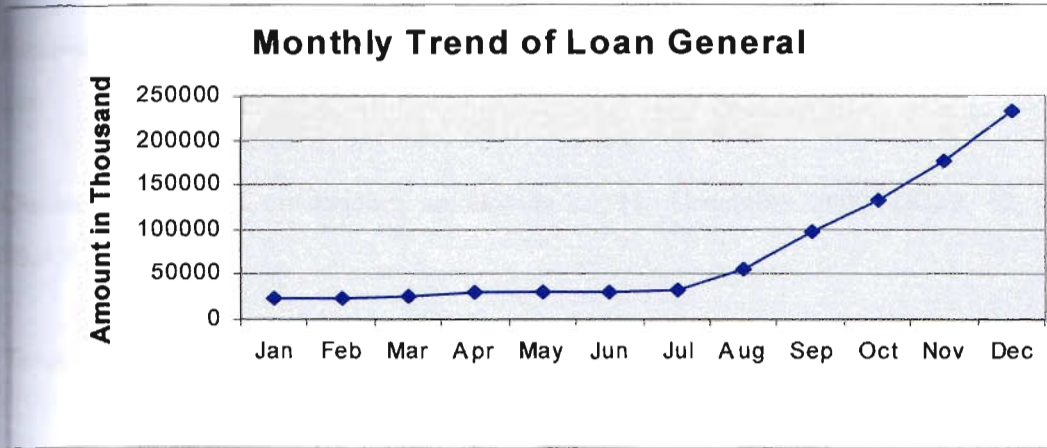
Interest rate: 16% per annum

Loan disbursement system: One time.

Terms and condition:

- I. Disbursement will be made after completion of all formalities.
- II. Bank reserves the right to cancel or amend the terms and condition partly or wholly at its direction without assigning any reason whatsoever.

- III When the principal debtor defaults in fulfilling this obligation or promise liability Bestow on guarantor.



Source: Main Branch, MBL

The graph shows that main branch, MBL advances on Loan General are growing up from August 2000.

CONSUMER CREDIT:

Consumer credit is a relatively new field of micro-credit activities, people with limited income can avail of this credit facility to buy any household effects including car, computer and other commercial durable. Mercantile Bank limited play a vital role in extending the consumer credit.

Eligibility: The borrower must be confirmed official of any of the following organizations:

- Government Organization
- Semi-Government Organization
- Multinational Organization
- Bank and Insurance companies
- Reputed Commercial Organization
- Professionals



Nature: Mid-term micro credit

Interest rate: 16% per annum in case of household items and 17% per annum in case of car.

Outstanding: Total outstanding amount as on 31, December 2000 TK.10, 52, and 80,000.

Terms and conditions:

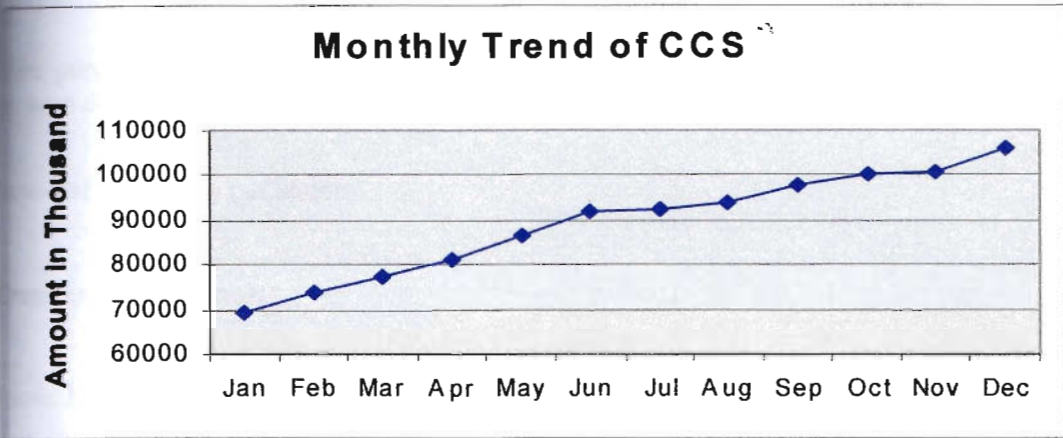
1. Client will procure the specified articles from the dealer/agent/ shop(s) acceptable to bank.
2. All the papers/cash Memos etc. related to the procurement of the goods will be in the name of the Bank ensuring. Ownership of the goods. Where applicable, the ownership shall be transferred in the name of the client after full adjustment of Bank's dues.
3. The client shall have to bear all the expenses of License. Registration, Insurance etc. of the articles wherever necessary.
4. The client shall have to bear the cost of Repair and Maintenance of the acquired articles.

Mode of recovery:

Incase of Consumer credit scheme dues shall be recoverable in the following manners:

- 1) In equal monthly installments
- 2) The monthly installment shall be repayable by the 7th of every month, but the 1st shall be repayable by the 7th of every month, but the 1st installment shall be payable by the 7th of the subsequent month of disbursement.

Through deduction from the monthly salary of the client wherever applicable, by his employer. In this regard the concerned employee shall authorize irrevocably his employer to deduct the said amount from his monthly salary. The Authority can only revoked by the client with the concurrence of the Bank.



Source: Main Branch, MBL

This graph shows that consumer credit increase in a consistent way. As on December 2000 the amount was TK. 106,119 thousand. This shows the positive allocation of advances.

HIRE-PURCHASE:

Hire purchase is a type of installment credit under which the hire purchase agrees to take the goods on hire at a stade rental, which is inclusive of the repayment of principal as well as interest for adjustment of the loan with in a specified period.

Another form of consumer credit, Hire Purchase facility also given by MBL. The feature of Hire purchase that usually a deposit has to be paid and the rest of the purchase price is spread over a period-six months, two years or sometimes even longer, the article being regarded as the property of the bank until the final payment has been made.

Eligibility:

Hire purchase normally allowed to those persons who have either fixed source of income or who desire to pay it in lum-sum.

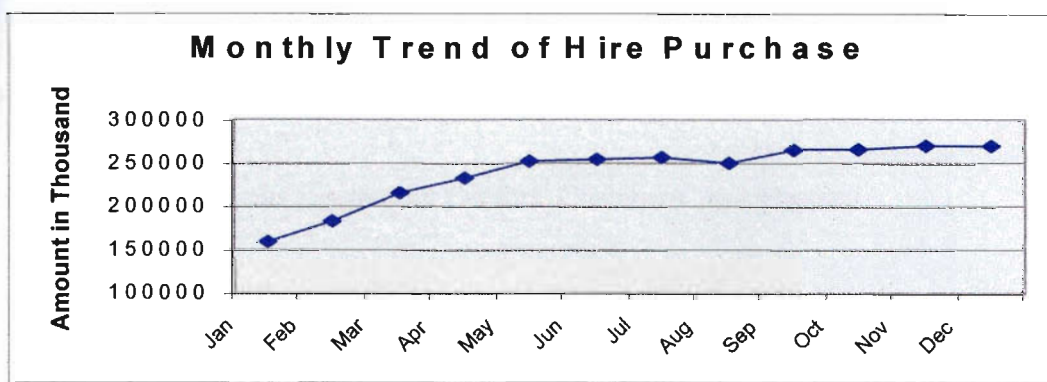
Interest rate: 16% per annum.

Outstanding amount:

From Jan'2000 to Dec'2000 Total disbursement TK. 526,552,763. Total Outstanding 421,838,242 TK. Total recovery 120,383,649 Taka.

Terms and conditions:

- 1) The durable will be covered by first party comprehensive insurance policy throughout the loan period and the premium for the policy of each year will be borne by the client.
- 2) Retailed feasibility report containing marketing, financial, technical and socio-economic aspects showing detailed break-up of project cost and other usual financial analysis duly supported by its assumption.



Source: Main Branch, MBL

The graph shows constant increase on advances of Hire purchase in 2000 Main Branch, MBL, which is very high compare to other loan.

LEASE FINANCE:

Lease financing is one of the most convenient sources of acquiring capital machinery and the equipment whereby a client is giving the opportunity to have an exclusive right to use an asset usually for an agreed period of time against payment of rent. It is a term financing repayable by installment.

Objects:

Lease Finance Scheme of the Bank is designed to assist & encourage the genuine & capable entrepreneurs & professionals for acquiring Capital machinery, Medicine equipment, Computers and other items which may help them to be economically self reliant.

Terms and conditions of Lease Finance have been made easier than ever before in order to help the potential entrepreneurs to acquire equipments of production & services and repay the liability gradually from earnings on the basis of "Pay as you earn".

Categories of Lease Items:

- a) Capital Machinery (Imported/local) required for setting up of new & BMRE of Industrial units.
- b) Medical Equipments required for Doctors' Chamber/Clinic/Hospital.
- c) Automobiles.
- d) Air-conditioner, Lift, Generator.

Lease terms:

- | | |
|-------------------------------|-------------------|
| a) Capital Machinery | -Maximum 7 years. |
| b) Medical equipment | -Maximum 5 years. |
| c) Automobile (NEW) | -Maximum 5 years. |
| d) Automobile (Reconditioned) | -Maximum 4 years. |
| e) Other Equipment | -Maximum 3 years. |

Rate of Return: 16% per annum.

Services charge: 1% on Acquisition cost to be capitalized with the acquisition cost.

Risk fund: 1% on Acquisition cost to be capitalized with the acquisition cost.

Grace period:

Grace period will be as requirement of each individual case, but not exceeding 6 months or time of commercial production/installation whichever is earlier. Grace period will be allowed in addition to the lease period.

Lease Rental:

Lease Rental to be calculated at 16% p.a. rate of return at monthly rest on the basis of CRF (Capital Recovery Factor) method over the capitalized amount of acquisition cost (Capitalizing the Service Charge & Risk Fund). Repayment of Lease Rentals will be started from the following month after a clear minimum gap of 30 days from the date of disbursement. Interest during grace period will also be capitalized. The lessee will have to

deposit chacqués duly signed with the Bank in advance for all the installments of monthly rentals.

Advance Lease Deposit:

Before disbursement of Lease Finance, the Lessee shall deposit minimum 2 months Rental in advance which will be adjusted on successful completion of lease period.

Disposal of leased item:

On final adjustment of the lease liability the lessee may purchase the leased item at the rate as mentioned below:

- a) Upto 24 month -@2% on the Acquisition cost.
 - b) 25 month to 48 month -@3% on the Acquisition cost.
 - c) Above 48 month -@4% on the Acquisition cost.
- All Cost for transfer of ownership shall be borne by the lessee.

Insurance Coverage:

Lease items shall be duly insured in Bank's name throughout the lease period. In case of Automobile, 1st party Comprehensive Insurance shall be obtained. Since the Insurance Premium shall have to be borne by the lessee, the bank shall pay the premium if necessary by debiting the Lease Finance account and the same will be adjusted by the Lessee on final settlement of the lease liability.

Repair & Maintenance:

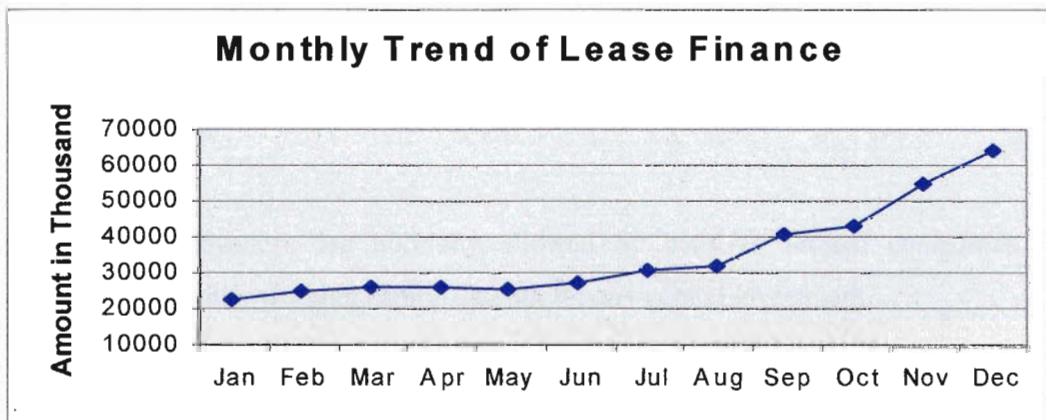
Repair & Maintenance cost shall be borne by the Lessee and no additional amount shall be allowed on account of lease item. Any damage caused due to wear & tear and inefficient handling of leased item, Lessee will be liable for compensation/replacement.

Procurement/Disbursement of the lease item:

After execution of Lease Agreement between Bank and the Lessee including execution of charge documents, deposit of advance lease rentals, submission of quotation(s) accepted by the lessee, creation of equitable mortgage of collateral security if any, and any other pre disbursement formalities deemed to be observed by the lessee, Bank will open L/C, if the item is to be imported or place Firm Purchase Order (as per Bank's Specimen) directly to the supplier in case of local purchase.

Security:

- a) Primary: Ownership of leased item (s)
- b) Collateral: Landed / Bank Guarantee / Fixed deposit / Sanchaya Patra / ICB Unit certificate / Wage Earners Development Bond or Personal Guarantee of two persons acceptable to the bank. Insurance guarantee from first class insurance companies acceptable to the bank may also be taken as security.
- c) In case of limited company first charge on the fixed and floating assets and book debts of the company and personal guarantee of all the Directors of the company will be required.



Source: Main Branch, MBL

The graph shows that main branch, MBL advances on Lease Finance are growing up from July 2000.

5- CASH CREDIT HYPOTHECATION (CC HYPO)

Cash credit is given through the cash credit account. Cash credit account is basically a current account, however a little different exist between them. The distinction between a current account and the cash credit account is that the former is intended to be an account with credit balance and the latter an account for drawing of advance. Operation of cash credit is same as that of overdraft. The purpose of cash credit to meet up the working capital requirements of traders farmers, and industrialists.

Cash credit is another method of lending by MBL. Under this system, the banker specifies a limit called the cash credit limit, for each customer, up to which the customer is permitted to borrow against the security of tangible assets for guarantees.

Cash credit in its truest sense is against pledge of goods. Cash credit is something allowed against hypothecation of goods.

In case of cash credit hypothecation the ownership and possession of the goods remain with the borrower. By virtue of the hypothecation agreement the bank can take possession of the goods hypothecated, if the borrower defaults.

Eligibility:

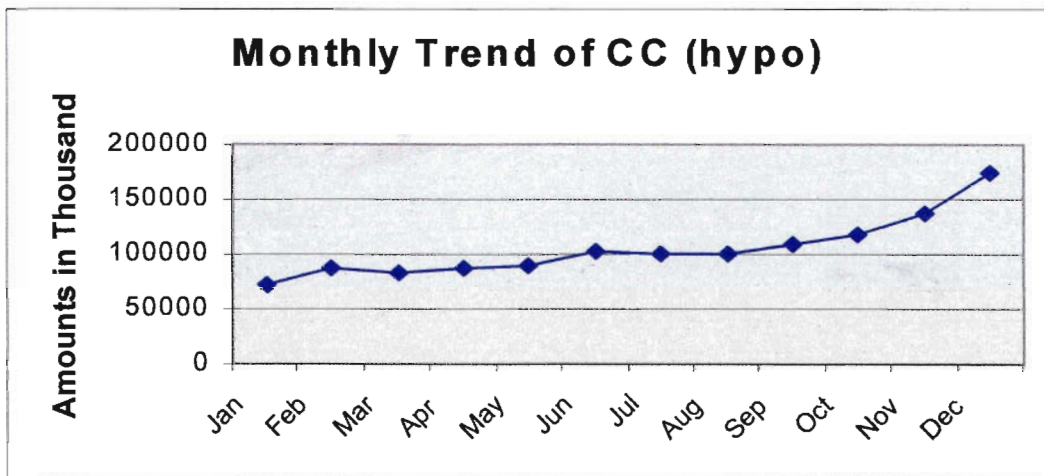
Hypothecated advances are normally allowed by bank to limited companies and businessmen for their working capital and not for any capital investment.

Rate of interest: 16% per annum.

Renew system: It can be renewed after one year.

Terms and conditions:

- 1) Insurance policy to be obtained against the stocks to be hypothecated covering fire and RSD risk at the cost of the customer.
- 2) Stock report to be submitted on monthly basis.
- 3) Banks reserve the right to cancel or call back the sanctioned credit limit.



Source: Main Branch, MBL

The graph shows that main branch, MBL advances on CC (Hypo) are growing up continuously every month.



OVERDRAFTS:

When a current account holder is permitted by the banker to draw more than what stands to his credit, such an advance is called an overdraft. The banker may take some collateral security or may grant such advance on the personal security of the borrower. MBL has given this overdraft facility to its clients.

MBL provides the following types of secured overdraft (sod)

- I. SOD (Fixed Deposit Receipt)
- II. SOD (Special Scheme)
- III. SOD (Financial obligation)
- IV. SOD (Shares)
- V. SOD (Work Order)
- VI. SOD (Export)
- VII. SOD (Quota)
- VIII. SOD (SB, CD, STD)
- IX. SOD(Others)

Eligibility:

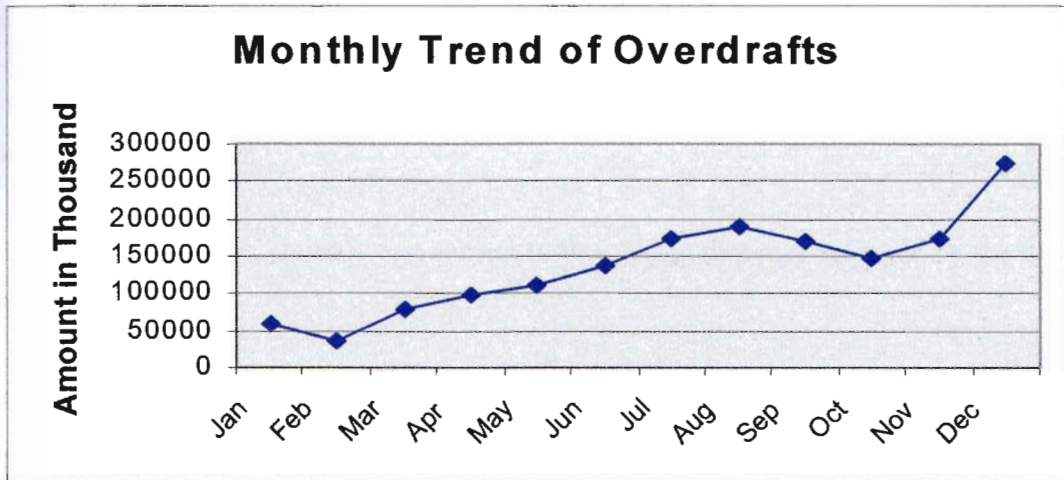
Overdraft facilities are generally granted to businessmen for expansion of their business, against the securities of stock-in-trade, shares, debenture, Government promissory notes, fixed deposit, life policies, gold and gold ornaments etc.

Nature-Short Term Loan

Interest rate: 16% per annum

Terms and conditions:

- 1) Band may cancel/alter the sanction without assigning any reason whatsoever.
- 2) In case of client failure to pay the Bank's dues within the validity of the limit Bank may encase client pledge without any prior intimation to client.



Source: Main Branch, MBL

From the graph it is observed the Main Branch, MBL advanced on overdraft increase a large volume on December, 2000. In December the amount was TK 273,889 thousand.

10. LOAN AGAINST TRUST RECEIPT (LTR):

Advance allowed for retirement of shipping documents and release of goods imported through L/C falls under this head. The goods are handed over to the importer under trust with the arrangement that sale proceeds should be deposited to liquidate the advances within a given period.

This is also a temporary advance connected with a importer and known as post-import finance and falls under category "commercial lending".

MBL has given the facility of LTR under this arrangement, credit is allowed against trust receipt and the exportable goods remain in the custody of the exporter but he is required to execute a stamped export trust receipt in favor of the bank. Where in a declaration is made that he holds goods purchase with financial assistance of bank in trust for the bank.

Eligibility:

Loan against trust receipt is generally granted Exporter for exportation of goods.

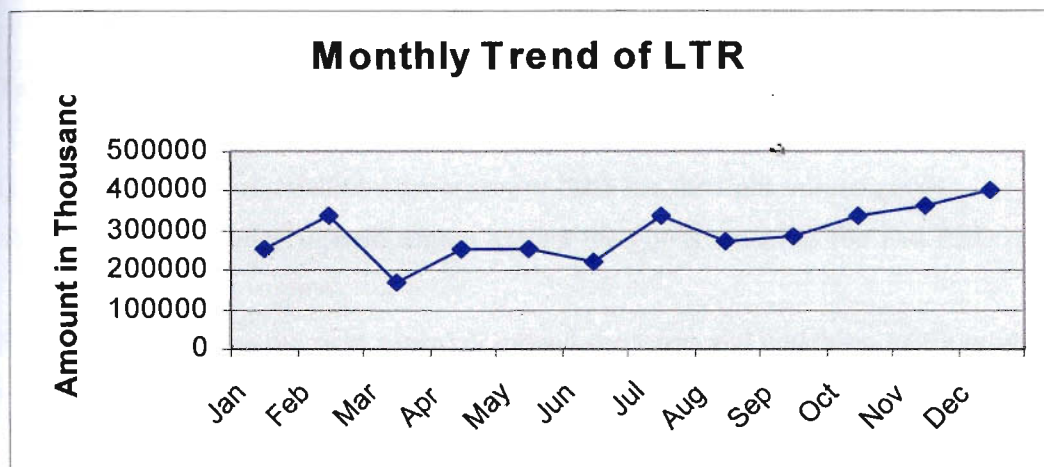
Interest rate:

16% per annum with monthly rest subject to the change that may be made by the bank from time to time.

Terms and conditions:

- 1) Disbursement will be made after completion of all formalities as per sanction terms.
- 2) Suppliers credit report to be obtained before opening of L/C's.
- 3) Excess drawing over the sanction limit is strictly prohibited.
- 4) Customer will maintain effective and constant supervision and follow up to ensure timely adjustment of the loan to avoid overdue.





Source: Main Branch, MBL

The graph of LTR shows that development of advances on LTR ups and down. This shows that Main Branch, MBL contribution on LTR is a tremendous. Which promote exportation of goods to the foreign country?

II. PAYMENT AGAINST DOCUMENT (PAD):

Payment made by the Bank against lodgment of shipping documents of goods imported through L/C falls under this head. It is an interim advance connected with import and is generally liquidated against payments usually made by the party for retirement of the documents for release of imported goods from the customer's authority. It falls under the category "commercial lending".

MBL provides to the customers against documents/bills, like Bill of lading, warehouse keeper's certificate/receipts, railway receipt, Delivery order, Dock warrant.

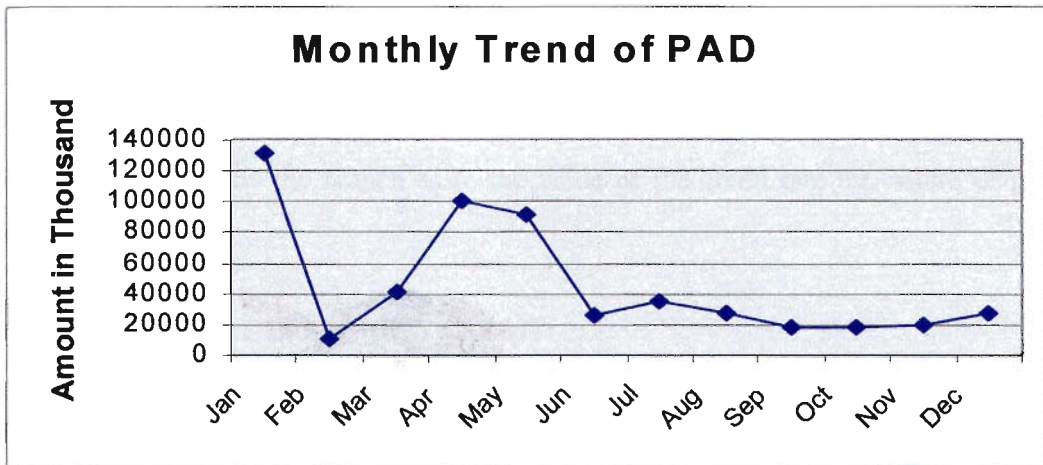
Eligibility:

This type of credit facilities given generally exported and importer.

Rate of Interest: 16% per annum.

Terms and Conditions:

- i) In the event of default by the borrower bank has the right sell the goods.
- ii) Insurance policy to be obtained against the goods covering fire and RSD risk at the cost of customer.
- iii) Bank reserves the right cancel or amend the terms and condition partly or wholly at its directions without assigning any reason what so ever.



Source: Main Branch, MBL

It is observed that from the graph that advance given on PAD a large amount in January 2000 was TK. 130783 thousand. From middle of the April it was start decreasing and continue to end of the year 2000.

PACKING CREDIT:

Packing Credit is a short-term advance granted by the bank to an exporter to enable him to procure, process, manufacture, pack and ship the goods to the buyers abroad in conformity with the terms of Export Letter of Credit. This is also known as Pre-shipment Credit. These types of credits are sanctioned by the bank in favor of regular exporters for a particular period against Lien on confirmed Export Letter of Credit received in favor of the borrower from first class Foreign Banks. Such advances are adjustable within the stipulated period as per terms of sanction of Head Office.

Also commensurate with the need and nature of export business, a bonafide client is usually sanctioned a combined limit of cash credit & packing Credit with a fixed ceiling for each on revolving basis adjustable within the stipulated time. In such cases, the drawing under the Cash credit Limits are generally adjusted by the drawing in Packing Credit limit, which in turn, is liquidated by negotiated of export documents.

Goods purchased under the packing Credit limit shall remain pledged or hypothecated to the bank as approved by the Head Office under effective supervision of Branch Officials to ensure timely shipment.

The advances allowed to the parties should be in conformity with the terms of the Letter of Credit received by the branch as to the value of the credit and the nature of goods under shipment.

ADJUSTMENT OF THE PACKING CREDIT:

Packing Credit should be adjusted at the time of negotiation of the documents within the stipulated time as per terms of Letter of sanction.

If the shipment of the goods covered by the Export Letter of Credit "Under Lien" with the bank is not made within the validity period of L/C, the loan allowed to the exporter is recovered by debiting his account maintained with the bank. If sufficient balance is not available in the account, alternative arrangement may be made with having the goods already hypothecated/pledged with the bank remaining the basic security and simultaneously insurance claim should be lodged with Sadharan Bima Corporation under the ECG Scheme. This may be done on obtaining necessary confirmation from the Head Office.

Packing Credit is essentially a short-term advance granted by MBL to an exporter for assisting him to buy process, pack and ship the goods. The credit is generally extended for payment of freight, handling charge, insurance and export duties. The packing credit advances does not normally extend 180 days and has to be liquidated by

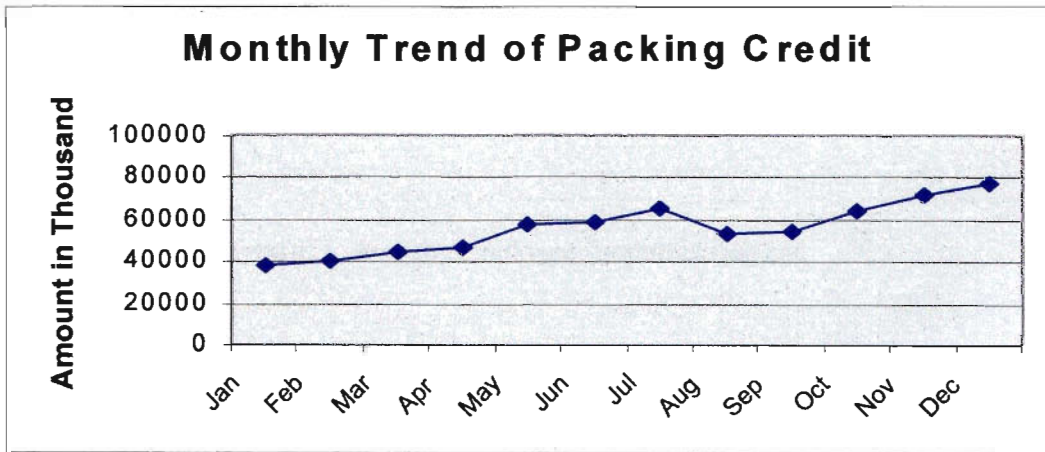
negotiation/purchase of the export bills covering the particular shipment for which the packing credit was granted.

Eligibility: Packing credit facility has given for small-scale indigenous manufacturers or exporters.

Interest Rate: 16% per annum with monthly rest subject to the change that may be made by the bank from time to time.

Terms and Conditions:

- 1) Disbursement will be made after completion of all formalities as per Sanction terms.
- 2) The amount of advance against packing Credit will be adjusted from the amount payable to exporter on negotiation or purchase of the bill.
- 3) The exporter letter of credit should be irrevocable, constricted and valid and



confirming bank must mark lien on it.

Source: Main Branch, MBL

From the graph it is observed Packing credit facility given by Main Branch, MBL increase consistent way. As on December 2000 the total amount was TK. 77,444 thousand.



STAFF LOAN:

MBL: provides different type of loan facility to the employees. This type of loan or advance is known as staff loan. It includes the following types of loan.

- i) Staff loan
- ii) House building loan (staff)
- iii) Car loan (staff)
- iv) Provident fund loan
- v) Other loans to staff.

House building loans (staff):

Loan allowed to the MBL employees for purchase/construction of house shall be known as house building loan (staff). Employees of bank enjoy a reduce interest rate privilege for this loan. This type of loan is generally for long time period and installment for loan. Repayment is adjusted from the loanee's salary. Loanee's salary and provident fund are used as security for this loan.

Car Loan (Staff):

MBL provides this type of loan to the employee for purchasing car.

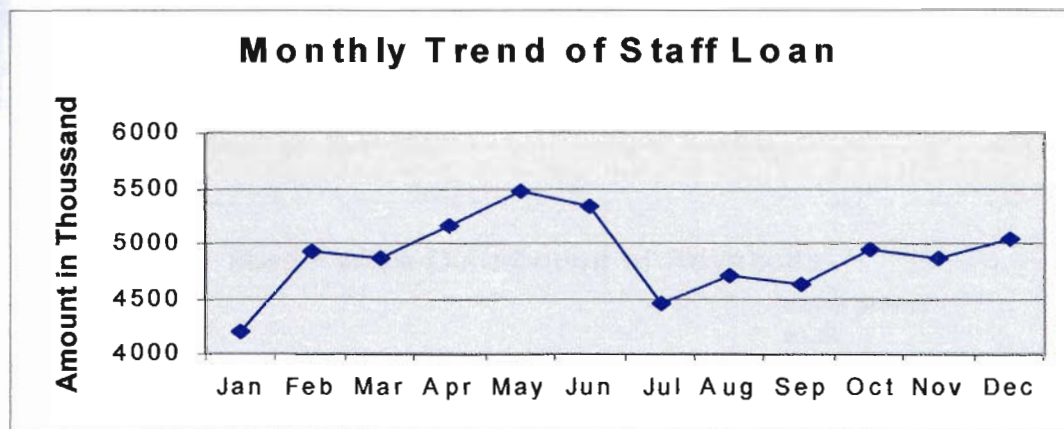
Provident fund Loans:

This loan is provided from the provident fund of the employee. Loan from this account can not exit the contribution of the loanee's in the fund. Repayment of this loan is adjusted from the salary.

Eligibility: Loans are allowed to the employees only.

Other loans to Staff:

Loans allowed to employee other than for house building, car, provident fund, shall be grouped under head staff loan (others).



Source: Main Branch, MBL

The graph shows that Main Branch, MBL provided highest amount in May, 2000 which was TK. 5466 thousand.

4. MODE WISE DISTRIBUTION OF ADVANCES:

Again if we look at the structure of loan from different made of finance point of view, in table – 1. We find that MBL main branch lends every mode as per client's requirements.

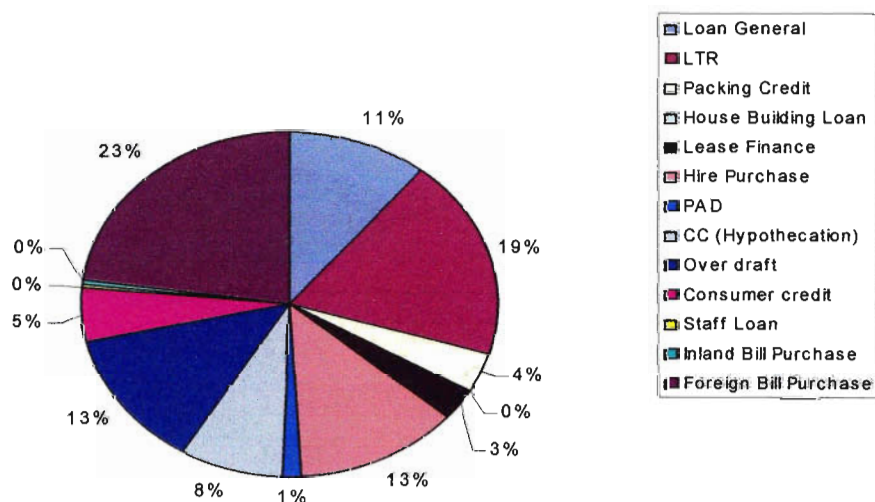
Table-1

Mode wise Distribution of Advances as on 31, December 2000 of MBL main branch.

Types of Advance	Advance (Amount in Thousand)	% of total Advance
Loan General	230963	10.86%
LTR	401130	18.86%
Packing Credit	77444	3.64%
House Building Loan	2350	0.11%
Lease Finance	64333	3.02%
Hire Purchase	270339	12.71%

PAD	27552	1.29%
CC (Hypothecation)	173280	8.15%
Over draft	273889	12.88%
Consumer credit	106119	4.99%
Staff Loan	5030	0.24%
Inland Bill Purchase	10000	0.47%
Foreign Bill Purchase	484633	22.78%
Total	2127062	100%

Mode Wise Distribution of Advances



Source: Main Branch, MBL

The significant amount of the lending went to foreign Bill Purchase and Loan against Trust Receipt (LTR), which was 22.78%. These two types of advances are short term. In loan general, Hire Purchase, CC (Hypo), Overdraft, Proportion was also substantial. The figure – 1 shows this scenario more clearly. The six big pie charts represent these six types of facilities. All these six modes of lending are needed for short term and medium

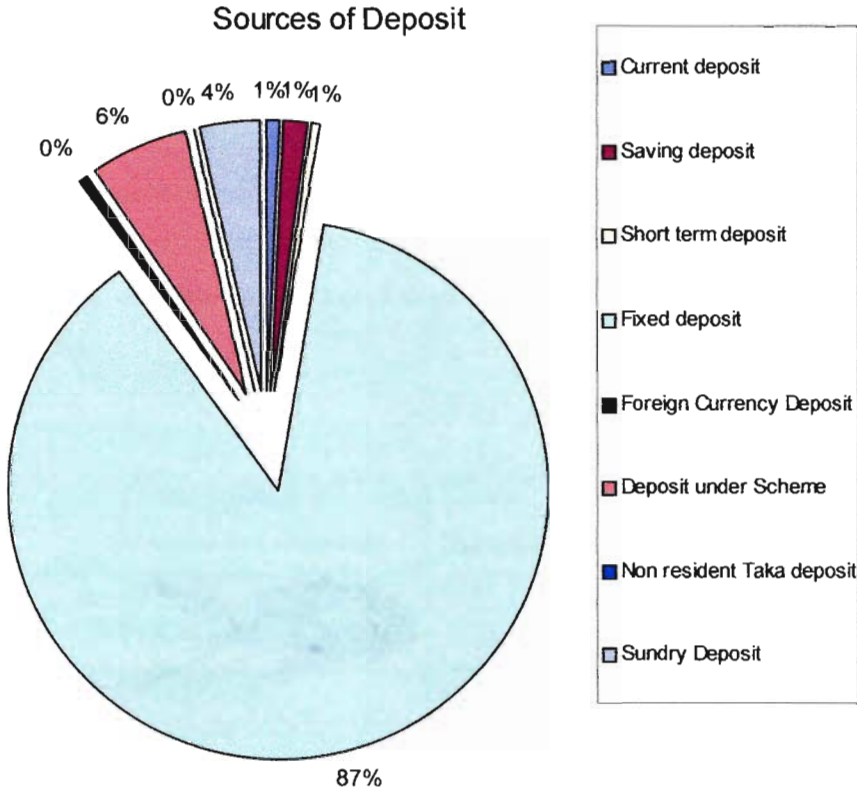
term financing. Therefore it is clear that MBL Main Branch highly appreciate the short term and medium term financing

This nature of lending of MBL is, in one sense, good if we relate it with the upward yield curve of Bangladesh economy. However, it did not give MBL the scope of risk diversification by loan term investment. The interest rate in Bangladesh was almost stable in the last few years. However, it never declined in between this period. Moreover, by the end of last of year, it started inclining. Nevertheless, the investment behavior of a bank not only depends on interest rate, but also on the matching period deposits and advances. However, if we look at table-2 and figure-2 we find that the main source of fund of MBL Main Branch in December 2000 was fixed deposit (87.16%).

Table-2: Sources of deposit as on 31, December 2000.

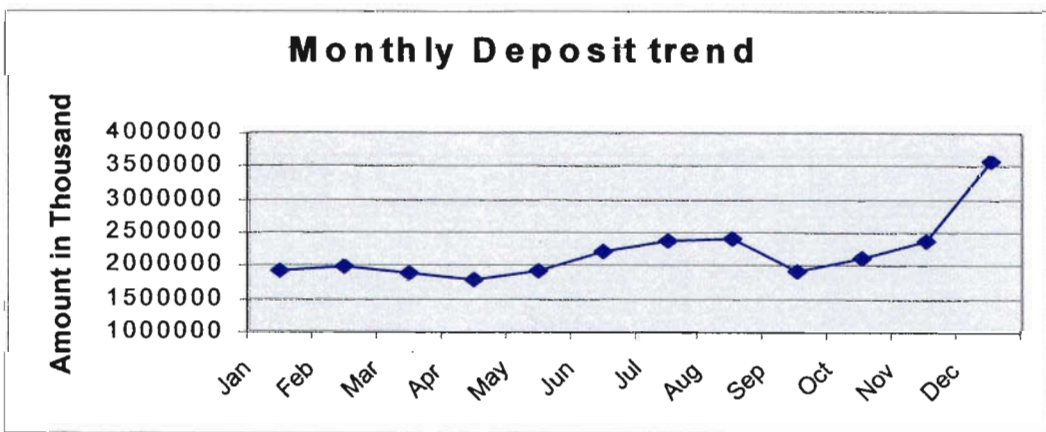
Particulars	Deposit (Amount in Thousand)	% of Deposit
Current deposit	34295	0.96%
Saving deposit	41029	1.14%
Short term deposit	29253	0.81%
Fixed deposit	3129002	87.16%
Foreign Currency Deposit	16121	0.45%
Deposit under Scheme	209447	5.83%
Non resident Taka deposit	1	0.00003%

Sundry Deposit	130672	3.64%
Total	3589820	100%



Source: Main Branch, MBL

Deposit under schemes also provides substantial amounts. The figure portrays the



statistics more clearly.

Source: Main Branch, MBL

This graph shows that the monthly deposit trend of MBL main Branch is highly increasing end of the year.

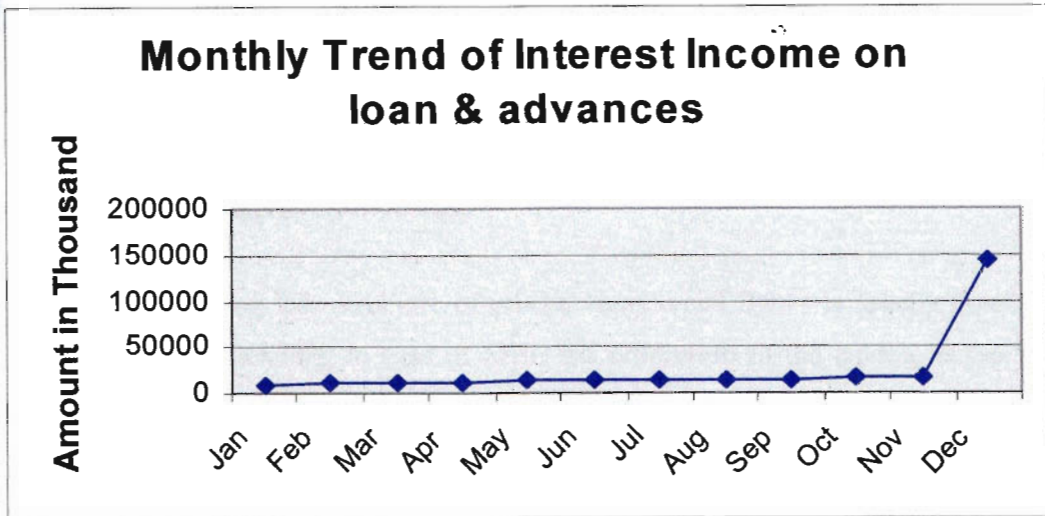
INTEREST ON LOAN AND ADVANCED OF MAIN BRANCH, MBL IN 2000.

The ultimate efficient of loan portfolio depends on its return. In table-3 shows the income on loan and advances of MBL, Main Branch from time December, 2000 and the rest of month's income on advance was not change in a consistent way. In figure-3, it is more clearly noticed.

Table-3:

Particulars	Total Advance (Amount in thousand)	Income on Advance (Amount in Thousand)	Income in Advance
January	990716	9441	0.95%
February	1007571	10199	1.01%
March	975406	10427	1.07%
April	1138189	10620	0.93%
May	1188580	12839	1.08%
June	1170622	12704	1.09%
July	1385690	14191	1.02%
August	1367531	14398	1.05%
September	1490428	14799	0.99%
October	1532702	16301	1.06%
November	1700382	17932	1.05%
December	2127062	143801	6.76%
Total	16074879		





Source: Main Branch, MBL

This graph shows that interest Income on Loan and advances are slowly increase from January to November but in the month of December 2000 it was very high.

5. SECTOR WISE DISBURSEMENT OF CREDIT:

Mercantile Bank Limited has deployed its funds in every sector. It basically emphasizes four specified sectors. These are Industry sector, Transport and communication, Trade and commerce and consumers credit. The rest of the sector is known as others. Which include any of the sectors that seem viable in MBL's viewpoint. In Table – 4 we can see that the bank is highly landing in the Industry sector (45.44%).

Table – 4 sector wise distribution of advance as on 31st March , 2000

Amount in Lac.		
Sector	Amount	% Total advance
Industry/Garments	5172.01	45.44
Transport and communication	2011.23	17.67

Trade and commerce	1826.51	16.05
Consumers credit schemes	1212.51	10.65
Others	1159.25	10.14
Total	11381.51	100%

Source: Credit Division, Head Office, MBL

However, the existing loan structure of private commercial Banks is usually dominated by the commercial lending, in case of MBL the proportion of the lending is too high. From the figure – 3 this is more clearly visible that bank is too exposed to the Industry sector. Which is a wise decision of the authority? Because proper industrialization hasn't set up yet this tendency of MBL ultimately help industrialization of the country, other than this sector, the lent in transport and communication sector by 17.67%. the bank didn't lend in jute Industry, this

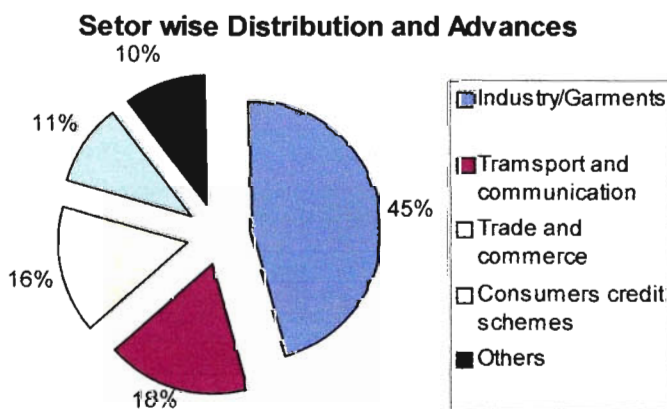


Figure –3

Policy is justifiable, because the jute Industry in our country is in its sunset point.

16. DISBURSEMENT, OUTSTANDING AND RECOVERY OF TERM LOAN

Demand loan like LTR, PAD, Packing credit etc. is given for a very short period of time. MBL recovery on demand loan is hundred percent. But incase of tern loan like Hire Purchase, Lease finance, Consumer credit etc. are not for the short period time in Table _ 5 shows Disbursement, outstanding, and recovery of term loans of MBL, main branch.

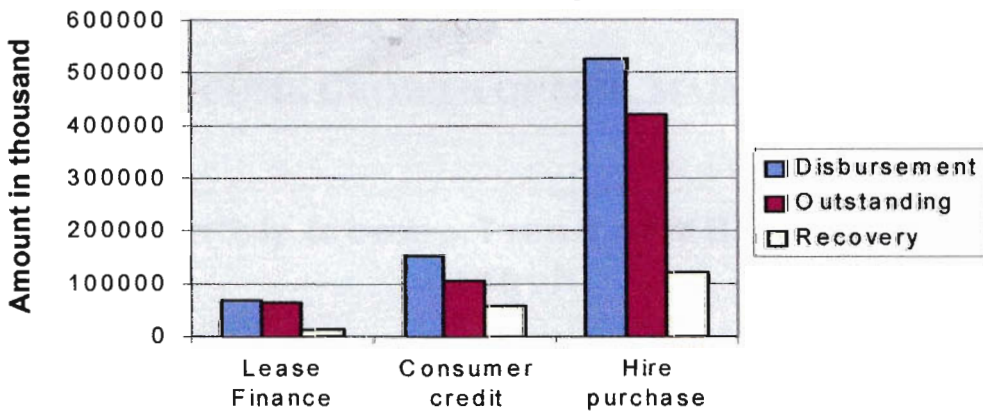
Table – 4 Disbursement, Outstanding and recovery of term loan as on 31st December 2000

Amount in Thousand

Particular	Disbursement	Outstanding	Recovery
Lease Finance	70014	64332	11975
Consumer credit	154264	105280	58830
Hire purchase	526553	421838	120384

Source: MBL, Main Branch

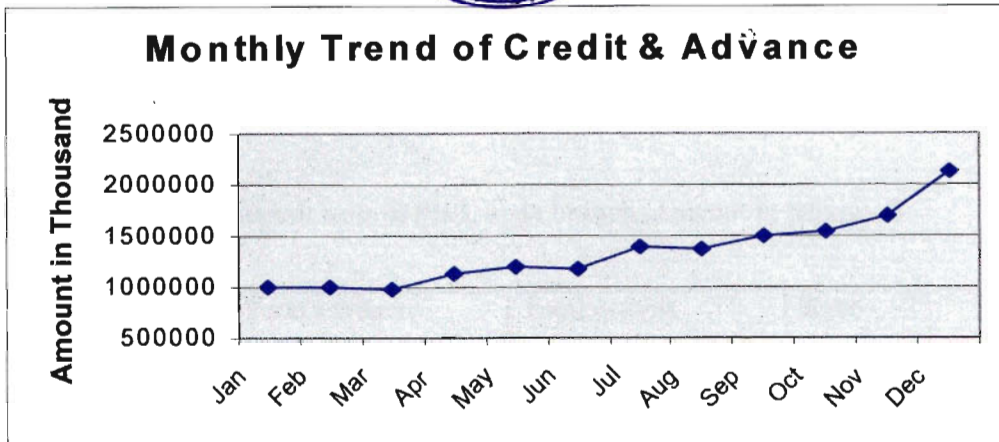
Disbursement, Outstanding and Recovery



Source: MBL, Main Branch

This graph shows us the result of disbursement, outstanding and recovery in lease finance, customer credit and hire purchase sectors and I found that disbursement is high in every sector consistently.

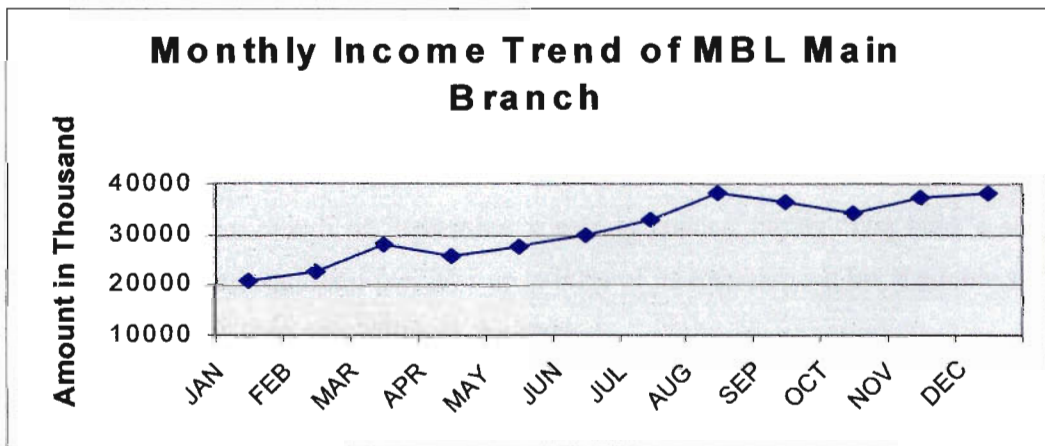
MONTHLY CREDIT AND ADVANCE GROWTH OF MBL, MAIN BRANCH



Source: MBL, Main Branch

The graph shows that credit and advance is increasing from March 2000.

MONTHLY INCOME GROWTH OF MBL, MAIN BRANCH



Source: Main Branch, MBL

The graph shows that it is dynamically increasing from beginning of the year 2000.

RATIO ANALYSIS:

Ratio analysis with two variables will show the position / value one variable in compare to one unit of another variable. Some ratio may have greater value, but whether the value is good or bad depends upon the variables involved.

i) Advanced and deposit ratio of MBL main branch (Amount in thousand)

Months	Total advance	Total deposit	Ratio
January , 2000	990716	1901931	0.5209
February, 2000	1007571	1972306	0.5108
March, 2000	975406	1866535	0.5226
April, 2000	1138189	1794488	0.6343
May, 2000	1188580	1920680	0.6188
June, 2000	1170622	2213012	0.5290
July, 2000	1385690	2379940	0.5822
August, 2000	1367531	2407428	0.5680
September, 2000	1490428	1902303	0.7835
October, 2000	1532702	2121551	0.7224
November, 2000	1700382	2357538	0.7213
December, 2000	2127062	3589320	0.5925

Source: MBL Main Branch

It is seen that the advance deposit ratio of MBL main branch was climbing slowly but consistently. In the month of September it was increasing highly. The bank's started credit policy is to extent credit facilities up to 80% of its total deposit but the table shows the advance deposit ratio was below of the level.

ii) Total income and total advance ratio of MBL Main Branch (Amount in Thousand)

Months	Total Income	Total Advance	Ratio
January , 2000	21184	990716	0.0213
February, 2000	229962	1007571	0.0228
March, 2000	28136	975406	0.0288
April, 2000	25831	1138189	0.0227

May, 2000	27462	1188580	0.0231
June, 2000	29731	1170622	0.0254
July, 2000	33059	1385690	0.0239
August, 2000	38028	1367531	0.0278
September, 2000	36410	1490428	0.0244
October, 2000	34046	1532702	0.0222
November, 2000	37539	1700382	0.0221
December, 2000	334388	2127062	0.1572

Source, MBL Main Branch

It is observe that the total Income and total advance ratio increase and decrease very slowly in consistent way. But in the month of December it was increased very highly.

A CASE STUDY ON HIRE-PURCHASE LOAN OF MYMUN TEXTILES LIMITED PROVIDED BY MERCANTILE BANK LIMITED (MBL), MAIN BRANCH

Mymun Textiles Limited is the single most prospective business customer of Mercantile Bank Limited, Main branch. It is a Private Limited Company under the Companies Acts, 1994. It has already registered with register of Joint Stock Companies. Authorized Capital of this company is TK. 1,00,00,000 (One Crore) and Paid-Up Capital is TK. 1,00,000 (One Lac). It is a dyeing and finishing unit of fabrics for 100% export oriented Ready Made Garments (RMG).

In September 2000, it tried to get a hire purchase loan from Mercantile Bank Ltd., main branch for its RMG Industries. For this reason, the management of this company came to the credit division of the MBL, main branch. Then they discussed with the authorized officer of the bank. The branch was gave them the application form of the loan. In the first week of August 2000, the company was submitted the application form with all other documents like, Memorandum of Articles, Articles of Association, Trade License, Balance Sheet, List of Machinery, Securities, Board Resolution and Feasibility Report of the Project. Then the branch analyzed in details about the company's proposal with Credit Information Bureau report, Financial spreadsheet, Lending Risk Analysis, Facility Structure, Project Verification, Security Verification etc. In August 14, 2000 the branch

made a credit proposal to the Deputy Managing Director of Head Office for consider the proposal for sanction.

In the proposal, the branch said that the proposed unit of Mymun Textiles Limited is expected to start commercial production within six months from the date of opening L/C of import of capital machinery. The company will supply finished knitted fabrics to the 100% export oriented RMG industries for the export to EEC countries and USA.

PURPOSE OF THE LOAN

The purpose of the loan is sought by the company for procurement of following machine and equipment.

1. Imported machinery and equipment	TK. 12,52,84,000.00
2. Imported Water Treatment Plant	TK. 98,00,000.00
3. Local Machinery	TK. 1,00,00,000.00
Total Machinery Requirement	TK. 14,50,84,000.00
(-) 20% equity finance on imported items	<u>TK. 2,70,84,000.00</u>
Finance sought from Mercantile Bank Ltd., Main branch	<u>TK. 11,80,00,000.00</u>

BACKGROUND OF THE LOAN

It is well known that RMG industry is the most vital part of our export sector in which it contributes more than 60% of total export earning. But unfortunately value addition from this sector is not as high as it seems. Value addition from this sector is near about 20% only. It is due to lack of backward linkage industries for supplying inputs like fabrics, dyes, chemical, yarn etc. to our RMG sector. Since local production of these unit is very much inadequate, RMG sectors largely depends on foreign countries for raw materials and accessories and for such high volume of import of raw materials by RMG industries, value addition by this sector is not enriched. But if these inputs were locally available, it would be a great beneficial for RMG industries as well as for economy as a whole. With this view in mind, a group of entrepreneur has come forward to form a project under the banner Mymun Textiles limited, which will supply these valuable inputs for our RMG sector.



THE MANAGEMENT OF MYMUN TEXTILE LIMITED

The company is composed of some competent entrepreneurs who have long track record of business success in the textile sector. They are well educated and have some well experienced and skills work forces for their companies. The management team has already gains goods reputation in the business arena for their entrepreneur ship quality. They have established another four textile companies such as Dulal Brothers unit – 1 & unit – 2, Fashion Concern and Jinnat Apparels Limited.

RELIABILITY OF THE MANAGEMENT

The bank can rely on the management for their firm commitment to repay their loan. MBL, main branch have already finance their some other projects where their performance is very much regular. **It can be mentioned here that they have started repayment before expiry of grace period on TK. 2.35 core loan to their project named – Jinnat Apparels Limited.** Moreover they are banking with some other banks without any default as per CIB report. Export performances of other business concerns are as follows:

EXPORT PERFORMANCE

Name of the Company	Year – 2000	Year – 1999
Dulal Brothers Limited	\$ 5,08,646.71	\$ 6,30,706.79
Fashion Concern	\$ 2,03,303.80	\$ 3,78,942.12
Total Export	\$7,11,950.51	\$ 10,09,648.91

The management also runs some other business with the bank and their liability position is furnished below:

LIABILITY POSITION OF DULAL BROTHERS GROUP

(Amount in TK)

Name of company and types of liability	Limit	Outstanding as on 13.08.2000	Int./Com. Earned
HP loan of Jinnat Apparels Ltd.	2,35,00,000.00	1,45,12,062.00	5,25,354.00

BTB LC for DBL group	12,00,00,000.00	3,32,53,000.00	-
BTB LC & bills liability of Jinnat Apparels	-	1,11,56,000.00	-
BTB LC & bills liability of Dulal Brothers	-	79,000.00	-
BTB LC & bills liability of Fashion Concern	-	2,20,18,000.00	-
Packing Credit	1,00,00,000.00	Nil	Nil

FEASIBILITY REPORT ON MYMUN TEXTILES LIMITED

Here furnishing the summarized technical, marketing and financial evaluation of the project to judge its feasibility for financing by Mercantile Bank Limited, Main branch.

Technical Analysis

The project is located on its own premise at Nayapara, Kashimpur, Gazipur. The site of factory situated on the bank of the river Turag and at a distance of about 30 Km from the city of Dhaka. This is plot of 63.

Building

The 40,000 sft factory building consists of the following facilities:

1. Godown, Storage of the raw materials and chemicals	4. Boiler
2. Dyeing and finishing unit	5. Substation
3. Godown, Storage of finished goods	6. Generator set
4. Air Compressor	8. General Office

Machinery

Machines and equipment will to be collected from both local and foreign sources. The intended machinery and equipment have already been selected for which necessary quotations have been collected. These machines and equipment are available in world market and can be procured without any complexities.

Utilities

- ✓ Water – will be procured by using deep tube well owned by the factory.
- ✓ Power – Dhaka Polli Biddyut Samity will be the main supplier of electricity of the project. Besides the project will setup a 1375 KVA generator for meeting emergency power in case of power failure by Polli Biddyut.
- ✓ Transportation – the project will purchase two microbus for carrying raw materials and finished goods.
- ✓ Spare parts will be collected locally.

Production Capacity

Expected production capacity based on three 8 (Eight) hourly shifts with 1500 KG production in each hour and yearly 300 days is 3.6 million KG at 100% capacity utilization. Expected utilization of capacity would be 70%, 80% and 90% in the first three years.

Technology and Manpower Requirements

The technology for this project is very simple and has already been developed in Bangladesh. And skilled manpower is also available in the country.

Raw Materials

The required raw materials will be procured locally as well as from overseas market by opening L/C or by payment in cash. Cost for raw materials will be incurred as follows:

Dyes per KG of fabrics TK. 20.00

Chemical per KG of fabrics TK. 15.00

Total cost per KG of fabrics TK. 35.00 which is 50% of selling price.

Marketing Aspect

The only fields where Bangladesh have done a major break through in the world market in the Ready Made Garments sector. This is only due to availability of cheap labor in

Bangladesh. And also for this reason Bangladesh is getting increased share in the overseas market for RMG.

Demand

In Bangladesh, actual export of knitwear exceeds the targeted export in each year. As such, it seems that there exists high demand for the products of proposed unit in the country's export market. Moreover, garments sector enjoys GSP facilities in EEC countries, which creates constant sources of demand for our garments sector.

Target Market

Generally the unit will feed the 100% export oriented RMG industries of the country. Most of the services of the industries will be consumed by its allied concerns namely Jinnat Apparels Ltd., Fashion Concern and Dulal Brothers Ltd.

Pricing

The present market price of the product varies from TK. 70.00 to TK. 140.00 per KG. Its proposed project will offer very competitive pricing while maintaining quality. Thus from marketing point of view, there would not be any problem in marketing the product.

Risk Factor

Garments and Garments linkage industries in Bangladesh already reached at saturation point. This market is very competitive. Now a day a competitive pricing & access to distribution channel are the main factors to sustain in the industry. Recently USA congress passed a special bill for African and Sub-Saharan countries so that they can get preferential treatment in access to the USA RMG market. Since USA is the single largest buyer of our RMG, this new bill may hamper growth of our garments industries. Competition will also be serving day by day due to restrictive trade measures taken by major developed countries and also due to introduction of high cost technology in this field of manufacturing.

However, considering the present demand condition, we may expect that the products manufactured by the unit would not face any major problem in the export market.

18. Financial Evaluation

Summarized financial projection is given below:

1. Capital Budgeting Outcomes

Mymun Textile Limited has applied discounted method of capital budgeting technique for finding out the financial viability of the project. Summary of the findings are as follows:

Net Present Value (NPV)	TK. 129.00 million
Internal Rate of Return (IRR)	38%
Profitability Index (PI)	1.78
Pay Back Period	2 Years

NPV is highly positive and IRR is significantly higher than cost of capital. These indicate that the project is highly viable and will generate large amount of wealth for the owners. Pay back period for covering the total project cost is only two years. As such this project is good one for financing by Mercantile Bank Limited, Main branch.

2. Break Even Analysis

The bank also conducted Break Even analysis to find out the rational sales volume.

Break Even Sales	15,37,184.00 KG
Break Even Sales as percentage (%) of target sales	43%

Which is only 43% of rated capacity of the project? If the firm is able to sale only 43% of its production capacity it will start making profit. So this volume should be rational one.

3. Ratio Analysis

The branch also has conducted ratio analysis to find out profitability and long-term solvency of the project. The outcomes are as follows:

RATIO ANALYSIS

RATIOS	Year-1	Year-2	Year-3	Year-4	Year-5
Debt-Service Coverage	1.50	1.82	2.07	2.02	-
Return on Investment	17%	24%	28%	26%	21%
Return on Equity	38%	38%	33%	26%	21%
Gross Margin	32%	35%	36%	35%	35%
Net Income Margin	16%	22%	26%	27%	27%

The project will generate sufficient cash flow to cover its installment payment, as it is evidence by debt service coverage ratio, which is always over the projected years. Return on Investment (ROI) and Return on Equity (ROE) are also encouraging for the proposed project. Only negative think is that these ratios are in falling trend over the projected years. This is due to the assumption that dividend will not be paid out during the projected years, which results in higher volume of equity accumulation over the years.

4. Lending Risk Analysis (LRA)

LRA indicates Business Risk is good and Security Risk is acceptable. As such overall risk is found good one. For conducting LRA, we have used the projected financial statement.

After a comprehensive analysis of the proposed project of Mymun Textile Limited and considering the business potentiality of the project with reliability of the management, the bank authority recommended sanctioning the **“Hire Purchase”** loan favoring Mymun Textile Limited.

- i. Nature of Facility : Hire Purchase
- ii. Amount of Facility : TK. 11.80 Core Only
- iii. Purpose of Facility : For acquiring capital machinery for the project

- iv. Rate of Interest: : 16% P.A. with monthly rest subject to the change that may be made by the bank from time to time.
- v. Validity : 4 (Four) years from the date of disbursement including 6 (six) months of grace period.
- vi. Mode of Repayment : By monthly installments depending on actual disbursement to be started after 6 (six) months from the date of disbursement.
- vii. Security :
 - a) Hypothecation on machinery, equipment of the company
 - b) First charge on all fixed & floating assets of the company.
 - c) Equitable mortgage on the land measuring one acre four decimal and 40,000 sft. factory building thereon at Gazipur valuing TK. 3.00 core approximately.
 - d) Personal Guarantee of all the directors of the company.

After analysis all the information of Mymun Textiles Ltd. It is observe that MBL Main branch took right decision to provide big loan to Mymun Textiles Ltd. I do hope that after end of grace period all of the installment will returned in timely.

19. **Conclusion:** The Banking sector, in any country plays an important role in economic activities. Bangladesh is no exception of that. As because their financial development and economic development are closely related. That is why the private commercial are playing significant role in this regard.

I have focused and analyzed on credit management process of Mercantile bank Limited. MBL as a new bank in Bangladesh but its contribution socio-economic development of Bangladesh greater significant. Though my topic was connected on credit management I tried to identify the process of disbursement loan, performance and problems of the bank as a whole. I have found a fewer number of factors impede the achievement of ultimate goals of MBL. It is not easy to find the solution for the inexperience's researchers like me. But I do believe that suggestion mention in below will obviously increase the efficiency of MBL. Some of this measure will be needed for long term to be implemented and others are short term.

To minimize the risk and maximize the return in a given risk level may be, in this context of Bangladesh MBL in now doing well in credit Management. However in the end, the Bank may will face problem if it does not take some necessary steps to correct the flows that are identify here some of this steps are recommended below;

- ✓ The bank shouldn't sanction any to those clients, whose necessary information is not fully disclosed to the bank.
- ✓ For information, which is needed for credit appraisal, the bank shouldn't only depend on the client but also try to explore the other source of information for its authentication.
- ✓ The bank should tried to increase advance – deposit ration. So to insure that fund does not necessarily remain idle.
- ✓ They must rationalize portion of loans and advances to different sector for risk diversification.
- ✓ The bank also should go for long term investment.
- ✓ The credit department of MBL should conduct real field studies to analysis the lending risk before final decision is taken. Documents and paper works in LRA should be minimized and market study for lending should gradually be introduced.

