

An Appraisal of SME Banking Activities of BRAC Bank Limited

BUS-498 Project work

Prepared for

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EAST WEST UNIVERSITY

Letter of Transmittal

Date: April 21, 2008

Professor Dr. Tanbir Ahmed Chowdhury
Chairman
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Course: BUS-498 (Project work)

Subject: Proposal for the final report submission.

Dear Sir,

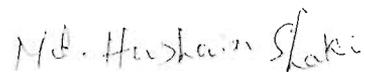
I would like to thank you for assigning me this subject to prepare my project report. This task has been given me the opportunity to explore one of the most important aspect of the BRAC Bank Loan which is known as SME Loan.

The report contains a comprehensive study on the Small and Medium Enterprise Loan of BRAC Bank Limited. It was a great pleasure for me to have the opportunity to work on this topic "An Appraisal of SME Banking Activities of BRAC Bank Limited". I have endeavor my best to come out with a good one.

I would be very happy to provide you any clarification regarding the report. I would be grateful enough if you kindly accept my paper and oblige me thereby.

Thank you.

Sincerely yours,



Md. Hushain Shakir

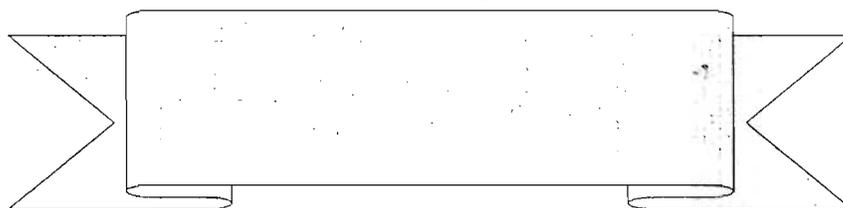
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Acknowledgement

Praise to Allah, the creator and sustainer, who has given me the strength and opportunity to complete my Project Report on the topic “An Appraisal of SME Banking Activities of BRAC Bank Limited”. This report might never have been completed without the help of necessary practical knowledge, assistance of many books, articles, websites, and primary data. It enhanced my knowledge on SME activities as well as banking business. Thanks to all those persons who have assisted me, co-operate with me and provide me necessary books and articles.

I express my deep sense of gratitude and heartily respect to my supervisor Professor Dr. Tanbir Ahmed Chowdhury, Chairperson, Dept of Business Administration of East West University for his supervision, co-operation and advises.

I would also grateful to Head Office of BRAC Bank Limited, Different SME unit offices specially Jeshore unit, EWU library and EWU computer lab for providing me a very good support for preparing my report.



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Executive Summery

This report aims at providing an overall appraisal of the SME (Short and Medium Enterprise) Banking Activities of BRAC Bank Limited. Before going to the analysis, it is mandatory to know something about the organization (BRAC Bank Ltd.), its principal activities and its core products that it offers to its customers. After that I have discussed about the SME loan, its classifications and the whole of its process starting from loan sanction to recovery and closing of the loan.

In Chapter-1, I have mentioned objectives, Scope, methodology and Limitation of my study. In Chapter-2, I made an overview of BRAC Bank Limited. In this Chapter (chap-2) I have tried to focus the Bank's history, its mission and vision, major departments, business units and major products and services. I have also tried to give an overall performance evaluation of BRAC Bank Limited in Chapter-3. SME is the next section, which is Chapter-4, where I gave my concentration. Here (chapter-4) I have focused on the terms and conditions of giving SME loan, enterprise selection criteria and documentation. Then I have discussed about the procedure of SME loan where I delineated the sanction, disbursement, repayment and closing of SME loan.

Finally I have identified some problems of SME Banking Activities of BRAC Bank Limited and conclude my report by giving some recommendation.

Chapter-I

Introduction

- Brief Overview of the Bank
- Objective of the report
- Scope & Methodology of the study
- Limitation of the Study

1.1 Overview of BRAC Bank Ltd

BRAC Bank Ltd., a full service commercial bank with local and International Institutional shareholding, is primarily driven by creating opportunities and pursuing market niches (i.e. SME Banking) not traditionally meet by conventional banks. BRAC Bank has been motivated to provide “best-in-the-class” services to its diverse assortment of customers spread across the country under an on-line banking dais. Today, BRAC Bank is one of the fastest growing banks in Bangladesh.

Table 1.1: Corporate Profile

Inauguration of Banking Operation	4 th July, 2001
First SME Unit Office	01 st January, 2002
Signing with western Union	5 th November, 2003
First ATM Installation	3 rd April, 2005
Listing With CSE	24 th January, 2007
Listing with DSE	28 th January, 2007
Commencement of share trading in DSE and CSE	31 st January, 2007
No of Employee	3,047
No of Branches	26

Source: Annual Report 2006

1.2 Objective of the Report:

1. To know the overall Activities of BRAC Bank Limited.
2. To Appraise the Performance of BRAC Bank Limited.
3. To Appraise the SME Activities of BRAC Bank Limited.
4. To Identify the Problems of SME BRAC Bank Limited.
5. To recommend some remedial measures for the development of SME Activities of BRAC Bank Limited.

1.3 Scope & Methodology of the Study:

1.3.1 Scope of the Study

- Concept of SME and its impact in overall economy of Bangladesh.
- Entrepreneurship development situation through SME banking.
- Importance of SME banking in context of Bangladesh.
- Small entrepreneurs of rural –urban spectrum are enjoying the BRAC Bank loan facility without the presence of bank at rural area.
- Virtual banking concept through SME banking.

1.3.2 Methodology of the study

In conducting the study, data and information have been collected from different sources. All these data were collected from the secondary sources and very few from primary sources. The sources of data are stated bellow –

I. Primary Sources:

- Discussion with SME Officers in Different SME Unit office of BRAC Bank Limited.

II. Secondary Sources:

- Website of BRAC Bank Ltd.
- Different statements of bank.
- Annual report of BRAC Bank Limited.
- Consultation of related books and publications.

III. Processing of Data

After collection of the raw data, the following computer packages had been used for editing and processing –

- MS-Word
- MS- Excel

1.4 Limitations of the Study:

The study has suffered from a number of barriers-

- Data from BRAC Bank is highly confidential for the outside people.
- The information of BRAC Bank Ltd was not found in a structured way.
- As the bank is a new bank in terms of its years of operations, so the multiple regression analysis was not possible.
- I created a conceptual framework of the topic.
- Time is also a big constraint for my research. I have to submit a broader deal in a shorter form of outcome.
- It was difficult to communicate with the customers, as many of them were unable to give me much time for interview.

Chapter-2

Overview of BRAC Bank Limited

- Background
- About BRAC Bank
- Logo of BRAC Bank Ltd
- Shareholding Structure
- Corporate Vision, Mission, Values & Goals
- Objectives of the Bank
- Bank's Culture
- Organization Structure
- Departments of BRAC Bank Limited
- Products and Services
- Special Features
- SWOT Analysis

2.1 About BRAC Bank:

BRAC Bank Limited, with institutional shareholdings by BRAC, International Finance Corporation (IFC) and Shorecap International, has been the fastest growing Bank in 2004 and 2005 in Bangladesh. The Bank operates under a "double bottom line" agenda where profit and social responsibility go hand in hand as it strives towards a poverty-free, enlightened Bangladesh.

BRAC Bank focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which hitherto has remained largely untapped within the country. In the last five years of operation, the Bank has disbursed over BDT 1500 crore in loans to nearly 50,000 small and medium entrepreneurs. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh. Since inception in July 2001, the Bank's footprint has grown to 22 branches, 350 SME unit offices and 19 ATM sites across the country, and the customer base has expanded to 200,000 deposit and 45,000 advance accounts through 2006. In the years ahead BRAC Bank expects to introduce many more services and products as well as add a wider network of SME unit offices, Retail Branches and ATMs across the country.

2.2 Background

BRAC Bank Limited is a scheduled commercial bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as private limited company on 20 May 1999 under the Companies Act, 1994. The primary objective of the Bank is to provide all kinds of banking business. At the very beginning the Bank faced some legal obligation because the High Court of Bangladesh suspended activity of the

Bank and it could fail to start its operations till 03 June 2001. Eventually, the judgment of the High Court was set aside and dismissed by the Appellate Division of the Supreme Court on 04 June 2001 and the Bank has started its operations from July 04, 2001. The Chairman of the Bank is Mr. Fazle Hasan Abed. Now the Managing Director of the bank is Mr. Imran Rahman. The bank has made a reasonable progress due to its visionary management people and its appropriate policy and implementation

2.2.1 BRAC

BRAC, a national, private organization, started as an almost entirely donor funded, small-scale relief and rehabilitation project initiated by Fazle Hasan Abed to help the country overcome the devastation and trauma of the Liberation War and focused on resettling refugees returning from India. Today, BRAC has emerged as an independent, virtually self-financed paradigm in sustainable human development. It is one of the largest Southern development organizations employing 97,192 people, with 61% women, and working with the twin objectives of poverty alleviation and empowerment of the poor.

2.2.2 International Finance Corporation (IFC)

The International Finance Corporation (IFC) is a member of the World Bank Group and is headquartered in Washington, DC. Established in 1956, IFC's mission is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives.

IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. The organization promotes sustainable private sector investment in developing countries that is economically beneficial, financially and commercially sound, and environmentally and socially sustainable; as a way to reduce poverty and improve people's lives.

It is the belief of the organization that sound economic growth is the key to poverty reduction; that it is grounded in the development of entrepreneurship and successful private investment; and that a conducive business environment is needed for the latter to thrive and contribute to improve people's lives.

IFC promotes sustainable private sector development primarily by:

- Financing private sector projects located in the developing world.
- Helping private companies in the developing world mobilize financing in international financial markets.
- Providing advice and technical assistance to businesses and government

2.2.3 ShoreCap International

ShoreCap International Ltd. (SCI) is an international private equity company seeking to invest in small business banks and regulated micro-finance institutions in developing and transitional economies.

ShoreCap was launched by ShoreBank Corporation, America's first and leading community development and environmental Banking Corporation. It invests in small business banks, regulated micro-finance institutions and other regulated non-bank financial service companies striving to profitably meet the credit needs of micro entrepreneurs and small businesses in underserved markets.

ShoreCap builds on ShoreBank's strong history of investing in the renewal of local communities in the U.S. and internationally. ShoreBank's international work began in 1983 by advising Dr. Muhammad Yunus and for 10 years doing the financial feasibility work for the major institutional donors to the Grameen Bank in Bangladesh.

For twenty of its thirty years, ShoreBank has been working to release the dormant entrepreneurial energy of people in developing countries. ShoreCap is the next progression in that work. ShoreBank is a 9% investor in ShoreCap.

2.3 Logo of BRAC Bank Ltd.



2.4 Shareholding Structure:

Table: 2.1 Shareholding Position

Shareholders	Percentage of holding
BRAC	31.74%
IFC	9.50%
Shore Cap International	8.76%
General Public through IPO	39%
Mutual Funds through IPO	5%
Non Resident Bangladeshis	5%
Total	100%

Source: Annual Report 2006

Table 2.1 shows the Shareholding structure of BRAC Bank Ltd. It is observed from the table that BRAC is the major shareholder that holds 31.74% shares of BBL. It is also reflected from the table that BBL has raised 50% of their capital from capital market.

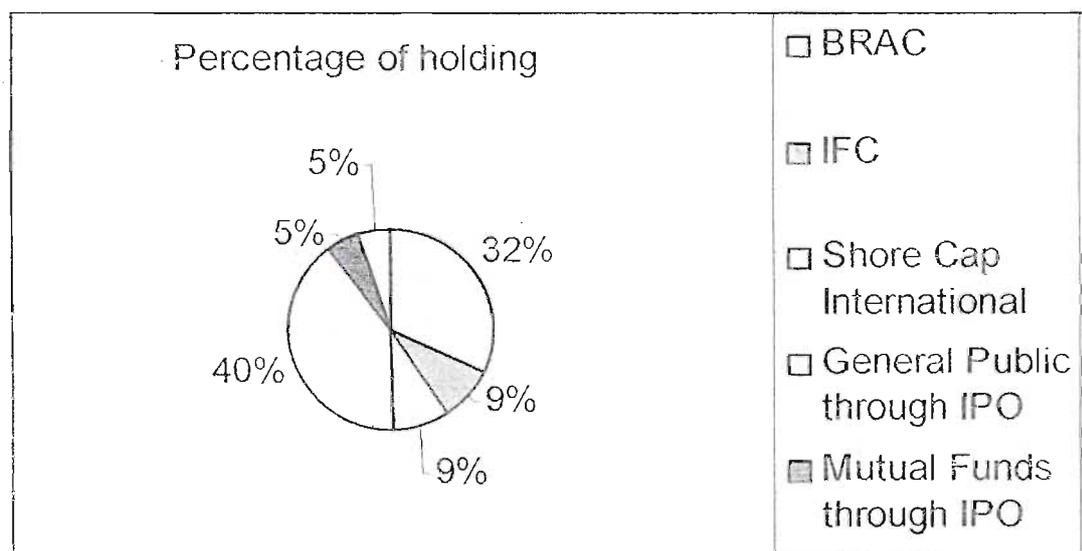


Diagram 2.1: Shareholding Structure of BRAC Bank Ltd.

2.5 Corporate Vision

BRAC Bank will be a unique organization in Bangladesh. It will be a knowledge-based organization where the BRAC Bank professionals will learn continuously from their customers and colleagues worldwide to add value. They will work as a team, stretch themselves, innovate and break barriers to serve customers and create customer loyalty through a value chain of responsive and professional service delivery.

Continuous improvement, problem solution, excellence in service, business prudence, efficiency and adding value will be the operative words of the organization. BRAC Bank will serve its customers with respect and will work very hard to instill a strong customer service culture throughout the bank. It will treat its employees with dignity and will build a company of highly qualified professionals who have integrity and believe in the Bank's vision and who are committed to its success. BRAC Bank will be a socially responsible institution that will not lend to businesses that have a detrimental impact on the environment and people. So Brac Bank operates following a specific vision like:

"Building a profitable and socially responsible financial institution focused on Markets and Business with growth potential, thereby assisting BRAC and stakeholders build a "just, enlightened, healthy, democratic and poverty free Bangladesh".

2.6 Corporate Mission

- Sustained growth in 'small & Medium Enterprise' sector
- Continuous low cost deposit growth with controlled growth in Retained Assets
- Corporate Assets to be funded through self-liability mobilization. Growth in Assets through Syndications and Investment in faster growing sectors
- Continuous endeavor to increase fee based income
- Keep our Debt Charges at 2% to maintain a steady profitable growth
- Achieve efficient synergies between the bank's Branches, SME Unit Offices and BRAC field offices for delivery of Remittance and Bank's other products and services
- Manage various lines of business in a fully controlled environment with no compromise on service quality
- Keep a diverse, far flung team fully motivated and driven towards materializing the bank's vision into reality

2.7 Corporate Values

The Bank's Strength emanates from its owner - BRAC. This means, it will hold the following values and will be guided by them as it does its jobs.

Value the fact that we are a member of the BRAC family

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

2.8 Goals

BRAC Bank will be the absolute market leader in the number of loans given to small and medium sized enterprises through out Bangladesh. It will be a world-class organization in terms of service quality and establishing relationships that help its customers to develop and grow successfully. It will be the Bank of choice both for its employees and its customers, the model bank in this part of the world.

2.9 Objectives of the Bank

The objective of BRAC Bank Limited is specific and targeted to its vision and to position itself in the mindset of the people as a bank with difference. The objective of BRAC Bank Limited is as follows:

- Building a strong customer focus and relationship based on integrity, superior service.
- To creating an honest, open and enabling environment
- To value and respect people and make decisions based on merit
- To strive for profit & sound growth
- To value the fact that they are the members of the BRAC family committed to the creation of employment opportunities across Bangladesh.
- To work as a team to serve the best interest of our owners
- To relentless in pursuit of business innovation and improvement
- To base recognition and reward on performance
- To responsible, trustworthy and law-abiding in all that we do
- To mobilize the savings and channeling it out as loan or advance as the company approve.
- To establish, maintain, carry on, transact and undertake all kinds of investment and financial business including underwriting, managing and distributing the issue of stocks, debentures, and other securities.
- To finance the international trade both in import and export.
- To develop the standard of living of the limited income group by providing Consumer Credit.
- To finance the industry, trade and commerce in both the conventional way and by offering customer friendly credit service.
- To encourage the new entrepreneurs for investment and thus to develop the country's industry sector and contribute to the economic development.

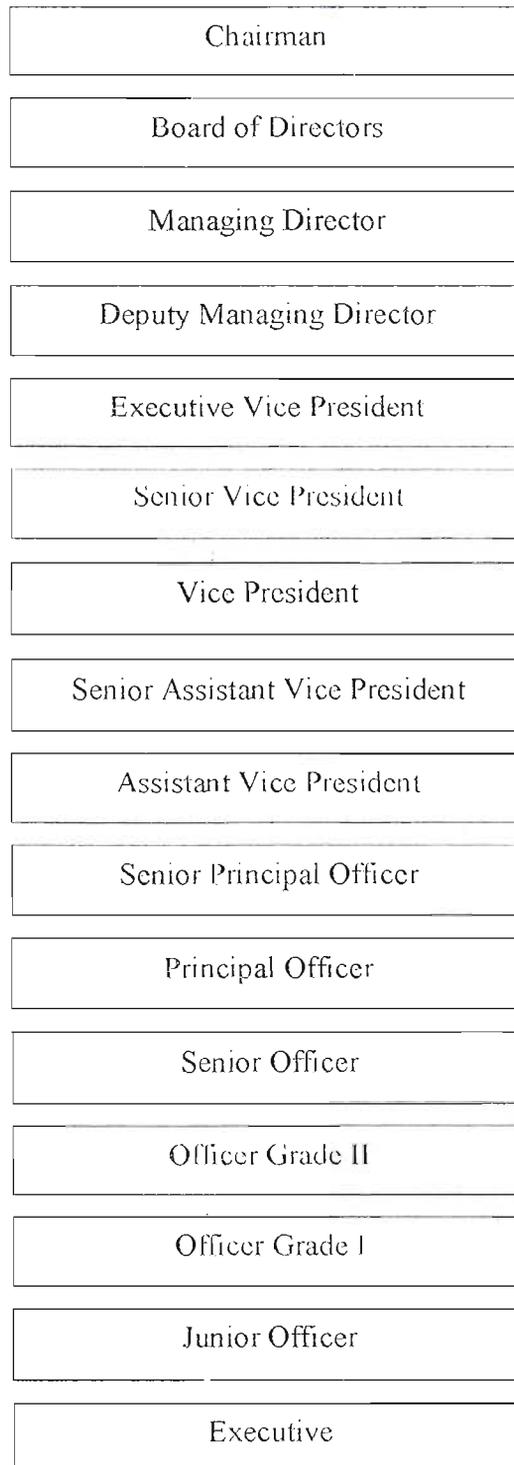
2.10 Bank's Culture

Bank has adopted trust as a corporate value which is acronym for team work, respect for all people, unquestionable integrity, excellence in everything BRAC Bank of SME do, Sense of urgency in getting things done and total commitment.

All employees are expected to conduct themselves in accordance with the rules and regulations of the bank.

2.11 ORGANIZATIONAL STRUCTURE

Management Hierarchy:



2.12 Departments of BRAC Bank Limited:

If the jobs are not organized considering their interrelationship and are not allocated in a particular department it would be very difficult to control the system effectively. If the departmentalization is not fitted for the particular works there would be haphazard situation and the performance of a particular department would not be measured. BRAC Bank Limited has does this work very well. Departments are as follows:

1. Human Resources Department
2. Financial Administration Department
3. Asset Operations Department
4. Credit Division
5. SME Division
6. Internal Control & Compliance Department
7. Marketing & Product Development
8. Impaired Asset Management
9. Remittance Operation Department
10. Treasury Front
11. Treasury Back
12. General Infrastructure Service
13. Information Technology Department
14. Customer Service Delivery
15. Cards Division
16. Call Center
17. Cash Management
18. Secured Remittance department
19. Women Entrepreneur Cell
20. Payment Service

2.13 Business Units

There are five different business units generating business BRAC Bank Limited:

- Small & Medium Enterprise (SME)
- Corporate Banking
- Retail Banking
- Treasury
- Remittance Services

All the units are being operated in a centralized manner to minimize costs and risks.

2.14 Products and Services

2.14.1 Small & Medium Enterprise (SME):

For SME loan operation, BRAC Bank Ltd has in total 900 unit offices, 80 zonal office, 12 territory and 1800 Customer Relationship Officers. These CROs (Customer relation Officers) work for the Bank to converge clients for getting the SME loan. Once CROs get the loan application and if it is less than 500,000 TK then zonal officer has the authority to approve the loan. But if it is above 500,000 then the CROs send it to Head Office for all necessary approval. After approving the loan then Asset Operation Department starts its work. As the scopes of businesses are growing, the amount of files and disbursement is getting bigger. In May 2007, AOD has processed 3249 files amounting Tk. 1,235,200,000. So SME Division's success greatly relies on the performance. Up to April 2007, BBL provides loans for 70000 clients and in total 2265 crore TK. But the most important thing is only 17 crore TK is bad loan; this is a great

achievement for SME unit of BBL. Currently they have 44147 outstanding clients and in total 1070 crore TK SME loan.

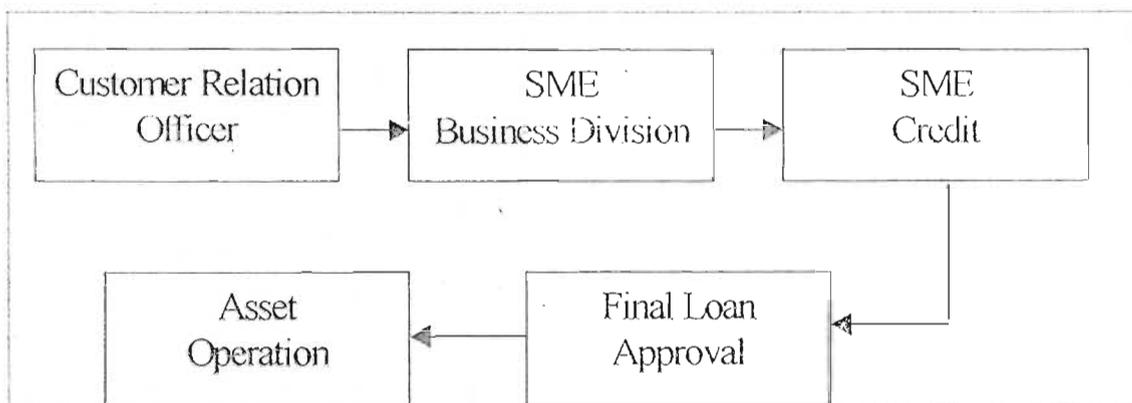
SME Products-

1. Prothoma Rin.
2. Supplier Finance.
3. Anonno Rin.
4. Digoon Rin.
5. AroggoRin.
6. Pathshala Rin.
7. Opurbo Rin.

(Definition and Details of SME Products will be discussed in Chapter 4)

SME Loan process flow is shown below-

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



2.14.2 Corporate Banking:

Categories- the facilities our corporate Division offers to our customers are mainly of two-

Funded Facilities

Non-Funded Facilities

Funded Facilities-

Funded tells us that this type of facilities allows the customer to have money 'on his hand' for use i.e. he will get money as to meet his business demand. Examples are-

- Working Capital Loan.
- Over Draft Facility.
- Term Loan.
- Lease Finance.
- Demand Loan.

Non-Funded Facilities-

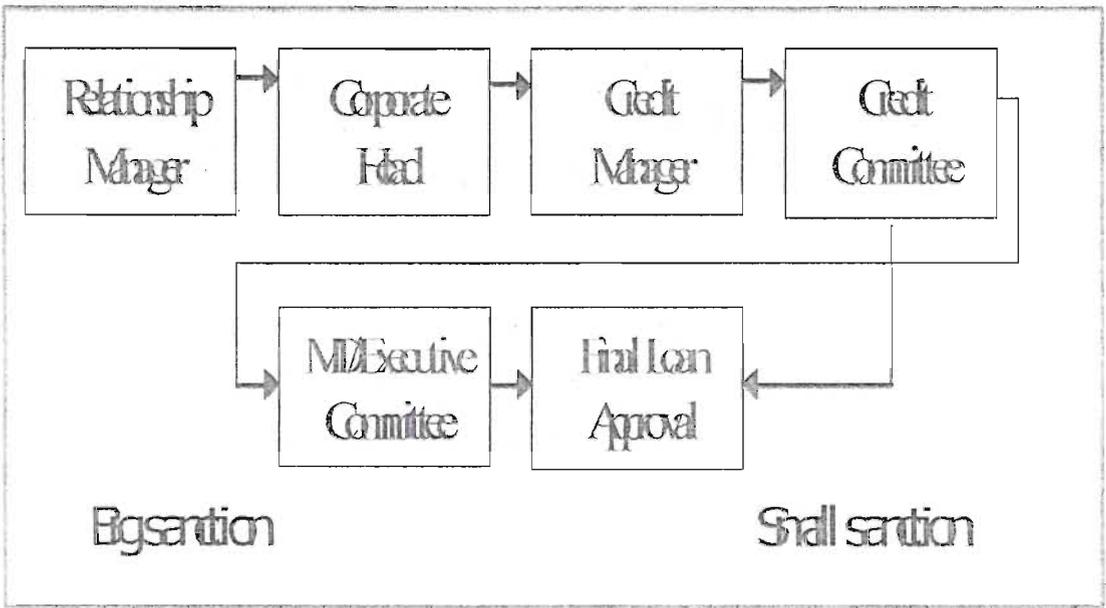
Non-Funded facilities are those type of facilities where customers don't get fund on their hand rather get Bank's Guarantee service to do international trading-import and export. Letters of Credit, Bank guarantees etc. are the examples of the non-funded facilities.

Working Process of corporate wing-

An example will be handy to understand when the corporate wing starts its work. Say you are one of our clients. You need Tk. 5 core to be used in your business. The first you may contact is the RM (Relationship Manager) who is our delegate to make all kinds of negotiation with you. He then Would take the proposal to the corporate Head takes it for further analysis such as whether it would be profitable venture for the Bank, or whether the Bank can disburse more in the industry etc. Then if the Corporate Head thinks it fit to go ahead, he then would take the file to the credit division – works to find out the



worthiness of the borrower and other relevant facts important to assess the possibility of recovery. Then it goes to the credit committee and then finally the file goes to the Managing Director. A diagram is given for better understanding-



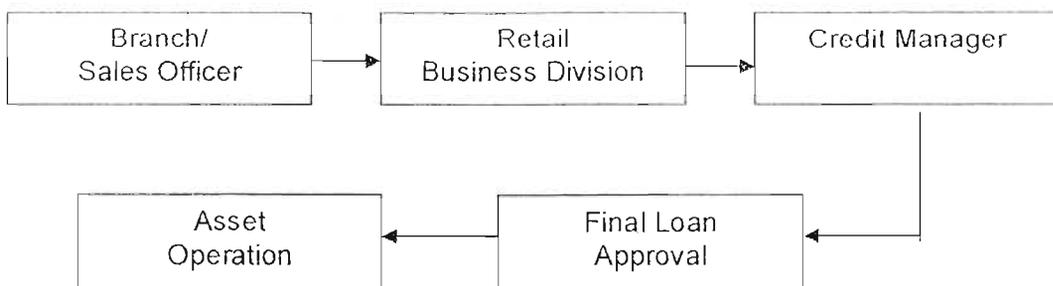
2.14.3 Retail Banking:

Retail Loans are consumers' loan. Based on the customer demand these loans are given.

BRAC Bank has a wide range of retail loan-

1. Car Loan.
2. Doctor's Loan.
3. Secured Loan/OD.
4. High Flyer Loan.
5. Top Up Loan.
6. Credit Card Loan.
7. Study Loan.
8. Teacher's Loan.
9. Now Loan.
10. Salary Loan.

Process Flow of Retail Loan



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

- i) Deposit Products
- ii) Lending Products
- iii) Locker Services
- iv) Remittance Services etc.

The product and services that are currently available are given below-

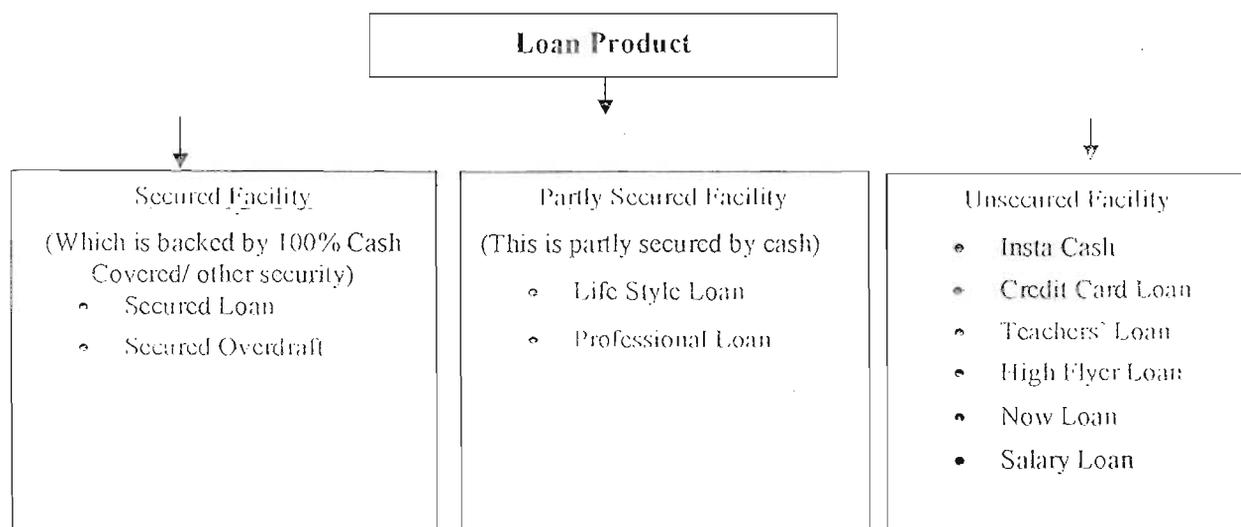
I) Depository Products

BRAC Bank Limited is now offering 6 depository products for mobilizing the savings of the general people:

- Savings A/C
- Current A/C
- STD A/C
- Fixed Deposit A/C
- DPS A/C

II) Loan Products

BRAC Bank is offering the following loan and advance product to the client for financing different purpose that fulfill the requirements of the bank and have good return to the investment as well as satisfy the client. The loan and advance products are:



III) New Product and services

The bank has its concentration for new product and services development for satisfying its customer and increasing its customer base. The bank firmly believes that technology based product and services will play significant role in the performance of the bank as people are getting more conscious about their service quality. They prefer now faster service with least cost. For delivering faster service the bank has introduced online banking service from the very beginning. There are some new products and services that BBL has lately introduced. These are:

- Now Loan
- Salary Loan
- Credit card Services (Proposed)
- Islamic Banking Services (Proposed)
- ATM services

BRAC Bank Limited is always emphasizing the improvement of banking service and betterment of living standard of the general people of Bangladesh. The product and services are targeted to the lower level to the upper level income group in deposit collection. For lending, the services are made if certain requirements are fulfilled.

IV) Treasury

Money Market Desk

BRAC Bank has a strong presence in the Treasury Market in Bangladesh. The Money Market Desk of the Treasury Division mainly deals in Bangladeshi Taka transactions. The basic activities undertaken by the Money Market Desk are:

- Management of Statutory Reserves viz. Cash Reserve Ratio (CRR) & Statutory Liquidity Ratio (SLR)
- Daily Funds & Liquidity Management
- Investment Management

Treasury Services

- Call/Overnight Lending & Borrowing
- Term Money Borrowing & Lending
- Repurchase Agreement
- Treasury Bills (T-Bills)

v) Secured Remittance Services (SRS)

BRAC bank has introduced an innovative remittance services for Bangladeshis living abroad with some unique features compared to any of the existing remittance program. Bangladeshi expatriates can now send their money to their relatives any where in Bangladesh even to the remotest part within 24 hours at a reasonable cost and competitive exchange rate.

vi) Information Technology (IT)

BRAC Bank Ltd. is currently running countrywide true online banking system. The system allows their customers to do transactions all around the country. The bank cheques are all marked with Barcodes that makes each cheque unique and disallows it to be duplicated. All the signature and customer information with their pictures can be verified from any console at any branch on the bank. We also ensure Offsite backup and Disaster Recovery. Their Goal is to provide a true online baking system, which will not only fulfill the demand of time but also set new benchmarks in twenty-first centuries banking world.

2.15 Special Features

- All Branches are computerized
- 99% of the bank's work is automated using latest technology
- BRAC Bank is a member of SWIFT community
- Intercity Branches are connected via optical fiber backbone network

2.16 SWOT Analysis

SWOT analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. It helps the organization to identify how to evaluate its performance and scan the macro environment, which in turn would help organization to navigate in the turbulent ocean of competition.

2.16.1 Strengths

A. Company reputation:

BRAC bank has already established a favorable reputation in the banking industry of the country particularly among the new comers. Within a period of 5 years, BBL has already established a firm footing in the banking sector having tremendous growth in the profits and deposits. All these have lead them to earn a reputation in the banking field

B. Sponsors:

BBL has been founded by a group of eminent entrepreneurs of the country having adequate financial strength. The sponsor directors belong to prominent resources persons of the country. The Board of Directors headed by its Chairman Mr. F H Abed. Therefore, BBL has a strong financial strength and it built upon a strong foundation.

C. Top Management:

The top management of the bank is also major strength for the BBL has contributed heavily towards the growth and development of the bank. The top management officials have all worked in reputed banks and their years of banking experience, skills, expertise will continue to contribute towards further expansion of the bank. At BBL, the top management is the driving force and the think tank of the organization where policies are crafted and often cascaded down.

D. Facilities and equipment:

BBL has adequate physical facilities and equipments to provide better services to the customers. The bank has computerized and online banking operations under the software called MBS banking operations. Counting machines in the teller counters have been installed for speedy service ant the cash counters. Computerized statements for the customers as well as for the internal use of the banks are also available.

E. Impressive branches:

This creates a positive image in the minds of the potential customers and many people get attracted to the bank. This is also an indirect marketing campaign for the bank for attracting customers. 13 branches of the bank are impressive and are compatible to foreign banks.

F. Interactive corporate culture:

BBL has an interactive corporate culture. Unlike other local organization, BBL's work environment is very friendly, interactive and informal. There are no hidden barriers or boundaries while interacting among the superior or the subordinate. The environment is also lively and since the nature of the banking job itself is monotonous and routine, BBL's likely work environment boosts up the spirit and motivation of the employees.

G. Team work at mid level and lower level:

At BBL's mid level and lower level management, there are often team works. Many jobs are performed in groups of two or three in order to reduce the burden of the workload and enhance the process of completion of the job. People are eager to help each other and people in general are devoted to work.

2.16.2 Weaknesses

A. Advertising and promotion of SME loan:

This is a major set back for BBL and one of its weakest areas. BBL's advertising and promotional activities are satisfactory but its SME loan is not advertised well. It does not expose its SME product to general public and are not in lime light. BBL does not have neon sign or any advertisement for SME loan in the city. As a result people are not aware of the existence of this bank.

B. NGO name (BRAC):

BRAC is one of the largest NGO of the world and it is operating its activities in Bangladesh. BRAC bank is not a NGO bank but many people of their country consider it as a NGO bank like Grameen bank which is not correct.

2.16.3 Opportunities

A. Diversification:

BBL can pursue a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking or diversify in to leasing and insurance. By expanding their business portfolio, BBL can reduce their business risk.

B. Product line proliferation:

In this competitive environment BBL must expand its product line to enhance its sustainable competitive advantage. As a part of its product line proliferation, BBL can introduce the following products.

C. ATM:

This is the fastest growing modern banking concept. BBL should grab this opportunity and take preparation for launching ATM. Since BBL is a local bank, they can form an alliance with other contemporary banks in launching the ATM.

2.16.4 Threats

A. Multinational banks:

The emergence of multinational banks and their rapid expansion poses a potential threat to the new growing private banks. Due to the booming energy sector, more foreign banks are expected to arrive in Bangladesh. Moreover, the already existing foreign bank such as Standard Chartered is now pursuing an aggressive branch expansion strategy. This bank is establishing more branches countrywide and already launched its SME operation. Since the foreign banks have tremendous financial strength, it will pose a threat to local banks.

B. Upcoming banks:

The upcoming private local banks can also pose a threat to the existing private commercial banks like BBL. It is expected that in the next few years more local private banks may emerge. If that happens the intensity of competition will rise further and banks will have to develop strategies to compete against an onslaught of foreign banks.

C. Contemporary banks:

The contemporary banks of BBL such as Dhaka bank, prime bank and Dutch Bangla are its major rivals. Prime bank and other banks are carrying out aggressive campaign to attract lucrative clients as well as big time depositors.

Chapter-3

Performance Evaluation of BRAC Bank Limited

- Shareholders Equity
- Total capital
- Total Assets
- Sources of Fund
- Application of Funds
- Deposit Mix
- Total Deposits
- Total Loans and Advances
- Investment Mix
- Operating results
- Earning per Share (EPS)
- Return on Investment (ROI)
- Return on Assets (ROA)

3.1 Shareholders Equity

Table: 3.1 - Shareholders Equity of BRAC Bank Ltd.

Year	Amount (Taka in million)
2001	248.49
2002	210.62
2003	395.92
2004	590.21
2005	782.89
2006	2117.19

(Source: Annual report 2006)

Table 3.1 shows the Shareholders Equity of BRAC Bank Ltd. It is observed from the table that the Paid up capital of the bank is being raised from Tk. 500 million to Tk. 1,000 million in the year 2006 through initial public offering of shares held in 2006 at a premium of Tk 0.70 per share. The Bank ended the year 2006 with a total shareholder's equity of Tk. 2,117.19 million compared to Tk. 782.93 million in the year 2005.

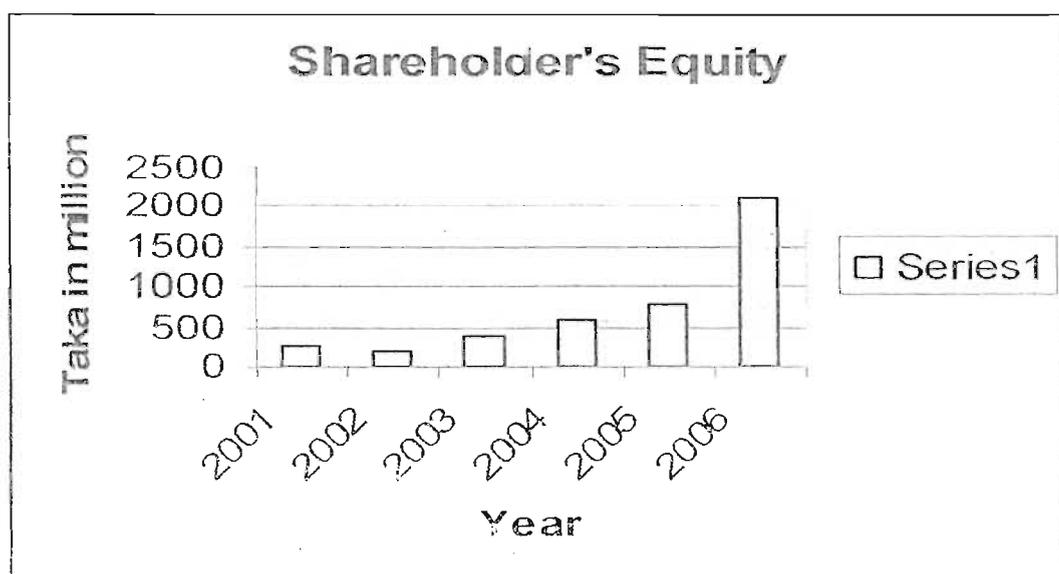


Diagram 3.1: Shareholder's Equity of BRAC Bank Limited

3.2 Total capital

Table: 3.2 - Total Capitals of BRAC Bank Ltd.

Year	Amount (Taka in million)	Growth
2001	249.1	-
2002	221	(11%)
2003	424.32	92%
2004	650.28	53%
2005	988.88	52%
2006	2,496.28	152%

(Source: Annual report 2006)

Table 3.2 shows Total Capital of BRAC Bank Ltd. It is reflected from the table that total capital was Tk. 249.1 million at 2001 but it increasing at Tk. 2,496.28 million in 2006. In 2006 the growth in Capital was 152% because they raise capital in this Year by Initial Public Offering (IPO).

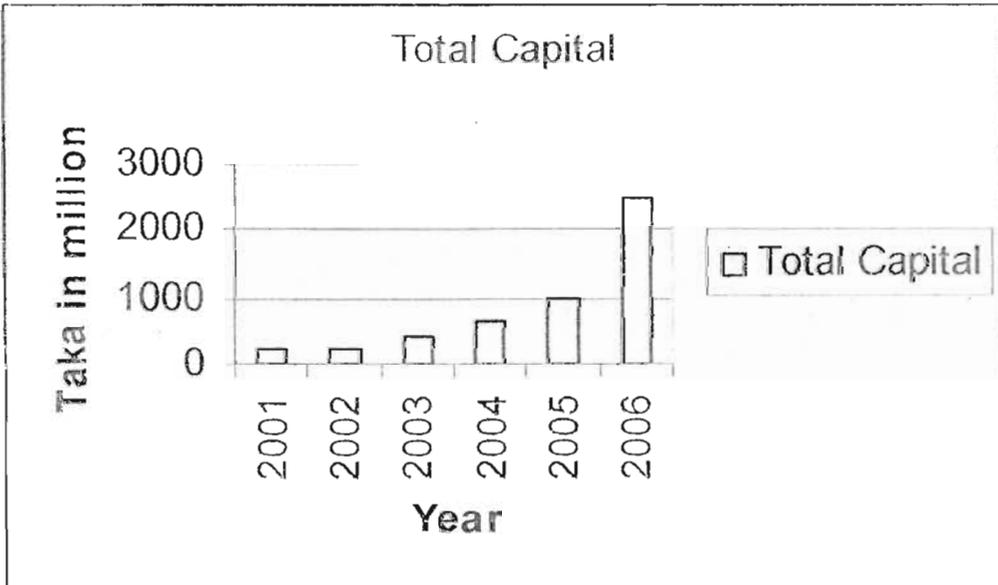


Diagram 3.2: Total Capital of BRAC Bank limited

3.3 Total Assets

Table: 3.3 - Total Assets of BRAC Bank Ltd.

Year	Amount (Taka in million)	Growth
2001	360.82	
2002	2,070.20	474%
2003	4,542.04	119%
2004	10,015.94	121%
2005	16,876.01	68%
2006	30,011.82	78%

(Source: Annual report 2006)

Table 3.3 shows the Total Assets of BRAC Bank Limited. It is observed from the table that Total Assets figure of BRAC Bank Limited rose to Tk. 30,011.82 million in 2006 from Tk. 16,876.01 million in 2005 registering a growth of 78%.

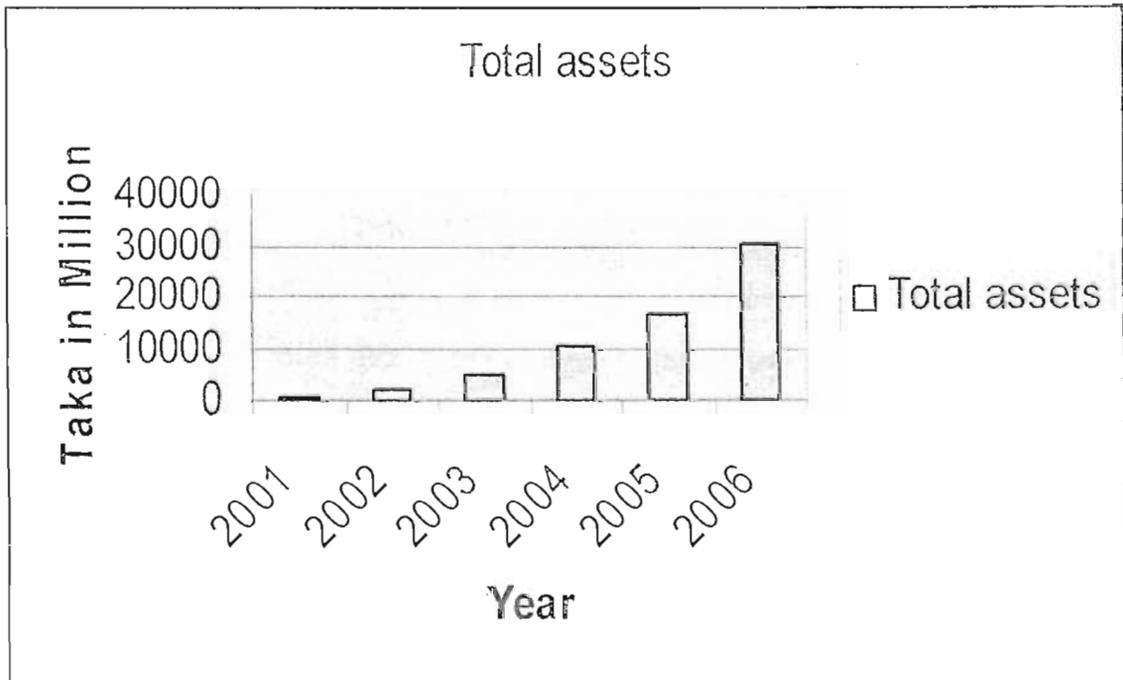


Diagram 3.3: Total Assets of BRAC Bank Ltd

3.4 Sources of Fund

Table: 3.4 - Sources of Fund of BRAC Bank Ltd.

Borrowings	4%
Paid up Capital	5%
Reserve & Surplus	2%
Deposits	77%
Other Liabilities	12%

(Source: Annual report 2006)

Table 3.4 shows the sources of fund of BRAC Bank Limited. It is also reflected from the table that major sources of fund of BBL is 'Customer deposit' which is 77%.

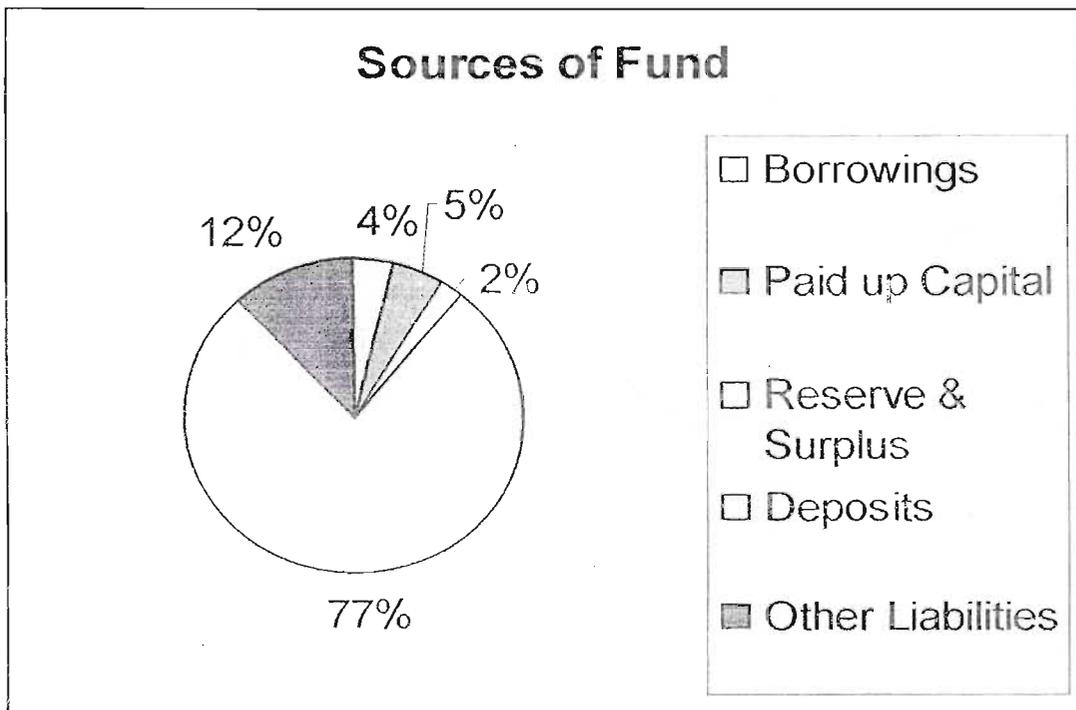


Diagram 3.4: Sources of Fund of BRAC Bank Ltd.

3.5 Application of Funds

Table 3.5 - Application of Funds of BRAC Bank Limited

Cash & cash Equivalents	17%
Investments	13%
Loans & Advances	65%
Fixed Assets	4%
Other Assets	15%

(Source: Annual report 2006)

Table 3.5 shows the Application of funds of BRAC Bank Limited. It is reflected from the table that BBL invests most of the Fund in Loans & Advances which is 65% of the total Funds.

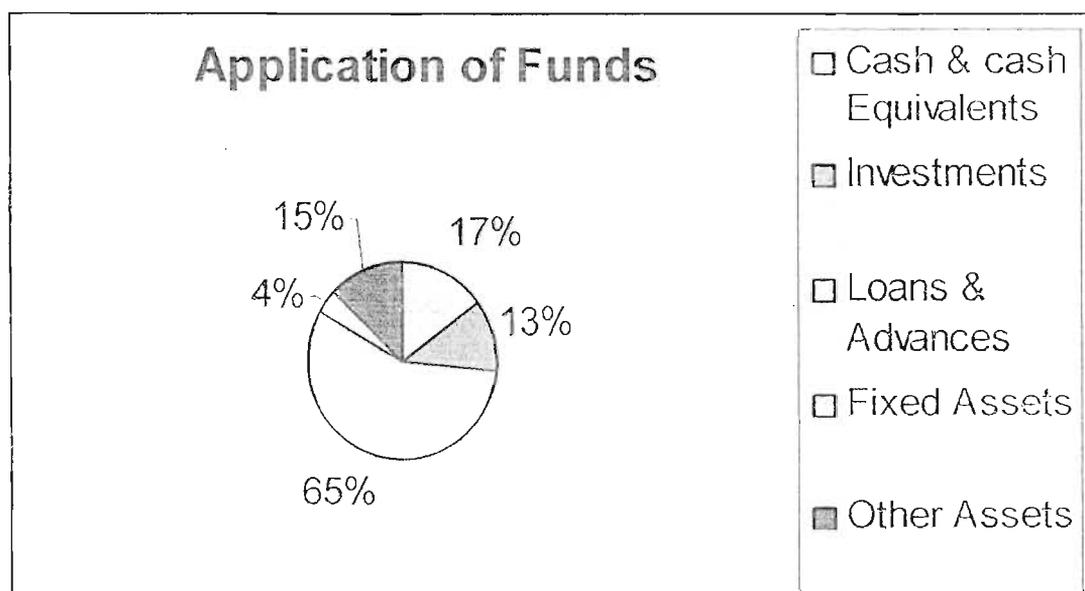


Diagram 3.5: Application of Funds of BRAC Bank limited

3.6 Deposit Mix

Table: 3.6 – Deposit Mix of BRAC Bank Limited

Fixed Deposits	72%
Currency & Other Deposits	13%
Savings Deposits	13%
Bills Payable	1%
Other Deposits	1%

(Source: Annual report 2006)

Table 3.6 shows the Deposit mix of BRAC Bank Limited. It is observed from the table that 72% of total deposits are fixed deposit. It is a very good sign for the Bank because fixed deposits can use as long term investment which increase the interest income of the Bank.

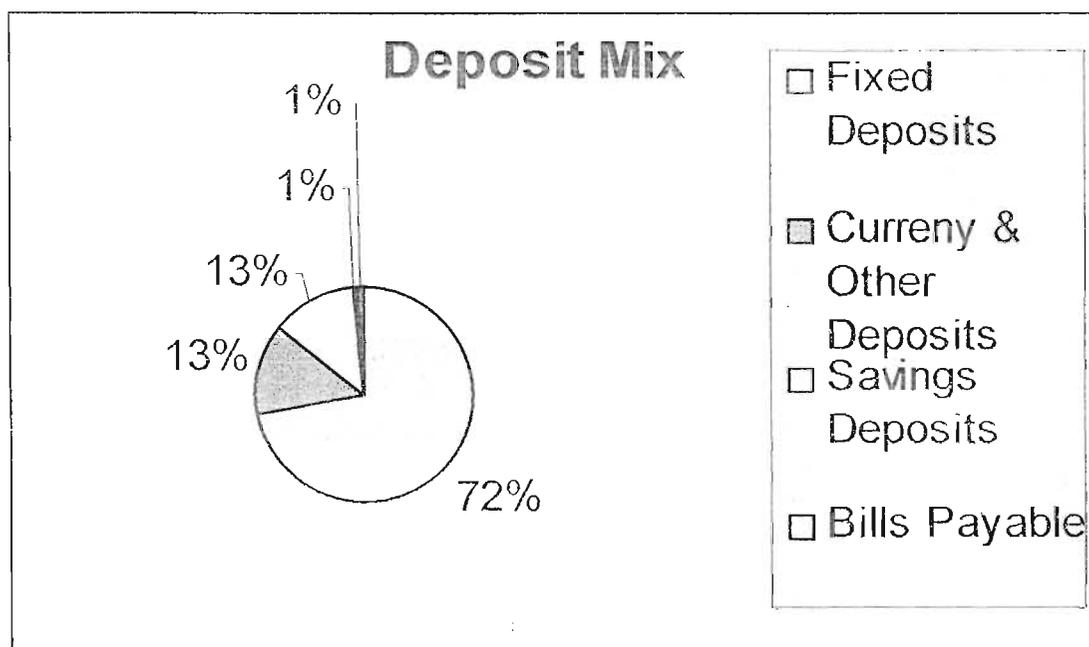


Diagram 3.6: Deposit Mix of BRAC Bank Ltd.

3.7 Total Deposits

Table 3.7 – Total Deposits of BRAC Bank Limited

Year	Deposits(Taka in Million)	Growth
2001	110.38	-
2002	1,363.68	1135%
2003	3,497.30	156%
2004	8,168.98	134%
2005	13,409.01	64%
2006	23,001.92	72%

(Source: Annual Report 2006)

Table 3.7 shows the Total Deposits of BRAC Bank Limited. It is reflected from the table that Customer deposits of the Bank grew by 72% in 2006. The Bank ended the year 2006 with a total customer deposit of Tk. 23,001.92 million compared to Tk. 13,409.01 million in the year 2005.

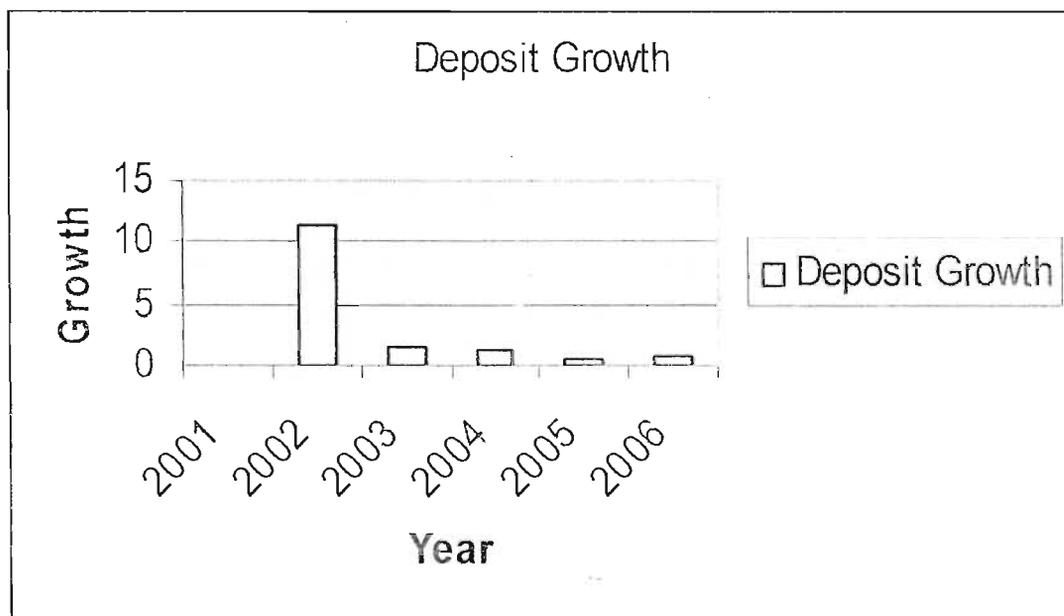


Diagram 3.7: Deposit Growth of BRAC Bank Limited.

3.8 Total Loans and Advances

Table 3.8 – Total Loans and Advances of BRAC Bank Limited

Year	Loans and Advances (Taka in million)	Growth
2001	69.86	
2002	1030.88	1376%
2003	2870.11	178%
2004	5819.79	103%
2005	11791.31	103%
2006	19557.17	66%

(Source: Annual Report 2006)

Table 3.8 shows the Total Loans & Advances of BRAC Bank Limited. It is observed from the table that Loans & Advances stood at Tk. 19,557.17 million in 2006 as against Tk. 11,791.31 million in 2005, an increase of 65.86%.

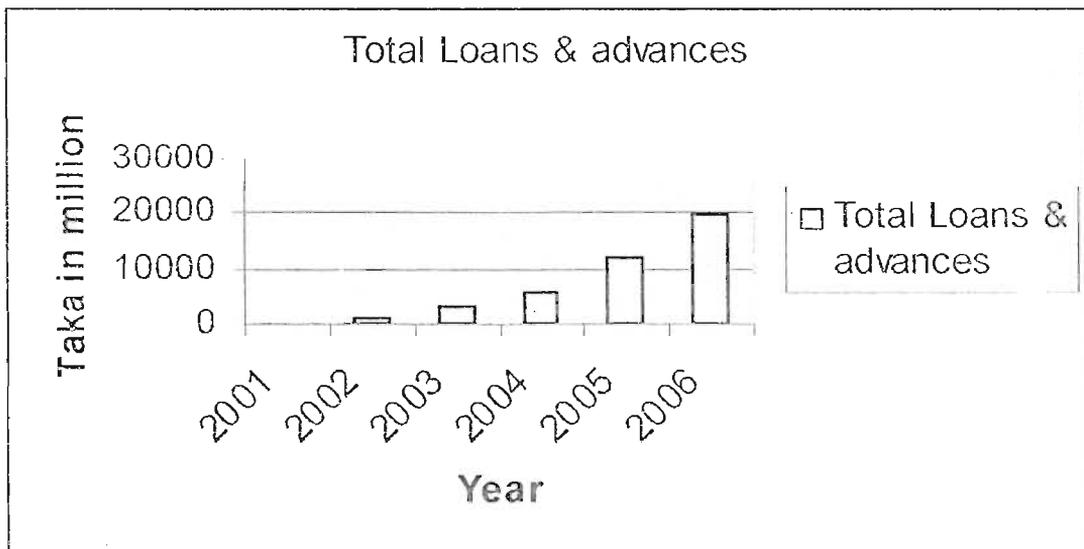


Diagram 3.8: Total Loans and Advances of BRAC Bank Limited

3.9 Investment Mix

Table: 3.9 – Investment Mix of BRAC Bank Limited

Treasury Bonds	58.70%
Treasury Bills	35.63%
Debentures	2.63%
Zero coupon Bonds & Other Bonds	2.65%
Shares	0.38%

(Source: Annual report 2006)

Table 3.9 shows the Total Loans & Advances of BRAC Bank Limited. It is reflected from the table that The Bank’s Investments during the year 2006, were made mostly in Government Securities which stood at Tk. 3,768.01 million as on December 31,2006 as against Tk. 2,163.81 million in 2005.

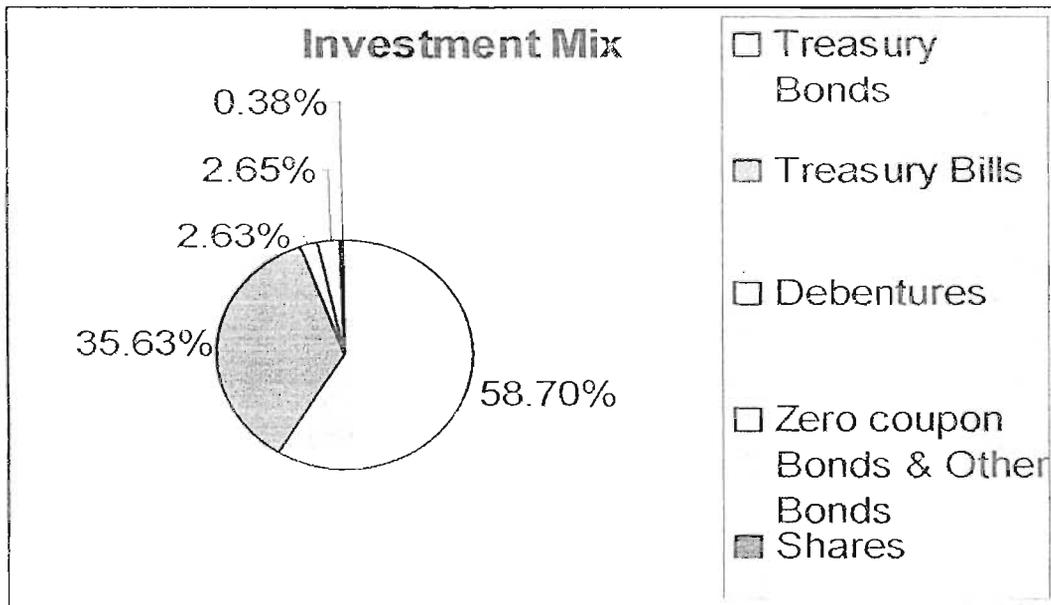


Diagram 3.9: Investment Mix of BRAC Bank Limited

3.10 Operating results

Table 3.10 - Operating results of BRAC Bank Limited

(Taka in million)

Year	Total Revenue	Operating Profit	NOI before Tax
2001	12.55	(0.81)	(1.51)
2002	60.83	(28.26)	(37.87)
2003	233.3	56.56	30.28
2004	679.45	320.84	210.3
2005	1173.32	580.32	340.36
2006	2,077.43	1050.41	705.36

(Source: Annual report 2006)

Table 3.10 shows the operating results of BRAC Bank Limited. It is reflected from the table that in the year 2006, the financial base of the Bank was further strengthened. Its total revenue in the year 2006 was Tk. 2,077.43 million against Tk. 1,173.32 million in 2005, an increase of 77.06%, while it achieved an Operating profit of Tk. 1,050.41 million compared to Tk. 580.32 million in the previous Year, an increase of 81.01%. Net Profit before Tax for 2006 stood at Tk. 705.36 million against Tk. 340.36 million of 2005 registering an increase of 107.24%.

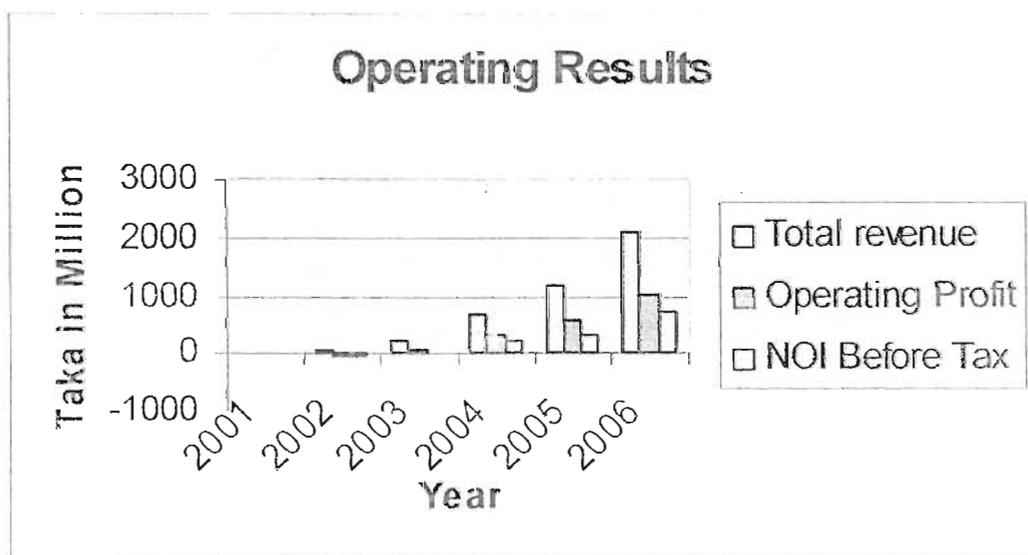


Diagram 3.10: Operating Results of BRAC Bank Limited

3.11 Earning per Share (EPS)

Table: 3.11- Earnings per Share

Year	EPS(Amount in Taka)
2001	(0.6)
2002	(15.15)
2003	12.09
2004	23.16
2005	38.54
2006	63.31

(Source: Annual report 2006)

Table 3.11 shows Earnings per Share (EPS) of BRAC Bank Limited. It is observed from the table that Earnings per share stood at Tk. 63.31 as on December 31, 2006 compared to Tk. 38.54 at the end of the previous year.

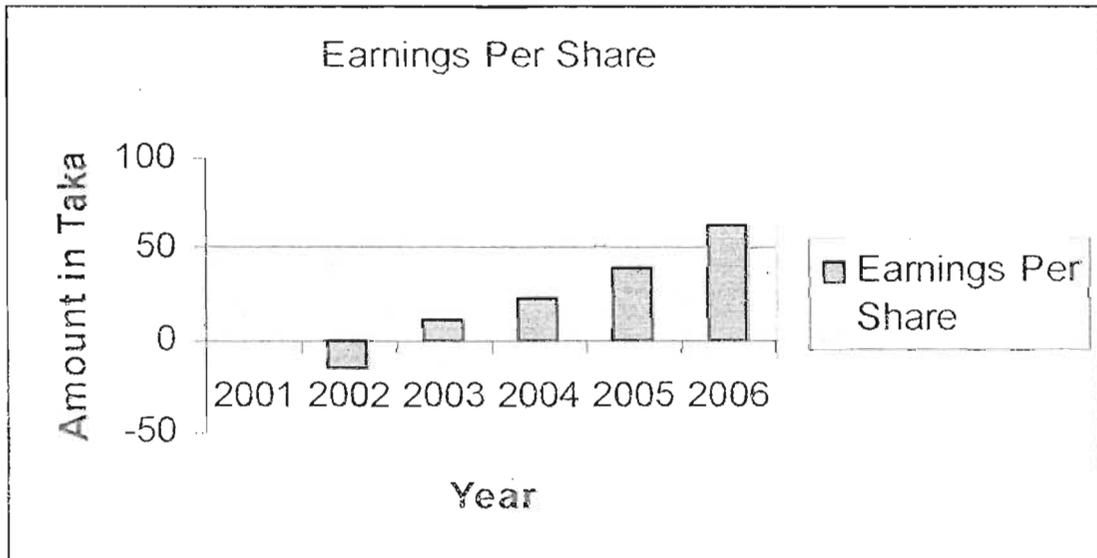


Diagram 3.11: Earnings per share

3.12 Return on Investment (ROI)

Table: 3.12 – Return on Investment

Year	Return On Investment(ROI)
2004	8.57%
2005	8.54%
2006	9.69%

(Source: Annual report 2006)

Table 3.12 shows Return on Investment of BRAC Bank Limited. It is observed from the table that Bank's Return on Investment was respectively 8.57% & 8.54% in 2004 & 2005 but it is increased at 9.69% in 2006.

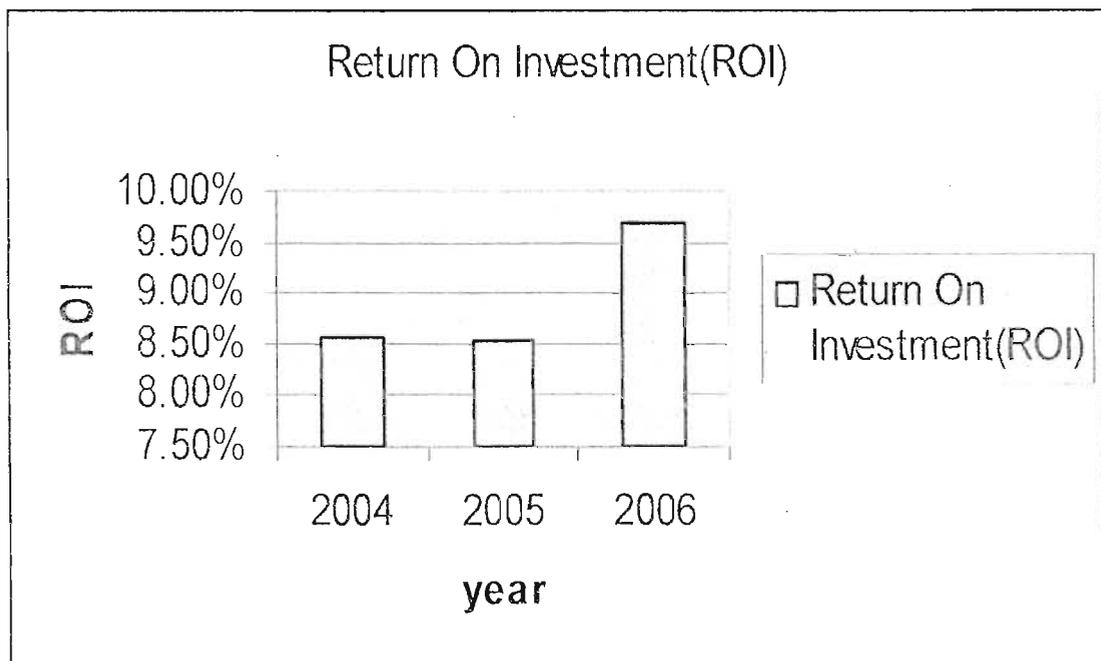


Diagram 3.12: Return on Investment (ROI)

3.13 Return on Assets (ROA)

Table: 3.13 - Return on Asset of BRAC Bank Limited

Year	Return On Asset(ROA)
2001	(0.84%)
2002	(3.12%)
2003	0.92%
2004	1.36%
2005	1.43%
2006	1.42%

(Source: Annual report 2006)

Table 3.13 shows the Return on Asset of BRAC Bank Limited. It is observed from the table that First two years of operation, Bank's ROA was negative but in the year 2006 Return on Asset (ROA) is 1.42%.

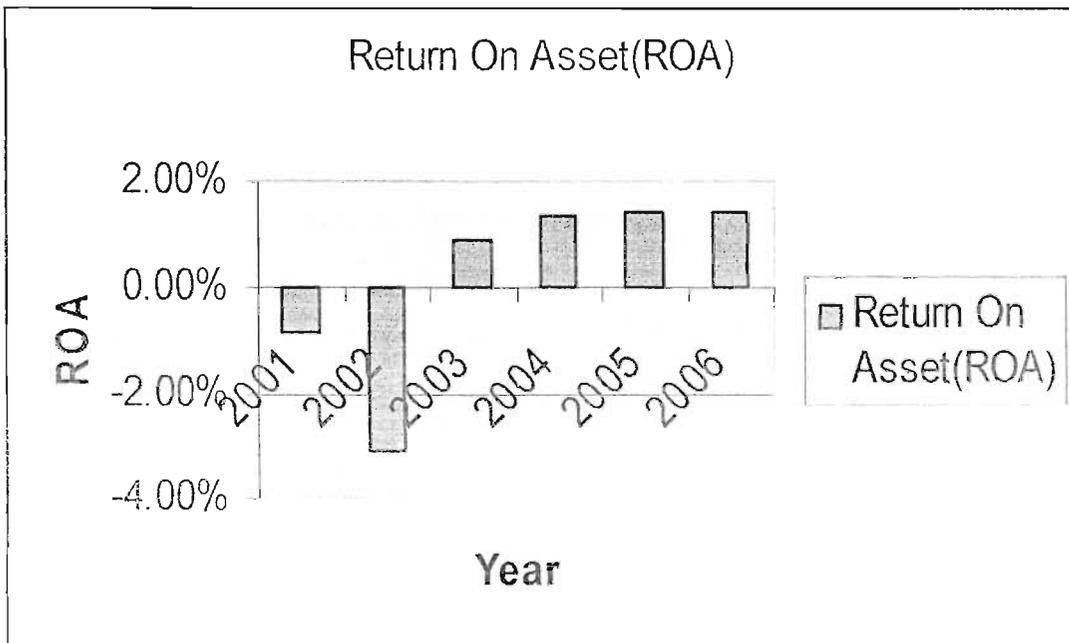


Diagram 3.13: Return on Asset

Chapter-4

An Appraisal of SME Banking Activities of BRAC Bank Limited

- SME Loan
- Why SME Loan
- SME Products
- Discussion of SME Products
- SME Network coverage
- Security Documentation
- Enterprise Selection Criteria
- Guarantor Selection Criteria
- Terms and Conditions of SME Loan
- Monitoring
- Closing procedures of SME loan
- Economic Mapping Survey
- Procedure of BRAC bank SME
- Disbursement of SME loan
- SME Loan Recovery Procedures

4.1 SME Loan

The most valuable natural resource of Bangladesh is its people. As a nation we struggled for our independence and now the attainment of economic uplift is the main goal. Micro lenders are working here in the financial field, providing very small amount and on the other hand regular commercial banks have been providing bigger amount of loans to larger industries and trading organizations. But the small and medium entrepreneurs were overlooked. This missing middle group is the small but striving entrepreneurs, who because of lack of fund cannot pursue their financial uplift, as they have no property to provide as equity to the commercial banks. With this end in view-BRAC Bank was opened to serve these small but hard working entrepreneurs with double bottom line vision. As a socially responsible bank, BRAC Bank wants to see the emancipation of grass-roots level to their economic height and also to make profit by serving the interest of missing middle groups. 50% of its total portfolio usually collected from urban areas, are channeled to support these entrepreneurs who in future will become the potential strength of our economy. BRAC Bank is the market leader in giving loans to Small and Medium Entrepreneurs. They have been doing it for the last five years.

4.2 Why SME Loan

The main focus of BRAC Bank is to develop human and economic position of a country. Its function is not limited only to providing and recovering of loan but also try to develop the economy of a country. So reasons for this program from the viewpoint of BRAC Bank Ltd:

A. Support Small Enterprise

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

B. Economic Development

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

C. Employment Generation

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

D. Profit Marking

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

E. Encourage Manufacturing

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

F. Spread the experience

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

4.3 SME Products

1. Digoon Rin
2. Bizness Account
3. Prothoma Rin
4. Supplier Finance
5. Aroggo Rin
6. Pathshala Rin
7. Opurbo Rin
8. Anonno Rin

4.4 Discussion of SME Products

4.4.1 DIGOON RIN

Eligibility:

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

Maximum Amount: BDT 5 lac to 30 lac

Features

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

4.4.2 BUSINESS ACCOUNT

Eligibility:

- Entrepreneurs Small and medium sized business entrepreneur of a sole proprietorship business
- aged between 18 to 60 years
- Opening balance - BDT-10, 000.00

Maximum Amount: BDT 5 lac to 30 lac

Features

- 4% interest on daily balance
- Smart Business Card
- 24 hour Access to ATMs/ POS
- Tk-50, 000 withdrawn facility (per day) from ATM & Tk-100, 000 from POS
- No Minimum Balance, No Ledger Fees, No hidden cost
- No bar for using POS
- Phone-Banking, Online Banking, SMS Banking, Internet Banking facility
- Interest paid to account twice a year

4.4.3 PROTHOMA RIN

Eligibility:

- Entrepreneurs aged between 18 to 55 years
- Entrepreneurs with minimum 2 years experience in the same line of business
- Minimum 1(One) year of continuous business history

Maximum Amount: BDT 3 lac to 10 lac

Features:

- In case the tenant borrower cannot obtain trade license showing her name as owner of the business, loan can be sanctioned in the personal name of the borrower

- For excellent borrowers who have paid or are paying in due times, we offer discounted rates
- Repay the loan in the method and time period that suits you the best
- Borrower availed any loan in the name of his/her sister concern business loan may be approved if the loan is regularly repaid from the sister concern business

4.4.4 SUPPLIER FINANCE

Eligibility:

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

Maximum Amount: BDT 3 lac to 30 lac

Features:

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

4.4.5 AROGGO RIN

Eligibility:

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

Maximum Amount: BDT 3 lac to 30 lac

Features:

- Loan without mortgage up to 8 lac
- Easy loan processing
- Loan repayment schedule is spread up to 3 years
- 1% loan processing fee
- Flexible interest rate based on security

4.4.6 PATHSHALA RIN

Eligibility:

- A small & medium educational institution that is in operation for minimum 3 years
- The institution should be sole proprietorship, partnership, Private Limited Company, or Society
- The educational institute must be a profit making concern

Maximum Amount: BDT 3 lac to 30 lac

Features:

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

4.4.7 OPURBO RIN

Eligibility:

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

Maximum Amount: BDT 8 lac to 30 lac

Features:

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



4.4.8 ONONNO RIN

Eligibility:

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

Maximum Amount: BDT 8 lac to 30 lac

Features:

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

4.5 SME Network coverage



4.6 Security Documentation

A document is a written statement of facts and a proof or evidence of particular transaction between parties involved. While allowing any disbursements against credit facilities to borrowers, it should be ensured that prior to any disbursements; security documentation is fully and properly completed.

4.6.1 Purpose of Decorate Documentation and its Importance

Documentation is necessary for the acknowledgement of a debt and its terms and conditions by the borrower and the creation of charge on the securities in favor of the bank by the borrower. Correct and proper documentation allows a bank to take legal measures against the default borrowers.

If filing a suit with the courts against a default borrower becomes necessary, the court will first review all documents. If any of the documents is found to be defect or incomplete, the purpose of security documentation will be defeated and a court ruling in favor the bank cannot be expected. Proper care should, therefore, be taken while completing security documentation.

4.6.2 Type of Securities

The following listed securities may be obtained from borrower against loan to enterprises, either individually or in a combination.

It is really up to the bank what they would like to accept as security from the borrower as not all the securities stated below are suitable:

- Mortgage of loan and other immovable property with power of attorney to sell

- Lien of Fixed Deposits receipts with banks and other non-banking financial institutions, lined, these have to confirm by the issuer.
- Lien of Pratirakshay sanchay patra, Bangladesh sanchay patra, ICB unit certificates and wage earner development bond, all considered Quasi or Near cash items
- Lien of shares quoted in the stock exchange (This is rarely accepted)
- Pledge of goods (Banks are akin to stay away from such securities now a days)
- Hypothecation of Goods, Book Debt & Receivables, Plant & Machineries
- Charge on fixed assets of a manufacturing enterprise
- Lien of cheque, Drafts and order
- Lien of work orders, payment to be routed through the bank and confirmed by the issuer.
- Shipping documents of imported goods

4.6.3 Land Related Securities Documentation Process

Each SME unit offices are lilies with at least two local lawyers who will work on behalf of the bank. These always will be employed whenever a borrower and where the security will be landed and immovable property accept a loan sanction. Any one of the lawyers will be provided with photocopies of all the relevant land related documents and while handing over show the original documents to them, the lawyers will carry out checks of the originals and if satisfied returned to the borrower. The documents generally provided are:

- Title Deeds or Deed of conveyance otherwise known as ‘Jomeer Dalil’ which signifies ownership of a particular land.
- Baya Dalil or Chain of Documents, which signifies that the conveyance of titles has been proper and legal.

- Mutation Certificate if Khatian which signifies that the title of the land has been duly registered in the Government/Sub-registrar's records.
- Duplicate Carbon Receipt or DCR
- Latest Khajna or land rent receipt
- Purchase such as CS Khatian, SA Khatian and BS Khatian
- Mouja Map
- Municipal rent receipts if the land falls within a municipal area

The lawyer will then carry out a search at the Sub-registrar of land's office to check if the proffered land is actually registered in the name of the proposed mortgagor and whether the said land is free from any encumbrances. The Sub-register's office, which means that the land or immovable property can be mortgaged to the bank, then the lawyer will provide his own opinion on the acceptability of the property, whether it is legally held and explain the chain of ownership. If all is acceptable, the lawyer will draw up the Mortgage Deed that will be registered, the irrevocable power of attorney to sell the land and the Memorandum of Deposit of Title Deed. The lawyer will have the borrower or the Mortgagor, if different or 3rd party, sign the documents in front of the Sub-registrar of land to register the mortgage, The CRO must ensure that the receipt for the original Mortgage deed must be signed off (Discharged) at the back of the receipt so that the bank may obtain the originals in the future. The borrower will bear all the charges and will pay directly at the Sub-Registrar's office including the cost of the stamp paper required. The cost of the lawyer will also be realized from the borrower by an account payee cheque in favor of the lawyer and handed over to the lawyer straight away.

The charges related to the creation of mortgages and other associated costs are incorporated in a separated sheet and are attached herewith. The CRO will have all other security documents, as sent by SME HO, signed by the borrower and hand carry all the security documents including all the original land documents and deliver those to the credit administration officer who will check the list of documents and receive those

through a check list in writing. The credit administration officer once satisfied will prepare the disbursement memo to disburse the loan.

4.6.4 Mortgage:

I) Equitable Mortgage or Memorandum of Deposit of Title Deeds

It is created by a simple deposit of title deeds supported by a Memorandum of Deposit of Title Deeds along with all the relevant land documents. All the searches and verification of documents as stated above must be carried out to validate the correct ownership of the property. This deed also provides the bank power to register the property in favor of the bank for further security, if needed.

ii) Registered Mortgage

It is created by an execution of a Mortgage Deed registered irrevocably in favor of the bank at the Sub-Registrar of land's office. This virtually gives the bank the right to possess and sell if accompanied with a registered irrevocable power of attorney to sell the property executed by the owner of the property, in case of default.

4.6.5 Basic Charge Documents

I) Sanction Letter

Once a loan is approved, the borrower is advised by a 'Sanction or offer letter' which states the terms and conditions under which all credit facilities are offered and which forms an integral part of their security documentation. If the borrower accepts, then a contract between the bank and the borrower is formed and which both parties are obligated to perform. Accordingly, all other charge documents and securities are drawn up and obtained. A standard sanction letter is attached herewith. All documents shall be stamped correctly and adequately before or at the time of execution. An un-stamped or insufficiently stamped document will not form basis of suit. Stamps are of 4 (four) kinds. These are Judicial, Non-judicial, Adhesive and embossed impressed. Documents to be executed (Signed) by the borrowers concerned must be competent to do so in official capacity.

Following precautions should be taken at the time of execution of the security documents:

- The signature on the documents should be made in the presence of the CRO. The CRO should sign as witness on all charge documents.
- The documents are to be filled in with permanent ink or typed
- If the document consists more than 1 page, the borrower should sign on each page
- If the signature of any third party is required to be obtained whose specimen signature is not available, then the main applicant should verify the specimen signature of the third party
- No document or column in any document should remain blank
- As far as possible there should be no erasure, cancellation or alteration in the document. If, however, there is any correction, overwriting or alteration, then that must be authenticated by a full signature of the signatory.

After stamping and execution of documents, the question of registration comes up. However, not all documents are required to be registered.

For the extension of any type of credit/loan facility, the following loan documents, which are considered basic, should be obtained from all borrowers:

- Demand Promissory Note
- Letter of Continuity (This is not always taken if there is only loan disbursement)
- Letter of Arrangement
- General Loan Agreement
- Letter of Disbursement
- General Loan Agreement
- Letter of Disbursement; Basically a letter requesting disbursement of the loan
- Letter of Installment, in case the facility is to be repaid in installment

4.6.6 Other Basic Charge Documents

1) Demand Promissory Note (DP Note)

It is a written promise by a borrower to pay the whole amount of existing or future loans/credit facilities on demand. It also gives the banks power to ask the borrower to repay the loan amount with interest without any prior notice. Section 4 of the Negotiable Instrument Act 1881 defines a promissory note as an instrument in writing, signed by the maker, to pay a certain sum of money only to, or the order of, a certain person, or to the bearer of the instrument, following precautions are to be taken while preparing a promissory note. Type the amount of the credit facility/loan in words and in figures. Type the rate of interest for the loan, which the borrower will subject to verify the signature of the borrower.

ii) Letter of Continuity

This instrument is used in conjunction with the demand promissory note. This is to secure rights of recovery for existing and future credit facility, which are advanced in parts or on a recovery basis. Loan accounts may from time to time be reduced or even the balance in the said loan account may be in credit so this instrument, validates the said D.P Note, for making further drawings under the facility continuously possible.

iii) Letter of Arrangement

This is a right given by the borrower to the bank to cancel the facility at any time without having to assign any reason. This is also an acknowledgement by the borrower that the credit facility has been approved in his favor and the borrower has to execute all necessary documents to avail credit facility

iv) General Loan Agreement

A loan agreement is an agreement of contract stating the general terms for the extension of a loan or credit facilities. The General loan agreement sets out the general standard terms and conditions governing the existing or future extension of loan or credit facilities to the borrower.

v) Letter of Disbursement

This is simple a letter requesting disbursement of the loan/credit facilities at the agreed rate of interest.

4.6.7 Other Security Documents

I) Letter of Undertaking

This is a Deed of agreement executed by the borrower agreeing to commit to carry out any or a particular obligation to avail of loan/credit facility.

ii) Letter of Hypothecation of Goods & Stocks and Book Debt and Receivable

These letters Hypothecation are actually two different sets of documents but because of their similarity, these are being explained together. These documents create an equitable or floating charge in favor of the bank over the goods and services and/ or book debts and receivables that are being financed where neither the ownership nor the possession is passed to the bank. Under this agreement, the borrower undertakes to keep the present stock of goods and that, which may increase from time to time in good condition in future, in good condition. This hypothecation gives the bank the power to possess and sell the mentioned goods and stocks or claims the book debts directly from the debtors in order to settle the borrower's dues to the bank.

iii) Letter of Hypothecation of Plant & Machinery

Under this agreement, the Borrower undertakes to keep the present plant and machinery at the present location in good condition and which gives the bank the power to possess and sell the mentioned plant and machinery to meet the borrower's dues to the bank. In case of limited company, both private and public, these Letters of Hypothecation with schedules are usually registered with the Registrar of Joint Stock of Companies (RJSC) that provides more security to the banks.

iv) Letter of Lien

A lien is the right of one person to retain property in his hands belonging to another until certain legal demands against the owner of the property by the person in possession are satisfied. Thus a bank or a creditor who has in its possession a lien over the goods in respect of the money due by the borrower, as a general rule has the right to exercise

certain powers to hold on to the security. In addition, if the bank has right to set off the value of the said goods or instrument in its possession, then the bank can sell the goods or encase the instrument to liquidate the dues by the borrower.

v) Right to Set Off

This deed of agreement gives the bank the right to offset the value of the goods or financial instrument in its possession and which has been discharged by the owner of that asset, against dues owned by the borrower.

vi) Letter of Disbursement

This agreement gives the bank the right to possess goods and other assets in rented or leased premises of the borrower despite the fact that owner of the premises may be unable to realize dues from the borrower himself.

vii) Personal Guarantees

This is a guarantee of a person or third who is not the direct beneficiary of the loan/credit facility but is equally liable for the loan. The involvement of a 3rd party creates additional pressure on the borrower to minimize the risk. The guarantor is the person who has to pay the entire outstanding loan and interest if the borrower fails to pay for any reason.

4.7 Enterprise Selection Criteria

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

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

4.8 Guarantor Selection Criteria

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

1. The guarantor must have the ability to repay the entire loan and is economically solvent (Check his net worth)
2. The guarantor should be aware about all the aspect of SEDF loan and his responsibility

3. Govt. and semi-govt. officials can be selected as a Guarantor such as schoolteacher, college teacher, doctor etc.
4. Police, BDR and Army persons, political leaders and workers, and Iman of mosque cannot be selected as a guarantor.
5. The guarantor should know the entrepreneur reasonable well and should preferably live in the same community

4.9 Terms and Conditions of SME Loan

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

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

Table: 4.1 Loan Processing fee

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

Source: SME Unit Office, Jessore

- Loan can be repaid in two ways:
 - a) In equal monthly loan installment with monthly interest payment, or
 - b) By one single payment at maturity, with interest repayable a quarter end residual on maturity

- Loan may have various validates, such as, 3 months, 4 months, 6 months, 9 months, 12 months, 15 months, 18 months, 24 months, 30 months and 36 months.
- The borrower must open a bank account with the same bank and branch where the SME has its account
- Loan that approved will be disbursed to the client through that account by account payee cheque in the following manner: Borrower name, Account name, Banks name and Branch's name
- The loan will be realized by 1st every months, starting from the very next months whatever the date of disbursement, through account payee cheque in favor of BRAC Bank Limited A/C. With Bank's named and branches name
- The borrower has to issue an account payable blank cheque in favor of BRAC Bank Limited before any loan disbursement along with all other security.
- The borrower will install a signboard in a visible place of business of manufacturing unit mentioned that financed by "BRAC Bank Limited".
- The borrower has to give necessary and adequate collateral and other securities as per bank's requirement and procedures.
- SME, BRAC Bank may provide 100% of the Net Required Working Capital but not exceeding 75% of the aggregate value of the Inventory and Account Receivables. Such loan may be given for periods not exceeding 18 months. Loan could also be considered for shorter periods including one time principal repayment facility, as stated in loan product sheet.

- In case of fixed asset Financing 50% of the acquisition cost of the fixed asset may be considered. While evaluating loans against fixed asset, adequate grace period may be considered depending on the cash generation after the installation of the fixed assets. Maximum period to be considered including grace period may be for 36 months.

4.10 Monitoring

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

4.10.1 Importance of Monitoring

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

4.10.2 Area of Monitoring

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

A. Business Condition

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

B. Production

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

C. Sales

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

D. Investment

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

E. Management of raw materials

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

4.10.3 Monitoring System

A. The CRO can consider the following things for monitoring

The CRO will monitor each business at least once a month. He/she will make a monitoring plan/ schedule at beginning of the month

During monitoring the CRO must use the prescribed monitoring form and preserve in the client file and forward a copy of the report to SME head office immediately.

B. An SME branch will maintain the following files

The file will contain

Purchase Receipt,

Delivery Memo's,

Quotations

In addition, all other papers related to furniture and fixture procurement

C. Other fixed assets and refurbishment

All fixed assets and refurbishment related papers such as purchase receipt, Delivery memo's, Quotation, Guarantee and Warrantee papers, Servicing related papers and any other paper related to fixed assets and refurbishment will be in this file.

D. Lease agreement file

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

E. Individual client file

Individual files are to be maintained for each borrower and will hold loan application, Loan Proposal, Copies of Loan Sanction Letter, Disbursement Memo, Monitoring

Report, CIB application and Report, Credit report from other bank and all other correspondents including bank receipt.

F. Statement file

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

G. Office instruction file

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

H. Operating instruction and guideline files.

All kind office instruction and guidelines related to operating should be kept in this file

I. New forms introduction file

All minutes of meeting, whenever held, should be kept in this file.

J. Security documents and legal aspect file

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

K. Survey form file

After conducting survey, all survey will be kept in this file chronological.

4.11 SME Banking System

- Every SME unit office will have a current account with a designate bank in the area of a unit office. This bank account will be opened and operated by SME head office.
- To meet petty expense such as stationary, entertainment and other incidental expense, all unit office will be allowed patty cash of Tk. 2000/=
- The cheque of this patty cash will be issued from SME head office in the beginning of the month. All vouchers relating to such expenses should be send to the accounts from SME head office
- All the clients must open their account with the same bank account on the same day after receiving those from the borrowers, who should given a received as prescribed.
- Cheques should be deposited to the SME unit office bank account on the same day after receiving those from the borrowers, who should given a receipt as prescribed.
- Any loan installment credit should be transferred to the SME head office account in Gulshan, Dhaka on the same day as per agreement with bank.
- Every CRO should have an individual account in the same bank branch for their personal use and to receive their salaries and other benefits.
- Payment of lease rentals, utility bills and cheque drawn on the SME unit office bank account and issued by SME head office should pay other expenses (Large amount). If these bills are small amount, they should be paid from the patty cash and replenished later.

- All the financial accounting entries will be passed at the SME head office and will maintain separately on the basis of the unit office.

4.12 Economic Mapping Survey

After starting a SME, unit office in a new area the CRO will conduct a survey of the business. The objective of the survey is to collect relevant information about the business, which will help to select potential business for SME loans.

4.12.1 Mapping and Survey Method

To conduct the economic mapping and survey properly, the following process should be followed:

- The CRO will prepare a physical map of his working area showing main roads, businesses, markets, and industrial locations. In this map, the CRO will show different kinds of business in different colors. This map will show the approximate location of all kinds of business within the area and it will be kept on the display board at the SME unit office.
- The CRO will drive his total working area into several clusters, if possible, after that he will conduct the survey cluster wise. After completing one cluster, the CRO will start surveying another cluster.
- At the beginning of the survey, the CRO will screen out business that does not need loans over 2 lacs.

- After the survey, CRO will preserve the survey form cluster wise in a separate file. Based on the survey, the CRO will identify the potential businesses to pursue those for SME loans.
- Therefore, CRO will approach the potential borrowers immediately to process loan application

For initial assistance, CRO may approach

- BRAC office
- Trade Associations and Chambers
- Local govt. office like UNO and Municipal office

Once potential borrower is formally approached, then all details should be incorporated in the client register as per the prescribed format.

4.13 Procedure of BRAC bank SME

4.13.1 Loan Sanction activities:

- **Select potential enterprise:** For SME loan, in this step the CRO conduct a survey and identify potential enterprise. Then they communicate with entrepreneurs and discuss the SME program.
- **Loan Presentation:** The function of CRO is to prepare loan presentation based on the information collected and provided by the entrepreneur about their business, land property (Where mortgage is necessary)
- **Collect confidential information:** Another important function of a CRO is to collect confidential information about the client from various sources. The sources of information are suppliers regarding the client's payment, customers regarding the delivery of goods of services according to order, various banks where the client has account, which shows the banks transactions nature of the client.
- **Open clients accounts in the respective bank:** When the CRO decided to provide loan to the client then he/she help the client to open an bank account where BRAC bank has a STD a/c. BRAC bank will disburse the loan through this account. On the other hand the client will repay by this account. Although there is some exception occur by the special permission of the authority to repay by a different bank account.
- **Fill up CIB form:** CRO give a CIB (Credit Information Burue) form to the client and the client fill and sign in it. In some case if the client is illiterate then the CRO fill the form on behalf of the client. Then CRO send the filled and signed form to the SME, head office.

- **Sending CIB to Bangladesh Bank:** The SME, head office collects all information and sends the CIB form to Bangladesh Bank for clearance. Bangladesh Bank return this CIB form within 10-12 days with reference no.
- **CIB report from Bangladesh Bank:** In the CIB report Bangladesh Bank use any of the following reference no:
 1. **NIL:** if the client has no loan facility in any bank or any financial institution then BB (Bangladesh Bank) use 'NIL' in the report
 2. **UC (Unclassified):** if the client has any loan facility in any bank or financial institution and if the installment due 0 to 5.99 then BB use UC in the report
 3. **SS (Substandard):** if the client has any loan facility in any bank or financial institution and if the installment due 6 to 11.99 then BB use SS in the report
 4. **DF (Doubtful):** if the client has any loan facility in any bank or financial institution and if the installment due 12 to 17.99 then BB use DF in the report
 5. **BL (Bad lose):** if the client has any loan facility in any bank or financial institution and if the installment due 18 or above then BB uses BL in the report. This report indicates that the client is defaulter and the bank should not provide loan the client.
 6. **Loan decision considering CIB report:** Considering CIB report, BRAC bank decide whether it will provide loan the client or not. If the bank decides to provide loan then the SME of head office keep all information and send all papers to the respective unit office to apply with all necessary charge documents.

4.13.2 Loan Sanction

The respective unit office sanctions loan to the client if it is 2 to 5 lacs, and then sends the sanction letter including all necessary charge documents to the loan administration division for disbursing the loan. If the amount is higher than 5 lacs then the respective unit office sends the proposal to SME, head office for sanction. The head of SME sanctions the loan and sends the sanction letter including all documents to the loan administration division for disbursement and inform the respective unit office regarding sanction of the loan.

4.14 Disbursement of SME loan

4.14.1 Pre Disbursement Manual Activities

- **Prepare loan file:** Receiving all documents, Loan Administration Division prepare a loan file with all documents received from the unit office.
- **Charge documents checking:** The loan administration division checks all charge documents. Following charge documents are checked:
 1. Money receipt (Risk fund).
 2. Sanction letter.
 3. Demand promising note (With stamp of Tk 20/=)
 4. Letter of arrangement (With stamp of Tk 150/=)
 5. General loan agreement (With stamp of Tk 150/=)
 6. Letter of undertaken (With stamp of Tk 150/=)
 7. Letter of stocks and goods (With stamp of Tk 150/=)
 8. Letter of hypothecation book debt and receivable (With stamp of Tk 150/)
 9. Letter of disbursement
 10. Photocopy of trade license (attested by CRO)
 11. Insurance (Original copy)
 12. Blank claue with signature (one cheque for full amount and others same as no of installment on Favor of BRAC bank, no date, no amount)
 13. Two guarantors (one must be Spouse/parents)
 14. If the loan provide for purchase of fixed assets or machineries and if the loan amount is over Tk 50,000/= then the stamp of a certain amount is require)

- **Documents deficiency and problem resolving:** If there is any error found then it informed to the respective CRO. If the application form is not filled properly then the file send to the CRO to fill the application properly. If any document error found then the loan administration division asked the CRO to send the require documents and the file stored to the loan administration division.
- **Prepare disbursement list:** The loan administration division lists all new sanctioned clients' details and send a request to the treasury through internal mail.
- **Disbursement of the amount:** Sending the list to the treasury of BRAC bank for disburse the amount, the treasury disburse the amount to the client through the mother account of the clients bank. BRAC bank disburse amount through any of the following banks corporate branch nearer the BRAC bank head office and the corporate branch of the respective bank send the amount to the client account in the respective branch. These banks are:
 1. BRAC Bank Limited
 2. The City Bank Limited
 3. Janata Bank
 4. Bangladesh Krishi Bank
 5. Pubali Bank
 6. Agrani Bank

Message sent to the unit office: Completing the disbursement, loan administration division sent a SMS to the respective CRO informing the disbursement of the sectioned loan.

4.14.2 MBS (Banking Software) entries for loan disbursement

- **Initial ID generation:** After sending the list to the treasury, the loan administration division generates an initial ID against the borrower. Entering required information, the banking software MBS automatically provide an ID no for the borrower.
- **Loan account opening:** According to the ID, the loan administration division opens a loan account in MBS against the borrower. Entering all required information, the MBS automatically give an account no. For the borrower.
- **Cost center assign:** The loan administration division enter the following information in MBS:
 1. Security details set-up
 2. Guarantor details set-up
 3. Loan other details set-up
- **Risk fund collection:** The loan administration division opens a different account risk fund of the client. This is known as loan processing fees. Receiving the risk fund, the loan administration division prints voucher and posting the voucher in the MBS. The amount of risk fund is not refundable.
- **Activision of the loan:** Loan administration division do the following tasks to activate the loan
 1. Loan sanction details set-up
 2. Repayment schedule set-up and printing
 3. Loan activation
 4. Disbursement and CC wise voucher print
 5. Disbursement voucher posting

4.14.3 Post Disbursement Manual Activities

Repayment schedule sent to unit office:

Completing the disbursement of the sanctioned amount the loan administration division prepare a repayment schedule in MBS and send it to the unit office. CRO from the unit office collect it and reached to the respective client. The client repays the loan according to this schedule.

Loan details MBS entry:

The loan administration division enters details information regarding the loan in MBS. Each officer has an ID no in MBS and if there is any error found then the respective officer would be responsible for it. So every body remain alert at the time of MBS entry.

Document stamp cancellation:

The loan administration division cancels all document stamps. In future if any client found defaulter and the bank file sued against him then stamps of these document help to get the judgment favor of the bank. But If these stamps are not canceled then the judgment may not on favor the bank.

Send the loan file to archive:

Completing all activities, loan administration division sends the loan file to the archive for future requirement. In future if any document of the loan account requires then the bank can collect the file from archive and get the necessary document. If the clients take repeat loan then it is not require applying all documents because his all documents stored to the bank.

4.15 SME Loan Recovery Procedures ,

The repayment process starts immediately after one month of the loan taken. Suppose if a loan is taken in July 7, 2007 then the repayment process will be started from August 7, 2007 and the borrower will pay his/her first installment in that date. Before that date, the borrowers will be informed about the number of installments and amount of each installment. He can deposit the installment by himself or by the Customer relationship officer (CRO). Again they can deposit the installments either in any branch of Brac Bank or in any correspondence bank (where Brac Bank has no branch). If the borrower cannot pay the installment in the stipulated date, interest will be charged for each day before they pay that installment. Again interest will be reduced if the borrower pays the installment before the date of repayment. Interest will be charged and added to the principal amount for every month or every 3 three months depending on the policy for each loan disbursement.

How ever, after the borrower repays the loan installments there are number of steps done in the repayment procedure of SME loan. These steps are:

4.15.1 Receive SMS/Fax for installment deposits

When the borrower repays any installment of the loan then he/she informs it to the unit office/CRO. Then the unit office/CRO sends an SMS through mobile phone or a Fax to the loan administration division informing the repayment. A loan administration division collects these SMS /Fax and takes a paper print of these SMS.

4.15.2 Entry the installment information to MBS

Loan administration division entries the repayment installment information to the banking software MBS.

4.15.3 Print Vouchers

Completing the entry, the loan administration division takes paper print of all vouchers in a prescribed yellow paper.

4.15.4 Check SMS/Fax and solve problems (If any)

The loan administration is responsible for all entry in MBS. If there is any error found in future then the respective officer who is entering this information in MBS will be liable for it. User ID will easily identify it. So they are always aware of to ensure the correct entry. Completing the entry of information, they print a hard copy and check it with the SMS/Fax. If there is any error found then it is solved and ensures the correct information entry.

4.15.5 Repayment voucher check and posting

If it confirmed that all entering information is correct and there is no error, then the responsible officer of the loan administration division posts it to MBS. If one time posted, it is not rectifiable without permission of the higher authority. So the loan administration is always aware of regarding the recovery procedures of SME loan.

4.16 Closing procedures of SME loan

4.16.1 Pre-Closing Manual Activities

A. Receive SMS/Fax requesting for closing:

The borrowers repay the loan as per repayment schedule. When the repayment is being complete the borrower request the unit office/CRO to close his loan account. The unit office/CRO sends a SMS/Fax the loan administration division requesting to close the loan account of the respective borrower.

B. Print the SMS/Fax:

Receiving the request from the respective unit office/CRO, the loan administration division takes a paper print and takes necessary steps to close the account.

C. Bring the loan file from archive:

The loan account file of the respective borrower is brought from the archive. And the documents of file are checked with MBS record.

D. Obtained approval from the concern authority:

It is require the permission of concerned authority to close the loan. If concerned authority approved the closing of the loan account then next initiatives are taken.

E. Checking in MBS:

The loan administration division checks the loan status in MBS. If there is any difference found with the SMS/Fax from unit office and MBS then deposits sleeps are re-checked. Then the loan administration division calculates the total balance of the loan account (Ledger balance + buffer interest +Excise duty)

F. SMS sent to concerned CRO:

Loan administration division sent an SMS to the concerned CRO informing the current balance of the requested loan account.

G. Receive and print closing SMS/Fax checking & freezing:

The concerned CRO send a final SMS to loan administration division informing that the respective borrower cleared all his liabilities regarding the loan. The loan administration division takes paper print of the SMS, check it and finally close the loan account.

4.16.2 MBS entries for Loan Closing

Pre closing data entry: Completing the manual activities, the loan administration division enters some information to MBS for future requirement and complete following tasks:

1. Interest/provision charging & print voucher
2. Charges collection & print voucher
3. Final repayment entry & print voucher
4. Final repayment entry checking
5. Repayment voucher posting

Activate account closing in MBS:

Completing above mentioned tasks, the loan administration division finally close the requested loan account in MBS.

4.16.3 Post closing manual activities:

A. Re-checking with deposit slip:

Completing MBS activities, the loan administration re-checks all deposit slips of the loan account. If there is any error found then it is immediately resolved, otherwise the file sends to the archive for future requirements. The client may take repeat loan in future and then information from this file will help to approve and disburse loan, which will minimize risk. If the client asks to return security then the loan administration releases security completing following tasks:

- Documents photocopy before security release
- Closing certificate issuing and security release

B. Daily MIS updating for loan closing:

Finally the authorized officer of the loan administration division update the banking software MBS (Millennium Banking System) by closing the respective loan account.

Chapter-5

P problems & Recommendation

- Problems of SME Loans
- Conclusion & Recommendation

5.1 Problems of SME Loans

- There is no specific ratio of resources for growth of SME business.
- Monitoring system is not very strict.
- There is no continuous monitoring for recovery of the loan.
- Whether the borrowers are utilizing the loan on the right purpose or not, would not be ensured.
- Some Customer Relationship officers are not enough comprehensive and realistic, so that customers face various troubles while getting and repaying the loan.
- There is not any complete database which identify the default customers, So that Banks can not stop them (default customer) giving SME Loan.

5.2 Conclusion & Recommendation

BRAC Bank Limited promotes broad-based participation in the Bangladesh economy through the provision of high quality and modern banking services. SME loan is one of such quality product through which they offer the small and mediocre entrepreneurs a quality banking service and earn the maximum profit as well. The recovery rate of this loan is 97% which is extremely good in comparison to any other bank's recovery rate. BRAC Bank Ltd has made it possible as the loan is given to experienced, small and mediocre entrepreneurs most of whom are middle aged, slightly educated and having moderate income and this class of people is very loyal. But they can serve this class of customers with more commitment and loyalty and they can turn the recovery rate to 100%. For this they can make the following policy implications:

- Redefine mission/vision towards achievement of "Double Bottom-line".
- Commit resources specifically for growth of SME business.
- Implement strict and continuous monitoring system of the whole recovery process.
- Train the Customer Relationship officers more comprehensively and realistically so that customers may not face any trouble while getting and repaying the loan.
- Analyze customers' behavior that what type of customer makes default and stop giving them SME loan.
- Risk Management department's audit report should be more strict and reliable. So that possible defaulter may not get the loan.
- Whether the borrowers are utilizing the loan on the right purpose should be ensured.

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