

An Internship Report on
**The Prospects of SME Loan in
Bangladesh: In the Context of
BRAC BANK LTD.**

Submitted to
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Subject: Submission of the Internship report.

Dear Sir,

Here is the report on "The Prospects of SME Loan in Bangladesh: In the Context of BRAC BANK LTD.", you asked to prepare and submit as a part of internship curriculum.

As you know that I have completed my internship from BRAC Bank Ltd. from 08 May 2007 to 07 August 2007. This report focuses on the over all performance of SME Loan of the bank that I had attached with.

While preparing this report, I focused closely on the topic and tried to correlate with my practical work experience. I believe that it will provide you a clear scenario of my work with SME loan, along with the BRAC Bank Ltd.'s over all performance and activities.

I have gathered an excellent work experience from a superb environment of The BRAC Bank Ltd. This internship program benefits me in another way. It has helped me to bridge the gap between the classroom learning and the practical scenario regarding the practice of official work in the real world, which was a primary motive to go through this program.

Sincerely

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TABLE OF CONTENTS

Table of contents	II-IV
Executive Summary	V-VII
Acknowledgement	VIII
1.0 Introduction	1-5
1.1 Introduction	1
1.2 Origin of the Report	1
1.3 Objective of the Report	2
1.4 Scope	3
1.5 Methodology	3
1.6 Limitations	4
2.0 Overview of BRAC Bank Limited	6-37
2.1 An overview of BRAC Bank Limited	6
2.2 Vision	8
2.3 Mission	9
2.4 Goals	9
2.5 Objectives	10
2.6 Bank's Culture	11
2.7 Bribes & Inducements	11
2.8 Management of BRAC Bank Limited	11
2.9 Functional Divisions	12
2.9.1 Corporate Banking Division	12
2.9.2 Trade Service Division	13
2.9.3 Human Resource Division	13
2.9.4 Audit & Compliance Division	13
2.9.5 Credit division	13
2.9.6 Finance and Accounts Division	14
2.9.7 International division	16
2.9.8 Information Technology Division	16
2.9.9 Consumer Banking	16
2.10 Business Units	17
2.11 Products and Services	17
2.12 Branches	33
2.13 Performance of BRAC Bank Limited	33
2.14 Capital Fund	33
2.15 Financial Aspects of BRAC Bank Limited	34
2.15.1 Investment Function	34
2.15.2 Broad performance indicators	36
3.0 SME and BRAC Bank Ltd	38-101
3.1 Small & Medium Enterprise (SME) Banking	38
3.2 SME products	38
3.3 Basic Appraisal of Small &Medium Enterprise	45
3.3.1 Management and personal aspects	45
3.3.2 Technical Aspects	46
3.3.3 Marketing Aspects	46
3.3.4 Financial Aspects	46
3.3.5 Socio Economic Aspects	47
3.3.5 Security Aspects	47

3.4	Organizational Layout of BRAC Bank SME Loan	47
3.5	SME Activities In Terms Of Market	48
3.6	Security Documentation against Loan	49
3.7	Selection of Potential Enterprise for SME	57
3.7.1	Enterprise Selection Criteria	57
3.7.2	Entrepreneur Selection Criteria	57
3.7.3	Guarantor Selection Criteria	58
3.8	Terms and Conditions of SME Loan	58
3.9	Monitoring	60
3.9.1	Important of Monitoring	60
3.9.2	Area of Monitoring	60
3.9.3	Monitoring System	61
3.9.4	Banking System	63
3.9.5	Economic Mapping Survey	64
3.9.6	Mapping and Survey Method	64
3.10	Customer Handling	65
3.11	Macro Environmental Analysis	66
3.11.1	Demographic Environment	67
3.11.2	Economic Environment	67
3.11.3	Social Environment	68
3.11.4	Political Environment	68
3.11.5	Technological Environment	69
3.11.6	Ecological Environment	69
3.12	Micro Environmental Analysis	69
3.13	Industry Analysis: SME facility of BRAC Bank	71
3.13.1	Threat of New Entrant	71
3.13.2	Growth in the Industry	72
3.13.3	Competitors	73
3.14	SME Relates With the Modern Marketing Concept	74
3.15	Strategic Planning	75
3.16	Market Segmentation	76
3.17	Target Consumer	78
3.18	Target Market	79
3.19	Market Positioning	80
3.20	Marketing Strategies for Competitive Advantages	81
3.21	Developing Marketing Mix	81
3.22	Managing the marketing effort in terms of SME	84
3.23	Department Structure	86
3.23.1	Department Activities	86
3.23.2	Purpose & Scopes	87
3.24	Loan Sanction Activities	88
3.25	Disbursement of SME Loan	90
3.26	SME Loan Recovery Procedures	93
3.27	Closing procedures of SME loan in BRAC Bank	94
3.28	Key Performance Indicator of AOD	96
3.29	Comparative Status of Manpower	97
3.30	Comparative View on CIB Report	97
3.31	Risk Factors	98
3.32	Mitigation Process of Asset Operations Department	100
4.0	Appraisal of Financial Performance	102-112
4.1	Financial Risk and Capital Structure	102
4.1.1	Asset Quality	102

4.1.2	Capital Adequacy Ratio (CAR)	103
4.1.3	Change in Capital Structure	104
4.2	Industry Concentration on Loan	105
4.3	Profitability Ratio	105
4.3.1	Earning Assets Ratio	105
4.3.2	Revenue-Expense Ratio	106
4.3.3	Fees Income to Total Income ratio	108
4.4	Assets Quality Ratio	108
4.4.1	Risk Assets to Total Assets ratio	108
4.4.2	Unsecured Advance to Total Advance ratio	109
4.4.3	Liquid assets to Deposit ratio	110
4.4.4	Advance to Deposit ratio	110
4.5	Other Ratios	111
4.5.1	ROA	111
4.5.2	ROE	112
4.5.3	EPS	112
5.0	SWAT Analysis	114-118
5.1	Strengths	114
5.2	Weaknesses	116
5.3	Opportunities	116
5.4	Threats	117
6.0	Findings	119-121
6.1	General Problems of BRAC Bank	119
6.2	Problem related to SME loan	120
7.0	Recommendations & Conclusion	122-124
7.1	Recommendations	122
7.1.1	General suggestions of BRAC Bank	122
7.1.2	Suggestions related to SME loan	123
7.2	Conclusion	124
Annexure		
ANNEX-1	Bibliography	A-1
ANNEX-2	BS and IS for BRAC Bank	A-2
ANNEX-3	Process Flow AOD Work Process	A-3
ANNEX-4	SME Network Coverage	A-4

EXECUTIVE SUMMERY

BRAC Bank Limited is a scheduled Commercial Bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as Private Limited Company on May 20, 1999 under the Companies Act, 1994. Its operation started on July 4, 2001 with a vision to be the market leader through to providing all sorts' support to people in term of promoting corporate and small entrepreneurs and individuals all over the Bangladesh. BRAC Bank will be a unique organization in Bangladesh. The bank consist of major divisions named 1) Corporate banking, 2) Retail banking, 3) Treasury, 4) Small & Medium Enterprise (SME). At present the Bank operating its business by 26 Branches. BRAC Bank is the first local commercial banks that proving online banking service to its customers from the very beginning of its starts. BRAC Bank, for the first time among local commercial banks, starts providing loan facilities to small and medium trading, manufacturing and service oriented enterprises all over the country. The Bank has already established its network in different area of the country with assistance of BRAC. As an intern I was assigned to scrutinize the SME loan facility

BRAC Bank is trying to develop economic condition of the country. So the bank provides loan facility 3 to 30 lacs taka to that small and medium enterprise that has no easy access to banks/financial institutes. The bank already established 36 Zones and 900 unit offices all over the country. There are 1185 Customer Relation Officers (CRO) providing door-to-door service to clients. Till December 2006, the bank provides loan facilities to 46000 clients which amount is Tk. 1909.64 crore. Average loan size is Tk. 4.16 lacs. The success of SME will largely depends on the selection of a business and man behind the business. BRAC Bank provides this facility to those whose business operation is minimum one year and environment friendly business. It provides no loan facility to tobacco business. The business should be

legally registered and must have valid trade license. The entrepreneur should be physically able, preferably between the ages 25 to 50.

He/She must have the necessary technical skills to run the business and acceptable social standing in the community i.e. people should speak highly of him/her. BRAC Bank gives equally important to the guarantor to getting the SME facility. The guarantor must have the ability to repay the entire loan and is economically solvent. The guarantor should know the entrepreneur reasonable well and should preferable live in the same community. SME loan can be repaid in two ways, 1) In equal monthly loan installment with monthly interest payment. 2) By one single payment at maturity, with interest repayable a quarter ends residual on maturity. Customer relation officers search new potential customer by providing door-to-door service. They talk with clients and monitor their manners, activities of their business and provide the loan to the potential customers. SME, BRAC Bank may provide 100% of net required working capital but not exceeding 75% of the aggregate value of the inventory and account receivable. Normally, organizations meet their working capital from over draft loan but BRAC Bank designed the loan to meet working capital but as term loan which is repaid in installment. The customer relation officers also monitor the borrowers activities after the loan disbursement. Monitoring also facilitates the build up of an information base for future reference.

Asset Operation Department acts as the last line defense of the bank. This division is responsible for the complete disbursement, recovery and closing procedures. The procedures start from the sanction of the SME loan. The respective select potential enterprise, collect confidential information about the enterprise, open clients account in the respective bank where BRAC Bank has its own account, filled up CIB form and send it to the Asset Operation Department. Then the Asset Operation Department starts its activities. The Asset Operation Department sends the CIB form to the Bangladesh Bank to know the CIB status of the applicant. If the report found clean then it send back to the unit office for send proposal for the loan. Then the unit office sanction loan and send it again in Asset Operation Department for disbursement. The Asset Operation Department then prepare a loan file and

checks all necessary documents, prepare a list and disburse it. Then the Asset Operation Department starts enter all information regarding the loan in the banking software "Millennium Banking System (MBS)" which includes initial ID generation, loan account opening, and risk fund collection, activation of the loan.

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

The core competence of the BRAC Bank is to provide the fastest loans to the clients in this country. To retain this competitive advantage BRAC Bank would provide computer and palmtop facilities whether they can give fastest services to clients than other banks. Also to convey the customer focus, BRAC Bank is trying to reduce collateral securities than other banks. It provides more collateral free secured loans to capture the market. Regarding the services by the CRO, almost all clients are satisfied by get these quick facilities from them. Though it is pioneer division of this bank, I tried to give an in-depth analysis for every factor, which relates the SME division from the perspective of customer satisfaction and dissatisfaction.

ACKNOWLEDGEMENT

In the context of rapidly changing global scenario, the importance of practical knowledge can no longer be ignored. In this view, School of Business, East-West University always encourages the students for improving their skills and efficiency.

I am, in fact in learning process and this internship report certainly enriched my learning with a lot of potential knowledge, which is not available in the traditional system of education. Thus, I am happy to place our deep sense of gratitude to my supervisor Dr. Tanbir Ahmed Chowdhury for arranging the opportunity of internship in BRAC Bank Ltd. And also for his cooperative approach and initiatives that enabled me to taste such an outstanding experience.

I also express my profound sense of gratitude, indebtedness and sincere thanks to my reporting manager Mr. Shah Alam Bhuiyan, SAVP & Head of Asset Operations Department, and especially to Mr. Faruk, CFO for giving their expert guidance, support, encouragement and valuable suggestions throughout the report which was very essential to make this report successful.

Finally, I express my sincere gratitude to the persons I met, who helped me a lot by providing valuable information along with enough articles and theory while preparing this internship report.

CHARTER: 1

1.0 INTRODUCTION

1.1 Introduction

BRAC Bank Limited is a scheduled commercial bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as private limited company on May 20, 1999 under the Companies Act, 1994. Its operation started on July 4, 2001 with a vision to be the market leader through to providing all sorts support to people in term of promoting corporate and small entrepreneurs and individuals all over the Bangladesh.

BRAC Bank will be a unique organization in Bangladesh. The bank consist of major divisions named 1) Corporate banking, 2) Retail banking, 3) Treasury, 4) Small & Medium Enterprise (SME). At present the Bank operating its business by 26 branches. BRAC Bank is the first local commercial banks that proving online banking service to its customers from the very beginning of its starts.

BRAC Bank, for the first time among local commercial banks, starts providing loan facilities to small and medium trading, manufacturing and service oriented enterprises all over the country. The Bank has already established its network in different area of the country with assistance of BRAC.

1.2 Origin of the Report

As a part of the Internship Program of Bachelor of Business Administration course requirement, I am assigned for preparing a report on the activities that I am currently doing at BRAC Bank Limited (BBL) for the period of 12 weeks starting from 08 May 2007 to 07 August 2007.

My organizational supervisor is Mr. Shah Alam Bhuiyan, SAVP & Head of Asset Operations Department. My internship report topic is "The prospects of SME loan in Bangladesh in the context of BRAC Bank Limited". My faculty supervisor Dr. Tanbir Ahmed Chowdhury, Department of Business Administration, EAST WEST UNIVERSITY has also approved the topic and authorized me to prepare this report.

1.3 Objective of the Report

Broad Objective

To know SME loan documentation process and disbursement activity and overall financial performance of BRAC Bank.

Specific Objectives

- To present an overview of BRAC Bank Limited
- To appraise the prospects of SME loan in Bangladesh in the context of BRAC Bank Limited
- To analyze the SME loan processing activities
- To know the operational procedure of Asset Operations Department for SME loan processing
- To analyze strength & weakness of the Asset Operations Department
- To access the key performance indicator of the department
- To know the disbursement and recovery procedures of SME loans
- To know the enterprise selection criteria to provide SME loan
- To know the terms and conditions of SME loans
- To know the success factor of SME banking at BRAC Bank Limited.
- To appraise the financial performance of The BRAC Bank Limited
- To find out the problems of The BRAC Bank Limited
- The present suggestions for the development of The BRAC Bank Limited

1.4 Scope

The report 'The prospects of SME loan in Bangladesh in the context of BRAC Bank Limited' is going to give the reader a detail visualization of the SME loan related activities e.g. loan processing, documentations, disbursements, recovery etc. It will also provide information about the overall financials performance of The BRAC Bank Limited by evaluating its' different financials performance indicators. The report includes some basic guidelines regarding modification and enhancement of SME loan and overall performance as well.

1.5 Methodology

The study uses both primary data and secondary data. The report is divided into two parts. One is the Organization Part and the other is the Project Part. The parts are virtually separate from one another

The information for the Organization part of the report was collected from secondary sources like books, published reports and web site of the BRAC Bank Limited (www.BRACbank.com). For general concept development about the bank short interviews and discussion session were taken as primary source.

The information for the Project "Analysis of SME loan in BRAC Bank Limited" both were collected from primary and secondary sources. For gathering concept of SME loan, the Product Program Guideline (PPG) thoroughly analyzed. Beside this observation, discussion with the employee of the SME department and loan administration division the said bank was also conducted. To identify the implementation, supervision, monitoring and repayment practice- interview with the employee and extensive study of the existing file was and practical case observation was done.

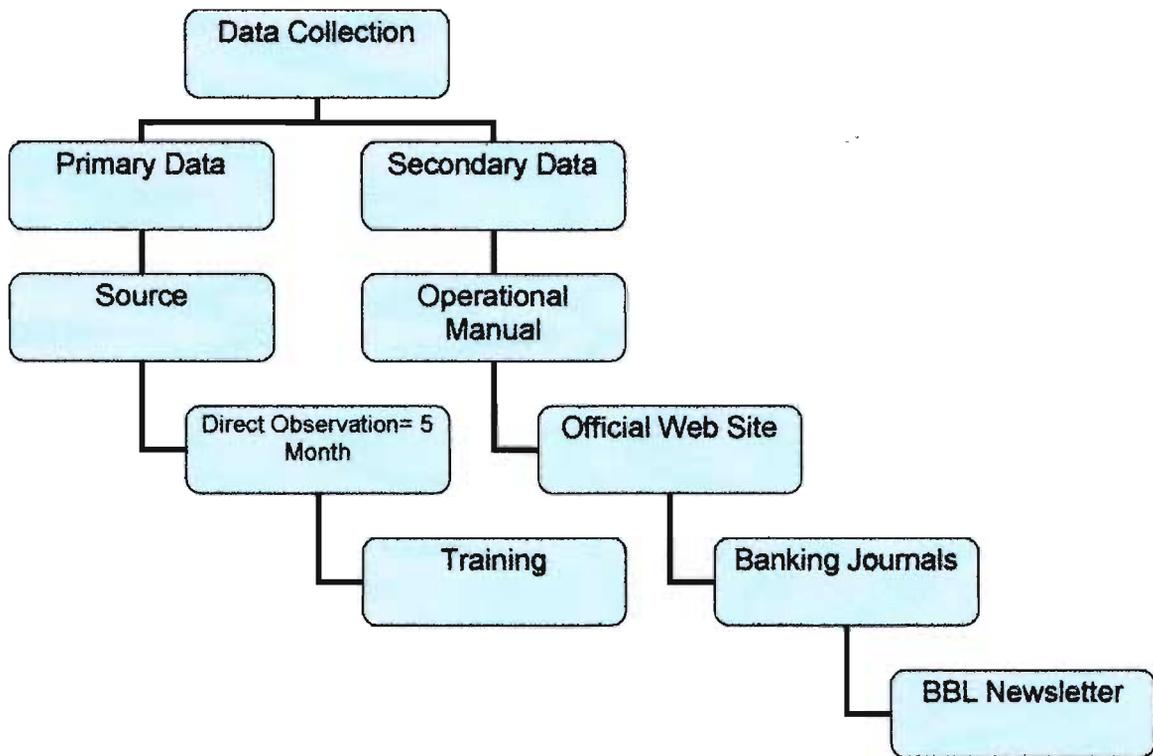


Figure: Data Collection Method

Operational Manual: Some of the secondary data is collected from the operational manual of Asset Operations Department

1.6 Limitations:

In doing this report I have faced some unwanted limitations:

Time: Time is an important issue in report writing. As a specific deadline has been given for submission so could not analyze all the products of BRAC Bank. And I hardly found time to sit and do more library works and to explore more new things as I had to do a regular office job beside this project

Lack of experience: A comprehensive result of practice of marketing study could not be found as had some pivotal limitations like inexperience. I am aware that no such manual has been done on product program in BBL so could not take a glance and learn what are the factors we should be cautious

about which barriers to expect and did not have any forecasts that could help a lot preparing this report. Sometimes it is necessary to evaluate the primary data through investigations, which, if I could have done, certainly made our report a better one.

Lack of adequate information: The information I was able to collect from the primary source about their present and potential practices of the product was not enough to implement or reconstruct the whole program.

- The primary data received from the respondents could be verified and might be biased.
- No organized study was available regarding the SME loan product program of the company.

Data Analysis Error: Unable to use few data analysis techniques like CHI-SQUARE, ANNOVA Table, and SPSS etc.

CHARTER: 2

2.0 Overview of BRAC Bank Limited

2.1 An overview of BRAC Bank Limited

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. BRAC Bank will be a unique organization in Bangladesh. 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 importance of financial intermediaries in the development of the overall economy of country cannot be described in short. From the inception of the civilization the banking sector dominate the economic development of a country by mobilizing the saving from the general people and channeling those saving for investment and thus economic development and growth. In ancient time, the importance of commercial banks after the ravage of the liberation war to develop a better economy was severally needed and it is needed now and will be required in future also. In time-to-time Government of Bangladesh agreed to permit the private commercial banking in the country. BRAC bank will be knowledge-based organization where the BRAC Bank professionals will learn continuously from their customers and colleague's world wide to add value. It will work as a team, stretch, they will innovate and break barriers to serve customers and create customers loyalty through a value chain of responsive and professional delivery. The bank promotes broad-based participation in the Bangladesh economy through the provision of high quality banking services. BRAC Bank will do this by

increasing access to economic opportunities for all individuals and business in Bangladesh with a special focus on currently under-served enterprises and households across the rural – urban spectrum. BRAC Bank believes that the pursuit of profit and developmental goals is mutually reinforcing.

Increasing the ability of under – served individuals and enterprises to build their asset base and access market opportunities will increase the economic well being for all Bangladeshis at the same time, this will contribute significantly to the profitability of the Bank. BRAC Bank intends to set standards as the Market leader in Bangladesh. It will produce earnings and pay out dividends that can support the activities of BRAC, the Bank's major shareholder. Development and poverty alleviation on a countrywide basis needs mass production, mass consumption and mass financing.

BRAC Bank goal is to provide mass financing to enable mass production and mass consumption, and thereby contribute to the development of Bangladesh. BRAC Bank intends to set standard as the market leader in Bangladesh by providing efficient, friendly and modern fully automated online service on a profitable basis aiming at offering commercial banking service to the customers' door around the country, BRAC Bank limited established 26 branches up-to this year.

This organization achieved customers' confidence immediately after its establishment. Within this short time the bank has been successful in positioning itself as progressive and dynamic financial institution in the country. It is now widely acclaimed by the business community, from small entrepreneur to big merchant and conglomerates, including top rated corporate and foreign investors, for modern and innovative ideas and financial solution. Thus within this short time it has been able to create an unique image for itself and earned significant solution in the banking sector of the country as a bank with a difference. The emergence of BRAC Bank Limited is an important event in the country's financial sector at the inception of financial sector reform. The authorized capital of BBL is Tk. 1000 million and paid up capital of the same bank is Tk. 500 million.



Shareholders	Percent
BRAC	31.74%
IFC	9.50%
Shore Cap International	8.76%
General Public through IPO	40%
Non-Residents Bangladeshi's	5%

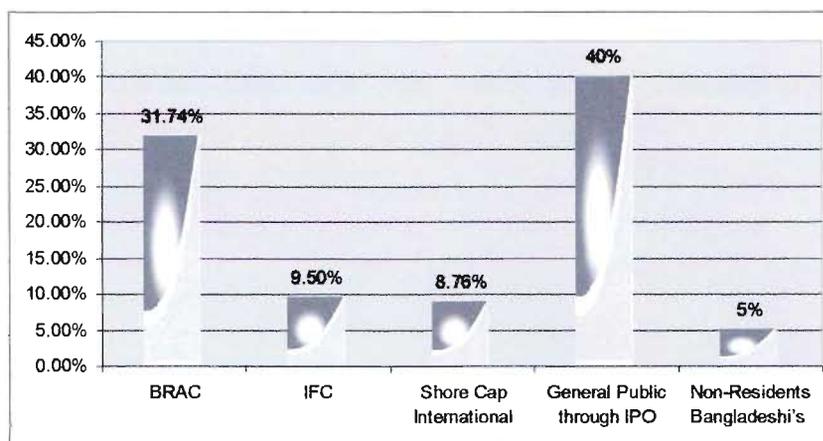


Figure: Shareholders of BRAC Bank Limited

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 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.

2.3 Mission

BRAC Bank will adhere to highly professional and ethical business principles and internationally acceptable banking and accounting standards. Every BRAC Bank professional will need first of all a commitment to excellence in all that he/she does, a keen desire for success, a determination to excel and a drive to be the best.

2.4 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.

2.5 Objectives

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.

2.6 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.

2.7 Bribes & Inducements

It is not acceptable to offer or receive any form of bribe or inducement, or direct anyone else to do on behalf of the bank. The following activities are strictly prohibited:

- Payment or other benefits which violate the country's law or the bank's policies
- Payment or other benefits for procurement of business
- Payment or other benefits to public officials or politicians to induce them to exercise their discretion in the bank's favor

2.8 Management of BRAC Bank Limited

Boards of directors are the sole authority to take decision about the affairs of the business. Now there are 5 directors in the management of the bank. All the directors have good academic background and have huge experience in business. Mr. Fazle Hasan Abed is the chairperson of the bank. The board of directors holds meetings on a regular basis.

2.9 Functional Divisions

Brac Bank Limited had organized and restructured its different divisions and working procedures in order to make the bank more dynamic, effective and goal-oriented. According to that, Brac Bank Limited currently has 9 (nine) major functional divisions to provide smooth services to its clients. These functional divisions are-

- Corporate Banking Division
- Trade Service Division
- Human Resource Division
- Audit & Compliance Division
- Credit division
- Finance and Accounts Division
- International division
- Information Technology Division
- Consumer Banking

Major functions of these divisions are discussed below-

2.9.1 Corporate Banking Division

Corporate division continuously updating industry information, and give support to its stakeholders & consumers by providing them on the right time. They are constantly monitoring every individual industry growth, share pricing and upcoming events which will influence industry profitability. Through collecting that information they do future projection to any investment in favor of their clients.

2.9.2 Trade Service Division

This division opens LC on behalf of the client to do business with foreign companies. As per the request of the customer the Bank plays role as opening bank, advising bank or negotiating bank. This division directly supervises inward and outward movement of foreign remittance. As Bangladesh Bank have regulations about foreign exchange reserve. The Bank has to follow them strictly and trade service division has to submit report daily on foreign currency position to Bangladesh Bank.

2.9.3 Human Resource Division

Human resource division of Brac Bank Limited plays an important role in integrating activities of different divisions. Although this division does not generate income for the bank, but provide immense contribution to the growth of the bank. Human resource division dills with planning, research and development works.

2.9.4 Audit & Compliance Division

Audit and compliance division works as an advisory body of the Bank. It regular publishes internal audit report of the Bank and advises them to rearrange if they find any fault with in the system of the Bank. The division is an independent body under supervision of the Managing Director of the Bank.

2.9.5 Credit division

Credit division is the heart of any banks as it is the main and highest income generating division than other functional divisions. Like other banks, Brac Bank Limited also heavily depends on credit division for its main income i.e.

interests income from loans and advances. Credit division of Brac Bank Limited is divided into 2 (Two) departments-

(a) Credit Risk Management

This department performs activities regarding pre-disbursement of loan proposals. Before disbursing loan to its consumer credit division analysis and appraisal the credit proposals. They also produce Credit Information Memo (CIM) for Board approval.

(b) Credit administration Division

This department performs activities regarding after-disbursement of loan proposals. Prepare monthly Statement of Outstanding Credit Facilities for the Bank. Sanction loan document update is another part of there regular work. This division constantly monitoring over due loans and makes follow up report for the management. They also maintain a classified loan records in order to identify Substandard, Doubtful and Bad & Loss of the Bank.

2.9.6 Finance and Accounts Division

Finance control and accounting division of Brac Bank Limited is divided into 4 (Four) departments-

- Finance department
- Accounting department
- Investment department
- Treasury department

(a) Finance department

This department involves in management of funds in order to minimize cost of funds. Budgeting for project and monitoring & evolving of effective cost control measures are the basic focus of this department. They are also managing provident funds, gratuity funds of the employees.

(b) Accounting department

This department directly involves with the accounts related functions of the bank. They are produce balance sheet, income statement and reconcile those statements in favor of Bank. Inter-branch transactions are controlled and monitored by accounts department.

(c) Investment department

This department generates income for the bank through its investment portfolio of shares of different companies. They buying and selling shares of different companies other than Brac Bank Limited and collecting dividends in order to generate revenue for the Bank. This department is directly assisted by the credit division in minimizing risk of investment portfolio.

(d) Treasury department

This department generates income for the bank through its treasury functions. Participating in bidding for government securities such as T-bills, analysis of the treasury portfolio are the major works they are doing in this department. They generate revenue by collecting interests of securities.

2.9.7 International division

This division involves in approving, monitoring and reviewing transactions among foreign participants outside Bangladesh. It performs important tasks regarding export and import businesses on behalf of its clients. Setting up of agency agreements with correspondent banks, daily exchange rate fixation, compilation and circulation of foreign exchange circulars to the branches are the works done by this division.

2.9.8 Information Technology Division

It is very significant to adapt with the ongoing information technology revolution to provide faster services to the clients. The Information Technology (IT) division helps to achieve the goal of the Bank. Though this division does not generate income directly, but it provides infrastructures to provide fee-based banking services. The division provides system support in dealing with the data processing and data entry. Supervise overall computerized banking operation from branch level to corporate head office. The division also develops new software for the bank to give good service to clients.

2.9.9 Consumer Banking

Consumer banking division dills with current and potential consumers of the bank through different bank branches all over Bangladesh. Consumer banking products are designed keeping in mind the financial necessities and affordability of the clients. Recent introduce of internet banking service helped its consumers to avail comprehensive range of financial products and services.



2.10 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.

2.11 Products and Services

i) Small & Medium Enterprise (SME)

The most valuable natural resource of Bangladesh is its people. 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 medium entrepreneurs were over looked. 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-root level to their economic height and also to make profit by serving the interest of missing middle groups. 50% of our total portfolio usually collected from urban areas, channeled to support these entrepreneurs who in

future will become the potential strength of our economy. We are the market lenders in giving loans to Small and Medium Entrepreneurs. We have been doing it for the last five years.

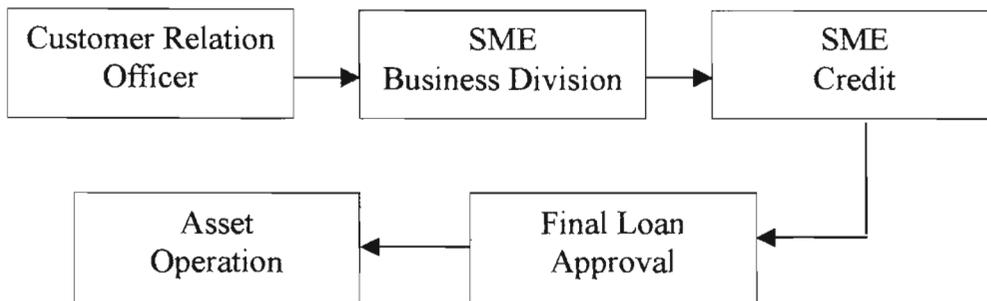
BRAC Bank Ltd has in total 900 unit offices, 80 zonal office, 12 territory and 1800 Customer Relationship Officers. These CRO's work for the Bank to converge clients for getting the loan. Once CRO's get the loan application and if it is less than 500,000 TK then zonal officer has the authority to approve the loan. But if it is above 500,000 then the CRO's send it to Head Office for all necessary approval. After approving the loan then Asset Operation Department starts its work. As the growing, the amount of files and disbursement is getting bigger. In September 2006 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.
8. Bizness Account

SME Loan process flow is shown below-

When a client comes for a loan request, first he meets a CRO, then the following process take place:



ii) 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-

1. Working Capital Loan.
2. Over Draft Facility.
3. Term Loan.

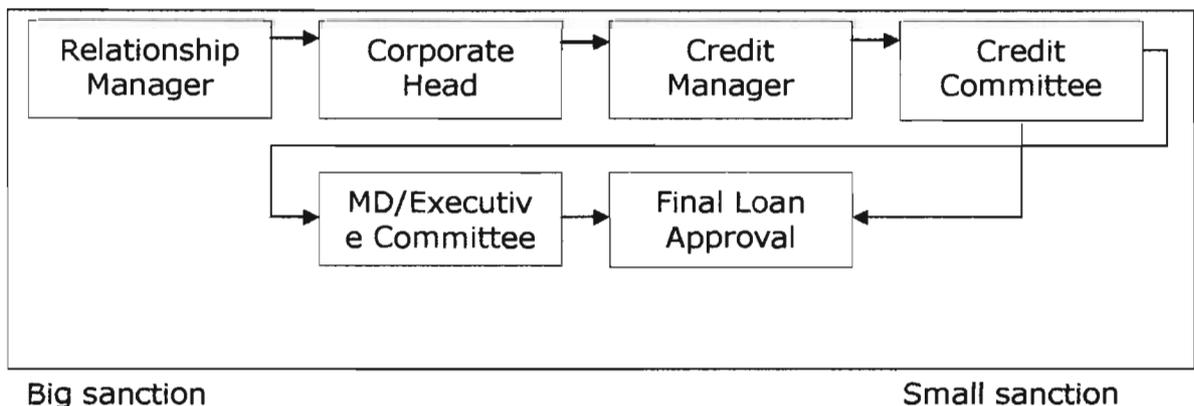
4. Lease Finance.
5. Demand Loan.

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-

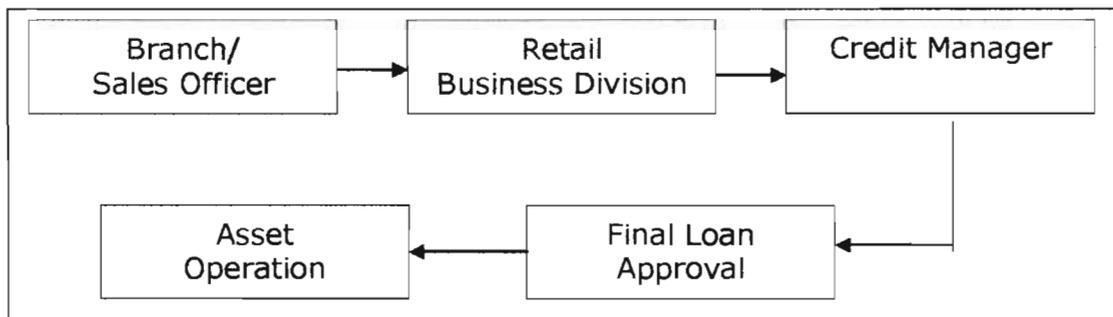


iii) Retail Banking

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-

Depository Product

BRAC Bank Limited is now offering different depository products for mobilizing the savings of the general people.

Interest First Fixed Deposit

Interest First Fixed Deposit works like normal FD scheme except with one unique feature –the customer receives the interest due in advance i.e., at the time of placing the deposit without having to wait for maturity of the fixed deposit. The interest payment may be used immediately while the investment is kept intact till maturity. Minimum unit size is BDT 100,000 and there is no upper ceiling. The term for IFFD is 3/6/12 months.

DPS- Deposit Premium Scheme

The Deposit Premium Scheme is a special savings scheme that allows the customer to save in line with his or her income a monthly basis and get sizable amount on maturity. The main features of this scheme are:

- Monthly installments can be as low as Tk.500 or any multiples of Tk.500.
- Choose any day as your installment date.
- Receive a Saving a/c with a personalized cheque book.
- On-line banking facilities
- No standing in long lines to deposit the money. Just deposit your installments in your saving a/c and they will automatically transfer it on the due dates.
- Take a loan reaching 90% on the deposited amount.

ABIRAM – Fixed Deposit

BRAC Bank 'ABIRAM' Account is a special type of Fixed Deposit Scheme, which offers the flexibility and comfort of having a guaranteed monthly return on the investment. Unlike the conventional Fixed Deposit, BRAC Bank 'Abiram' Account carries a higher return on the customers' investment and thus makes the money grow faster. The 'Abiram' Account provides a safe and steady return on the investments and allows customers a steady income without encashing the investment.

Saving Account

The Saving Account of BRAC Bank is more than just as normal account-offering customer that s/he would expect from any major bank. BBL offers it's customer something extra. Savings account facility is available to Individuals (aged 18 years and above):

The clients will receive the following benefits from his/her Current Account:

- No restriction on the number of withdrawals.
- No restriction on the amount or size if a withdrawal
- No forfeiture rules or hidden cuts
- No requirement for notices to be given before making a withdrawal.

Current Account

The Current Account offered by BRAC Bank is just as normal account offering customers all the features that s/he would expect from any other major bank. However, BBL customers are provided a little extra. Current account facility is available to: Individuals (aged above 18 years and above) and Business entities.

The clients will receive the following benefits from his/her Current Account:

- No restriction on the number of withdrawals.
- No restriction on the amount or size if a withdrawal.
- No forfeiture rules or hidden costs.
- No requirement for notices to be given before making a withdrawal.

Short Term Deposit (STD) Account

A deposit scheme designed to give return on customer's short-term excess funds.

The clients will receive the following benefits from his/her Current Account:

- Minimum balance required is Tk.100,000.
- Interest paid twice a year but calculated monthly if balance is Tk.100,000 or above.
- Secured returns

General Fixed Deposit

BRAC Bank offers flexibility and convenience of choosing Fixed Deposit Term from any period between 1 month and 3 years. BRAC Bank FDR also gives the most competitive return on customer investment. The general fixed deposit and Abiram plus are extendable as per the requirement of the customers. Customers may even open a saving account as well as DPS account and enjoy loan facilities from the account.

Step Up Fixed Deposit

BRAC Bank 3-year Step Up Fixed Deposit works like FD except with one unique feature added to it i.e., the customer will get a guaranteed 0.5 % increase in the rate of interest upon completion of each year. Minimum unit size is BDT 100,000 and there is no upper ceiling.

EZee Account

EZee Account is a non-cheque, interest bearing account for customers who need to transact frequently. The account can be opened with a Tk.5,000 deposit only and there is no minimum balance requirements. Interest is accrued on daily balance at a rate of 4% per annum. Since it does not come with a cheque book, an ATM card is provided for 24-hour ready access to the account through ATM and POS machines.

NON-FUNDED BUSINESS:

1. Student File

Student File is designed to facilitate Bangladeshi students who are going abroad for study. Through Student File students can send their tuition fees and other fees to the educational institutions where they are going to study.

2. Hello Australia/England/Thailand

This product is designed to make the process easy for those people who are going to Australia, Thailand or England through easy endorsement of their required foreign currency.

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:

CAR LOAN

BRAC Bank offers easy, customer-friendly car loans for customers who wish to purchase either a brand new car or a reconditioned one. All BRAC Bank account holders aged between 21 and 65 are eligible to apply. The loan can

be repaid over a maximum of 4 years through equal monthly installments (EMI).

- No down payment.
- BBL offers the highest loan amount in the market, going up to Tk.2,000,000 in some cases.
- There is a low processing fee.

TEACHERS LOAN

The Teachers Loan is any “any-purpose” loan offered to a teacher permanently employed at an educational institute for at least three years. The customer is eligible for a loan up to 10 times his or her current monthly salary without a requirement for security. Repayment can be made in equal monthly installments for 1 to 4 years.

NOW Loan

The Lifestyle loan is provided for the purchase of customer durable items such as electronic goods, furniture, computers, music systems, communication machine and other household items. All BRAC Bank account holders aged from 21 to 65 and people from all income groups, whether salaried employees or self-employed business persons, are eligible to apply. NOW Loan amounts vary from Tk. 15,000 to Tk. 5 lac and are repayable through equal monthly installments (EMI) for 1 to 4 years.

Secured Loan/OD

Special schemes are offered by the Bank that allows customers to avail cash at nominal interest rates. The security is kept in untouched in Bank’s custody and the value grows. All BRAC Bank account holders aged from 21 to 65, people from all income groups – salaried employees and self employed business-persons – with security in their possession are eligible to avail these facilities.

The maximum amount can go up to Tk. 5 crores, and customers may avail the facilities in signal or in joint names. BBL allows loans for up to 100% of the value of the securities (conditions, however, apply). In case it is an overdraft, the customers repay only interest at quarterly intervals. In case it is a Loan, the customer is allowed to choose between the quarterly repayment option and the monthly installment option.

Unsecured Personal Loan

This is a package specially designed for salaried employees; eligible customers are offered this "any-purpose" loan without any security. Employees of multinational companies or local corporate bodies; also employees of midrange companies, govt. officials and self-employed business-persons are eligible to apply. Customers may apply up to 8 times gross salary or 5 times gross monthly income (maximum Tk. 5 lacs) as loan repayable through equally monthly installments (EMI) for 1 to 4 years.

Credit Card Loan

Customers holding a credit card from any financial institution, for at least 1 year, may apply for this loan. Customers with a minimum credit limit of Tk. 40,000 on their credit card are eligible for the loan. The Credit Card Loan offers loan up to 5 times the credit card limit on the card.

Top-Up Loan

Top-Up Loan is a loan facility to encourage and finance good borrowers, who have received loan from other reputable financial institutions. All existing retail borrowers from various reputable financial institutions, who have completed 1.5 years of their loan term with that institutions without any default on monthly installments, may apply for this loan. The existing loan should be of personal nature and obtained from any bank acceptable to BRAC Bank,

- No requirement for notices to be given before a withdrawal
- It is clean or unsecured loan because no cash security is taken against the loan

- This loan is for both salaried and self-employed individuals
- Loan amount can be used for any kind of legal purpose
- The size of loan amount is Tk. 50,000 to 10 lac.
- Tenure of the loan is 1-4 years (12-48 EMIs)
- Equated monthly installments

Salary Loan

Salary loan is offered to facilities salaried individual working in Bangladesh. Any individual earning a gross monthly salary of Tk. 10,000 may avail the Salary Loan. The Salary Loan requires no security and the customer may receive up to 15 times of his/her gross monthly salary for a maximum of Tk. 15 lac. The Salary Loan is due in convenient Equal monthly Installments (EMIs) over a period of 12 months to 60 months.

Study Loan

Study Loan is a loan facility offered to facilitate offered to facilities higher education of Bangladeshi students abroad. In order to avail the facilities students must maintain a student file with BRAC Bank Limited, Customers with a gross monthly of Tk. 25,000 may apply (other conditions apply). Customers apply in five categories:

TYPE A - Employees of reputed multi-national, large local corporate bodies, foreign NGOs, aid agencies, and UN bodies (As per existing list).

TYPE B – Employees of small/medium sized or small/mid-range local companies such as reputed schools, pathology labs, hospitals, restaurants, newspaper, airlines, travel agencies, real estate developers of repute, insurance companies, reputed tracing firms and business establishments and Government Employees etc.

TYPE C – Contractual employees of UN Bodies, diplomatic Missions, foreign Aid organizations etc. However, in such cases, staff will have to be employed with current employer for minimum 2 years.

TYPE D – Contractual employees of organizations other than organizations listed in Type C. However, in such cases, staff will have to be employed with current employer for minimum 4 years.

TYPE E – Taxpaying business men with steady and reliable source of income stream.

Customer may borrow a minimum Tk. 3000,000 – payable in Equal Monthly Installment via standing order and the tenor of the loan is from 1 to 4 years.

Travel Loan

The Travel Loan is a loan facility offered to facilitate the holiday trip for Bangladeshis. This loan is offered to the individuals who have stable gross monthly income of Tk. 15,000 for salaried individuals or Tk. 25,000 for self-employed individuals. Here too customers are placed in five categories with the respect to their workplace. The categories are:

TYPE A – Employees of reputed multi-national, large local companies, foreign NGOs, aid agencies and UN bodies.

TYPE B – Employees of small/medium sized or small/mid-range local companies such as reputed school, pathology labs, hospitals, restaurants, newspapers, airlines, travel agencies, real estate developers of repute, insurance companies, reputed training firms and business establishments and Government Employees etc.

TYPE C – Contractual employees of UN Bodies, Diplomatic Missions, Foreign Aid organization etc. However, in such cases, staff will have to be employed with current employer for minimum 2 years.

TYPE D – Contractual employees of organizations other than organizations listed in Type C. However, in such cases, staff will have to be employed with current employer for minimum 4 years.

TYPE E – Tax paying businessmen with a stable & reliable source of income stream

The minimum loan amount is Tk. 50,000 and repayment method will be on the basis of equal monthly installments via standing order.

iv) 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

v) 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)

vi) 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.

Remittance Payment

SRS is providing the extensive service in transfer the remittance to the people all over Bangladesh sent from abroad.

Probashi Fixed Deposit

Ideal for Bangladeshis living abroad, the Probashi Fixed Deposit can be made from 3 months to 3 years depending upon the need. Interest is paid on the maturity of the Fixed Deposit at a attractive rate.

Probashi Savings Account

This account provides interest, which is paid in June and December of each year. This account comes with a cheque book and ATM card and is ideal for Probashi Bangladeshis who want to save.

Probashi Abiram Account

Probashi Abiram is a Fixed Deposit, which is ideal for NRBs (Non-Resident Bangladeshis) who want to get a return every month. With sufficient funds, this can be made into a fixed deposit from 1 year to 3 years and interest will be paid every month on the customer's saving account automatically. This product is ideal for customers who want to pay DPS installments.

Probashi DPS

Probashi DPS is ideal for those who want save little by little every month and get a handsome return on maturity. One can have DPS for 4, 7, 11, and 14 years and can be paid with minimum of Tk.500 each month or in multiples of Tk.500. Interest rate on the Probashi DPS is also very attractive.

vii) Information Technology

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 banking system, which will not only fulfill the demand of time but also set new benchmarks in twenty-first centuries banking world.

vii) Special Feature

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

2.12 Branches

BRAC Bank Limited is fast growing commercial banks in our country. Bank has established a good operating network throughout the country. It has 26 branches throughout the country till December 30, 2006

Code	Branch	Code	Branch	Code	Branch
1101	Agrabad	1506	Dhanmondi	4301	Narayanganj
1102	Mominroad	1507	Banani		Rajshahi
1103	Halishahar Branch	1508	Ganakbari	5501	Branch
1301	Comilla Branch	1509	Satmosjid	6301	Shlhet
1501	Gulshan	1510	Uttara	6302	Biani Bazar
1502	Nawabpur	1511	Mirpur	6303	Zinda Bazar
1503	Moghbazar	1512	Rampura	6304	Bishwanath
1504	Keranigonj	1801	Sona Gazi	6305	Maulivi Bazar
1505	Motijhil	2401	Jessore Branch	6306	Nobiganj

2.13 Performance of BRAC Bank Limited

BRAC Bank Limited will be the most successful private sector commercial bank in our country, though it started its operation few years back. It has achieved the trust of the general people and made reasonable contribution to the economy of the country by helping the people investing allowing credit facility.

2.14 Capital Fund

The authorized and paid up capital of BBL is TK.1000 million and TK.500 million respectively. The paid up capital is one of the strongest in the banking industry. The bank is going to raise its paid up capital in the month September, 2006 by TK.500 million with issuing public share of 5,00,000 of TK.100 each.

Internal and External source of cash

Date	31/12/03	31/12/04	31/12/05	31/03/06
Ordinary share	405,020,000	500,000,000	500,000,000	500,000,000
Preference share				150,000,000
Statutory reserve		19,860,550	58,396,570	135,564,816
Surplus in profit	(9,095,940)	70,346,259	224,490,340	226,006,069
Total	395,924,060	590,206,809	782,886,910	1,011,507,885

(Amount in Taka)

2.15 Financial Aspects of BRAC Bank Limited

2.15.1 Investment Function

The investment portfolio of BRAC Bank Limited is still under growing condition. The table below shows instrument wise investment breakdown and there percentage difference between year 2003 and 2004.

From the table-1 it has been clearly identified that the Bank prefers to invest in medium-term treasury bills and bonds rather than debentures and shares. In both the year 2003-04 the Bank has invested around 92% of their investment in this sector. The reason of adopting the policy is to crate a source of liquidity rather than a source of income.

Table

Investment Breakdown

	2004	Investment percentage 2004	2005	Investment percentage 2005
28 Days T-Bills	-	0.00%	-	0.00%
364 Days T-Bills	1,550,000,000	42.92%	-	0.00%
2 Years T-Bills	720,000,000	19.93%	1,020,000,000	23.19%
5 Years T-Bills	1,060,000,000	29.35%	2,860,000,000	65.02%
5 Years T-bonds	-	0.00%	160,000,000	3.64%
Prize Bond	1,354,100	.03%	1,035,400	.02%
Preference Shares of United Cement Ind. Ltd.	50,000,000	1.38%	50,000,000	1.14%
Shares of Central depository Bangladesh Ltd	4,000,000	0.11%	4,000,000	.09%
15 Years ICB Debentures	100,000,000	2.76%	88,000,000	2.00%
20 Years HBFC Debentures	125,000,000	3.46%	115,000,000	2.61%
Debentures (United Leasing Comp.)	-	0.00%	100,000,000	2.27%
8,566 ICB Shares (TK 100 Each)	856,600	0.02%	856,600	.02%
Total	3,611,210,700	100.00%	4,398,892,000	100.00%

Source: Annual Report of 2005

The rest 08% of investments were used to buy long-term debentures and shares of different companies. It means that Brac Bank Limited is getting higher returns from these high yielding long-term investments but the trade off here is that the amount of money the Bank has invested in this sector will remain stuck for a pretty long time and Brac Bank Limited can't use that money in case of sudden high returning investments.

2.15.2 Broad performance indicators (Brac Bank Limited at a glance)

The Bank has performed well this year compared to last few years. They are been able to achieve significant growth in different segments of the Bank.

Table

Broad Performance Indicators of the Bank from 2003-2005

Particulars	2003	2004	2005
Reserve	2,448	2,560	2,733
Deposit	13,662	11,952	15,649
Loans And Advances	10,891	11,288	14,973
Export	4,358	3,533	8,303
Import	12,642	16,256	24,414
Guarantee Business	1,183	354	947
Operating Income	1,986	1,985	2,241
Operating Expense	1,255	1,226	1,349
Operating Profit(Loss)	731	759	892
Net Profit(Loss) before tax	631	638	851
Total Assets (Excluding Contingent)	18,445	18,716	23,048
(Above figures are in million BDT)			
Return On Equity %	17.44%	15.33%	18.44%
Return On Asset %	2.04%	1.95%	2.32%
Book value per share (TK)	295.29	281.87	317.73
Earning per share(TK)	51.48	43.21	58.38
Dividend per share	35.00	20.00	43.00
Classified loans as a % of total loans	13.46%	13.61%	7.19%
Capital Adequacy ratio %	22.32%	18.27%	14.82%
Net interest margin %	3.44%	2.43%	3.26%

Source: Annual Report of 2005

The performance indicator table show that the Bank has able to growth its total asset which has made a direct impact on its ROA. It is the highest of its recent times. From the indicator table 1.2, we find that the percentage of classified loan has gone down from 13.61% to 7.19%. It helped to raise the loan and advance asset of the Bank. In addition import, export transaction income has also been increased in recent year. The combination of all those positive factors helped bank to earn a profit of 851 million BDT which is 213 million BDT higher then the previous year. As a result of the profit Bank's EPS increased substantially.

CHARTER: 3

3.0 SME and BRAC Bank Ltd.

3.1 Small & Medium Enterprise (SME) Banking

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 our total portfolio usually collected from urban areas, are channeled to support these entrepreneurs who in future will become the potential strength of our economy. They are the market leaders in giving loans to Small and Medium Entrepreneurs. They have been doing it for the last five years.

3.2 SME products

Anonno Rin

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

Eligibility

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

Maximum Amount

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

Features

- Loan without mortgage
- For excellent borrowers who have paid or 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

Loan Term	Installment (Principal) Repayment	Interest Repayment
3 months-9 months	One single payment at maturity	Monthly
12, 15, 18, 21, 24, 27,30, 33, 36 months	Monthly installment	Monthly with installment

Apurbo Rin

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

Eligibility

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

Maximum Amount

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

Features

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

Pathshala Rin

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

Eligibility

- A small & medium educational 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

- Minimum BDT 3 lac to maximum BDT 30 lac

Features

- Without mortgage for loan below 10 lac

- Loan for fixed assets purchase & civil construction
- Loan repayment can be spread up to 4 years
- Minimum documentation
- Monthly repayment plan
- Quick disbursement
- Flexible interest rate based on security

Aroggo Rin

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

Eligibility

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

Maximum Amount

- Minimum of 3 lac to maximum of 30 lac

Features

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

Digoon Rin

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

Double loan on your deposit. For your business expansion, you do not need

to encash your savings rather you can take double amount of loan on your deposit.

Eligibility

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

Maximum Amount

- Minimum of 5 lac to maximum of 30 lac BDT

Features

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

Supplier Finance

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

Eligibility

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

Maximum Amount

- Minimum BDT 3 lac up to maximum BDT 30 lac

Features

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

Prothoma Rin

"PROTHOMA RIN" is a loan facility for small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. which are operated by women entrepreneur. The product offers terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase.

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

- From minimum BDT 3 lac up to maximum of BDT10 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

Loan Term	Installment (Principal) Repayment	Interest Repayment
3 months-9 months	One single payment at maturity	Monthly
12, 15, 18, 21, 24, 27, 30, 33, 36 months	Monthly installment	Monthly with installment

BIZNESS Account

Bizness Account is an interest bearing account only for business Enterprise for SME and Retail Banking. This product has been set in a way to encourage small & medium entrepreneur to enter into the wide range of modern banking facilities of BRAC Bank Limited.

Eligibility

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

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
-

3.3 Basic Appraisal of Small & Medium Enterprise

Business or project appraisal is a technique of evaluating and analyzing Business from various aspects, primarily the risks associated with that business enterprise. At the time of appraisal of any manufacturing, trading or service related organization, factory or industry; one has to perform a feasibility study on the different aspects. These are:

- ☑ Management and Personal Aspects
- ☑ Technical Aspects
- ☑ Marketing Aspects
- ☑ Financial Aspects
- ☑ Social Economic Aspects
- ☑ Security Aspect

3.3.1 Management and personal aspects

During the appraisal prosecute the Customer Relation Officer (CRO) should endeavor to obtain details about the prospective borrowers, some of which are:

- ☑ Business related information
- ☑ Credit History
- ☑ Liquidity Information
- ☑ Management Background

In considering the above, one should look at the business is managed. CRO should also consider clients previous credit history like facilitates sought and availed, loan repayment an overdue record, if anyone checks the client's bank account and amount of balance maintained. Management's qualification, experience, successor and maintenance of records should provide insight in to the business.

3.3.2 Technical Aspects

From a business perspective, this aspects deals with design of the system in place, the operation of the business, the different type of physical resources used, the technology used, the capacity to handle business and all other inputs. Labor, raw materials, utilities etc.) Among the technical factors to be investigated during an appraisal are:

- ◆ The size of project
- ◆ The process, materials, equipment, and reliability of technical systems to be used
- ◆ Location of projects
- ◆ Sustainability of the plans, layout and design used
- ◆ Total quantity of the goods /Service produced/Traded monthly
- ◆ Environment of the business and its surrounding areas
- ◆ Availability to various factors of production, both physical and human
- ◆ Raw materials availability, price level and its variation to be considered

3.3.3 Marketing Aspects

A CRO should consider the following factors of a business before making any loan commitment with a customer:

Total demand and supply of the products in the market that the business operates in growth of sales and major marketing threats that the business may face.

3.3.4 Financial Aspects

This aspect allows us to check the financial health of a business, through an analysis of the profit and loss account, balance sheet, cash flows, ratios, and requirement of working capital. If the collection of the financial data can be done properly, then it may be able to make a somewhat realistic picture of the business financial position. However, all the data collected must be crosschecked as much as possible with the physical features of business.

The following things are to be considered and determined at the time of verifying the financial feasibility of the business:

- a) Current year's profit/loss of the business & probable profitability of business after taking loan
- b) Determination of assets, liabilities and net worth of the manufacturing/trading / service institution before and after taking loan
- c) Present net cash flow of the business after disbursement of loan should be determined,
- d) To know the cash position of the institution
- e) To know the source of income, production and other expenditure of the business probable financial risks of the business.

3.3.5 Socio Economic Aspects

Here the analyst like to observe the contribution of the business to the country's GDP, the employment generated, the sort of adverse impact of the business on the environment, if an other benefit to the country.

3.3.6 Security Aspects

Along with observation of different aspects and views of the projects, the CRO should also see closely the aspects of the projects and ensure about the reliability to the mortgaged property/assets. Ensure proper survey or verification of the security offered, Ensure attachment of survey report.

3.4 Organizational Layout of BRAC Bank SME Loan

- Credit Division
- Business Development Division
- MIS Division

3.5 SME Activities In Terms Of Market

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 economy of a country. So reasons for this program from the viewpoint of BBL:

a. Support Small Enterprise

The small enterprise, which requires 2 to 30, lacks Tk. loan, but these has no easy access to the banks/financial institutions. For example: In the of 3 to 8 lacs amount of loans 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 Making

SME program is a new dimensional banking system in the banking world. Most of the CRO's 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.

3.6 Security Documentation against Loan

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.

a) Purpose of Security 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.

b) 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

c) 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 if 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.

d) 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.

e) 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 alternation 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

Other Basic Charge Documents

i) 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.

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 percent 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 possesses and sell the mentioned goods and stocks or claims the book debts directly from the debars 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 posses 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 provide 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 of 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 or 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.

3.7 Selection of Potential Enterprise for SME

3.7.1 Enterprise Selection Criteria

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

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

3.7.2 Entrepreneur Selection Criteria

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

1. The entrepreneur should be physically able and in good health, preferably between the age of 25-50. If he/she is an elderly person closer to 50, it should be seen what the succession process will be and whether it is clearly defined or not.
2. The entrepreneur must have the necessary technical skill to run the business, i.e. academic background or vocational training, relevant work experience in another institution or years of experience in this line of business.

3. The entrepreneur must have an acceptable social standing in the community (People should speak highly of him), he should possess a high level of integrity (Does not cheat anyone, generally helps people), and morally sound (Participates in community building)
4. The entrepreneur must possess a high level of enthusiasm and should demonstrate that he is in control of his business (Confidently replies to all queries) and has the ability to take up new and fresh challenges to take the business forward.
5. Suppliers or creditors should corroborate that he pays on time and is general in nature
6. Clear-cut indication of source of income and reasonable ability to save.

3.7.3 Guarantor Selection Criteria

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

1. The guarantor must have the ability to repay the entire loan and is economically solvent (Check his net worth)
2. The guarantor should be aware about all the aspects 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 Imam of mosque cannot be selected as a guarantor.
5. The guarantor should know the entrepreneur reasonably well and should preferably live in the same community

3.8 Terms and Conditions of SME Loan

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

- The potential borrowers and enterprises have to fulfill the selection criteria

- The loan amount is between Tk. 2 lacs to 30 lacs.
- SME will impose loan processing fees for evaluation / processing a loan proposal as following;

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

- 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.

3.9 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.

3.9.1 Important 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.

3.9.2 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 advice 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, than 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 then necessary, then the enterprise may face a fund crisis. On the other hand the production will suffer if there is not enough raw materials.

3.9.3 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. A 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 are 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.

3.9.4 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 maintained separately on the basis of the unit office.

3.9.5 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.

3.9.6 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.

Future of SME Loan

3.10 Customer Handling

In our country there are about 52 banks working with the people with varieties of their attractive products and services and there is a high level amongst competition each other. For sustaining, they offering various types of innovation for better service for the clients, so, to reach the closer best to the clients direct marketing gaining momentum in the country. In terms of SME, its targeted entrepreneurs are the subjects of dealings to achieve the objectives of BRAC Bank and its policy is to contact with clients directly with a confident manner. Some key activities of a CRO:

- Conducting Survey Properly
- Individual contact with entrepreneur for selecting potential borrower
- Deliver BRAC Bank's products and other services
- Keeping in close touch with clients to develop mutually beneficial long term relationship

There are two types of dealings which customer services officer do as follows:

Regular

The main duty of a CRO is to search new potential customer by providing door-to-door services. They talk with clients and monitor their manners, activities of their business and then provide the loan of the potential customers. Most customers take hypothecation loan, which are unsecured loan. Normally it carries 2-5 lacs.

Unique

They also handle some unique customers who come to their unit offices to get the loan. Especially this client demands 10-20 lacs for their business. In this case, clients have to provide collateral securities in favor of bank. The securities may be land or fixed deposits. It takes little bit of time to disburse the loan for a CRO.

3.11 Macro Environmental Analysis

It is very important to carry out a macro environment scanning for the banking industry in order to identify and analyze the external factor that affected the growth and development of the banking sector in Bangladesh. A thorough analysis of the macro environment in which the banks operate will allow the banks to develop pro-active strategies and navigate the organization in the turbulent ocean of competition.

The financial institutions are always heavily influenced by the macro economic conditions both globally, regionally or locally. The key macro economic indicators like GDP growth rate, inflation, industrial growth rate, expansion of trade and commerce and other factors affects the operations and the pricing strategy of the bank. BRAC Bank Limited (BBL), since its inception has achieved a steady growth rate. However, the present economic downturn or recession is affecting BBL's operations. The country is now under a deep recession having a major decline in industrial growth rate, galloping inflationary pressure, and decline in international trade with export targets for the fiscal year yet to be achieved and other factors will eventually affect BBL and other banks pricing strategies. Many banks will have to revise the interest rate structure for its various services in order to cope with economic slowdown. However, SME results for BBL is quite satisfactory, as they have surprised their stipulated targets despite the economic sluggishness going on in the country. Some practical example is as follows:

If the savings rate in our country decreases the purchasing power of our people will decrease. The demand for taking loan from bank will decline and client cannot repay the loan properly. On the other hand, if it is increase extremely then purchasing power will increase but people will have enough cash on hand which will reflect by not taking loans from financial organizations. So everything should be balanced.

Another example like- if the interest rate increases then people will not be interested for taking loans and as well as client will be unable to make profit by taking loans. On the other hand, if it decreases then bank will not be able

to make profits quickly. So it would be considered for balancing both sides. Unemployment is another whether too much unemployment can affect the industry to understand the business properly. So this sort of impact might occur in the environment, which could have handle properly.

3.11.1 Demographic Environment

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation and other statistics. The demographic environment is of major interest to marketers because it involves people and people make up markets. In terms of SME requirements customer is the main part of bank. If there is, no client there is any business. According to the location BRAC Bank SME unit offices already has reached in every cities around the country for providing door-to-door facilities. Some key factors of demographic environment are- urbanization, education, living standard etc. For example-In terms of urbanization, lots of new business and enterprises are growing rapidly in the city or town. So more banks can be aggressive for providing loans in newly developing areas. For having new banks in the city, the standard of living will increase for the people. Education is another major factor for developing a nation. Without literacy standard of living could not come for individuals. Therefore, each and every factor is interrelated to each other.

3.11.2 Economic Environment

Factors that affect consumer buying power and spending patterns. SME is very careful regarding economic issues in the country. Customer relation office is always keen to check purchasing materials and leading lifestyle of the client. Because if the economic condition of a client become bad then he/she might not repay the loan. On the other hand if war occurs between the two countries then price of the products will increase and people will loss purchasing power. In this way, organization might affect economically. On the other hand, A steady growth rate with continues market oriented reforms will contribute positively by expanding the volume of business and profitability of the bank. In an economy, a steady growth means there will

be more investment, savings, and consumption in the economy. As a result, bank also gets more deposit and more projects for credit disbursement.

After disbursing the loan, if the economic condition of the business is being poor then BRAC Bank regenerate the repayment schedule of the client to repay the loan. On the other hand if the economic condition rise up then client repay the whole amount in favor of BRAC Bank Limited.

3.11.3 Social Environment

As banks are service-oriented organizations, they always have to consider the attitude of the customer. Customer now wants a speedy service accompanied by attractive and well decorated impressive branches with customer friendly officers providing tailor made services to the customers. SME of BRAC Bank impressive office has already earned a reputation for the bank and has attracted lots of potential customers around the country. In order to match with the customer needs, banks are also increasing varieties of products such as single short products, different short and medium term products and other services.

One of the key factors of a social environment is social class growth. It carry out attitudes of various classes of people, such as upper class, middle class, lower class upper lower class, upper lower class, etc. The customer relation officer of BRAC Bank deals with them regarding their social classes. The clients are accepting the SME loans with knowing the interest rate of 24%(2% per month). Client wants fast service rather than paying 24% interest. Some clients are argued about the interest rates that BRAC Bank is now think of to reduce it. BRAC Bank already have 3000 clients and disbursed 100 crore. Next year its projected target is 8000-10000 clients and captures the market in our country. So, SME has a rapid growth in the market.

3.11.4 Political Environment

The political environment consists of law, government agencies and pressure groups that influence and limit various organizations and individuals in a given society. SME of BRAC bank have to abide national laws like festivals,

holidays. On the other hand, hartals, strikes, barriers can affect the economic condition of SME of BRAC Bank Limited. Under the latest World Bank, recommendation the banking division of the ministry of finance is being abolished a step further in providing autonomy to Bangladesh Bank. The emergence of BBL SME and other contemporary banks and the arrival of the foreign banks are all due to the on going reforms in the financial sector of Bangladesh. BBL is restricted to provide loans for the political leaders. Customer services officers of BRAC bank always avoid political leaders who carry out business. But if any pressure occurs from the political sides to have the loan the top management handles the situation but never give the loan to them.

3.11.5 Technological Environment

BRAC bank of SME division has a strong network in the whole country. The main head office is in the capital city from which it operates with all the unit offices by means of mobile telephone. In the near future, SME might hand over the palmtop computer to all customer services offices to provide accurate and quick service to the clients.

3.11.6 Ecological Environment

Sometimes ecological environment can turnout the business of the clients. Floods, disasters can affect the business after having the BRAC bank loans or fire can burn out the whole business. To protect from these disasters BRAC bank do the insurance policy with the joint names of the client. So that client can get feedback from the insurance policy to run again his business. If client do not get support from the insurance company then BRAC bank give time or generate the client repayment schedule

3.12 Micro Environmental Analysis

Marketing management job is to attract and build relationship with customers by creating customer value and satisfaction. It depends on other factors in the organization microenvironment- suppliers, customers, competitors; various publics that make up the organizations value delivery system. The company needs to study its customer marketer closely in terms of Small and Medium Enterprise of BRAC Bank Limited and their customers

group is specified. Their target group is only Small and Medium Enterprise client. The CRO closely monitor and try to build good report with clients. On the other hand corporate clients are different to have the loan. Each market type has special characteristics that call for careful study by the marketer.

In terms of SME, most clients are carrying out trading business rather than manufacturing business. Few clients are attached with service business like pharmaceutical, hospital, homeopath etc. In the trading business clients want loans to meet their working capital requirement. On the other hand, client want 10-15 for purchasing fixed assets.

In our country mostly 35-40 years old clients are carrying out loans regarding the type of their business. The clients who interested to take the loan of SME then they have maintained at least one year running business. It is a policy of this bank because in the mean while client can understand his business and can set a future plan. The educational qualification of our clients is very poor. Clients are undergraduate but carry out good business. SME support their clients who are carrying out good business and also give suggestions and guidelines to develop their business. If any client has maintain loans with other banks then SME is restricted to provide loans for that clients. The client needs clearance certificate to get the loan from the BRAC bank.

It has been found out that in our country most clients need small loans to develop their own business. The world is being globalizes and modernized. Therefore, client takes risks to enhance and develop their business and BRAC bank is a good helping hand to help them. In our country, clients want more time to repay the loan. BRAC bank gives adequate time for the client to repay the loan whether they can get benefit from it. Clients are very happy to repay the loan by equal monthly installment. Clients know the right time to repay the loan at the right place. But in the pick season, most client wants short fund requirement to carry out good business. Regarding interest rates, clients are not talk about more because clients get the loan at the right time from the BRAC bank. Clients are also happy by the issuance of security preferences because they do not have to provide any collateral security for

hypothecation or unsecured loans. SME of BRAC bank networks has everywhere in Bangladesh. So clients can have the SME loans wherever his business exists in the country. In addition, clients get the fast service from the BRAC bank.

The purpose of this loan is the economic development in our country, which might divert the clients mind after having the loans for expansion. Many clients have ambition to expand from trading to manufacturing business to generate more profit. When a CRO would visit a business, the client must provide the proper and right information and show the right documents for justifying a good client. If any CRO feel bad smell in the business then the CRO reject that client without concerning the management. So clients should be feel comfortable to provide proper information to have the loan. Regarding the service by the CRO, getting these quick facilities from them satisfies almost all clients. Though it is pioneer division of the bank, client should be fully satisfied by having this facility.

3.13 Industry Analysis: SME facility of BRAC Bank

3.13.1 Threat of New Entrant

In every industry, there is a threat of new entry, which varies according to industry. Similarly, the banking sector of Bangladesh also faces the threat of new entrants. However, the threat comes from two directions. The first threat comes from the arrival of the multinational banks and their branch expansion particularly due to the booming energy sector. For example, Standard Chartered Bank already inaugurates the SME loan. Another threats comes from the emergence of new private commercial banks. For example, Southeast Bank, Dhaka Bank & others, the countries traditional banks are facing the treat of further competition and better quality service. Similarly, the potential banks that may emerge in the next few years will further enhance the intensity of competition and may pose further threat to the existing banks. At the same time, arrival of the foreign banks is posing threat and pressure on the existing banks. At the same time, arrival of the foreign banks is posing threat and pressure on the existing banks. Already Standard Chartered Bank and Hong Kong Sanghai Banking Corporation

(HSBC) has started to provide small loans to clients and they are also going to start door to door services to clients.

3.13.2 Growth in the Industry

The rivalry among the competitors and the growth in the industry depends upon the intensity of competition. If the industry has a high intensity of competition then the industry will have a high growth rate, as all the firms will try to beat the others in order to grab the market share. Similarly, the banking sector of Bangladesh is growing considerably and at the same time competition is increasing. Currently BRAC bank SME division is a pioneer one and carrying out Digital Technology Management Systems.

Evaluation of SME

October 07, 2001- its operation started as the name of SESDF (Small Enterprise

Support Development and Finance)

October 30, 2001- its first loan disbursed to Mita Oil Mills as an overdraft loan.

October 10, 2002- it got the name SME (Small and Medium Enterprise)

March 2003 – Month of greatest challenge and achievement (Achievement-104%)

A sample MIS report has shown below:

Disbursement: Target Achieved (In lacs)			
Month	Target	Achieved	(%)
January 2003	783	630	75
February 2003	796	681	81
March 2003	855	925	104
March 2004	1000	1056	106
March 2005	1500	1620	108
March 2006	1800	1960	109

3.13.3 Competitors

Identifying the banks competitors

In terms of World Bank advice, most of the private banks are ready to provide small or micro credit loans to the clients because small loans are less risky than the corporate loan. At the recent trend, many banks like Standard Chartered, Islami Bank of Bangladesh, Southeast Bank, Dutch Bangla Bank Limited etc are going to take many aggressive steps in terms of small loan to clients.

Determining the competitors objectives

In our country, High amount loans or long term loans are risky because Bangladesh Bank is carrying out lots of defaulter's list. So most of the banks are now interested to provide small or micro credit lending in terms of small and medium enterprise business. The objectives of the competitors are to capture in the market by providing small loans regarding and manufacturing business. But everyone's common objective is economic development of this country.

Identify the competitors' strategy

Standard chartered bank already sent marketing troops surrounding the cities for providing loans and deposits. CITI Bank is going to start retail service business for capturing the market. So competitor's analysis is important factor to carry out in the long run business for any organizations. Among these banks, many of them have lower interest rates but lots of hidden costs and services.

In terms of SME, a sample comparison between BRAC Bank Limited and Islami Bank of Bangladesh has shown below:

BRAC Bank Ltd.	Islami Bank
Provide online banking & services	Provide manual banking services
Officers provide door to door services	Clients have to go to branch & then talk with officer
BRAC Bank has 265 unit offices to bring clients	It has almost 50 brunches around the country
BRAC Bank depends on other banks for disbursements	Disburse the loan from its own brunch
Collateral free 2-5 lacs	Collateral free 2-5 lacs
It has only term loan system	It has overdraft & term loan facilities
Networking with BRAC, IFC & Shore Capital	No network
It has goodwill & flexible interest rate	It has goodwill but higher interest rate
It has vast field employees to reach each and every client in terms of small & medium enterprise	It has also vast employees but not in the field level

Figure: Comparisons

3.14 SME Relates With the Modern Marketing Concept

First it provides customer satisfaction.

Second customer satisfaction through integrated effort. In terms of SME the goal is to economic development of our country through meeting and exceeding customer needs better than competition. In terms of customer orientation, SME provides the best facilities to customers regarding their needs. SME provides unsecured loans up to 5 lacs which none of other banks provide. In spite of integrated effort, SME is a team-based organization. CRO go to the door-to-door business and by depending on them, SME gives loan to clients.

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

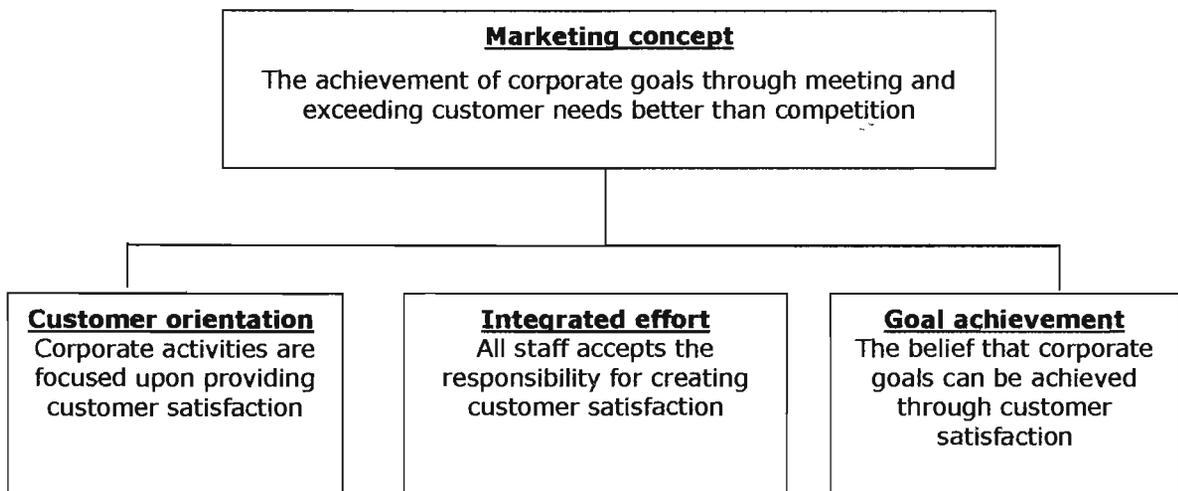


Figure: Marketing Concepts for SME

3.15 Strategic Planning in a Nutshell of Small and Medium Enterprise

In terms of our country most financial institution start out with extensive business and marketing plans to attract potential customers. But organization has some internal steps to carry out organization in the long run which it related to Small and Medium Enterprise of BRAC Bank Limited are as follows:

- Identify the major elements of business environment in which the organization has operated over the previous few years. In terms of BBL SME, it provides loans to small and medium enterprise. CRO or marketing officers deals with the clients directly and CRO's are all in all to provide the loans in terms of their beliefs. SME is very friendly to provide various facilities by the existing clients.
- Describe the mission of the organization in terms of its nature and function for the next two years. By thinking of client's benefits and satisfaction, SME will withdraw up to 10 lacs without collateral security for providing loans. Disbursement system will carry out by means of courier services. CRO will send necessary documents to head office to disburse the loan that is nonparallel decision by comparing other banks.
- Explain the internal and external forces that will impact the mission of the organization. In terms of SME, it has various unit offices surrounded throughout the country and has vast number of employees to handle different clients. However, it is a SME bank, which has strong feedback and

reputation in terms of social and environmental sights. By considering external forces, IFC or World Bank is financially collaborating with BRAC Bank. So it is big driving force for the SME of BRAC Bank Limited.

- Identifying the basic driving force that will direct the organization in the future. In terms of SME of BRAC Bank, it believes integrity, honesty, and conciseness bilaterally of clients and us. Though it is credit division, so marketing officers can relate with bravery. Management is very strict in terms of that issue. It is a strong reputed organization so clients have faith on us and this relationship will carry out long-term relationship with SME.
- Develop a set of long-term objectives that will identify what the organization will become in the future. In terms of SME, it has a long-term vision to run into the organization. Already it applies in Millennium Banking System software by means of online facilitates in terms of keeping all record and to way the process easier in the long run. SME thinks key business process with IT Management together in which IT can be enable can give best possible outcomes.

Marketing Processes Relate to SME

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

3.16 Market Segmentation

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

service. Basically manufacturing clients take medium or low amount of loan during short period of time.

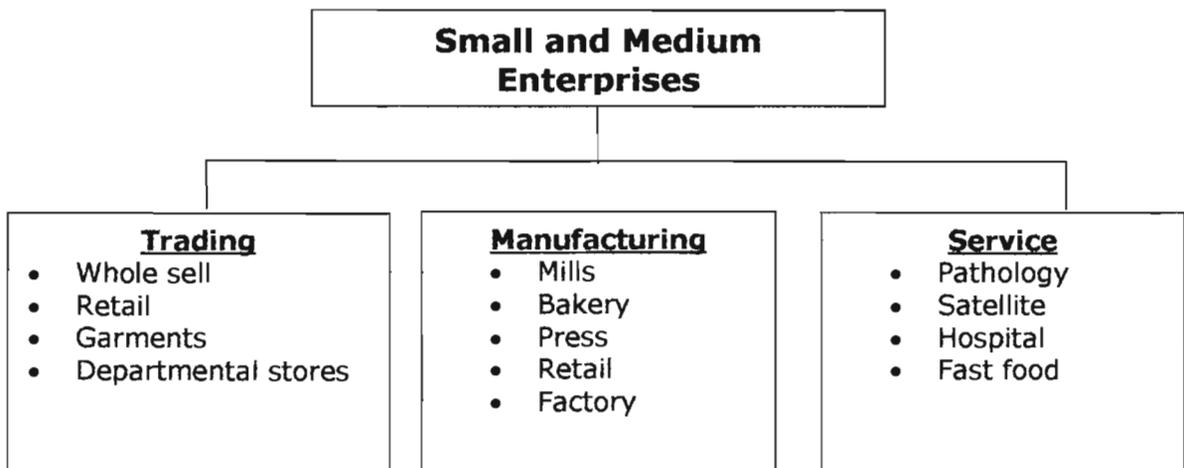


Figure: Market Segmentation

Bases for Segmenting Consumer Markets

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

Geographic segmentation: Dividing a market in to different geographic units such as nations, states, region, countries, cities, or neighborhood. In terms of SME, it targets every region around the country in terms of small business. Now the SME has almost 265 unit offices to provide credit facilities to the clients around the country. Each of the SME unit offices mainly setup the district levels around the city but not in the rural or undeveloped areas. However, where the potential enterprises/businesses are more, SME try to develop unit office at that particular region/ area to capture the entire market.

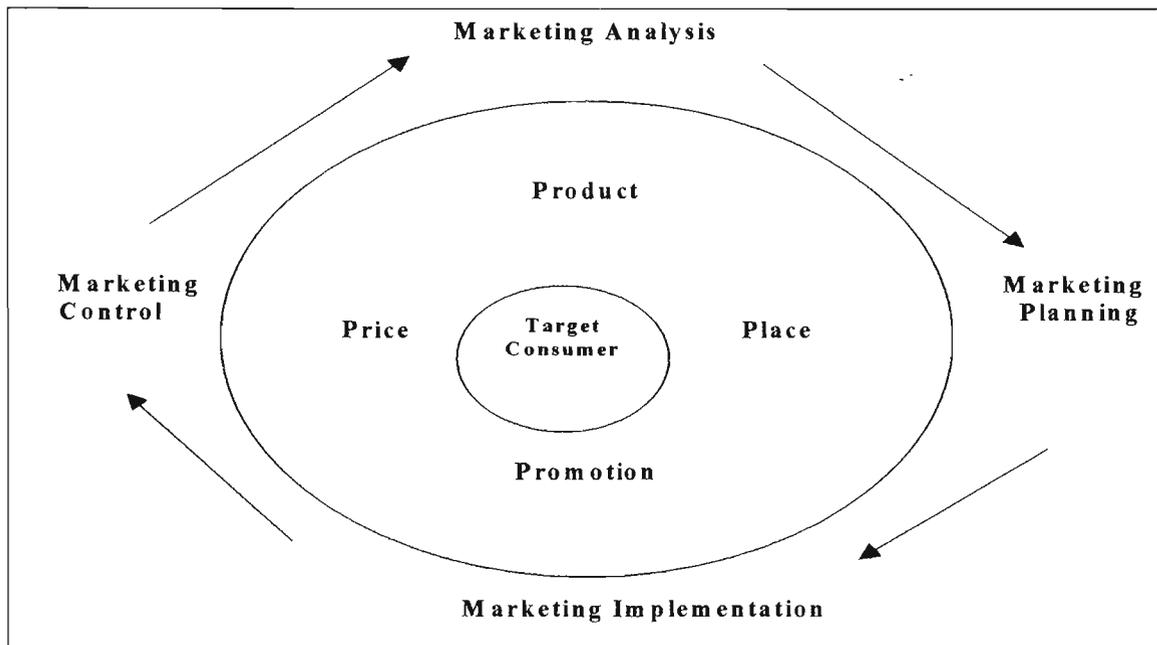
Demographic Segmentation: Dividing the market in to groups based on demographic variables such as age, sex, family, income, education, religion, and nationality. In terms of SME, in some cases it is very strict. If one who has Hindu religion and live close to the border, SME would have very careful

to provide loans to those clients. SME provide loans 20-60 aged peoples. SME is restricted to provide loans more than age of 65.

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

3.17 Target Consumer

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



Factors Influencing BRAC Bank's Marketing Strategy

Figure: Target Market

3.18 Target Market

Evaluation of attractiveness of each marketing segment and selection of other segments to enter. In terms of SME, the scope is specified which the target market is small and medium enterprise. However, SME is restricted for leather, jewelry, and alcohol business.

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

A-Categories officers are dealing with the educated clients, like MBA or PhD holder or highly social client.

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

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

3.19 Market Positioning

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

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

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

Unique Selling Propositions

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

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

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

3.20 Marketing Strategies for Competitive Advantages

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

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

a. Product means the goods and services combination the company offers to the target market. In view of SME, they have short term and medium term loans whether CRO provide quick and quality services to clients.

Customer service is another element of product strategy. A company designs its products and support services to profitably meet the needs of target customers. Short term products means 3/6/9/12 months loan and mid term product means 15/18/24/30/36 months loan. For example- in Eid occasion most cloth merchants want short-term loan to carryout a profitable business.

Short Term Products:

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

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

Mid Term Products

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

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

b. Price- is the amount of money customers have to pay to obtain the products. In terms of SME of BRAC bank, clients have to pay a certain amount of processing fees and stamp costs to get the loan. One of the factors that affect the companies own pricing moves. For example- many banks have processing fees with 1% or 2% additional charge and other

miscellaneous costs. But BRAC bank has withdraws other costs and charges to carry out in the competitive market.

- **Costly-** BRAC bank SME interest rate is 24%. So it is little bit of costly by the competitive edge but the client gets this loan within very short period of time. In this situation client cannot think about the interest rate because at the right time they get the loan, which they can exercise in their business, can yields profits.
- **Easy sanction-** If the CIB (Credit Information Bureau) is being cleared from Bangladesh Bank and all information is being transparent from client then the loan is become sanctioned in favor of client.
- **All time consultancy-** without taking any money, the officer of this bank give moral advices to clients to develop the business.

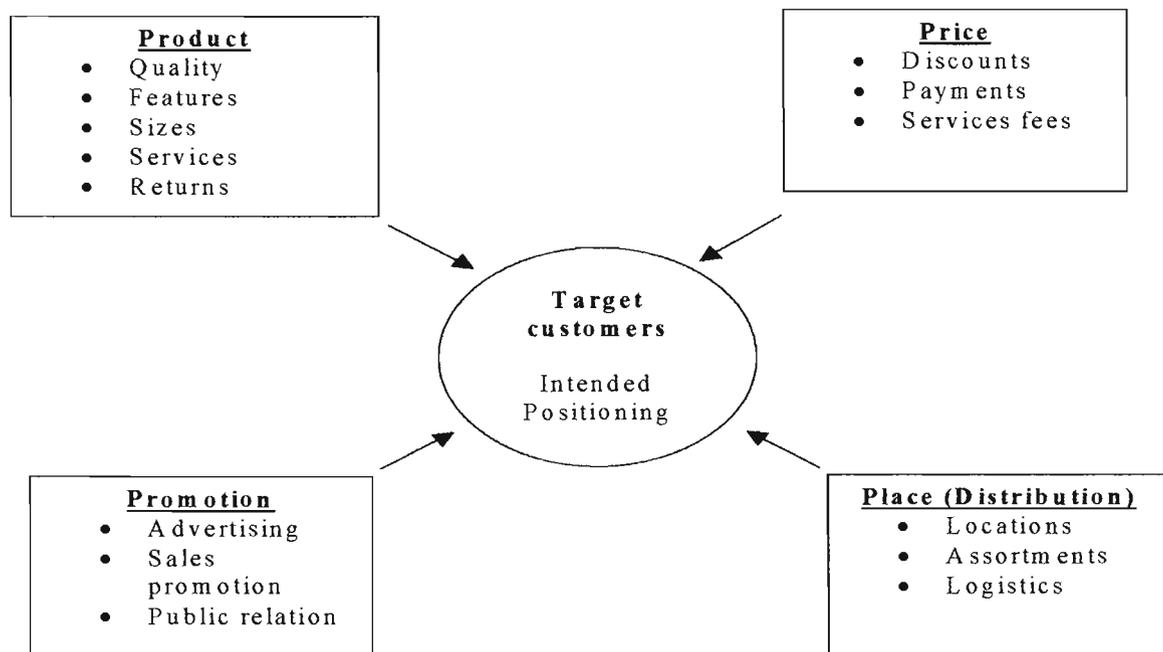
c. Place (Distribution) It includes companies activities that make the product available to target consumers. SME already spread out its unit offices around the country. SME tries to reach each and every small business enterprise to meet client's demands. Marketing channel decisions are among the most important decision that management faces. Management must make channel decision carefully, incorporating today's needs with tomorrow like selling environment. SME of BRAC bank already has 265 unit offices, which is spread throughout the country and 173 staffs working under these unit offices. These officers have respective selected supervisors who directly report to the SME main head office. So SME division has everywhere in Bangladesh to serve all respective clients.

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

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

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

Neglected People- there are some people who are very afraid of dealing with the bank. They were very simple dresses too afraid to the bank. But they are carrying out good business and potential clients. They could be target for the BRAC Bank Limited.



The 4 P's of the marketing mix in terms of SME of BRAC bank

Figure: Marketing Mix

3.22 Managing the marketing effort in terms of SME

The company wants to design and put in to action the marketing mix that will best achieve its objectives in its target market. Much organization follows

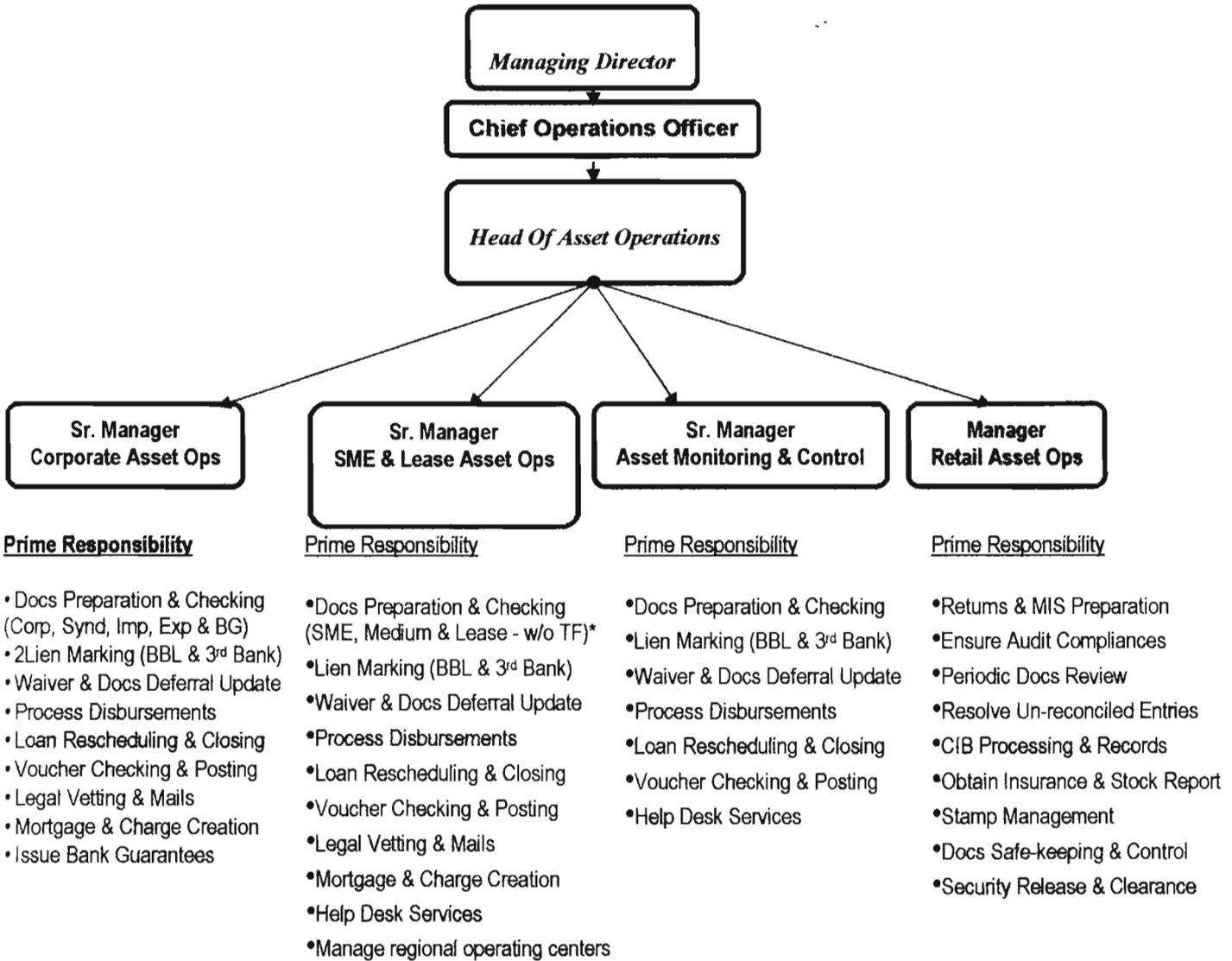
four marketing management function- Analysis, planning, implementation and control

Marketing Analysis: SME always analyzes its market and marketing environment to find attractive opportunities and to avoid environmental threats. It is also analyze banks strengths and weakness as well as current and possible marketing action to determine which opportunities it can best pursue. For example: after analyzing the market, SME withdraws collateral security up to 8 lacs taka to get the loans.

Activities of AOD

Loan Administration Department born in 2nd May of 2003 through centralization. Previously It has supported Retail, Corporate, and SME. LAD was renamed in 1st of March 2006 as Asset Operations Department currently AOD supports- SME, Retail, Corporate, Trade Finance Department.

3.23 Department Structure



Source: Asset Operations Department Manual Book

Figure: Departmental Structures

3.23.1 Department Activities

Disbursement & Monitoring

- Obtain clients' clean CIB reports



- ❑ Check and obtain all securities docs
- ❑ Legal correspondences & vetting
- ❑ Processing loan disbursement
- ❑ Managing SME repayments manually
- ❑ Adequate loan loss provisioning
- ❑ Monitoring of past due loans, limit, expiry & docs deficiency

Custodian & Compliances

- ❑ Safe-keeping of all securities & docs in a locked archive
- ❑ Obtain periodic stock reports & insurances (renewal copy)
- ❑ Timely prepare and submit all MIS & Central Bank Returns
- ❑ Assist auditors (External / internal & ensure compliance of all audit queries in a timely manner)

Supporting Activities

- ❑ Create charges with RJSC & mortgage at sub-registrar's office
- ❑ Obtain certified copy of registered mortgage from sub-registrar office
- ❑ Prepare & circulate division-wise irregularity reports
- ❑ Initiate and implement cost & time effective process re engineering
- ❑ Provide orientation and refreshers training to SME staff (CRO/ZO)

3.23.2 Purpose & Scopes

Loan documentation is scrutinized for accuracy, adequacy and completeness, independent of any review done by the front line Business divisions. Loan documentation and securities are properly monitored and safeguarded amounts of principal, interest, charges and income are received on a timely basis and correctly recorded. Client's liabilities are completely and accurately in the records of the Bank.

3.24 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 that shows the banks transactions nature of the client.
- **Open clients accounts in the respective bank:** When 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 occurs by the special permission of the authority to repay by a different bank account.
- **Filled up CIB form:** CRO give a CIB (Credit Information Bureau) form to the client and the client fill and sign in it. In some case if the client is illiterate then the CRO fill the form on behalf of the client. Then CRO send the filled and signed form to the SME, head office.
- **Sending CIB to Bangladesh Bank:** The SME, head offices collect all information and send the CIB form to Bangladesh Bank for clearance. Bangladesh Bank return this CIB form within 10-12 days with reference no.
- **Report from Bangladesh Bank:** In the CIB report Bangladesh Bank use any of the following reference no:

- a) **NIL:** If the client has no loan facility in any bank or any financial institution then BB (Bangladesh Bank) use 'NIL' in the report
- b) **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
- c) **SS (Substandard):** If the client has any loan facility in any bank or financial institution and if the installment is due 6 to 11.99 then BB use SS in the report
- d) **DF (Doubtful):** If the client has any loan facility in any bank or financial institution and if the installment is due 12 to 17.99 then BB use DF in the report
- e) **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 use BL in the report. This report indicates that the client is defaulter and the bank should not provide loan the client.

- **Loan decision considering CIB report:** Considering CIB report, BRAC bank decide whether it will provide loan to the client or not. If the bank decide to provide loan then SME department keep all information and send all papers to respective unit office to apply with all necessary charge documents.

- **Loan Sanction:** The respective unit office sanction loan to the client if it is 2 to 5 lacs and sends the sanction letter including all necessary charge documents to Asset Operations Department for the disbursement of loan. If the amount higher than 5 lacs then the respective unit office sends the proposal to SME, head office for sanction. The head of SME sanctioned the loan and send the sanction letter including all documents to Asset Operations Department for disbursement and inform the respective unit office regarding sanction of the loan.

3.25 Disbursement of SME Loan

Pre Disbursement Manual Activities

Prepare loan file: Receiving all documents, Asset Operations Department prepares loan file with all documents received from the unit office.

Charge documents checking: The loan administration division checks all charge documents. Following charge documents are checked:

- ✓ Money receipt (Risk fund)
- ✓ Sanction letter
- ✓ Demand promising note (With stamp of Tk. 20/=)
- ✓ Letter of arrangement (With stamp of Tk. 150/=)
- ✓ General loan agreement (With stamp of Tk. 150/=)
- ✓ Letter of undertaken (With stamp of Tk. 150/=)
- ✓ Letter of stocks and goods (With stamp of Tk. 150/=)
- ✓ Letter of hypothecation book debt and receivable (With stamp of Tk. 150/=)
- ✓ Letter of disbursement
- ✓ Photocopy of trade license (attested by CRO)
- ✓ Insurance (Original copy)
- ✓ Blank claque with signature (one cheque for full amount and others same as no of installment on Favor of BRAC bank, no date, no amount)
- ✓ Two guarantors (one must be Spouse/parents)
- ✓ If the loan provide for purchase of fixed assets or machineries and if the loan amount is over Tk. 50,000/= then the stamp of a certain amount is require)

• **Documents deficiency and problem resolving:** If there is any error found then it is informed to the respective CRO. If the application form is not filled properly then the file is send to the CRO to fill the application properly. If any error found in document then Asset Operations Department asks CRO's to send required documents and the files are stored to the archive.

- **Prepare disbursement list:** The Asset Operations Department 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 loan amount through any of the following banks corporate branch nearer the BRAC bank head office and the corporate branch of the respective bank send the amount to the client account in the respective branch. These banks are:

- ☑ BRAC Bank Limited
- ☑ The City Bank Limited
- ☑ Janata Bank
- ☑ Bangladesh Krishi Bank
- ☑ Pubali Bank
- ☑ Agrani Bank

Message sent to the unit office: Completing the disbursement, Asset Operations Department sent SMS to the respective CRO's by informing disbursement message of the sectioned loan.

MBS Entries For Loan Disbursement:

- **Initial ID generation:** After sending the list to the treasury, Asset Operations Department 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, AOD open a loan account in MBS against the borrower. Entering all required information, the MBS automatically give an account no. for the borrower.

- **Cost center assign:** The loan administration division enter the following information in MBS:

- ☑ Security details set-up
- ☑ Guarantor details set-up
- ☑ Loan other details set-up

- **Risk fund collection:** The loan administration division opens a different account risk fund of the client. This is known as loan processing fees. Receiving the risk fund, the AOD print voucher and posting the voucher in the MBS. The amount of risk fund is not refundable.

- **Activision of the loan:** Asset Operations Department do the following tasks to activate the loan:

- ☑ Loan sanction details set-up
- ☑ Repayment schedule set-up and printing
- ☑ Loan activation
- ☑ Disbursement and CC wise voucher print
- ☑ Disbursement voucher posting

Post Disbursement Manual Activities

- ☑ **Repayment schedule sent to unit office:** Completing the disbursement of the sanctioned amount Asset Operations Department 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. Nevertheless, if these stamps are not canceled then the judgment may not on favor the bank.

☑ **Send the loan file to archive:** Completing all activities, Asset Operations Department sends the loan file to the archive for future requirement. In future, if any documents of the loan account require then the bank can collect the file from archive and get the necessary document. If client take repeat loan then it is not require applying all documents because his all documents stored to the bank.

3.26 SME Loan Recovery Procedures

Receive SMS/Fax for installment deposits:

When the borrower repays any installment of the loan then he/she informs it to the unit office/CRO. Then the unit office/CRO send a SMS through mobile phone or a Fax to the Asset Operations Department informing the repayment. Asset Operations Department collects these SMS /Fax and take a paper print of these SMS.

Entry the installment information to MBS:

Asset Operations Department entry the repayment installment information to MBA.

Print Vouchers:

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

Cross Check SMS/Fax and solve problems (If any):

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

SMS/Fax. If there any error found then it is solved and ensure the correct information entry.

Repayment voucher check and posting:

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

3.27 Closing procedures of SME loan in BRAC Bank

a) Pre-closing manual activities

Receive SMS/Fax requesting for closing: The borrower repays 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 an SMS/Fax the loan administration division requesting to close the loan account of the respective borrower.

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

Bring the loan file from archive: The loan account file of the respective borrower brought from the archive. Crosschecked the documents of file with MBS record.

Obtained approval from the concern authority: it is require the permission of concerned authority to close the loan. If concerned authority approves the closing of the loan account then next initiatives are taken.

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

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

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

b) MBS Entries For Loan Closing

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

- Interest/provision charging & print voucher
- Charges collection & print voucher
- Final repayment entry & print voucher
- Final repayment entry checking
- Repayment voucher posting

c) Activate account closing in MBS: Completing above mentioned tasks, the loan administration division finally close the requested loan account in MBS.

d) Post Closing Manual Activities

Re-Checking With Deposit Slip:

Completing MBS activities, the loan administration re-check all deposit sleeps of the loan account. If there is any error found then immediately resolves it otherwise the file sends to the archive for future requirements. The client may take repeat loan in future and then information from this file will help to approve and disburse loan that 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

e) 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.

3.28 Key Performance Indicator of Asset Operations Department

Particulars	Performance				Growth
	July04-June05		July05-June06		
	Number	Amount	Number	Amount	Percentage
Disbursement	19,145	898	33,631	1,731	76%
Retail	8074	269	10,622	395	32%
Corporate	417	274	1148	575	175%
SME	10,654	355	21,861	761	105%
Closing	4,344	255	10,916	837	151%
Retail	783	43	1,859	94	137%
Corporate	198	82	1,038	465	424%
SME	3,363	130	8,019	278	138%
Repayment					
SME	138,580	334	254,425	587	84%
CIB Reports	26,899		45,026		67%
Retail	5,276		9,797		86%
Corporate	123		235		91%
SME	21,500		34,994		63%
Query Handling	24,701		38,538		56%
Retail	8,501		8,641		2%
Corporate	2,259		2,063		9%
SME	13,941		27,834		100%

Figure: Graphical Report on Key Performance Indicator

Source of information: Millennium Banking Software/Monthly Report /BRAC Bank

3.29 Comparative Status of Manpower

Comparative View On Manpower					
July 03-June 04		July 04-June 05		July 05-June 06	
Permanent	Contractual	Permanent	Contractual	Permanent	Contractual
10	12	24	27	33	43
22		51		76	

Figure: Comparative Study of Manpower

3.30 Comparative View on Credit Information Bureau Report

Number of CIB Queries Send to Bangladesh Bank

(1st Quarter of 2006

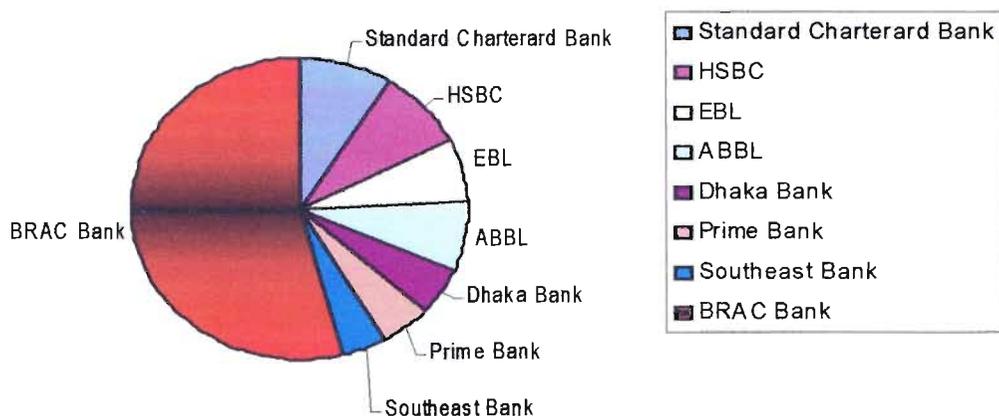


Figure: Comparative Views on Credit Information Bureau Report

Name Of The Banks	Number of CIB Queries Send to Bangladesh Bank (Quarterly From Jan 06-Mar 06)	Charge Given To BB Quarterly From (Jan 06-Mar 06)
Standard Chartered	3619	180950
HSBC	3395	169750
EBL	2716	135800

ABBL	3027	151350
Dhaka Bank	2001	100050
Prime Bank	2015	100750
Southeast Bank	1658	82900
BRAC Bank	21847	1092350
Total	40278	2013900
Current Scenario In Percentage	54.24%	54.24%

Figure: Number of CIB queries send to BB

3.31 Risk Factors

- **Amount Related Risk:** This type of risk arises when incorrect loan amount, interest rate, tenure or charges are posted in vouchers.
- **Approval Related Risk:** This type of risk is involved when the loan is disbursed without checking the approving authority of the respective credit approvers.
- **Security Document Checking Risk:** This type of risk arises when the security documents (post dated / blank cheques, FDR slips, DP notes, etc.) are not checked properly.
- **Manual Error Risk:** Error risk is involved in preparation of manual MIS reports.
- **Land Related Documentation Risk:** This type of risk is associated with proper valuation of land and preparation of mortgage documents.
- **Error Entry Risk:** This type of risk arises when incorrect cost centers, product codes or A/C heads are posted.
- **Repayment Collection Risk:** This type of risk is involved when repayment collection of SME loans are credited in wrong Bank accounts. Deposit slips should be sent through automated process from the unit offices.
- **Loan Provision Risk:** This type of risk arises if the adequate loan provision is not created.

- **Fake Document Risk:** Risk is involved if the documents provided with loan are false at all.
- **Manual BB Returns Risk:** BB returns (CL, CIB, SBS, Sector wise statement, etc) are prepared manually and this process arises accuracy risk.
- **Risk for Disbursement:** Absence of Automated Data Template arises disbursement risk.
- **Time-bar Risk:** Science service level agreement with other departments is not established yet failure of time schedule risk arises as all services are provided on demand.
- **Credit Matrix Risk:** This type of risk arises when there is insufficient support from MBS automation for updating credit matrix.
- **Lease Module Risk:** This type of risk exists because there is no automated lease-financing module, which is most urgent requirement.
- **Legal Risk:** As there is no in house lawyer, legal risk is involved with day-to-day document preparation and checking.
- **Lack of Skilled Manpower Risk:** Loan administration needs skilled manpower to smoothen the whole operational process.
- **Disbursement Pressure Risk:** This type of risk arises when corporate loans are sometimes disbursed for the pressure of business unit without regularizing documentation requirements and deferral cases are not regularized in time.
- **Lack of Knowledge of MBS Risk:** Adequate knowledge and absence of training on MBS arises operational risk for Loan Administration department. Besides MBS operational manual should be available to all employees.
- **Fire Accident Risk:** This risk exists because there is no fireproof file cabinet in the vault; moreover fire extinguishments equipments are not sufficient.
- **Documents Movement Risk:** SME documents are frequently moving from the vault for the business analyzing part of the file; which arises risk for misplacing of the documents.
- **Over Work Load Risk:** Huge pressure of loan disbursement within the stipulated time bar causes late sitting of the employees; so error risk arises for over workload.

3.32 Mitigation Process of Asset Operations Department

AOD is continuously developing the work-process to mitigate the risks associated with departmental operation. Existing risk minimizing techniques and proposed way to minimize the operational risks are presented below.

Counter Checking: Counter-checking technique removes the risks related with following operations;

- Data entry
- Voucher posting
- Security and document checking
- Confirming approver's authority

Internal Training: Continuous internal training will develop the competency among the employees to minimize the risks related with following operations;

- Land and mortgage documents execution and checking
- Identifying fake documents
- Lack of MBS knowledge
- Lack of operational skills

Automated System Development: Some additional automated MIS should be integrated with MBS so that risks related with following reports are mitigated;

- Manual BB returns preparation
- Automated lease module
- Manual loan provisioning
- Manual MIS reports preparation

SME HUB: An integrated repayment collection process should be developed through SME booth installation. This program will minimize the risk of wrong entries and smoothen the departmental operation.

Service Level Agreement: Service level agreement between the LAD and other concerned departments should be developed immediately to meet the business demand and time schedule.

In-house Lawyer: In-house lawyer recruitment will help this department to get the prompt legal coverage in preparing legal documents (specially for corporate & lease financing) and identifying fake documents (specially for SME).

File Movement Guideline: A defined guideline should be developed to restrict the file movement to other departments from the file archive of LAD. To mitigate the risk of loss of securities/charge documents, it is suggested to provide photocopies of the files rather than original files.

Defined Work Process: An integrated work process should be developed for LAD where every employee should have a defined job and time bar. This whole process should be supervised and reviewed to smoothen the operation and lessen the excess workload.

Secured File Archive: Necessary steps should be taken to protect the file archive from fire accident and flood situation.

CHARTER: 4

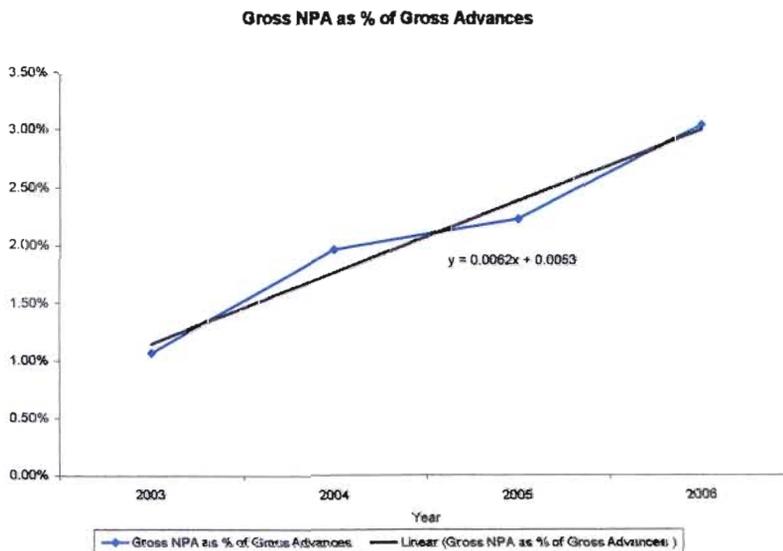
4.0 Appraisal of Financial Performance:

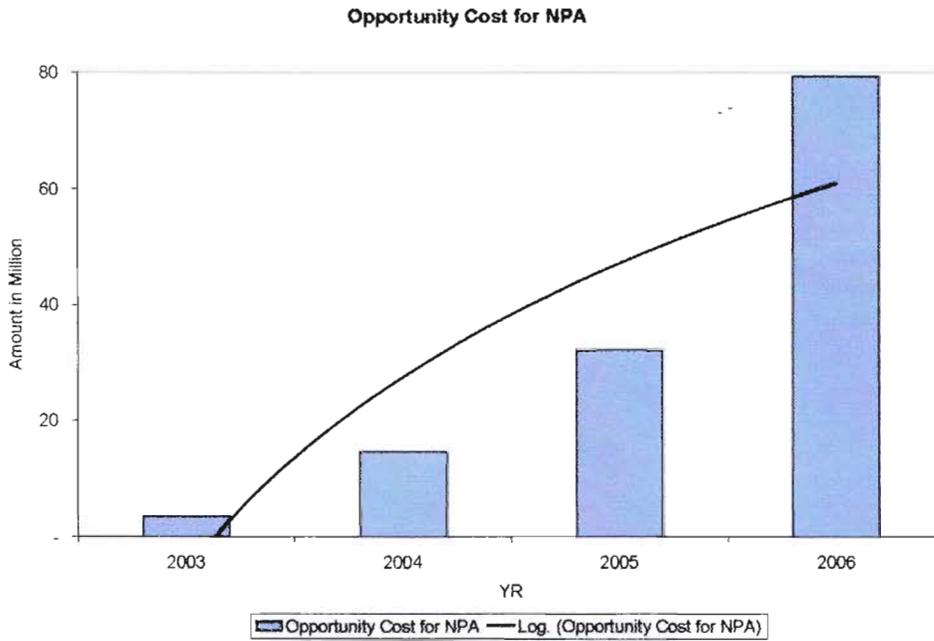
4.1 Financial Risk and Capital Structure:

4.1.1 Asset Quality:

The Bank's Gross Non Performing Assets (NPA) represented 3.04% of its gross loans and advance at December 31, 2006, 2.23% at December 31, 2005.

In the year 2006, NPA of the bank stood at BDT 594.78 Million compared to BDT 262.98 Million in the year 2005 and at the same time loans and advances of the bank grew from BDT 11,791.31 Million to BDT 19,557.14 Million. However, the net NPA of the bank was nil because of higher provisioning of the amount. The NPA is mostly on the consumer portfolio and since the individual amounts are small, the risk is diversified. On the other hand, opportunity cost for NPA has increased significantly in 2006, since the NPA and cost of earning assets (including SLR portfolio) have increased simultaneously. Opportunity cost has creased 40% compare to previous YR. The ALCO (Assets Liability Committee) should concentrate more on this.



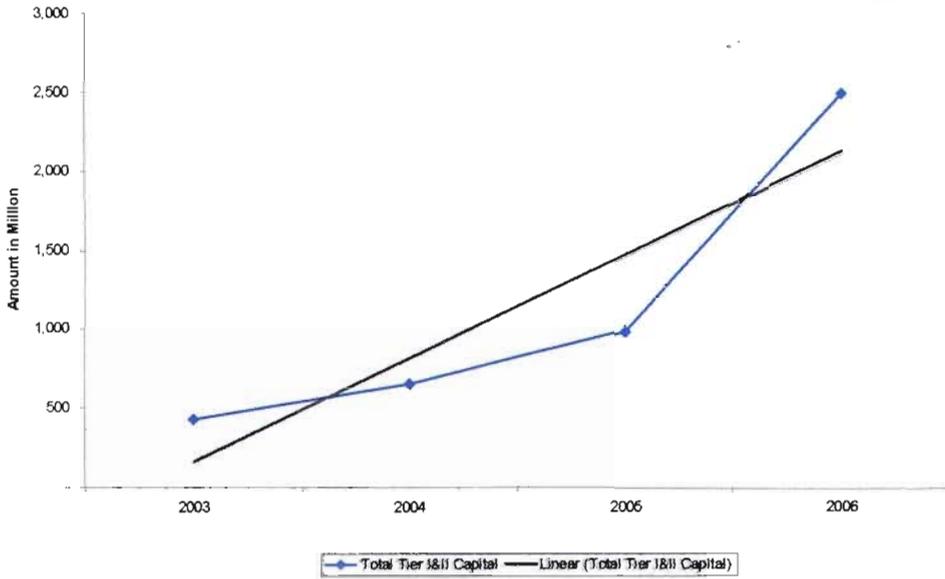


4.1.2 Capital Adequacy Ratio (CAR):

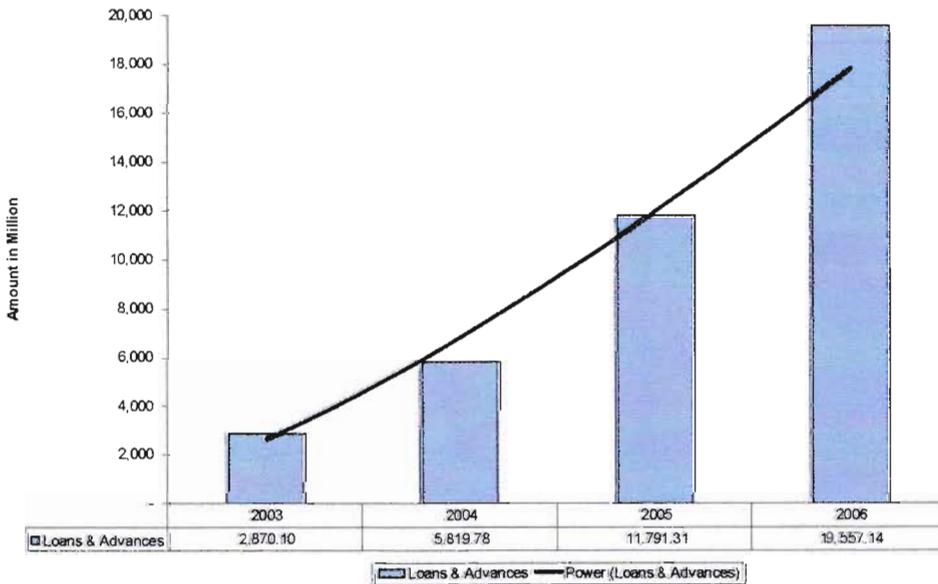
As of Dec 06 CAR is 13.53% compared to 9.39% as of Dec 2005. The reason for the increase in CAR is the higher move towards Tier I&II capital from BDT 988.88 Million to BDT 2,496.29 Million. The main contribution to the increment is the Loan Portfolio. In 2006 loan has increased 87% from previous YR and as per the method for calculating CAR, the risk weight is 100% for any consumer loan.



Total Tier I&II Capital



Loan & advances



4.1.3 Change in Capital Structure:

In the 1st quarter of 2006, BRAC Bank issued preference shares of BDT 168 Million to 3 investors. The investors are leading financial institutions of the country. In the 4th quarter of 2006, BRAC Bank has gone into IPO of

Ordinary shares. They have offered BDT 350 Million shares of BDT 100 face value at the premium of BDT 70. The IPO was rated by CRISL as A in the long term and ST-2 in the short term. This IPO is expected to be over-subscribed.

4.2 Industry Concentration on Loan:

Industry Category	Volume	%
Advances to customer group	5,481.27	28.03%
<u>Advances to Industry Segment</u>		
Agriculture, fishing, forestry and dairy	1,001.92	5.12%
Jute, Textile, Garments, Chemicals, Cements, etc	803.39	4.11%
Working Capital Financing	1,845.97	9.44%
Small and Cottage Industries	579.28	2.96%
Small and Medium Enterprise	9,845.34	50.34%
Industry Total	14,075.90	71.97%
Total Loans & Advances	19,557.17	100.00%

BRAC Bank holds the second highest retail portfolio in Bangladesh and is the market leader in SME financing. BRAC Bank has established a strong infrastructure for SME financing all over the country. They have a total number of 51 zonal offices and 285 unit offices. There are 652 customer relationship managers and 7 territory managers. 50% of BRAC Bank's exposure is with the SME sector.

4.3 Profitability Ratio:

4.3.1 Earning Assets Ratio:

BRAC Bank's interest on earning assets stands at 14.04% in 2006, which is 1.22% higher than previous year. On the other hand, net income on earning assets increased by only 0.02% in 2006 from 2005. This is because of high

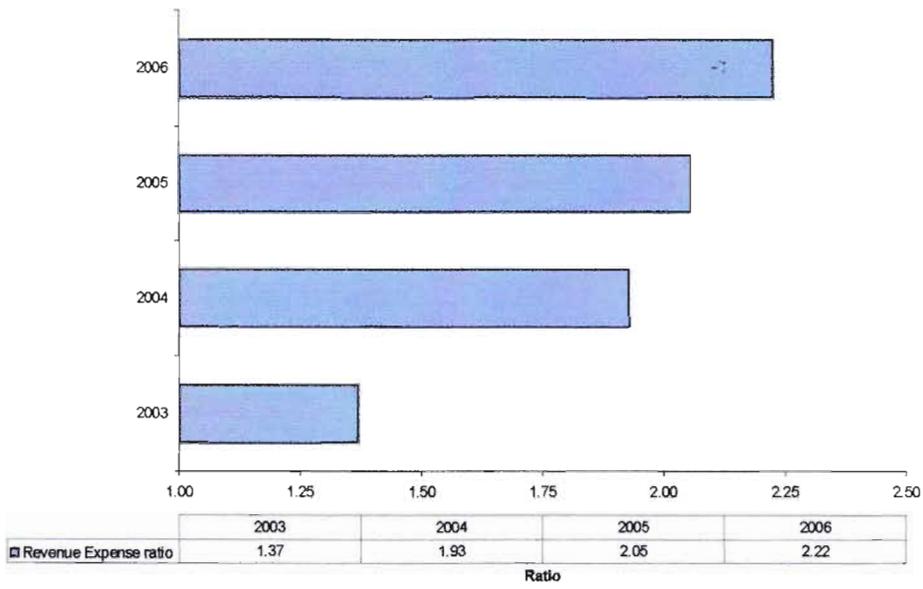
operation expense. Other expense e.g. Depreciation, Provisions & Write-Offs and Tax, has increased by 99% in 2006. The main contribution to the increment is SME loan.



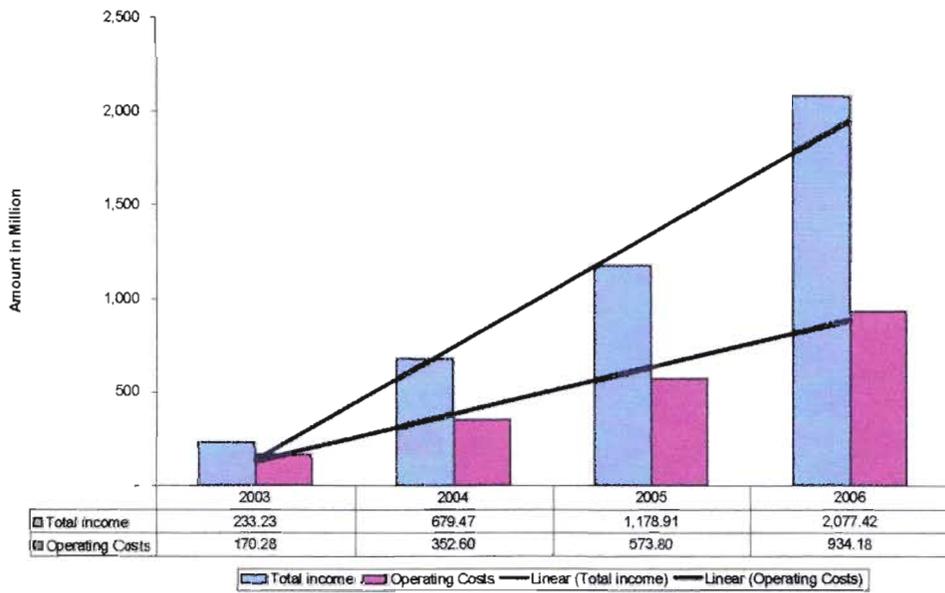
4.3.2 Revenue-Expense Ratio:

Total income of the BRAC Bank has increased significantly in 2006. On the other hand, bank able to manage its' total Expense in a good manner. Revenue-expense ratio becomes 2.22 in 2006. Total income increased by 76% compare to previous YR, but expense increased by 63%. So the spread of 13% helps the bank to increase its' Revenue-expense ratio.

Revenue Expense Ratio

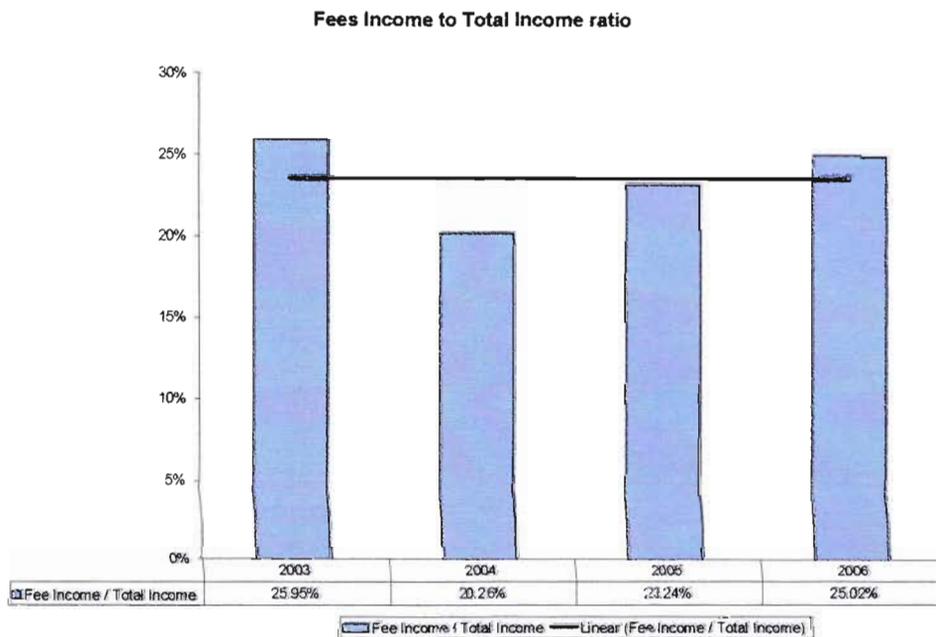


Income vs Expense



4.3.2 Fees Income to Total Income ratio:

The trend of the fees income of the bank of almost stable since 2003. The bank has able to increase of fees income with the line of total income. This is happened for the service products which offered to the valued customer with win-win features.

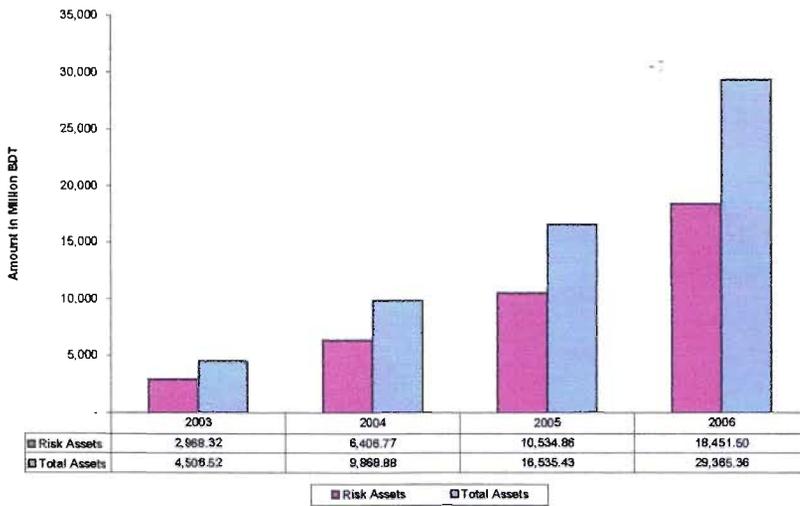


4.4 Assets Quality Ratio:

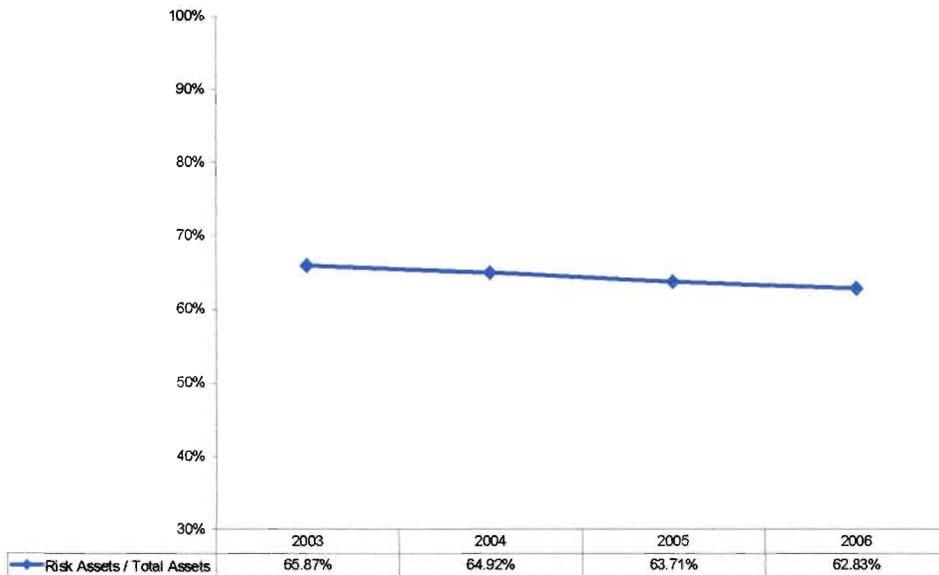
4.4.1 Risk Assets to Total Assets ratio:

During the last three years BRAC Bank's total assets has increased significantly. Average growth of the assets from 2003 to 2006 is 88%. Risk assets of the bank has also increased with the same trend during the same period. Average growth of the Risk Assets is 85%. Average 64.33% of the total assets is the risk assets. The main contribution of risk assets is the Loan portfolio, especially the SME loan.

Risk assets and Total assets

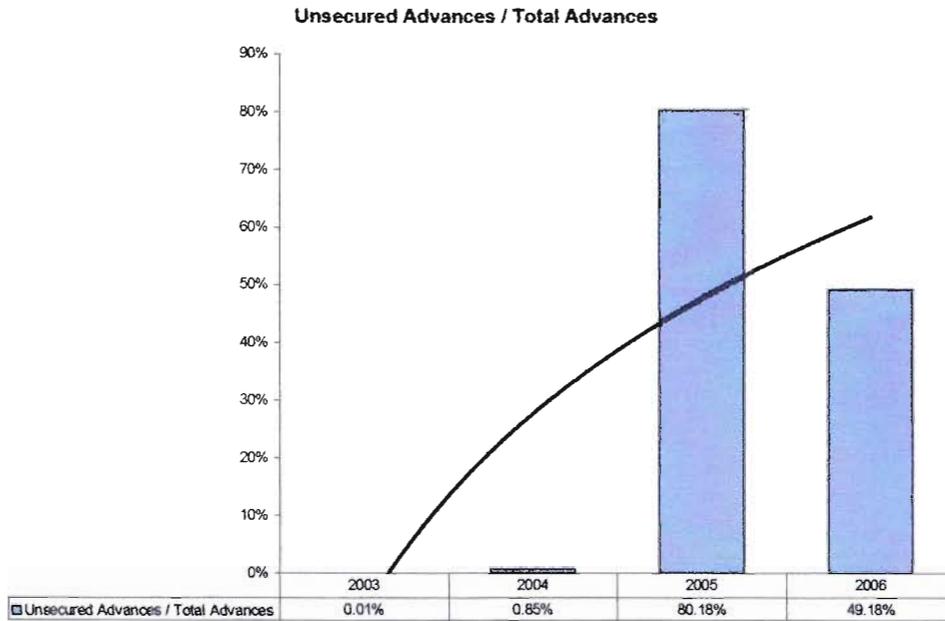


Risk Assets / Total Assets



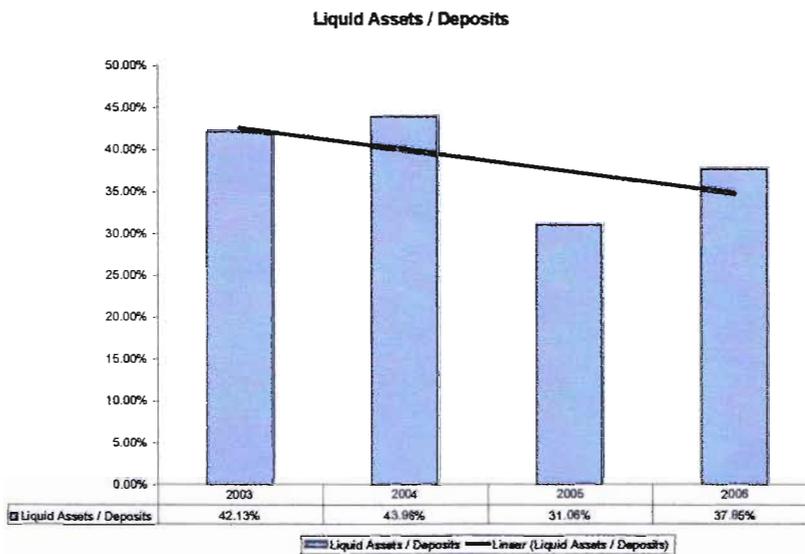
4.4.2 Unsecured Advance to Total Advance ratio:

Bank’s unsecured advance has increased very sharply in 2005. The unsecured advance to total advance ration in 2005 was 80.18% but bank able to manage to decrease this in 2006 at 49.18%. Main reason for this high ration is SME loan.



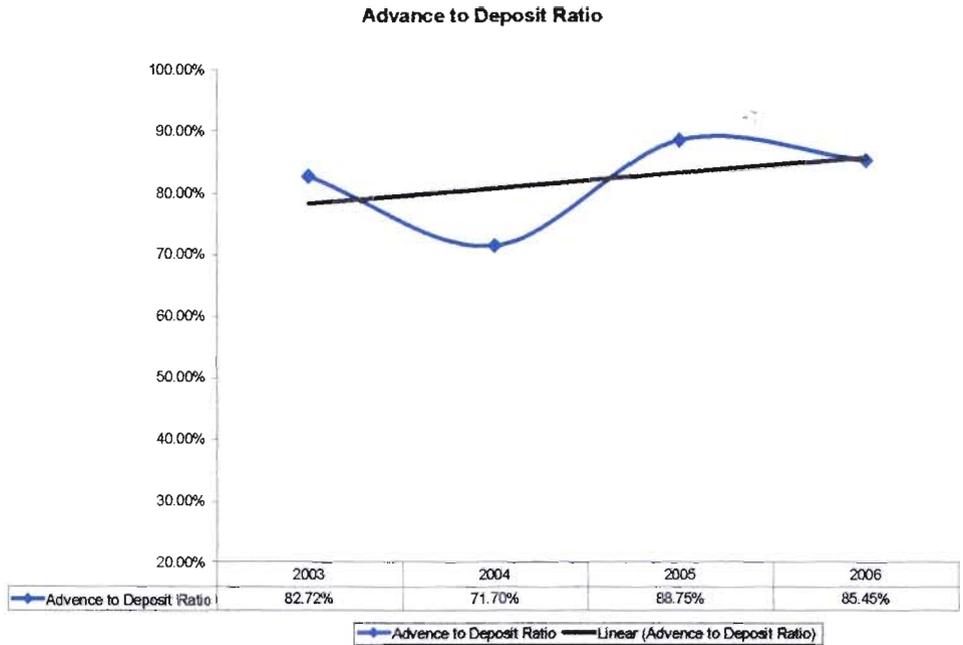
4.4.3 Liquid assets to Deposit ratio:

BRAC Bank's liquid assets to deposit ratio is falling since 2003. Although 2006 ratio has improved from 2005, but still it's below 40%.



4.4.4 Advance to Deposit ratio:

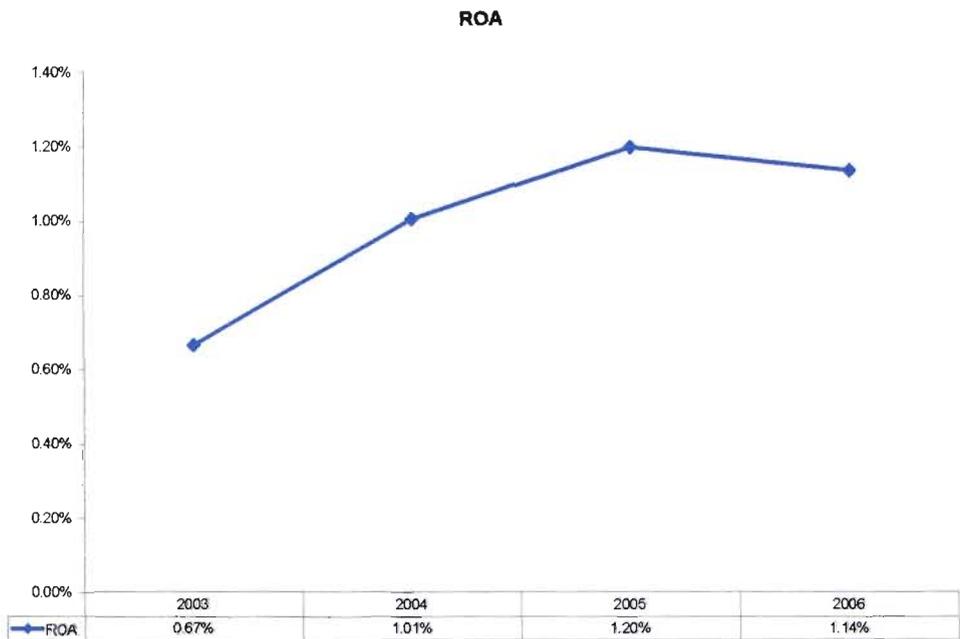
Bank's average Advance to deposit ratio is 82.15% from 2003 to 2006 with an increasing trend. In 2006, it stands at 85.45% which is 3.3% lower than the previous year. The bank is running with a high AD Ratio.



4.5 Other Ratios:

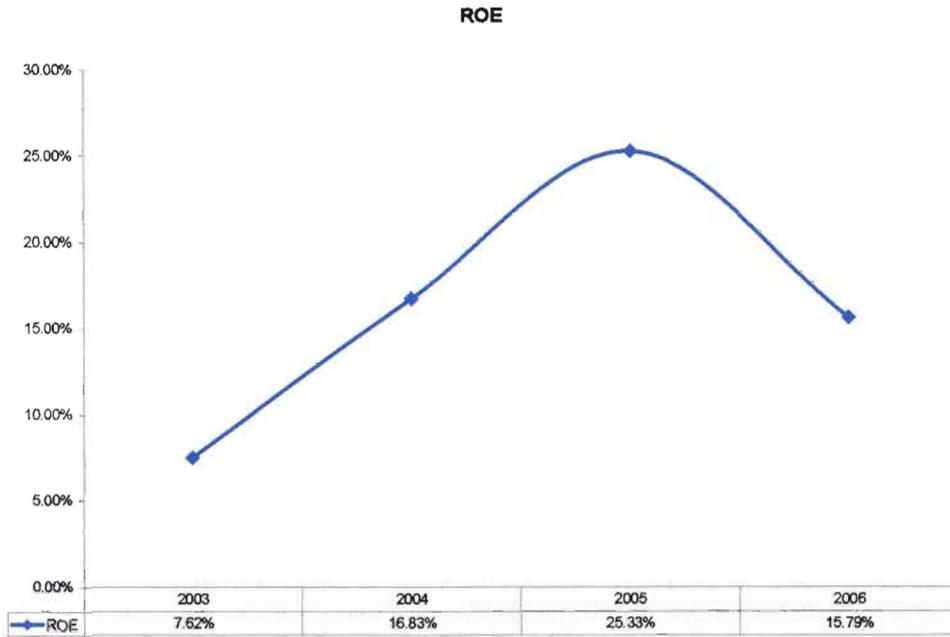
4.5.1 ROA:

BRAC bank's average ROA for the last four years is 1.00% which is very lower. ROA has increased a tiny in 2005 but decreased in 2006 again. The low return result is because of high interest cost.



4.5.2 ROE:

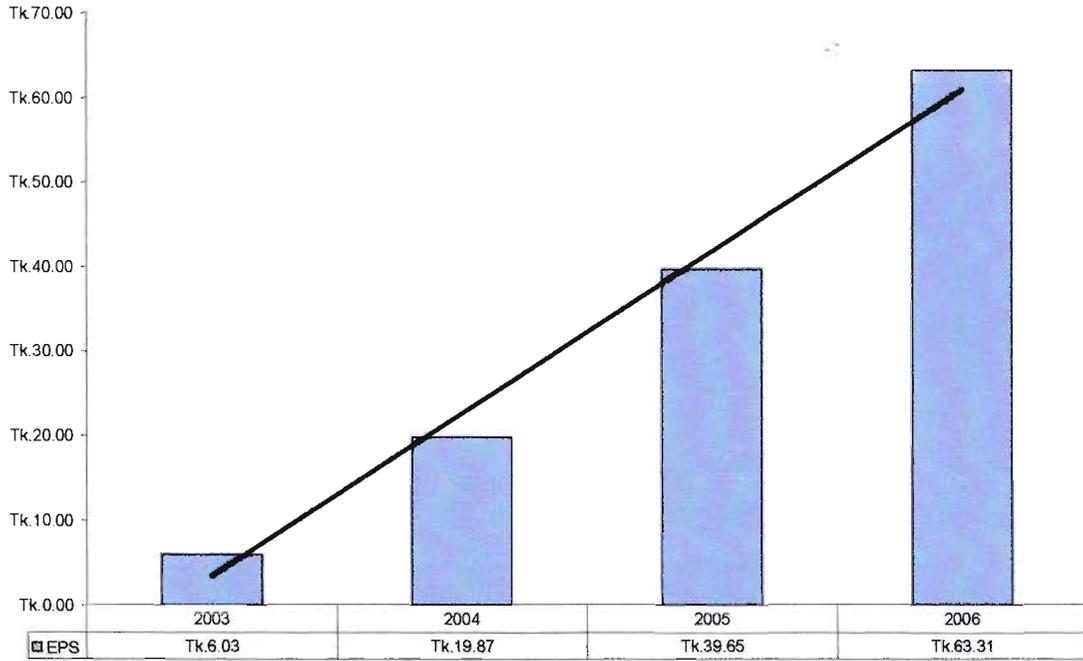
Average ROE of the Bank for the last four years is 16.39%. In 2006, it has fall at 15.79%. Since the bank has raised capital from stock market of BDT 650 Million in March 2006, but Net Income has increased sharply. Thus ROE has fall comparatively in small percentage in 2006.



4.5.3 EPS:

Bank's EPS has increased significantly in 2006. Although it has offered share of common stock in the market, EPS is TK63.31 in 2006 which is 60% increment from 2005. This is because NI has increased by 69% in 2006.

EPS



CHARTER: 5

5.0 SWAT 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.

5.1 Strengths

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 6 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

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.

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.

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.

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. 26 Branches of the bank are impressive and are compatible to foreign banks.

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 between he 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.

Teamwork 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.

5.2 Weaknesses

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.

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 them country consider it as a NGO bank like Grameen Bank which is not correct.

Low remuneration package: The remuneration package for the entry and the mid level management is considerably low. The compensation package for BBL entry-level positions is even lower than the contemporary banks. Under the existing low payment structure, it will be very difficult to attract and retain higher educated employees in BBL. Specially CRO's are not satisfied with compensation package provided to them.

5.3 Opportunities

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.

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.

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.

5.4 Threats

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 banks such as Standard Chartered is now pursuing an aggressive branch expansion strategy. This bank is establishing more branches countrywide and already launched is SME operation. Since the foreign banks have tremendous financial strength, it will pose a threat to local banks.

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 on slaughter of foreign banks.

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.

Default culture: This is a major problem in Bangladesh. As BBL is a new organization, the problem of non-performing loans or default loans is very

minimum or insignificant. However, as the bank becomes older this problem arises and the whole community suffers from this chronic diseases. BBL has to remain vigilant about this problem so that proactive strategies are taken to minimize this problem if not elimination.

CHAPTER 6

6.0 Findings

6.1 General Problems of BRAC Bank

One of the major sources of income of BRAC Bank Limited is the collection of interest income from its loans and advances. But it is surprising that a good portion of this loans and advanced are become classified after a certain period of maturity. As a result, these problem loans affect four different ways in the profitability of Bank. First, BRAC Bank Limited has to keep Tk. 72.2 Crore as specific provision from its net operating profit, which has decrease, the profit. Second, as per Bangladesh Bank requirement BRAC Bank Limited has to keep Tk. 2.29 Crore as statutory reserve which does not or even give no interest. Third, the bank has to pay interest for cost of funds. As a result the interest expense increases thus net interest margin (NIM) decreases. Finally, for the increasing trend of Classified Loan, bank has to raise its default rate to minimize the credit risky ness. Raise in default rate immediately reflects in the landing interest rate of BRAC Bank Limited.

Borrowers took loans from BRAC Bank Limited for various purposes but in some cases never pay back the loan properly. For the recovery of those bad loans bank evaluates financial status of the client and goes for legal proceedings. But in Bangladesh legal procedures are lengthy and time consuming. As a result bank takes every initiative to settle a defaulter outstanding out side the court. However, for small loan recovery the process becomes very costly and unprofitable for the bank.

From the sector wise portfolio, percentage of classified loans and advances and number of classified accounts analysis, it is found that steel products,

ship breaking, chemical & plastic products, edible oil, leather, jute, brick & ceramics, RMG, shipping & transport, trading, service, hospitals & NGOs has higher credit default rate. The percentage of classified loan recovery is very little and the provisions for doubtful debt are increasing which squeezes the net operating profit of the bank.

According to branch wise portfolio analysis, especially, the performance of Chawkmughulthuly, English Road and Jubilee Road branches are completely unacceptable. These branches can be called a problem branch of the bank, as they have high percentage of classified loan outstanding. It proves that evaluation of credit risk and monitoring is not up to the mark in branch level bank management.

Finally, due to inefficient credit risk evaluation and monitoring the bank is losing its deserved revenue from the matured loans and advances. For this the business is becoming unprofitable in comparing with the banking industry. This unhealthy situation of the bank will reduce the interest of the investors and will lower the share price in the market. The situation will remain inconsistent until the level of classified loan and advances drop down with sufficient percentage.

6.2 Problem related to SME loan

There are some problems for BRAC Bank Ltd. Related to SME loan:

1. The over all process of SME loan is very lengthy.
2. Since to liquidate collateralization is not required, the entire portfolio of SME loan is very risky. Due to this, the bank's risk assets to total assets ratio is very high.
3. A lot of resources need to be involved for the entire process. e.g. CROs, unit office, which causes a big expense for the bank.
4. High level skilled resources are mandatory to monitor the SME loan from initial process to recovery.

5. Monitoring is a big challenge.
6. Need to visit at door stage for disbursement to recovery for SME loan.
7. Due to single loan amount, the numbers of borrower is very high, thus need contemporary product design and system development to cope up with huge client's requirements.

CHAPTER 7

7.0 Recommendations & Conclusion

7.1 Recommendations:

7.1.1 General suggestions of BRAC Bank

BRAC Bank Limited is an established and well renowned bank in the market. But compare to the other competitors, it has very high level of classified loan rate, which is quite alarming for its stakeholders. BRAC Bank Limited can come out from the present position if they follow the following recommendations properly.

The Bank should send the Relationship Managers and CRM employees to various training programs on loan application evaluation techniques on a regular basis, so that the Relationship Managers can properly evaluate all the loan applications in a structured and scientific way and select only those applications, which has a sound credit worthiness and repayment capability.

The Relationship Managers should be encouraged to build up their knowledge base about various industries, the opportunities and risks in the sectors, the well performers and the upcoming companies, industry standards etc. For example, Relationship Managers can be given incentives to attend various seminars, workshops, or training programs in these areas.

CRM must be strict to see that all the procedures loan evaluation and monitoring are followed before giving any new loans. It was observed that not all the steps of the present guideline are followed strictly by the Relationship Managers. For example, the Relationship Managers did not go on regular quarterly calls to the clients and also sometimes did not verify all the information provided by the clients. This gives rise to chances that the client's actual position may not be understood on time and increases the credit risk. So steps must be taken to ensure strict adherence to the loan evaluation and monitoring policy.

The Relationship Managers should keep their eyes open about the position of the industries of their respective clients. As soon as any new risk occurs in the industry or the industry shows signs of deterioration, they should analyze its impact on their respective clients and act accordingly.

As soon as the client fails to make timely repayment, pressure should be created on him to make the payment urgently and no further credit should be allowed to him unless he pays back the previous dues (except for cases where new loans are needed to ensure past loan's recovery). Also no unnecessary restructuring of repayment schedule should be allowed.

Credit rating must be given proper emphasis. Whenever a credit rating is lowered, the Relationship Managers must look into the account to see whether there is any chance of the client being loan defaulter eventually.

Special Asset Management Department should immediately launch legal procedures against those accounts where negotiation has failed and there is no chance of repayment. They should try to recover as much of the loan as possible by disposing of the securities held against these loans.

7.1.2 Suggestions related to SME loan

- Need agreement with promoters and incorporated SME Business into its business model.
- More resources need to be deployed and declared SME as its largest business unit.
- Need non-branch operations for small business loans.
- Urban deposit requires to be provided as loans in rural/ semi-urban economy.
- To explore sectors without access to traditional banking.
- Need more designed exclusive SME credit parameters.
- Decentralization of the approval, recovery and monitoring process.
- Need to develop Relationship Banking with the borrowers by going to their doorsteps.
- To develop a strict but fruitful monitoring and realization system.
- To implement a flexible and faster credit appraisal system.
- To customize loan products for different sectors.

- Need to increase the bank's reach through Unit Offices and coverage across Rural/Urban spectrum of Bangladesh.

7.2 Conclusion

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

An evaluation of the Credit Department and the Reason of Default Rate was the basic concern of my study and I completed this report on this basis Credit Department of BRAC Bank Limited. A retail loan files evaluate & approved by this department before disbursed a loan. Day by day, BRAC Bank increasing its business, that reason bank's Credit Department approved more loan files everyday to its retail customer and my study was find out few factors from which we can assumed a good or defaulter borrower and place few recommendation by which they can mitigate their risk.

Banks always contribute towards the economic development of a country. BBL compared with other banks is contributing more by investing most of their funds in fruitful projects and risk free individual. It is obvious that the right thinking of the bank including establishing a successful network over the country and increasing resources, will be able to play a considerable role in the portfolio of development of financing in the developing country like ours.

APPENDIX

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BS and IS for BRAC Bank				
			Amount in Million BDT	
	2003	2004	2005	2006
Interest Income	306.90	815.72	1,463.65	2,792.26
Interest from Investment	94.80	167.00	292.07	400.08
Total Interest Income	2,404.70	2,986.72	3,760.72	5,198.34
Interest Exp	229.00	440.90	850.73	1,634.64
Net Int. Income	172.70	541.82	904.99	1,557.70
Other Income	43.38	85.06	2.85	4.33
Operating Income	17.15	52.60	271.07	515.40
Total income	233.23	679.47	1,178.91	2,077.42
Operating Costs	170.28	352.60	573.80	934.18
Operating Margin	62.95	326.87	605.11	1,143.24
Loan Loss Provision	26.28	110.50	239.96	345.05
Depreciation	0.30	2.90	19.20	92.84
Profit Before Tax	36.37	213.47	345.95	705.36
Provision for taxation	-	111.00	147.68	371.10
Profit after Tax	36.37	102.47	198.27	334.26
Funds:				
Deposits	3,497.20	8,169.00	13,409.00	23,001.92
Shareholders Equity	395.90	590.30	782.88	2,117.19
Loans & Advances	2,870.10	5,819.78	11,791.31	19,557.14
Investment	530.40	1,625.90	2,163.81	3,768.01
Gross NPA	30.60	114.50	262.98	594.78
Total Assets	4,506.52	9,868.98	16,535.43	29,365.36
Int. on Earning Asset	11.92%	13.40%	12.82%	14.04%
Opportunity Cost for NPA	3.47	14.58	32.04	79.36
Gross NPA as % of Gross Advances	1.07%	1.97%	2.23%	3.04%
Capital Adequacy	14.37%	10.15%	9.39%	13.53%
Tier I Capital	395.92	590.20	782.88	1,967.15
Tier II Capital	28.40	60.08	206.00	529.14
Total Tier I&II Capital	424.46	650.38	988.97	2,496.43
Risk Assets	2,968.32	6,406.77	10,534.86	18,451.50

Process Flow Asset Operations Department Work Process:

Particulars		Work Mode
A. Loan Disbursement		
I) Manual Activity (Pre-disbursement)		
1	Prepare loan file upon receipt of docs from unit offices	Manual
2	Loan file receiving register entry	Manual
3	Documents & security checking	Manual
4	Docs deficiency & problems resolving	Manual
5	Disbursement fund request (through mail)	Manual
6	Message sent to Unit offices (by SMS)	Manual
II) MBS Entries for Loan Disbursement:		
7	Pre-disbursement initial data entry	
	a) Loan ID creation	MBS
	b) Initial loan sanction	MBS
	c) Loan account opening & cost-center assign	MBS
	i) Security details set-up	MBS
	ii) Guarantor details set-up	MBS
	iii) Loan other details set-up	MBS
	iv) Loan document collection	MBS
	d) Loan charge collection & print voucher	MBS
	e) Charges voucher posting	MBS
8	Sanction, activation & disbursement entry	
	f) Loan sanction details set-up	MBS
	g) Repayment schedule set-up & Printing	MBS
	h) Loan activation	MBS
	i) Disbursement & CC-wise voucher print	MBS
	j) Disbursement voucher posting	MBS
III) Manual Activity (Post-disbursement):		
9	Repayment schedule sent to Unit offices	Manual
10	Loan details MIS entry (reporting purpose)	Manual
11	Docs stamp cancellation	Manual
12	Loan files sent to archive	Manual
B. Loan Recovery		
I) Manual Activity Part		
1	Receive & print SMS/FAX for installment deposits	Manual
2	Check SMS data in MBS & resolve problems	Manual
3	Post recovery checking with U/Office statement/M-slip	Manual
II) MBS Entries for Loan Repayment :		
a)	Repayment entry print voucher	MBS
b)	Repayment voucher check & post	MBS

C. Loan Closing			
	I) Manual Activity (Pre-closing)		
	1	Receive & print SMS/FAX request for closing	Manual
	2	Bring loan file from archive	Manual
	3	Obtain approval from concerned authority	Manual
	4	Checking in MBS	Manual
	5	Resolve differences with unit offices	Manual
	6	Message sent to unit offices (by SMS)	Manual
	7	Receive & print closing SMS/FAX & checking	Manual
	II) MBS Entries for Loan Closing :		
	8	Pre-closing data entry	
	a)	Interest/provision charging & print voucher	MBS
	c)	Charges collection & print voucher	MBS
	b)	Final repayment entry & print voucher	MBS
	d)	Final repayment entry checking	MBS
	e)	Charges & repayment voucher posting	MBS
	9	Activate account closing in MBS	MBS
	III) Manual Activity (Post-closing)		
	10	Re-checking with deposit slip (Unit office statement)	Manual
	11	Documents photocopy before security release	Manual
	12	Closing certificate issuing & security release (by mail)	Manual
	13	Daily MIS updating for loan closing	Manual
D. Loan Rescheduling			
	I) Manual Activity (Pre-rescheduling)		
	1	Bring loan file from archive	Manual
	2	Obtain approval from concerned authority	Manual
	II) MBS Entries for Loan Rescheduling		
	3	Pre-sanction entries in MBS	
	a)	Interest/provision charging & print voucher	MBS
	b)	Repayment schedule query	MBS
	c)	Loan charge collection entry	MBS
	d)	Charges voucher posting	MBS
	4	Effecting sanction process	
	e)	Loan sanction details set-up	MBS
	f)	Repayment schedule set-up & Printing	MBS
	III) Manual Activity (Post-rescheduling) :		
	5	Pass the file to SME for re-sanction letter issuing	Manual
	6	Sent fresh repayment schedule to unit offices	Manual
	7	Receive & check fresh DP Note & Sanction Letter	Manual
	8	Loan file sent back to archive (<i>Homebound</i>)	Manual

SME Network Coverage

