

## Internship Report

On

“Loan and Advance Operations: A study on  
Mercantile Bank Limited” Ring Road Branch.

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**Internship Report**  
**On**  
**“Loan And Advance Operations: A Study On Mercantile Bank Limited”**  
**Ring Road Branch**



**Submitted To**

Md. Masud Rana  
Associate Professor  
Department Of Business Administration  
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Sonargaon University

**Submitted By**

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Fall 2021

**Date Of Submission: 15<sup>th</sup> January, 2022**

## LETTER OF TRANSMITTAL

**Date: 15<sup>th</sup> January 2022**

**MD. Masud Rana**

Associate Professor  
Department Of Business Administration  
Faculty Of Business  
Sonargaon University

**Subject: Submission of Internship Report on “Loan And Advances Operation of Mercantile Bank Limited”**

Dear Sir,

I am very pleased to submit my internship report on “**Mercantile Bank Limited**” which is an essential requirement for the completion of BBA program. This report is the result of the Internship Program that I have conducted in Mercantile Bank Limited at Ring Road Branch. All the information presented in this report is done with outmost sincerity and honesty. I have tried my best to make this report holistic and informative. While preparing this report, I tried my best to follow your instructions.

Apart from the academic knowledge gained, this internship program and preparation of this report have given me the opportunity to know about the overview of Loan and advances operation. I believe that, the experience I have acquired from this Internship Program will be a valuable asset in my life. Working with such an interesting topic has given me the opportunity to achieve experience, which will be helpful in my future professional career. However, there may be some mistakes or lacking due to some limitations. Therefore, I would be highly be obliged if you would kindly consider my limitations.

Sincerely Yours,

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**MD. Khairul Alam**

ID: BBA1601007073

Program: BBA

Major: Accounting

Department of Business Administration  
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## Letter Of Declaration

I am Md. Khairul Alam, ID: BBA1601007073 under study of BBA program, Sonargaon University. This is my truthful declaration that the report on “Loan and advance Operations of Mercantile Bank Limited” Ring Road Branch. I have prepared on the basis of actual data collection from Mercantile Bank Limited Ring Road Branch and website of Mercantile Bank Limited, under the intensive supervision and guidance of Md. Masud Rana Associate Professor, Department of Business Administration, Faculty of Business , Sonargaon University.

I additionally pronounced that the report is set up for scholastic reason as it were. Any part of this report is not a copy of any internship report previously prepared by any other student.

Yours truly,

Md. Khairul Alam  
ID: BBA1601007073  
Program: BBA  
Major: Accounting  
Department of Business Administration  
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## Acknowledgement

All praises are due to Almighty Allah, the supreme authority of this universe who has enabled me to complete higher studies and thesis work and to submit the report in time for the degree of Bachelor of Business Administration.

There is no reason to thank everyone who contributed to the work that should be achieved and to make this custom change. Preparing this reports related to "Loan and advance operations of Mercantile Bank Limited" is very difficult task where the data should not be resolved properly and few information will not yet be published. The result of my work experience with Mercantile Bank Limited (Ring Road Branch) is the descriptive paper. For the significant completion of this report, I am very lucky to get support and encourage many people. Many of them have played a decisive role in helping to create this report, although I have taken full responsibility for all mistakes. Those who contribute to managing my reports, who have provided information and who have read, reviewed and gave moral support and encouragement.

Then I would profusely like to express my gratitude to all the people from Mercantile Bank Limited of Ring Road branch who have always been kind enough to answer my queries despite their extremely demanding work. They are Paritosh Kumar Dhar, First Vice President & Head of Branch and Mr. Kazi Golam Rasul, Assistance Vice President & Manager Operation of Ring Road Branch. I acknowledge my indebtedness to MD. Atiqur Rahman PO & Credit In-charge, Mosammat Nasrin Akter Senior Executive Officer for their constant guidance and valuable suggestion from time to time.

Finally, I would like to thank the authors of the books that I've taken help from, which had made my understanding clearer during the making of this report.

## Executive Summary

With the clear mission to provide efficient banking services and to contribute socio-economic development of the country, Mercantile Bank Ltd emerged as a new commercial bank and inaugurated its operation on 2<sup>nd</sup> June, 1999. The bank stood 150 branches all over the country up to 2009. There are 30 sponsors involved in creating Mercantile Bank Limited. The sponsors of the bank have a long heritage of trade, commerce and industry. They are highly regarded for their entrepreneurial competence. The banking philosophy of Mercantile Bank Limited is not to 'carry coal to the new castle'. The main target is to make Loans available to the poor people & their activities are aimed at multifaceted growth where people from all economic strata will enjoy the benefits of better living standard, dignity of labor and self worth. The Main objectives of the study were to identify the Loan approval, their securities and monitoring process, identify the lending activities at MBL, Loan management of MBL and to have an overall idea on how it operates in the competitive marketing to rally with the customer satisfaction and to retain them. To fulfill these objectives qualitative research methods were used. Primary data and information collected from the employees of MBL through informal discussion and the secondary data from the annual reports of MBL. This report starts with the outline of the organization in focus, presenting the mission and vision of the organization accompanied by the global perspective and look into future. Though it has various types of Loan schemes but most of the schemes are unknown to customer due to the lack of promotional activities. Its interest rate is also pretty higher. The consecutive part of this report shows different type of analysis (e.g. SWOT analysis, table, and graph) with interpretation and findings. The final part concludes this report with recommendation regarding the performance of Loan management of MBL, Ring Road Branch. Bank should aim at reasonable interest rate take promotional activities regarding loans and advances & it should re-launched the less popular consumer categories to attract more customer. If MBL improve their lacking they can be capable to continue its journey in profitable path.

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# **Chapter One**

## **Introduction**

## **1.1 Background of the Study**

Generally by the word “Bank” we can easily understand that the financial institution deals with money. But there are different types of banks such as; Central Banks, Commercial Banks, Saving Banks, Investment Banks, Industrial Banks, Co-operative banks etc. But when we use the term “Bank” without any prefix, or qualification, it refers to the ‘commercial banks’. Commercial banks are the primary contributors to the economy of a country. So we can say Commercial banks are a profit-making institution that holds the deposits of individual & business in checking & savings accounts and then uses these funds to make loans. Both general public and the government are dependent on the services of banks as the financial intermediary. As, banks are profit earning concern they collect deposit at the lowest possible cost and provided loans and advances at higher cost. The differences between two are the profit for the bank.

From the Inception of banking business Loan is an important tool in increasing productivity and thereby increasing the income of borrower. Adequate flow of Loan can remove the financial constraints on the borrower. There has been phenomenal growth in the flow of Loan after liberation due to government’s desire to increase productivity in the country. Mercantile bank Ltd was glared up through a dynamic Loan policy to disburse both short term and long term Loan. As a result, the flow of Loan has increased significantly. As the volume of the loans has increased substantially over the years, the percentage of loan default increased gradually. This study is kind of analyzing the Loan & Advance Operations of Mercantile Bank Limited. It is providing different types of loans and advances, rural loans etc.

## **1.2 Origin of the Study**

Now we are living in the age of competition at anything in any places. From that Education is also in the age of competition. So the procedures and standards of teaching are upgraded by different universities and institution in our country. In respect to that, internship is mandatory for our BBA program offered by Sonargaon University Dhaka. This program is a partial fulfillment of our BBA Curriculum. To do so I decided to complete my internship in Mercantile Bank Ltd. In connecting, HRD of MBL sent me to the Ring Road Branch and assigned to prepare this report.

So, the report entitled ‘Loan management Procedure of MERCANTILE bank Ltd’ has been prepared as a partial fulfillment of BBA Program authorized by the Department of Business Administration, Sonargaon University.

## **1.3 Rational of the Study**

Due to the increased competition of the increased number of commercial banks and the growing economy, the expectations of the customers have also increased than ever before. Realizing the present condition, banks, especially the commercial banks are trying to elevate their loan giving service as much as reachable to their customers. The most serious difficulty facing the financial

sector is the high level of interest rate and inflation rate. So it is the duty of the top management of the commercial banks to work with the situation.

## **1.4 Objectives of the Study**

The present study has been designed to achieve the following objectives:

- \* To have better orientation on Loan management activities.
- \* To find out the strengths and weakness of the Loan procedure method.
- \* To identify the factors that must be considered and analyzed by the bank and financial institutions in determining the Loan worthiness of the client.
- \* To get an overall idea about the performance of Mercantile Bank Ltd.

## **1.5 Methodology of the Study**

Methodology includes direct observation, face-to-face discussion with employees of different departments, study of files, circulars etc. and practical work. The report was fully exploratory in nature. Data have been collected from both primary and secondary sources. Both the primary and secondary information are used to prepare this report. The details of these sources are highlighted below:

### **a. Sources of Data**

To prepare this internship report I have collected data and Information both from primary and secondary sources.

#### **❖ Primary Sources of Data**

- Information collected through informal conversation with the bank's personnel.
- Direct observation from the job.
- Practical work experiences at different desk.

#### **❖ Secondary Sources of Data**

- Annual report of Mercantile Bank Ltd.
- Prospectus of Mercantile Bank Ltd.
- Different papers of Mercantile Bank Ltd.

- Journals, Reports, Publications, newspapers and articles that carried information of Mercantile Bank Ltd.
- Different publications of Bangladesh Bank

### **b. Data Analysis**

To analyze, interpret and present the data I have used some graphical tools to understand them clearly. Data that are collected through the primary investigation or from secondary sources have been analyzed through statistical tools, tables, graphs etc. depending on the nature of data and the requirements.

## **1.6 Significant of the Study**

In this study I would try to concentrate on the theoretical aspect of Loan management, that is, the definition of Loan management, policy of Loan management, tools for managing Loan etc. I would analyze the data on the bank and various programs for loan recovery, problems in loan in loan recovery, pattern of loan recovery and the performance of the bank under study in loan recovery, the information in respect to the classification of unsound Loan and provision thereon and also concentrates on the performance of the bank. And finally I would conclude with the critical evaluation of the Loan management under the guidelines of the Bank Companies Act 1991, IAS#30 and a discussion on the major findings and recommendations.

## **1.7 Limitations of the study**

1. Though I have given utmost effort to prepare this paper but there are some limitations of the study. They are as follows-
2. This report only considers Loan Management System of MBL.
3. This paper has focused on the most sensitive part of the organization i.e. loan and advance. So the bank authority hesitated to disclose important information to maintain business secrecy.
4. Only 3 months time is not enough to complete such a study in a lucid manner.
5. There is also cost constraints, because I am a student; it is very difficult for me to spend much money.
6. Bank was not that much willing to provide the required data.
7. Bank authority also prohibits some facts to be included in this report.
8. In many cases, up to date information is not published.
9. Due to lack of practical experience, some errors might be occurred during the study.

# **Chapter Two**

## **Theoretical Review**

## **2.1 The History of Loan**

The very first Loan transaction in history certainly took place hundreds of years ago, before the existence of bank, Loan bureaus or Loan department. Perhaps a farmer asked his neighbor for some seeds to grow a crop promising to give the lender some of his produce. Perhaps a family bread winner simply needed food. For his or family and promised to repay with a bonus to compensate the lender for this generosity. The prospective lender would have been surprised and apprehend. An element of trust would be needed of course and some guarantee of repayment would be nice if a farmer or business person obtains the means to produce employment opportunities and products certain the community would benefit. Loss and other Loan program have provided these opportunities throughout history. Financial institutions develop to put funds from savers into the hands of borrowers who used this value to create economic value. Loan has contributed to economy's growth of countries throughout the world as it makes goods and service available to consumer businessperson and government. Although the basic tasks of evaluating risk. Extending Loan and collecting payment have not changed the mechanisms for marketing and conducting Loan program have changed dramatically over the years. Computers using sophisticated Loan scoring system speed up the disbursement and collection of Loan bureaus maintain vast database of information about online through computer network. Lenders continue to find more ways to offer more Loan option to business and consumer.

## **2.2 Meaning of Loan**

Loan is the trust which allows one party to provide resources to another party where that second does not reimburse that first party immediately (thereby generating a debt), but instead arrange either to repay on return those resources (on other materials of equal value) at a later date. Loan encompasses any form of deferred payment. Loan is extended by Loanors, also known as a lender, to a debtor, also as borrower. In modern societies Loan is usually dominated by a unit of account. Unlike money, Loan itself cannot act as a unit of account.

From the light, we can say that, Loan in commerce & finance, is a term used to denote transactions involving the transfer of money or other property on promise of repayment, usually at a fixed future date.

## **2.3 The Importance of Loan**

Loan plays a very vital role in national economy in the following ways:

- ❖ It provides capital investment opportunities and working capital support for industrialization.
- ❖ It helps to create employment opportunities.
- ❖ Loan controls almost all kinds of production activities of the country.
- ❖ It brings social equity.
- ❖ Cash generated occurs for its successful performance.
- ❖ Business cycle can run well only by the help of lending system.
- ❖ Economic stabilization.
- ❖ Raise standard of living.

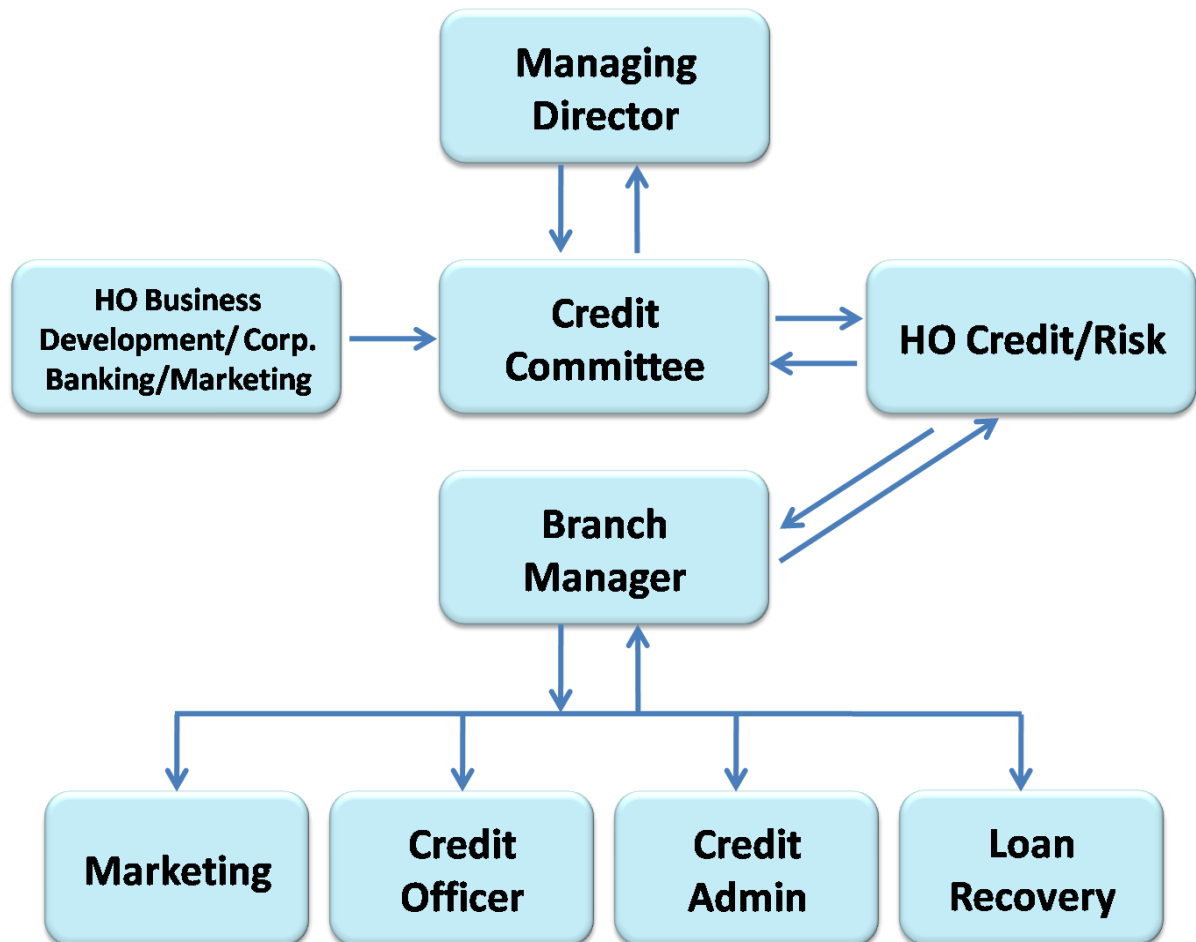
## **2.4 Loan Management**

Loan management is concerned with making sure that organizations, who buy goods and services on loan, or individuals who borrow money, can afford to do so and that they pay their debts on time. Key responsibilities with loan roles include risk assessment, billing, query resolution, account reconciliation, debt collection, and taking any legal action when payments are overdue.

## **2.5 Process of Loan Management**

Loan Management Policy for any commercial bank must have been prepared in accordance with the Policy Guidelines of Bangladesh Bank's Focus Group on Loan and Risk Management with some changes to meet particular bank's internal needs. Loan management must be organized in such a process that the bank can minimize its losses for payment of expected dividend to the shareholders. The purpose of this process is to provide directional guidelines that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of concerned bank.

## 2.6 Loan Management Structure and Responsibilities Program Guidelines



## 2.7 Program Guidelines

- a. Approval process
- b. Loan administration
- c. Loan monitoring
- d. Loan recovery



Now the guidelines are discussed in the following:

**a. Approval Process:** The following diagram illustrates an example of the approval



Figure: Program guideline

**b. Loan Administration:** The Loan administration function is critical in ensuring that proper documentation and approvals are in place prior to the disbursement of loan facilities.

**c. Loan Monitoring:** To minimized Loan losses, monitoring procedures and systems should be in place that provides an early indication of the deteriorating financial health of borrower.

**d. Loan Recovery:** The recovery unit of branch should directly manage accounts with sustained deterioration (a risk rating of sub-standard or worse). The primary functions of recovery unit are:

- ❖ Determine account action plan/ recovery strategy
- ❖ Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- ❖ Ensure adequate and timely loan loss provisions are made based on actual and expected losses.

## 2.8 Tools of Loan Management

For Loan management, a firm may use tools available to them. Such tools include Loan Risk Grading (CRG) and Financial Spread Sheet (FSS). Loan risk grading is an important for Loan risk management as it helps the banks and financial institutions to understand of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of Loan portfolio of a bank or branch.

The Lending Risk Analysis (LRA) manual introduced in 1993 by the Bangladesh Bank has been in practice for mandatory use by the banks and financial institutions for loan size of BDT 1.00 core and above. However, the LRA manual suffers from a lot of subjectivity, sometimes creating confusion to the lending bankers in terms of selection of Loan proposals on the basis of risk exposure. Meanwhile in 2003 end, Bangladesh Bank provided guidelines for Loan risk management of banks wherein it recommended the introduction of Risk Grade Score Card for risk assessment of Loan proposals.

Bangladesh Bank expects all commercial banks to have a well defined Loan risk management system which delivers accurate and timely grading. In practice, a bank's Loan risk grading system should reflect the complexity of its lending activities and the overall level of risk involved.

# **Chapter Three**

## **Bank Profile**

### 3.1 Organization Overview

Mercantile Bank Limited emerged as a new commercial bank to provide efficient banking services with a view to improving the socio-economic development of the country. The philosophy of Mercantile Bank Ltd is not to 'carry coal to the new castle'. The main target is to make Loans available to the poor people and their activities are aimed at comprehensive growth where people from all economic strata will enjoy the benefits of better living standard, dignity of labor and self worth.

The head office of Mercantile Bank Ltd.is situated at 61, Dilkusha Commercial Area Dhaka-1000.

Swift: MBLBBDDH

Website: [www.mblbd.com](http://www.mblbd.com)

The Bank determined to build a long-term customer relationship with its corporate & general clients. As a part of this, Mercantile Bank Ltd. is trying to expand their business with the market leaders of each sector of business. Mercantile Bank Ltd. emphasizes not only on customer satisfaction but also emphasizes general banking and Loan management system. So that customer can get better service from every side of overall banking.

Mercantile Bank Ltd is always ready to maintain the highest quality services by upgrading Banking technology, well management system and applying high standard of business ethics through its established commitment and heritage and is representing itself with true concept as '**Banglar Bank**'.

### 3.2 History

Mercantile Bank Limited was incorporated in Bangladesh as a public limited company under the Bank Company Act, 1991, on May 20, 1999. After obtaining license from Bangladesh Bank to carry on banking business, the bank commenced its operation on June 2, 1999 with an authorized capital of Tk 800 million divided into 8 million ordinary shares of Tk 100 each. On 31 December 2001, its paid up capital was Tk 596.5 million

Mercantile Bank Limited went for public issue of shares on October 21, 2003. Mercantile Bank Limited has been incorporated on May 20th, 1999 in Dhaka, Bangladesh as a public limited company with the permission of the Bangladesh Bank; MBL commenced formal

commercial banking operation from the June 02, 1999. The bank stood 150 branches all over the country up to 2021.

There are 29 sponsors involved in creating Mercantile Bank Limited; the sponsors of the bank have a long heritage of trade, commerce and industry. They are highly regarded for their entrepreneurial competence. The sponsors happen to be members of different professional groups among whom are also renowned banking professionals having vast range of banking knowledge. There are also members who are associated with other financial institutions insurance Companies, leasing companies etc.

The bank provides a broad range of financial services to its customers and corporate clients. The Board of Directors consists of eminent personalities from the realm of commerce and industries of the country.

The Bank is manned and managed by qualified and efficient professionals. **Md.Quamrul Islam Chowdhury** is holding charge of Managing Director & CEO. Mr. Lutfar Rahman Sarker, the former Governor of the central bank of Bangladesh was the Chief Advisor of the bank. He brings with him a wealth of experience of managing both public and private sector banks.

### **3.3 Mission**

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

### **3.4 Vision**

“Would make finest corporate citizen”

### **3.5 Core Values**

#### **◆ For the customer**

Providing with caring services by being innovative in the development of new banking product and services

#### **◆ For the shareholder**

Maximizing wealth of the bank

#### **◆ For the employer**

Respecting worth and dignity of individual employees devoting their energies for the progress of the bank

### ◆ For the community

Strengthening the corporate values and taking environment and social risks and reward into account.

## 3.6 Technology

MBL has adopted the modern hardware and software technologies to make the services easier and quicker they have introduced on-line banking and SMS banking services for their customers. They are providing 24 hours banking services to their clients through SMS banking and ATM booths across the country.

## 3.7 Special Feature

### Green Banking

Green Bank refers to an ethical, social responsible and a sustainable bank. Green Banking is to provide innovative green products to support the activities that are not hazardous to environment and help to conserve the environment. It aims to use the resources of a bank with responsibility avoiding spoilage and giving priority to environment and society. We have established a separate Green Banking unit and a lot of measures have been adopted including green financing, created awareness among the employees for efficient use of water, electricity and paper, giving preference to preservation of eco system while financing commercial projects and reuse of equipments aiming to turn our Bank as Green Bank.

### Locker Service

Locker Service usually refers to the service where a customer can safe deposit his/her valuable possessions safely in a strongly built Iron Box (Locker) kept beside or in the Vault of the Branch and the Banker along with the customer holds the key to open the Iron Box. Thus, safety measures are kept as no single person can open the LOCKER. MBL provide its Locker Services by following branches of the Bank:

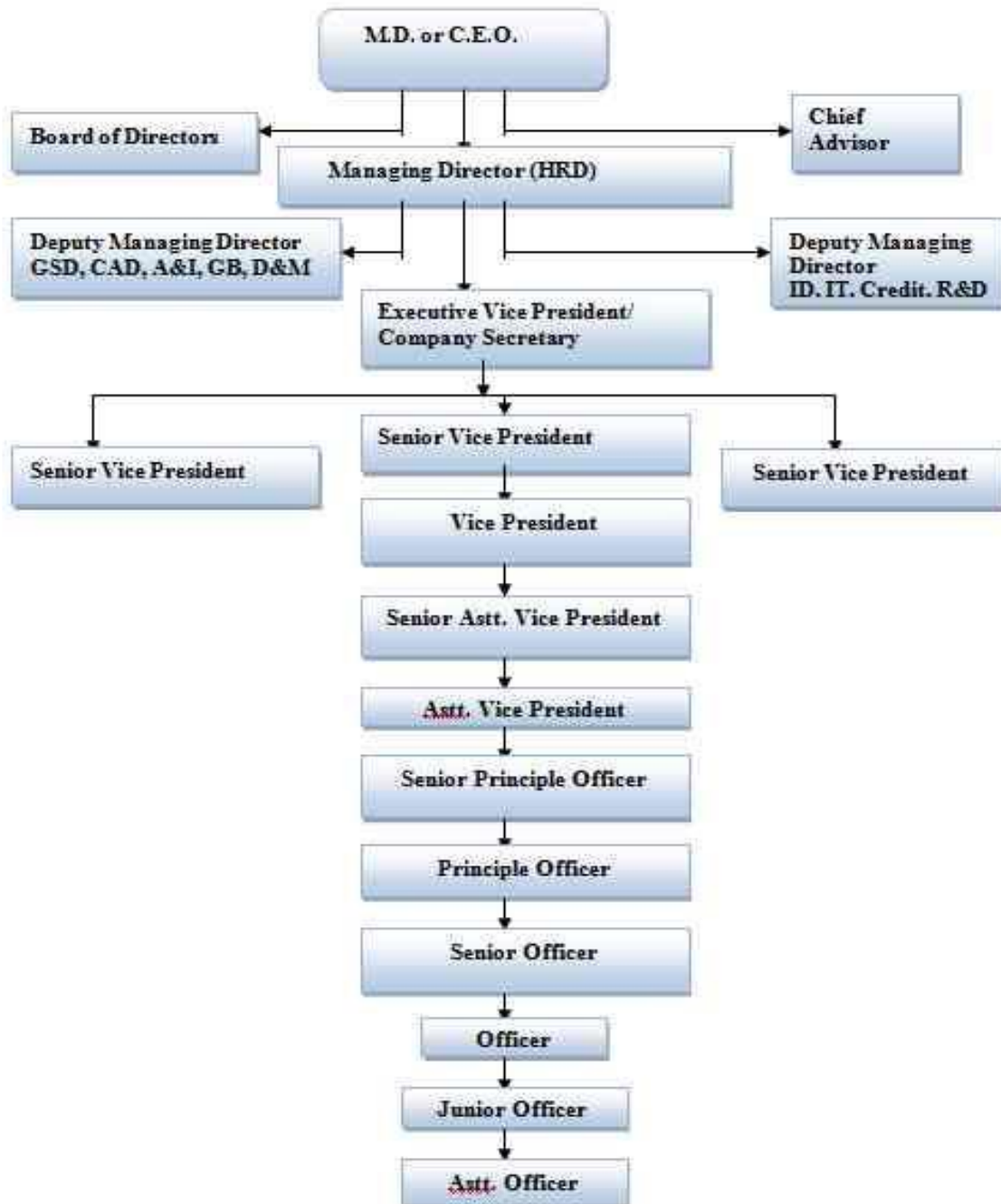
01	Dhanmondi Branch
02	Banani Branch
03	Rajshahi Branch
04	Uttara Branch
05	Elephant Road Branch
06	Gulshan Branch
07	Ring Road Branch
08	Satmasjid Road Branch
09	Feni Branch
10	Moghbazar Branch
11	Jessore Branch
12	Progoti Sarani Branch
13	Mirpur Branch

### 3.8 Mercantile Bank's Functional Departments

The Mercantile Bank Limited has the following departments, which includes the whole operations of the bank. The departments are listed below with their major section in the following table.

<b><u>Departments in Mercantile Bank Limited Major Sections</u></b>	<b>Department Name</b>
<b>Branches</b>	General Banking Department
	Credit Department
	Foreign Exchange Department
<b>Corporate Office</b>	Human Resources Department
	International Division
	Treasury
	IT (Information Technology)

### 3.9 Operational network organ gram

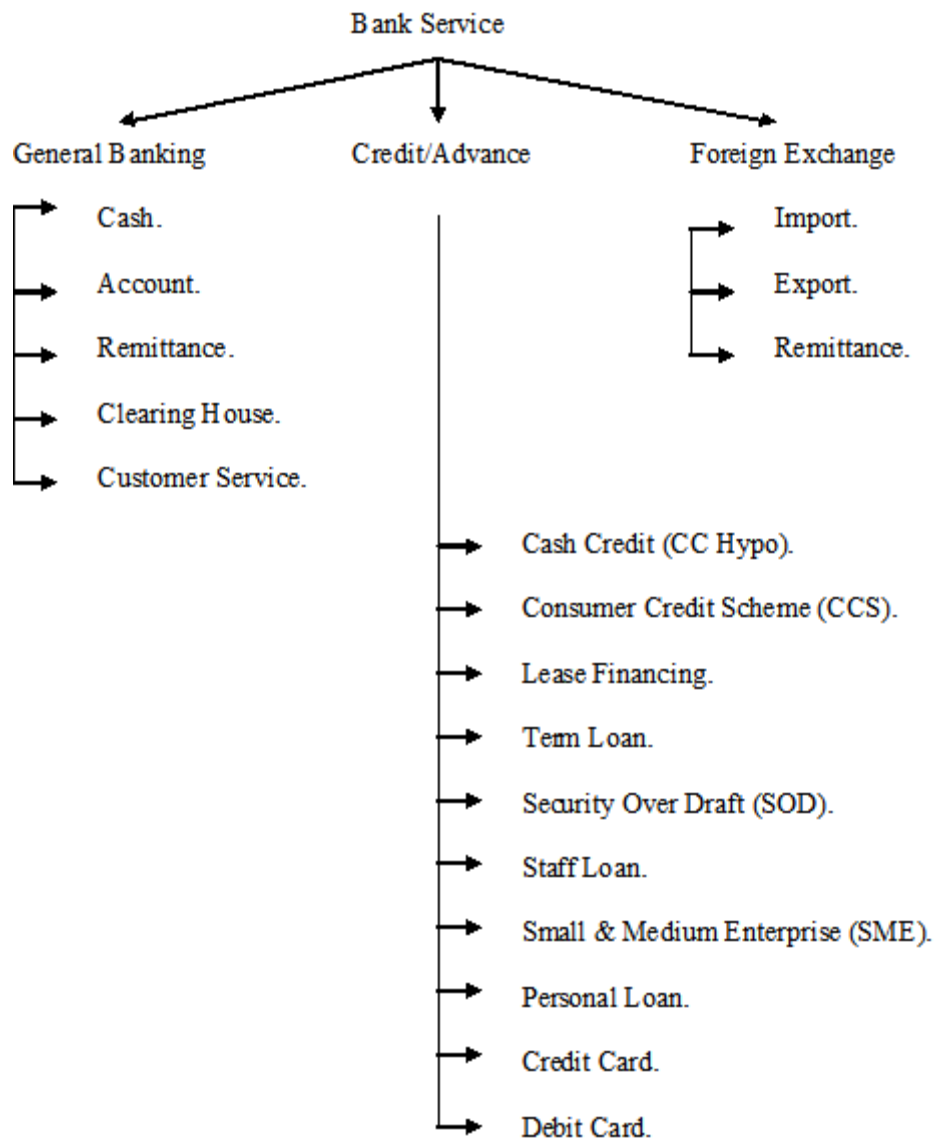




This table shows the upward growth of the organization year by year. The strong management and the interest of directors made the growth of the business smooth. Hence the bank has positioned itself a comparatively good position among the other local bank of the country.

The main function of the bank is to mobilize fund from the surplus unit to deposit unit and hence the two main activity of the bank is to collect deposit and disburse loan and advances. When we talk about the performance of bank we must observe the performance on these two activities and the growth and balance of these two activities confirm that how better the bank is performing. The following graphs shows in a simple way the consistent performance of MBL.

### **3.10 Structure of Banking Services**



### **3.11 Products Scheme:**

The Bank has launched a number of financial products and services since its inception. Among these, Monthly Savings Scheme, Family Maintenance Scheme, Double Benefit Deposit Scheme, Quarterly Benefit Deposit Scheme, 1.5 Times Benefit Deposit Scheme, Advance Benefit Deposit Scheme, Consumer Loan Scheme, Small Loan Scheme, Lease Finance Scheme, Overseas Employment Loan Scheme, Car Loan Scheme, Home Loan Scheme and SME Loan have received wide acceptance among the people.

#### **Deposit Scheme:**

- Monthly Saving Scheme
- Family Maintenance Deposit
- Double Benefit Deposit Scheme
- Quarterly Benefit Deposit Scheme
- Times Benefit Deposit Scheme
- Advance Benefit Deposit Scheme

#### **Loan Scheme:**

- Consumer Loan Scheme
- Small Loan Scheme
- Lease Finance
- Doctors' Loan Scheme
- SME Loan Scheme
- Personal Loan Scheme
- Car Loan Scheme
- Home Loan Scheme

### 3.12 Five Years Comparative Financial and Operational Performance

(BDT in Millions)

Particulars	2020	2019	2018	2017	2016
<b>Authorized Capital</b>	12000.00	12000.00	12000.00	12000.00	12000.00
<b>Paid up Capital</b>	9,840.16	9,371.58	8,149.20	7,761.15	7,391.57
<b>Deposits</b>	252,817.40	262,961.05	243,643.42	220,516.63	165,257.45
<b>Loans and Advances</b>	248,994.39	236,890.45	224,230.61	199,660.72	150,912.52
<b>Investment</b>	48,953.71	49,755.98	38,977.94	34,772.14	32,920.69
<b>Import</b>	172,773.50	184,650.00	196,389.70	190,753.60	139,766.40
<b>Export</b>	135,418.10	163,152.30	158,307.70	134,752.90	113,035.20
<b>Remittance</b>	30,893.00	35,239.10	35,943.00	29,976.40	24,048.20
<b>Net Profit</b>	2,161.32	2,175.49	3,000.95	3,017.73	2,227.35
<b>No. of Branches</b>	119	129	138	148	150
<b>Total Number of Employees</b>	2,043	2,192	2,305	2,418	2,428

# **Chapter Four**

## **Loan Management System of Mercantile Bank Ltd.: An Analytical Review and Findings**

## 4.1 Loan Management System of MBL

Policy entails projected course of action. Mercantile Bank has its own policy granting Loan although Loan is always a matter of judgment applying common sense in the light of one's experience.

A sound Loan policy includes among other things safety of funds invested vis-à-vis profitability of the bank. Encouraging maximum number of small loans is better than concentration in a particular type of advances, which ensures sufficient liquidity with least incidence of bad debts.

It has to be borne in mind that a good loan allowed to a properly selected borrower is half collected. In order to make a good loan there should have a good loan policy

## 4.2 Objectives of Loan Management System of MBL

There are some objectives behind a written Loan policy of Mercantile Bank that are as follows;

- ❖ To provide a guideline for giving loan.
- ❖ Prompt response to the customer need.
- ❖ Shorten the procedure of giving loan.
- ❖ Reduce the volume of work from top level management.
- ❖ Delegation of authority of work from top level of management.
- ❖ To check and balance the operational activities

## 4.3 Loan Programs of Mercantile Bank Ltd.

### a) General and Industrial Loan

Following the guideline of Bangladesh Bank, Loan facilities have been extended to productive and priority sectors. In extending Loan facilities, the Bank has given due importance to sectoral needs and requirements of both public and private sectors.

Mercantile banks total loan and advance of the bank stood at BDT 2,48,994.39 million in 2020 as compared to BDT 2,36,890.45 million in 2019. Increase rate is 8% compared to 2019.

Table: Amount of Deposits and Advances

(BDT in millions)

Year	Deposits	Loans and Advances
2016	165,257.45	150,912.52
2017	220,516.63	199,660.72
2018	243,643.42	224,230.61
2019	262,961.05	236,890.45
2020	252,817.40	248,994.39

Under Loan management both deposit and loans and advances are considered as main element.

## b) Deposit under schemes

Deposit scheme	Objective	Mode	Benefits
<b>Double Benefit deposit scheme</b>	<ul style="list-style-type: none"> <li>• Give maximum benefit.</li> <li>• Help in meeting specific needs like education, marriage etc.</li> </ul>	Deposit a fixed amount of money for 7 (seven) years	<p>Minimum deposit shall be Tk.1, 00,000 or it's multiple.</p> <p>Double of the amount deposited after 7 years.</p>

	<ul style="list-style-type: none"> <li>• Deposit becomes double in six years.</li> </ul>		
<b>Small Saving Scheme</b>	<p>Help in meeting specific needs like education, marriage etc.</p>	<p>Deposit a fixed amount of money for any period up to 15 (fifteen) years</p>	<p>Tripe of the amount deposited after 15 years.</p> <p>Minimum deposit shall be Tk.50, 000.00 or it's multiple.</p>
<b>Monthly Savings Scheme</b>	<ul style="list-style-type: none"> <li>•Build up habit of savings.</li> <li>•Attract small savers.</li> <li>• Saving for rainy days.</li> <li>•Ensure regular income flow</li> </ul>	<ul style="list-style-type: none"> <li>•Monthly installments of various sizes.</li> </ul>	<p>Triple of the amount deposited after 15 years.</p> <p>One person can have one MSS account in his/her name.</p> <p>A family can have a maximum of 4(four) MSS account in name of persons in his/her family</p>
<b>Family Maintenance Deposit</b>	<p>elp the retired persons for investing their retirement benefits.</p> <ul style="list-style-type: none"> <li>•Create investment opportunities for Non-Resident Bangladeshi.</li> <li>•Explore investment opportunities for school, college, university etc.</li> <li>• Give investment opportunities for</li> </ul>	<ul style="list-style-type: none"> <li>• Deposit a fixed amount of money for 05 (Five) years.</li> <li>• Depositor will get a certain sum of money in each month proportion to his/her deposit during the entire tenure</li> </ul>	<ul style="list-style-type: none"> <li>•Tenure of deposit is 05 (Five) years</li> <li>• Minimum amount of required deposit is TK.50,000.00 or its multiple</li> </ul>



	Trust; Foundation etc.		
<b>Pension and Family Support Deposit</b>	Help the retired persons for investing their retirement benefits.	Deposit a fixed amount of money for 10 years or 15 years on monthly installments of various sizes	A family can have a maximum of 02 (two) PFSD account in names of persons in his/her family.  Minimum amount of required deposit is Tk.5000 or its multiple or Tk.2500 or its multiple.

### c) Loan Scheme

<b>Loan Scheme</b>	<b>Objectives</b>	<b>Terms &amp; Conditions</b>	<b>Benefits/Special Feature</b>
<b>Consumer Loan Scheme</b>	<ul style="list-style-type: none"> <li>•Help Fixed-income people for buying household durable.</li> <li>•For the amount up to tk. 1, 00,000 the period is two years.</li> <li>•Interest rate will be charged quarterly rest.</li> </ul>	<p>Interest rate 16%</p> <p>Risk fund Nil</p> <p>Supervision charge (per year on outstanding balance) 1%</p>	The loan amount is directly Loaned to the customer's account
<b>Car Loan Scheme</b>	<ul style="list-style-type: none"> <li>•Help fixed-income people for buying car</li> <li>•For The amount up to Tk. 25, 00,000 the period is five years that is 60 monthly installments.</li> </ul>	<p>Interest Rate 9.00%</p> <p>Risk Fund 1.00%</p> <p>Supervision charge (per year on outstanding balances) 1%</p>	<p>BDT 7.50 Lac for reconditioned Car/Jeeps/SUVs and</p> <p>BDT 25.00 Lac for new Cars/Jeeps/SUVs.</p>

	<ul style="list-style-type: none"> <li>• Interest rate will be charged quarterly rest.</li> </ul>		
<b>Doctor's Loan Scheme</b>	<ul style="list-style-type: none"> <li>• Help new F.C.P.S. or post-graduate doctors for setting up chambers and buying medical equipment.</li> <li>• Help experienced doctors for refurbishing chambers and buying medical equipment.</li> <li>• Assist private clinics for acquiring modern medical equipment.</li> <li>• Interest rate will be charged at quarterly rest</li> </ul>	<ul style="list-style-type: none"> <li>• Equity <ul style="list-style-type: none"> <li>» For new doctor 10%</li> <li>» For experienced doctor 15%</li> <li>» For Hospital, Clinic and Diagnostic Center 20%</li> </ul> </li> <li>• Interest Rate 9.00%</li> <li>• Risk Fund Tk. 1.00%</li> <li>• Repayment period 5 years</li> <li>• Loan limit</li> </ul>	<p>For new doctors 5.00 Lac and for experienced doctor 15 Lac.</p> <p>For hospital, Clinic and diagnostic Center 50.00 Lac.</p> <p>Application fee BDT 250.00</p>
<b>Rural Development scheme</b>	<ul style="list-style-type: none"> <li>• Raise the standard of living of rural people.</li> <li>• Initiative to break the vicious cycle of poverty.</li> <li>• Enhance the purchasing power of</li> </ul>	<ul style="list-style-type: none"> <li>• Interest Rate 9.00%.</li> <li>• Risk Fund 1.00.</li> <li>• Service charge 0.25% per year on outstanding balance.</li> <li>• Repayment period 1</li> </ul>	<p>Security: Group guarantee, no collateral</p> <p>30 person in a group 1 group leader 6 sub-groups consisting 5 person</p>

	rural people.	year.	<p>each in a group</p> <p>1 sub-group leader in each sub-group</p> <p>Maximum taka 5000.00 per person</p> <p>Gradually enhance able up to TK. 1000.00</p>
<b>Lease Finance Scheme</b>	<p>Assist and encourage entrepreneurs for acquiring capital machinery, medical equipment, automobiles etc.</p>	<ul style="list-style-type: none"> <li>• Lease period 3 to 7 years</li> <li>• Lease rate @ 9.00%</li> <li>• Risk Fund 1.00%</li> <li>• Service Charge 0.25% per year on outstanding balances</li> </ul>	<ul style="list-style-type: none"> <li>• Primary: Ownership of fixed items.</li> <li>• Collateral: Landed property, Bank Guarantee, ICB Unit Certificate etc</li> </ul>
<b>Personal Loan Scheme</b>	<ul style="list-style-type: none"> <li>• Assist and encourage entrepreneurs for acquiring capital machinery, medical equipment, automobiles etc.</li> <li>• Loan needs of the low and middle income group for any purpose</li> </ul>	<p>Interest rate 9%</p> <p>Risk fund 1%</p> <p>Supervision charge (per year on outstanding balance) 0.5%</p>	<p>The loan amount is directly Loaned to the customer's account</p> <p>Loan Limit BDT 3.00 Lac or 8 times of monthly evidence income, whichever is lower.</p> <p>Repayment period maximum 3 years that is 36 monthly installments</p>

<b>Small Loan Scheme</b>	<ul style="list-style-type: none"> <li>•Extend Loan facility to small shopkeepers.</li> <li>• Give collateral-free Loan</li> </ul>	<ul style="list-style-type: none"> <li>•Maximum amount of loan Tk. 2, 50,000.</li> <li>•Interest Rate 9.00%</li> <li>•Risk Fund 1.00%</li> <li>•Service Charge 0.25% per year on outstanding balances</li> </ul>	<ul style="list-style-type: none"> <li>•Repayment period 3 years.</li> <li>•Interest rate will be charged at quarterly rest.</li> </ul>
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#### •Woman Entrepreneurs Development Scheme

Women Entrepreneurs Development Scheme has been introduced to encourage women in doing business. Under this scheme, the Bank finances the small and cottage industry projects sponsored by women.

#### • SME Loan Scheme

Small and Medium Enterprise (SME) Loan Scheme has been introduced to provide financial assistance to new or experienced entrepreneurs to invest in small and medium scale industries with a comparatively low rate of interest as the same is assisted by the Bangladesh Bank with refinancing facilities.

#### • Home Loan Scheme

To meet the growing need of housing for middle and lower-middle income people, MBL has introduced Home Loan Scheme. We also support the Bangladesh Bank's Home Loan Refinance Scheme. The Scheme boosts up the growth of housing sector. Such loan shall be available for purchase or construction of new apartments for self-residing purpose.

#### **d) Investment**

To earn profit, the Bank Prudently invests its fund to different sectors. The investment portfolio of the Bank is comprised of Treasury bill, other bonds, Debenture, Shares etc. The Bank earns a handsome profit from this investment portfolio.

#### **e) Import Business**

For the very beginning the Bank has embarked on extensive foreign exchange business with a view to facilitating international trade transactions of the country. The Bank has provided BDT 184,650.00million loan as in, 2019 compared to BDT 172,773.50 million in 2020 Import mainly confined to consumer goods, capital machineries and industrial raw materials. As we can see Import Business amount is low in current year because of Covid-19.

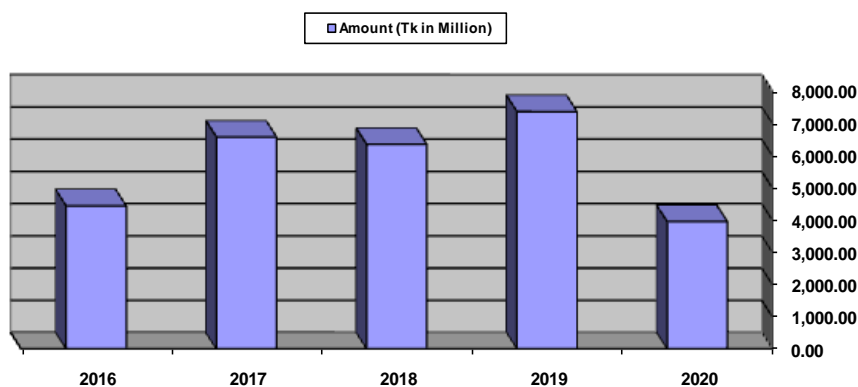
#### **f) Export Business**

The total export business handled by the bank amounted to BDT 163,152.30 million in 2019 compared to BDT 135,418.10 million in 2020, Because of Covid-19. The bank has made significant contribution to readymade garments sector which contributed 80% of total export of the country in 2019-2020. Other items include Shrimps, Tea and Non-traditional item.

#### **g) Operating Profit**

The operating profit of the bank stood to the BDT 7,355.74 million as of 2019 against 3,947.74 million in 2020. After necessary provision net profit stood at BDT 2,161.32 million in 2020.

Year	Operating Profit (Tk. in millions)
2016	4,436.43
2017	6,570.57
2018	6,345.58
2019	7,355.74
2020	3,947.74



From the above table and graph we can see that in 2016 operating profit was 4,436.43 and It stood 7,355.74 in 2019. it indicates a better performance of Mercantile Bank Ltd. of operating profit. But in 2020 we can see that operating profit is little bit low because of Covid-19 pandemic all over the world.

#### 4.4. Deposits

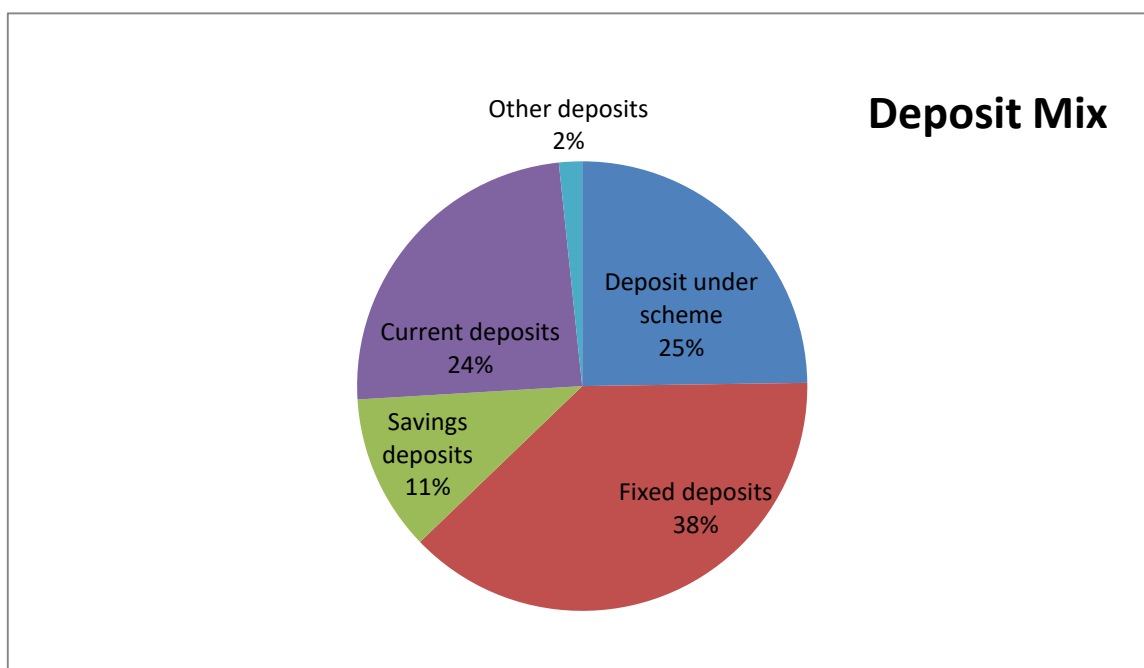
The bank mobilized total deposits of BDT 132,093.64 million in 2013 as compared to that of BDT 102,262.02.00 million up to 2012. Competitive interest rates, attractive deposit products, deposit

mobilization efforts of the bank and confidence reposed by the customers on the bank contributed to the notable growth in deposit. The bank introduces a number of attractive deposit schemes to cater the requirement of small and medium savers. This improved not only the quantum of deposits, but also brought about qualitative changes in the deposits structure.

## 4.5. Deposits Mix

Break up of deposit and deposit mix

TYPE	AMOUNT	PERCENTAGE (%)
Deposit Under Schemes	60,745,941,739	24.77%
Fixed Deposits	93,258,753,354	38.03%
Savings Deposits	27,577,416,714	11.25%
Current Deposits	59,567,054,150	24.29%
Other Deposits	4,071,078,095	1.66%
<b>Total</b>	<b>245,220,244,052</b>	<b>100.00%</b>



There are various kinds of borrowing facilities provided by banks to their clients. These facilities can be broadly classified into following categories:

## **4.6 Loans and Advances**

The main focus of Mercantile Bank Loan Line/Program is financing business, trade and industrial activities through an effective delivery system. Mercantile Bank offers Loan to almost all sectors of commercial activities having productive purpose. The loan portfolio of the Bank encompasses a wide range of Loan programs covering about 200 items. Loan is also offered to 15 (fifteen) thrust sectors, as earmarked by the govt., at a reduced interest rate to develop frontier industries. Loan facilities are offered to individuals, businessmen, small and big business houses, traders, manufactures, corporate bodies, etc .loans and advance of the bank registered an impressive growth during the year 2019. The total loans and advance on 31 December 2020 stood Tk 248,994.39 million compared to as against Tk 236,890.4 5million at the end of previous yearbook showing of 1.20 percent.

In Loan facilities, the Bank has given due importance to sectoral needs and requirements of both public and private sector.

## **4.7. Loans and advances Mix**

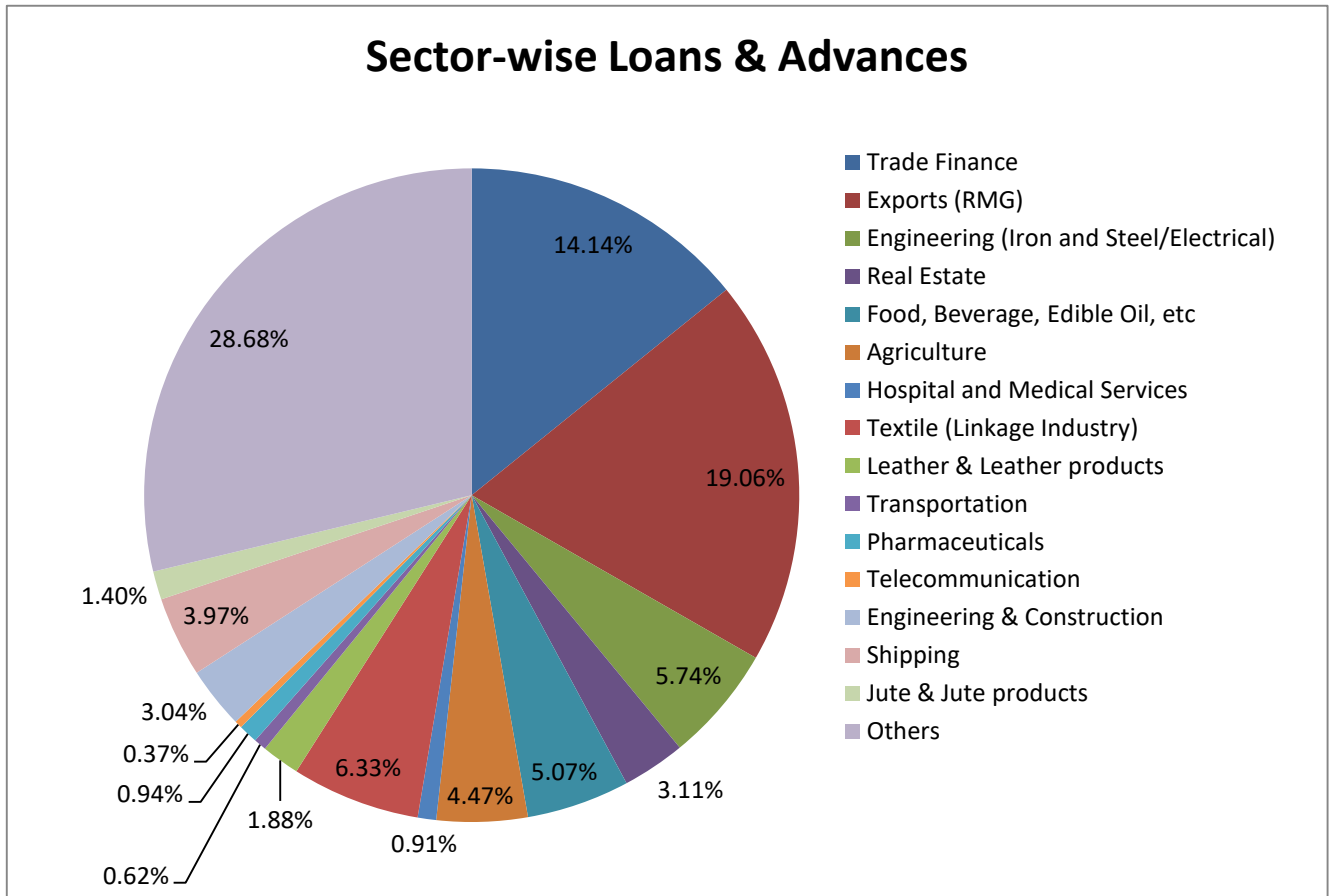
The bank has formulated a policy to give more priority to Small and Medium Enterprise (SME) while financing large-scale enterprises through consortium of banks,

**Sector-wise advances (31<sup>st</sup> December2012) are shown below**



(BDT in Millions)

Sectors/Segments	Volume	Percentage (%)
Trade Finance	35,204.74	14.14%
Exports (RMG)	48,127.33	19.06%
Engineering (Iron and Steel/Electrical)	14,272.79	5.74%
Real Estate	7,736.39	3.11%
Food, Beverage, Edible Oil, etc	12,620.85	5.07%
Agriculture	11,124.86	4.47%
Hospital and Medical Services	2,268.87	0.91%
Textile (Linkage Industry)	15,760.6	6.33%
Leather & Leather products	4,669.17	1.88%
Transportation	1,535.20	0.62%
Pharmaceuticals	2,344.05	0.94%
Telecommunication	923.93	0.37%
Engineering & Construction	7,572.01	3.04%
Shipping	9,874.17	3.97%
Jute & Jute products	3,484.64	1.4%
Others	71,401.53	28.68%
<b>Total</b>	<b>248,994.39</b>	<b>100</b>



## 4.8. Loan Products

### 4.8.1 Overdraft

Overdraft is a temporary accommodation usually granted to an operating account subject to the limit sanctioned. This is a permanent arrangement and the customer need not to draw the sanctioned amount at once, but draw the amount as and when required. This interest is charged on the amount, which he withdraws, not on the sanctioned amount. OD is of two types practiced in Mercantile Bank Ltd. Foreign Exchange branch. These are as follows –

#### **4.8.1.1 Secured Overdraft (Sod)**

Branch sanctions SOD against different securities like FDR, Sanchaypatra and work orders.

#### **4.8.1.2 Temporary Overdraft (TOD)**

It is given to the valued customers only. It is not that much secured. Usually it forwards without any security or sometimes exercise lien against the instrument, deposited in the bank. The processes of extending SOD are as follows –

The party must have a current A/C with the branch if the ownership of the firm is proprietorship, then a trade license must be submitted and in case of a limited company, all the documents required to open a current A/C, should be submitted. The financial statements of the concerned firm should also be submitted. The party must maintain a good transaction with the branch and have a good turnover rate. The party will apply to the officer in charge of Loan department of the branch for SOD arrangement.

The concerned officer of the branch will give him a Loan application form and the party will have to fill up this form. In this form he discloses all the information about his concern, purpose of the loan, description of security, etc. The concerned officer will prepare a 'Loan Proposal', where he writes about the business concern, details of proprietors/directors of the concern, management structure, and the existing Loan facilities, the particulars about the facilities that asked for – such as margin limit, date of expiry, details of security, and any other relevant information. Then the proposal is sent to the Head Office, Loan Division for approval. The responsible department of the Loan Division will appraise the proposal and if it seems to a viable then the loan will be sanctioned.

After the loan is sanctioned, the branch will issue two copies of a sanction advice, where all the terms and conditions set by the bank is mentioned. The borrower is advised to write, 'accepted' on the original copy if he is satisfied with the terms and conditions of the bank and retain the duplicate one as record.

#### **4.8.3. Cash Loan**

By this arrangement, a banker allows his customer to borrow money up to a certain limit. CC is a favorite mode of borrowing by trades, industrialists, etc. for meeting their working capital requirements. It is operated like overdraft account. Depending on the needs of the business, the

borrower can draw on his cash Loan account at different time and when he gets money can adjust the liability. Mercantile Bank Ltd. charges interest on the daily balance of the account. Based on charging securities, there are two forms of cash Loan.

#### **4.8.3.1 Cash Loan (Hypothecation)**

Hypothecation is a legal transaction whereby goods are made available to the lending banker as security for a debt without transferring either the property in the goods or possession. The banker has only equitable charge on stocks, which practically means nothing. It is given against registered mortgage of land and building, hypothecation of goods and personal guarantee of Directors.

#### **4.8.3.2 Cash Loan (Pledge)**

Pledge is the bailment of goods as security for payment of a debt or performance of a promise. Transfer of possession is the judicial sense. In case of pledge goods the bank acquire the possession of the goods or a right to hold goods until the repayment for Loan with a special right to sell after due notice to the borrower in the event of non-repayment. It is not applicable in foreign exchange branch.

The processes of opening a CC a/c are as follows –

The interested party must have a current A/C and good transaction with the branch; applies for CC pledge or hypothecation arrangement; fills up the 'Loan Application form' as provided by the respective officer; the concerned officer prepares a 'Loan Proposal' detailing all relevant information; sends the Loan proposal to the Head Office, Loan Division for necessary action, Head office, Loan Division examines the proposal and if finds it viable then sanctions it and sends it to the branch; the branch issues two copies of 'Sanction Advice', one for its own record and the other for the party to keep.

After getting the cash Loan arrangement, the banker will issue a cheque book for withdrawing cash from the account. Whenever the CC account holder wants to withdraw cash from the account, the cash officer will scrutinize the amount of cheque in order to make sure that the total drawings do not exceed the sanctioned limit.

#### **4.8.4 Loan (General)**

It is given against personal guarantee, hypothecation of goods and land & building.

#### **4.8.5 Staff Loan**

Local office branch provides advances to the staff for purchasing house, building, sanchaypatra, and meeting up certain requirements like family medical, personal medical, wedding purposes. Bank provides this facility under installments; loan able amount varies on the basis of purpose.

#### **4.8.6 Bills Portfolio**

Local Office branch purchases demand bills of exchange that are called 'Draft' accompanied by documents of title to goods such as bill of landing, railway receipt, and truck receipt. The purchase of bill of exchange drawn at an issuance, i.e. for a certain period maturing on a future date and not payable on demand or sight.

#### **4.8.7 Term Loan**

Mercantile Bank Ltd. is advancing both short and medium term Loan to the commercial sector on the basis of their capital structure, constitution and liquidity consideration. It is given against land and building along with machinery, personal guarantee of Directors and hypothecation of raw materials.

#### **4.8.8 Bills Purchased and Discount**

Banks grant advances to their customers by discounting bill if exchange.

#### **4.8.9 Loan against Imported Merchandise (LIM)**

Advances allowed for retirement of shipping documents and release of good imported through L/C taking effective control over the goods by pledge fall under this type of advance. When the importer

failed to pay the amount payable the exporter against import, L/C, then MBL gives loan against imported merchandise to the importer. The importer will bear all the expense i.e. the godown charge, insurance fees, etc. and the ownership of the goods in retain to the bank. This is also a temporary advance connected with import, which is known as post import finance.

#### **4.8.10 Payments against Documents (PAD)**

The importers are to open letter of Loan through any bank for importing goods. Most of the time, the banks are to extend Loan to the importers, without violating the rules and circulars of Bangladesh bank, for buying required foreign exchange. This loan on receipts of the shipping documents from the negotiating bank is transferred and lodged to PAD. PAD is associated with import and import financing. This kind of loan is issued in favor or the exporter to fulfill the commitment of issuing bank of L/C to the exporter.

#### **4.8.11 Loan against Trust Receipt (LTR)**

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

#### **4.8.12 Inland Bill Purchased (IBP)**

Payment made against documents representing sell of goods to local export oriented industries, which are deemed as exports and which are denominated in local currency/foreign currency falls under this head. The bill of exchange is held as the primary security. The client submits the issuance bill and the bank discounts it. This temporary liability is adjustable from the proceeds of the bills.

IBP is one of the moods of advancing money by bank and it is a profitable way of deploying banks fund for short period. The party himself must draw genuine trade transaction and the bill and he is not the purchaser of the bill. ILC and mother L/C of export is needed to sanction the loan. The banks scrutinize the shipping document of ILC and asked the ILC opening bank for acceptance of the bill with maturity date. The bill will purchase up to 80% of the accepted value.

#### **4.8.13 Heir Purchase**

Heir Purchase is a type of installment investment under which the Purchaser agrees to take the goods on hire at a stated rental, which is inclusive of the repayment of principal as well as profit for adjustment of the investment within a specified period.

#### **4.8.14 Home Loan**

This loan is provided against 100% cash collateral, besides; the land & building are also mortgaged with the bank. Interest rate is 9% p.a.

#### **4.8.15 Letter of Loan**

A letter of Loan is basically a document issued by a bank guaranteeing a client's ability to pay for goods or services. A bank or finance company issues a letter of Loan on behalf of an importer or buyer, authorizing the exporter or seller to obtain payment within a specified timeframe once the terms and conditions outlined in the letter of Loan are met. LC is a conditional commitment to pay certain amount after a certain period and some conditions are fulfilled. It is useful when the importer or buyer is not well known and when exchange restrictions exist or are possible.

#### **4.8.16 Packing Loan**

Packing Loan is essentially a short-term advance granted by MBL to an exporter for assisting him to buy, process, manufacture, and pack and ship the goods. The highest limit of providing PL to a first class exporter by MBL is 10% of total export value.

#### 4.8.17 Personal Loan

This loan is provided to fixed salaried persons in various organizations to meet any emergency cash needs at various events- treatment/operations of critical disease, matrimonial, maternity expenditure etc

#### 4.8.18 Other loans

Car loan/Auto loan: This type of loan is providing for buying car. Receipt of buying must be shown for this loan

Refrigerator/AC: For buying refrigerator/AC, this loan is provided.

### 4.9 Rate of Interest on Loan

Lending Type	Rate of Interest (%)
Home Loan	9%
Car loan/Auto loan	9%
Term Loans	9%
SOD	9%+ Securities
LTR	9%
Packing Loan	9%
Hire purchase	9%
PAD Cash	9%
CC (HYPO) SE	9%
CC (HYPO) Pledge	9%



IDB	9%
Personal loan	9%
LIM	9%
L/C	0.00

#### **4.10 Loan Policy of Mercantile Bank Ltd. (MBL)**

The Loan policy of any banking institution is a combination of certain accepted time tested standards, and some other dynamic factors determined by the realities of varying and changing situations in the market place.

Loan policy lays down the MBL principles and broad parameters of the lending operations. The key is to a sound, healthy and profitable Loan operation, however, lies in the quality of judgment and sense of proportion of the officers making lending decisions, and their knowledge of the borrowers and the market place.

MBL considers the loans that are sanctioned for more than one year as term loans. Under this facility an individual or enterprise is financed for various purposes.

#### **4.11 Securities against Advances**

All securities are suitable for all types of advances. Each security has its own suitability. Specific security to be obtained by the local office branch while allowing advance are shown below against the types of advances:

<b>Types of Advances</b>	<b>Securities</b>
<b>Loans</b>	Lien of various kinds of Sanchaypatra, Govt. Securities and shares quoted in the stock exchange, debentures, fixed deposit receipts, pledge of gold/gold ornaments, and hypothecation of vehicles. Collateral of immovable properties.
<b>Overdraft</b>	Sanchaypatra, Non-resident foreign currency deposit, shares debentures, Govt. promissory notes, fixed deposit receipts, life insurance policies, gold ornaments, and work order.
<b>Cash Loans</b>	Pledge or hypothecation of stock in trade, goods, produce and merchandise, machinery, land & building on which machinery are installed.
<b>Inland bill purchased</b>	Bill itself
<b>Pad</b>	Shipping documents for imports
<b>Lim</b>	Pledge of imported merchandise
<b>LTR</b>	Trust receipt obtained in lieu of import documents
<b>Export cash Loan</b>	Pledge or hypothecation of goods or export trusts receipts.
<b>Foreign bill purchased</b>	Shipping documents.

## 4.12 General procedure for loans and advances

The following procedure is applicable for giving loans to the customer. These are

1. Duly fill-up first information sheet
2. Application for Loan line
3. Collecting CIB report from Bangladesh Bank

4. Making Loan proposal
5. Selection of Right Borrower
6. Project appraisal
7. Head office approval
8. Sanction letter
9. Documentation
10. Disbursement
11. Monitoring
12. Recovery

#### **4.12.1 First Information Sheet**

First information sheet is the prescribed form provided by the respective branch that contains MBL information of the borrower. It contains following particulars-

Name of the concern with its factory location, officer address and Tel No. Name o the main sponsors with their educational qualification. Business experience of the sponsors, details of past and present business, its achievement and failures, name of all the concerns wherein the sponsors have involvement. Income tax registration no with the amount of tax paid for the last three years. Details of unencumbered assets personally owned by the sponsors. Details of liabilities with other banks and financial institutions including securities held there against. Purpose of loan sought from MBL. Estimated cost of the Project & means of finance.

#### **4.12.2 Application for Loan**

After receiving the first information sheet from the borrower bank official verifies all the information carefully. He also checks the account maintains by the borrower with the bank. If the official becomes satisfied then he gives application for Loan line form to the prospective borrower. The application for Loan lines contains the following particulars:

Name, address, telephone, telex no. & cable address. Date & place established/incorporated, status/constitution. Name of major shareholders (in excess of 15%).

State relationship between shareholders. Name and net worth of directors/partners/owners with background & relationship with each other (Net worth statement of each person to be attached as per format). Capital structure & how the capital is deployed in business. Details of properties/assets of the applicant, with valuation against each type of property/assets and details of charges against them.

Names and addresses of subsidiaries/affiliates/allied concerns, stating relationship with applicant, nature of business and borrowings from banks against each nature & details of business. Latest audited/un-audited balance sheet and profit & loss statement attached will be submitted by management structure. Names & address of other bankers, sanctioned facilities & liabilities outstanding with details of securities there against. Type, extent and period of Loan facilities required. Purpose of facility, repayment arrangement, sources of repayment, details of securities offered & any other relevant information.

After getting the application banks appraise the application in the following way:

1. Getting Loan information to determine the Loan worthiness of the borrower through –
  - Confidential report from other bank
  - Personal investigation
  - Loan information bureau report from Bangladesh Bank.
2. Considering the following 5C'S –
  - Character: The most valuable asset of a person, which is based on the integrity and reliability of the borrower.
  - Capacity: Indicate the borrower capacity to employ the fund profitably.
  - Capital: Refers to borrower's own fund invested in the business.
  - Collateral: Security offered by borrower.
  - Condition: Refers to external factors.

### 4.12.3 Collecting CIB Report from Bangladesh Bank

After receiving the application for Loan line, Mercantile Bank Ltd. sends a letter to Bangladesh Bank for obtaining a report from there. This report is called CIB (Loan Information Bureau) report. MBL branches seek this report from the head office for all kinds of loans. The purpose of this report is to being informed that whether the borrower has taken loan from any other bank; if 'yes', then whether the party has any overdue amount or not.

### 4.12.4 Making Loan Proposal

Then bank branch prepare a loan proposal which contains terms and conditions of loan for approval of Head Office or Head of the concerned branch. Following documents are necessary for sending the Loan proposal:

- Loan application
- Declaration of the borrower
- Photograph of the borrower duly attested
- Bio data of the borrower
- Limit sanction
- Loan report
- Legal opinion
- Memorandum of Article
- Trade license
- Copy of title deeds
- Tax clearance certificate
- 

If the officer thinks that the project is feasible then he will prepare a proposal. Mercantile Bank Ltd. prepares the proposal in a specific form called Loan proposal. It contains following relevant information.

- Borrower
- Date established, constitution
- Main sponsor/director with background
- Capital structure, address
- Account opening date, introduced by type of business, particulars of previous sanctions
- Existing vis-à-vis proposed Loan limits
- Particulars of proposed/additional facilities
- Security (Existing & Proposed/Additional)
- Movement of accounts
- Components on the conduct of the account
- Details of deposit, liabilities of allied concerns, liabilities with other banks
- CIB report
- Stock position (Pls. Provide St. report)
- Rated capacity of the project (item wise)
- Production/purchase during the period
- Sales during the period
- Business received for the period (Last three years)
- Earning received for the period
- Associated lending/business risk (s).

After fulfilling the previous particulars, the officer places the Loan Proposal to the BCC (Branch Loan Committee). BCC is then finding out the rights borrower by considering the following 5C's. These are character, capital, capacity, collateral, condition (\* economic).

#### **4.12.5 Selection of Right Borrower**

The borrower has to be Loan worthy and competent enough to run the proposed industry. Following are the consideration –

- Preference given for educated/knowledgeable sponsors, who know about their business concern, have technically know-how and expertise in the field of proposed industry
- Who have own land and building for running the project
- Client with innovative ideas

- Client must have net worth more than 2.5 times of the equity required for investment in the project.
- Who have good dealings with the bankers/outside parties and has social contacts and standings
- Have an a/c with Mercantile Bank Ltd. (MBL) local officer branch.

#### **4.12.6 Project Appraisal**

It is the pre-investment analysis done by the officer before approval of the project. Project appraisal in the banking sector is needed for the following reasons:

- To justify the soundness of an investment
- To ensure repayment of bank finance
- To achieve organizational goals
- To recommend if the project is not designed properly.

MBL ally Head Office is engaged in appraising the following projects:

- Proposal for sanctioning a term loan.
- Proposal for sanctioning a working capital
- Proposal for sanctioning a term loan and working capital
- Proposal for renewal of advance limit
- Proposal for enhancement of advanced limit
- Proposal for enhanced renewal of advanced limit
- Proposal for extension of repayment period.

#### **4.12.7 Head Office Approval**

Upon receipt of the Loan line proposal from the branch the Head Office aging appraises the project. If it seems to be a viable one, the H.O. sends it to the Board of Directors for the approval of the loan. The Board of Directors considers the proposal and takes decision whether to approve the loan or not. If the BOD approves the loan, the H.O. sends the approval to the concerned branch.

The respective officer of Head Office appraises the project by preparing a summary named “Top Sheet” or ‘Executive Summary’. Then he sends it to the Head Office Loan Committee for the approval of the loan. The Head Office Loan Committee considers the proposal and takes decision whether to approve the loan or not. If the committee approves the loan, the HO sends the approval to the concerned branch with some conditions. These are like:

- Drawing will not exceeds the amount of bill receivables
- The tern over in the account during the tenure of the limit should not be less than four times of the Loan limit.
- All other terms and conditions, as per policy and practice of the bank for such advance to safeguard the banker’s interest shall also be applicable for this sanction also
- Bank may charge/alter/cancel any clause (s) of the sanction without assigning any reason whatsoever and that shall be binding upon the client unconditionally
- Branch shall not exceed the sanctioned limit
- Required charge documents with duly stamped should be obtained
- Drawing shall be allowed only after completion of mortgage formalities and other security arrangement.

#### **4.12.8 Sanction Letter**

After getting the approval of the H.O. the branch issues sanction letter to the borrower. A sanction letter contains the following particulars amongst other details:

- Name of borrower
- Facility allowed
- Purpose
- Rate of interest
- Period of the loan and mode of adjustment
- Security
- Others terms and conditions

After getting the approval from the HO, the branch issues the sanction letter to the borrower. A sanction letter contains the following particulars amongst other details.



### 4.12.9 Loan Documentation

Loan documentation means:

- To ensure that all security documents complies with terms of approval.
- To con troll loan disbursements only after all terms and conditions are approval have been met and all security documents as per the checklist are in place.
- To maintain control over all security documentation.
- To monitor borrower’s compliance with agreed terms and conditions, and general monitoring of account conduct/performance.

### 4.12.10 Disbursement

- Security documents are to be prepared in accordance with approval terms and to be legally enforceable. Standard loan facility documentation’s are to be drafted / prepared by the legal counsel. At present the function of preparation of documents (other than syndication) are performed by the Branch and exceptions are referred to legal counsel for advice.
- Disbursements under loan facilities are made when all security documentation is in place. CIB report should reflect/include the name of all the lenders with facility, limit and outstanding. All formalities regarding large loans and loans to Directors are guided by Bangladesh Bank circulars and related section of Banking Companies Act. All Loan Approval terms must be met. The check list certificate is to be signed by Loan In-charge and Head of Branch. In order to cope with the revised policy, the disbursement authority will be vested to the Head of Loan Administration Division up to Tk. 5.00 Crore above which will be vested to the Deputy Managing Director. In the absence of the Deputy Managing Director, the power may be exercised by the Senior Executive Vice President

#### **4.12.11 LOAN MONITORING**

To minimize Loan losses, monitoring procedures and systems should be in place, which will provide an early indication of the deteriorating financial health of a borrower. The Loan monitoring process in Bank is vested on Monitoring, Recovery and Compliance Division. Head of Monitoring, Recovery and Compliance Division will report the exceptional list of assets on daily basis on the following categories:

- Past due (which are not paid or renewed at maturity – Grade 5) principal or interest payments, past due trade bills, account excesses and breach of loan covenants;
- Loan terms and conditions are monitored, financial statements are received on a regular basis and any covenant breaches or exception are to be referred to the CRM and the RM team for timely follow-up.
- Timely corrective action is to be taken to address findings of any internal, external or regulatory inspection/audit.
- All borrower relationships/loan facilities are reviewed and approved through the submission of a Loan Application at least annually.

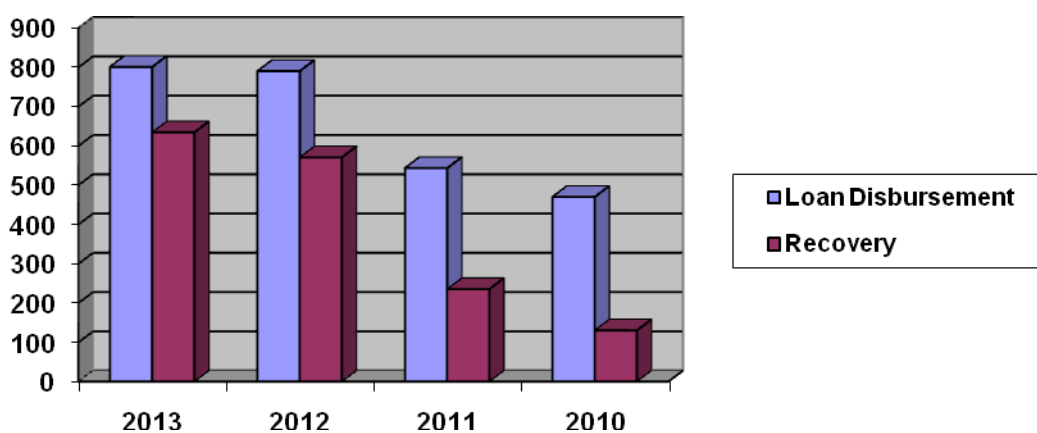
Monitoring, Recovery and Compliance Division will keep regularly follow up and corrective action to be taken in a timely manner before the account deteriorates further.

#### **4.12.12 Loan Recovery**

When Mercantile Bank sanctions loans and advances to its customers, they clearly state the repayment pattern in the loan agreement. But some Loan holders do not pay their Loan in due period. The nationalized and private sector commercial banks have to face this sort of problems. This situation is, especially severe in Mercantile Bank. To overcome the problem of overdue loan, the bank need take particular loan recovery program.

(Figure in Millions)

Year	Loan Disbursement	Recovery
2013	801.02	634.43
2012	790.31	570.64
2011	543.35	235.19
2010	469.95	130.26



In the above figure we see that the Loan recovery on industrial Loan of Mercantile Bank is upward increasing rate from 2010 to 2013, which indicates better performance in industrial Loan recovery. The main reason of this better performance of Mercantile bank is that the bank uses LRA format before providing industrial Loan.

The above data have collected from MBL . But in recent years MBL didn't want to publish some of their confidential data. That's why I cannot provide recent years Loan Disbursement & Recovery.

### Recovery Programs to be Taken By Mercantile Bank Limited

- ❖ To establish Loan supervision and monitoring cell in the bank.
- ❖ To re-structure the loan sanctioning and distributing policy of the bank.
- ❖ To sanction loans and advances against sufficient securities as best as possible.

- ❖ To give more powers to the branch manager in Loan management decision making process.
- ❖ To offer a package of incentives to the sound borrowers.
- ❖ To give more emphasis on short term loans and advances.
- ❖ To impose restrictions on loans and advances for sick industries.
- ❖ To take legal actions quickly against unsound borrowers as best as possible within the period specified by the law of limitations.

### 4.13 Collection Objective

The collection process for loans will start when the borrower has failed to meet one or more contractual payment (Installment). It therefore, becomes the duty of the Collection Department to minimize the outstanding delinquent receivable and Loan losses

The collector's responsibility will commence from the time an account becomes delinquent until it is regularized by means of payment or close with full payment amount collected.

**Collection Steps:** To identify and manage arrears, the following again classification is adopted:

Days Past Due (DPD)	Collection Action
1-14	Letter, Follow up & Persuasion over phone.
15-29	1 <sup>st</sup> Reminder letter & Follow up & Persuasion over phone.
30-32	3 <sup>rd</sup> Reminder letter.

33-35	Group visit by team member.
36-39	Follow up over phone.
40-44	Letter to Guarantor, Employer & Others.
45-59	Warning on legal action by next 15 days
60-89.	<ul style="list-style-type: none"> <li>• Call up Loan.</li> <li>• Final Reminder &amp; Serve legal notice.</li> <li>• Legal proceedings begin.</li> </ul> Repossession starts
90 and above	<ul style="list-style-type: none"> <li>• Telephone calls/Legal proceedings continue.</li> <li>• Collection effort continuous by Officer and Agent.</li> <li>• Letter to different Banks/Associations.</li> </ul>

#### 4.14 SWOT Analysis

SWOT analysis is an important tool for evaluating the company's strengths, weaknesses, opportunities, and threats. It helps the organization to identify how to evaluate which in turn would help the organization to navigate in the turbulent ocean of competition.

Although MBL is very much conscious about its activity, there also occurs some irregular activities in its operation, especially, in the lending side.

Insufficient manpower is another shortcoming for the proper functioning of the loan operation. There is a policy to conduct lending risk analysis, but it is hardly done. The main strength of the bank is the

attitude of its employees toward organization. They are very much united and motivated and devoted to the bank. Their morale is very high.

The recovery rate (less than 10%) of the classified amount is also unsatisfactory, though it is not worse than the overall position of the country's other banks.

<p><b>Strength:</b></p> <ul style="list-style-type: none"> <li>• Not engaged in unfair business practice.</li> <li>• Well-known reputed bank in the market.</li> <li>• Concentrated market.</li> <li>• Officers are highly educated and experienced.</li> <li>• Deposit is larger than advance.</li> <li>• Attractive Loan and deposit schemes than competitive markets.</li> <li>• Well-furnished and Air-conditioned Bank.</li> <li>• Strictly complies of government banking rules, regulations and acts.</li> <li>• ATM service.</li> </ul>	<p><b>Weakness:</b></p> <ul style="list-style-type: none"> <li>• Small market shares in Banking-business.</li> <li>• Short time experience in the banking sector.</li> <li>• Growth is slower than other competitive banks.</li> <li>• Training programs to officers are not so effective and adequate.</li> <li>• Lack of advance technology utilization in all aspects.</li> </ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• Can provide more attractive and deposit facilities and Loan facilities.</li> <li>• Take incentives to provide high quality service.</li> <li>• Can increase the advertising of the Bank to highlight latest services of MBL.</li> <li>• Can adopt high technology based inter-branch networking system.</li> </ul>	<p><b>Threat:</b></p> <ul style="list-style-type: none"> <li>• The number competitors in banking sectors are increasing.</li> <li>• Governments increasing rules and regulations are not so inspiring.</li> <li>• Competitive performance is in high positive flow.</li> <li>• Competitors are using more advance technological system.</li> <li>• Government tendency of imposing tax and VAT is becoming stricter.</li> </ul>

# **Chapter Five**

## **Limitations, Recommendations and Conclusion**

## 5.1 Findings

When I making the report on International Finance Investment & Commerce Bank Limited, I have attained a newer kind of experience. After collecting and analyzing data I have got some findings and recommendations. These findings are from the personal points of view, which are given below:

- Some of the borrower does not pay their payment timely.
- Digital banking system is available in IFIC Bank that is very important to complete to others in the electronic world.
- Changing government's rules and regulations such as loan cost change or confinements in remote trade edge is likewise a hindrance of banks.
- Mercantile Bank Ltd. invests much in private sector than public sector.

## 5.2 Recommendations

Since this an exploratory research, hence the recommendation given are not decisions rather they are only suggestions to improve the default rate.

- ❖ The bank has to update its technological structure for better and faster customer services.
- ❖ Bottlenecks or barriers should be removed by taking advanced steps in mode of disbursement, charge documents and approval process.
- ❖ Business Power for sanctioning loans and advances can be increased at branch level.
- ❖ Loan manager should also invest much in private sector.
- ❖ In case of approving the loans, securities against the borrowings should be equal to the market value of the amount.
- ❖ Loan facility parameter should be expanded so that all the people can get loan according to their needs.
- ❖ It should consider some other factors for determining Loan worthiness before sanctioning any loan for more security and avoid default of customers



- ❖ Loan manager should develop their process to provide loan and recovery of loans for avoiding loan overdue. They can impose a penalty for those who miss 1(One) installment of repayment.
- ❖ The branch may introduce more attractive loan schemes or products.
- ❖ Transparency has to be maintained regarding SME loans.
- ❖ A legal framework must be made for loan recovery.

### **5.3 Conclusion**

During my internship period I observed that Loan management is the most important sector of Mercantile Bank Ltd. The overall profitability of the bank depends much on this sector. So, the deposits collected from the customers and provide loans to eligible borrowers must be maintained in well manner.

The overall Loan sector of this bank is pretty enriched. They used various tools and attractive features in their loans and advance arena. By providing a wide range of Loan services they contribute to the national economy in a good extent. If MBL can overcome the short coming in granting loans and advances. I hope it will be an effective milestone for country by contributing more in our economy and thus MBL can be more capable to continue its journey in profitable path.

For a long time, MBL have been carrying the burden of huge amount of classified loans. I hope that, MBL will minimize the dangers regarding the bad loans and advances through implementing the Loan worthiness analysis. Obviously, this is not the ready prescription on all ills but it would be helpful to the MBL to go one step forward of their mission to minimize lending risk.

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