

“SME LOAN FINANCING OF
BASIC BANK”

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Letter of Transmittal
December 14, 2017
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L
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Subject: Submission of Internship report on
“SME Loan Financing of BASIC Bank Limited”.

Dear Sir,

With due respect, I am submitting the internship report on the topic titled “SME Loan Financing of BASIC Bank” as a part of the completion of BUS 400 course.

It is my pleasure to inform you that it was unquestionably an interesting opportunity for me to work on BASIC Bank Ltd., Jubilee Road Branch and also assigned topic to enhance my knowledge in the practical field. I would like to thank you for giving me the opportunity to do the study. This report explores how a customer gets the loan, the process of the loan, how the officers maintaining the processing of the criteria step by step and how the bank is performing. Please find the report attached herewith.

Therefore, I sincerely hope that you will appreciate my effort and I shall be grateful if my report is accepted for the appropriate purpose.

Thank you.

Sincerely yours,

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Acknowledgement

First of all, I would like to thank my internship supervisor N M Baki Billah for his inspiring guidelines, valuable suggestion, positive criticism and constant help throughout the work and in preparation of this report. The successful completion of this report might never have been possible in time without him

whose inspiration and suggestions made it happen.

I also want to thank to the management and officials of BASIC Bank Ltd., Jubilee Road Branch. I would like to acknowledge toward Md. Didarul Alam, Deputy General Manager and Branch Manager and Md. Abdul Kader, Deputy Manager of credit department for being patient with me and supporting me for 3 months program and helping me to complete the report in time. My colleagues at the bank had also been very kind and helpful and they made my internship a more comfortable one.

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Executive Summary

Financial sector is one of the most important sectors in a country and banks play an essential role in building the commercial backbone of the country's economy. BASIC BANK Limited is one of the leading specialized Banks in Bangladesh. It preserves the highest ethical standards and community obligation worthy of leading corporate citizen and now searching for continuous improvement in productivity, operational efficiency and thereby enhancing local customer value. Since BASIC Bank Limited is a government owned bank but it is free from most of the difficulties which other government banks are engaged with. As a part of my under graduation program, I have completed my internship in this organization. During the period of my internship, I was officially appointed to work in the credit department. The report will reveal the background of the company, description of the loans, findings and recommendations based on the gathering of experience.

The report is based on my critical observation while working in the credit risk department of BASIC Bank

Ltd. Lending is one of the principal tasks of the bank to ensure all the segment of a bank. Sound lending practice is also very important for accomplishment and success of a bank. For the sake of sound lending, it is necessary to develop a sound policy and modern credit management techniques to ensure that loans/ advances are safe and the money will come back within the time set for repayment. For this purpose, proper and prior analysis of credit proposals is required to assess the risk. Loan procedure of a bank is really difficult to do because there are some criteria which have to follow step by step for approving a SME loan e.g. selection of a borrower, how much loan is providing, security and also approval process. It is a hard job for a banker to get through all the measures and it is unsafe for them and also for the bank. Bank credit is a vital means for bringing about economic progress in a country. BASIC Bank Limited, being one of the state-owned, mixture of development and commercial banks of the country, has some prejudice to finance directly on priority basis to agriculture, small and medium industry and business sector. Hence, it is very clear that BASIC Bank plays a significant role to move the economic wheel of the country.

Chapter 1 Introduction

1.1 Background of the study

Banks run a dynamic role in the economy by providing means of payment and in mobilizing resources (Shoel, 2011). Today's modern banks are not only providing traditional banking but also expanding the many financial services with unique features to their clients both individual and institutional. Credit Banking is one of those innovative services which are operating throughout the world economy (Ahmed, 2011). The financial system of Bangladesh encloses of Bangladesh Bank as the central bank, 6 nationalized commercial banks (NCB), 7 government owned specialized banks, 32 domestic private banks, 9 foreign banks and 34 non-bank financial institutions. In our country Bangladesh Bank (BB), as the central bank has legal authority to supervise and regulate all the banks. It performs the traditional central banking roles of note issuance and of being banker to the government and banks. Commercial banks and domestic private banks are the profit-making institution that holds the deposits of individuals & 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 (Siddiqi, 2011).

After the completion of my academic semester's institutional courses, I was employed in BASIC Bank Ltd. as an intern for 12 weeks long Internship Program for acquiring practical knowledge. While working there, I have to select an area for my study and make a detail research to present and understand about that operational area. My Supervisor and Line Manager help me to select the Credit Management Department area of my study. This internship program is an actual experience of the practices in banking and helped to develop a broad understanding about the detailed process of credit management system of BASIC Bank Limited. This practical operation is also having positive development in professional field.

1.2 Objective of the Report

The main objective of education is to acquire knowledge. To acquired knowledge ultimately we must do some practical application in addition to theoretical knowledge. Objectives of the study are summarized in the following manner-

1. To design a clear image of the credit Division and its sub-divisions

2. To learn about the Credit Risk Management (CRM) and Credit Administration Department (CAD).
 3. To know about the different Governmental and BASIC policies, terms and conditions concerning the Credit Policy.
 4. To get overall idea about how a bank operates their activities in different areas being a single organization.
 5. To identify the major areas of inefficiency.
- ### 1.3 Scope and Limitation of the Study

Every academic and professional relative research and reporting work has got some scopes and limitations. The scopes and limitations of this research and reporting works are:

Scopes:

1. BASIC Bank Ltd. is one of the prominent banks in whole banking sector, which is controlled by special guidelines of the central bank.
2. Credit Division and its loan processing, follow up & recovery activities are the prospective topic.
3. Supervisors in the workplace are very helpful in case of data collection and interpretation.
4. Very realistic problems and questions can be arisen from the respective topics relating to the issues and very helpful for the future career illumination.

Limitations:

1. One of the major limitations is the short internship period. Since three month is not enough to know about everything of a Bank, so this report does not contain all the area of BASIC Bank Ltd.
2. Difficulty in accessing latest data of internal operations for security reasons.

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3. Unavailability of required published documents.
 4. Some information was withheld to retain the confidentiality of the bank.
 5. Since the bank personnel are very busy with their activities, as a result they were not in a position to provide desired level of information about the report.
- ### 1.4 Methodology of the Report

For the implementation of the study I have worked on "BASIC Bank Limited (BASIC BL)". In order to make the Report more meaningful and presentable, two sources of data and information have been used widely.

Primary Sources

- Direct observation
- Face-to-face discussion with employees of different departments
- Study of files, circulars and practical work

Secondary Sources

- Annual Report of 2015 and 2016.
- Official website of BASIC Bank Limited.
- Circular published by Bangladesh Bank.
- Various books, articles, compilations etc. Regarding general banking functions, foreign exchange operations and credit policies.
- Unpublished data receive from the branch.

1.5 Data Processing

Collected data and information have been processed through several software like MS word, MS excel etc.

1.6 Data Analysis

The collected data were analyzed by using some simple statistical tools such as

- Percentage method.
- Bar Diagram.

Chapter 2

Overview of BASIC Bank

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2.1 About BASIC Bank

The BASIC Bank Limited (Bangladesh Small Industries and Commerce Bank Limited) starts up as a dealing an account organization under the organizations Act 1913 advanced its operation in 1989. It was merged under the Act on the second of August, 1988. The Bank began its operation from the 21st of January, 1989. It is administered by the Banking Companies Act 1913. The Bank was set up as the policy producers of the nation felt the direness for a bank in the private area for financing Small Scale Industries (SSIs). At the beginning, the Bank originated as a combined wander undertaking of the BCC Foundation with 70 percent shares and the Government of Bangladesh (GOB) with the rest of the 30 percent shares. The BCCI, the Government of Bangladesh acknowledged control 100 percent responsibility for on fourth June 1992. Thus there is state-obsessed. Be that as it may, the Bank isn't nationalized; it works like a private bank as some time recently. Fundamental Bank is one of a kind in its destinations. It is mix of improvement and business banks. The Memorandum and Articles of Association of the Bank stipulate that 50 percent of credit capable resources should be used for financing into small and cottage industries (Basicbanklimited.com/about_us, 2017).

Consistent expansion in customer base and their high standard for trustworthiness since Bank's origins assure for the huge certainty they rest on its administrations. Enhanced items both responsibility and resources sides especially an extensive variety of loaning items identified with advancement of little ventures and miniaturized scale undertakings, and business and preparing exercises draw in business visionaries from changed financial fields. Alongside advancement of items unique significance is given to singular customers through giving modified administrations. Actually people matter in this Bank. This maxim has been taken after for advancement of customer base and HR of the Bank. Adapting to the focused and quickly changing budgetary market of the nation, BASIC Bank Limited keeps up close association with its customers, the administrative, the investors (Government of Bangladesh), different banks and monetary institutions.

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A Bird's Eye View:

In year 2010 was a genuinely decent year for the Bank even with extreme rivalry in the Banking enterprises and changing worldwide and national financial situation. The Board of Directors was content with the general execution of the Bank, especially to maintain nature of benefits and enhancing investors' position, soundness and capital position. Be that as it may, in 2014 an outrage emerged as an opponent of BASIC bank around Tk. 4500 crores loan scam. The Chairman acted with untrustworthiness. He endorsed the advance to credit searchers overlooking the alarm of bank authorities and alerts against such advances by the national bank.

2.2 Vision

To finance and promote small and medium enterprises towards economic development of the country.

2.3 Mission

To evolve as the strongest one in the banking industry by rendering quality and timely services with innovative ideas towards entrepreneurship development through utilizing human resources in an effective manner as well as ensuring corporate governance for overall betterment of the society.

2.4 Credit rating of BASIC Bank

Type of

Rating

Entity (Stand-

Alone Basis)

Government Support

Entity

Long Term B+ A

Short Term ST-5 ST-3

Outlook Stable

Rating year 2016

Date of

Rating

June 28, 2017

Credit rating and Information and Services Ltd. (CRISL) has allocated B+ (articulated as Single B Plus) to BASIC Bank Limited for Long Term and ST-5 for Short Term with stable viewpoint for the year 2016. Rating B+ in Long Term mirrored that suitable repayment of monetary commitment

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is impeded by significant issues which the element is looked with. Then again, ST-5 rating in Short Term traditional that liquidity isn't adequate to safeguard against interruption paying off debtors benefit. Working mechanisms and market access might be liable to a high level of variety.

In addition, BASIC is appraised A (articulated as Single A) in the Long Term and ST-3 in the Short Term as Government bolster substance. This level of rating demonstrates sufficient limit with respect to opportune installment of money related duties in both Long Term and Short Term with little risk included (Basicbanklimited.com/Credit_Rating, n.d.).

2.5 Management Structure

To accomplish its authoritative objectives, the Bank leads its operations as per the real arrangement rules put down by the Board of Directors, the most prominent approach making body. The administration cares for the everyday operation of the Bank. The Managing Director heads the administration. The two General Managers and Departmental Heads in the Head office assist him. Fundamental bank is different in regard various leveled structure from different banks in that it is substantially more vertically combined similar to answering to the Chief official is concerned. The Branch Managers of the Bank report direct to the Managing Executive and, for practical reason, to the Heads of Departments. Consequently, speedy basic leadership in transfer of survey is guaranteed (Basicbanklimited.com/about_us, 2017).

2.6 Objectives of BASIC Bank Limited

BASIC is unique in its objectives. It's a blend of development and commercial banks. The bank is assigned with the responsibility of providing medium and long term loans and other financial assistance for promotion and development of small scale industries (SSI). The main objective of the bank is to finance in SME sector but this bank also finances all kinds of commercial activities. Steady and sustainable growth, investing in a cautious way, adoption of new technologies etc. are the corporate strategies of this bank (Annual Report of BASIC Bank , 2015-2016).

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2.7 Organization Hierarchy

Chapter 3

My Job Description

3.1 Credit Division

I have started my Internship in Jubilee Road Branch of BASIC Bank Ltd. at Credit Risk Management department. Credit division deals with Loans, Bank Guarantee, locker etc. However, my work was limited to Loan section and Bank Guarantee section. As an internee,

I have performed several activities. My main task was to assist officers and executives in every aspects of their daily work. It includes every activity that the officials performed like dealing with posting customers, computer, document analysis etc.

1.

Creating Spreadsheet and Updating Previous Spreadsheet:

In case for a new client, whose financial records has not previously been entered into the system, I had to prepare new spread sheet for BASIC clients based on the company financials data provided.

2. Processing Reported Figures:

Sometime I assisted the officers concerned in the department to verify their old reports as well as completed those by entering the TIN no. passport or National ID of their clients, SOD and Loan general account information and etc.

3. Other Activities:

- Writing business letters to clients
- Examination of draft copy of mortgage deed
- Read-through of charge documents in accordance with sanction terms
- Preparation and checking of Credit Information Bureau (CIB) report
- Checking of Customers applications
- Entry of Loan Documents in documentations registers

3.2 Experience

During the period of my internship, my tasks were varied in nature. At first, I was assigned to learn different phases of work. Then, I started working in different departments. The work environment in bank is really pleasant and I really like to work with them. The executive officers helped me most of the time when I got stuck into my required work. Throughout this internship program, I got a chance to be a part of our corporate sector.

Chapter 4

Credit Risk Management

4.1 Credit Risk Management

Credit risk states to the likelihood of loss due to a borrower's failure to make payments on any types of debt. Credit risk management is the practice of justifying losses by understanding the capability of a bank's capital and loan loss reserves at any given time, a process that has long been a challenge for financial institutions.

In between 2010 and 2012, BASIC Bank has seen the worst credit crisis and disaster which lead to a very bad impression among all the general public of Bangladesh. This crisis was happened because of several reasons. Falling of internal control and poor corporate governance, massive political involvement and the lack of responsibilities are the main reasons behind the scandal. More than forty five billion taka regarded as a default loan during that time. In most of the cases, the former chairman was the main authority to disburse these default loans without proper documentation and without following proper banking risk management system. The matter of great regret is that the main man behind this unethical and shameful incidence is still out there and he is so powerful that the finance minister and the governor of central bank sometimes expressed their frustration that they cannot take the person to jail and take any necessary legal action against him. It is noted that, BASIC Bank was one of the best run banks of the country until 2009 before this chairman appointed (Ahmad, 2017).

The hope is that BASIC Bank presents better credit risk management to improve overall performance and secure a competitive advantage now. The former board of directors and management is changed after the scandal took place. As a result of past incident, the bank demands more transparency and documents to disburse any loans and credit. Beside this, The Anti-Corruption Commission is taking legal steps against the officials who were involved in that scandal including the former chairman recently to gain the public trust again and to ensure proper corporate governance within the bank. BASIC Bank is always trying to understand of a bank's overall credit risk viewing the individual, customer and portfolio level risks.

4.2 Lending Principles of BASIC Bank

The principle of lending is a group of certain estimated time tested standards which ensure the effective use of loan fund in a profitable way and its timely recovery. Principles of sound lending may vary from bank to bank. BASIC Bank follows five rule to disburse a loan and these are

1. Safety:

Safety should get the earlier significance in the time of sanctioning the loan at the time of minority the borrower may not pay or may unable to pay the loan amount. Therefore, in the time of approving the loan adequate securities should be taken from the borrowers to recover the loan. Banker should not scratch safety for profitability.

BASIC Bank limited exercises the lending function only when it is safe and that the risk factor is

sufficiently eased

and covered. Safety depends upon

- The security offered by the borrower and
- The restoring ability and willingness of debtor to repay the loan with interest.

Safety

Security

Liquidity

Adequate yield

Diversity

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2. Security:

Banker should be aware in the selection of security to preserve the safety of the loan. Banker should properly assess the proper value of the security. If the estimated value less than or equal to loan amount, the loan should be given against such securities.

3

. Liquidity:

Banker should consider the liquidity of the loan in the time of approving it. Liquidity is necessary to meet the customers' requirement.

4. Adequate yield:

The banker should anticipate the interest rate when go for lending. Always banker should fix such an interest rate for its lending which should be higher than its saving deposits interest rate.

5. Diversity:

Banker should lessen portfolio risk by putting its fund in the diverse fields. If banker put its entire

finance able fund in one sector it will rise the risk. So if it faces any problem in any sector it can be covered by the profit of another sector.

4.3 Sound Principles of Lending

Sound principles of lending are distinguishable to avoid loan default tendency and risk factors to safe guard of public money as well as business of a bank.

So, there must be a principle of advance and efforts should be made to make it a sound one for which in depth study must be made on the following points of the bank:

- When loan is to be given.
- Why loan is to be given.
- How the loan is to be given.
- What may happen after disbursement of the loan
- Generally what happen (from past experience) after disbursement if the loan.
- It is hopeful that the borrower will repay the loan.

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■ Whether the loan should be given only the private sector or also in government sector as well.

■ Whether only secured loan will be extended or provision should be kept for clear loan also.

■ Whether only short term and midterm loan should be considered or long term will be considered.

4.4 Lending Policy Model

The 5 c's of credit policy model is a world-wide reputed model for giving credit and this method is also followed by BASIC Bank to disburse a loan.

C

haracter

BASIC Bank considers the relationship period with the bank to determine the character or willingness of a borrower. CIB report from Bangladesh Bank which consists the information about loan amount in other financial institutions, repayment history, collateral, the third party guarantee condition and finally the social status of the borrower are also factors considered for the character of a client.

Capacity

Capacity means the financial soundness of a debtor to meet the loan amount smoothly. Experience

of undertaking business, sustainability, yearly sales and stock time are the factors considered by BASIC Bank to determine the capacity of a person.

Capital

BASIC Bank looks into several elements to determine the capital condition of a debtor. These are

- Total paid up capital
- Capacity to absorb business risks
- Any other sources of money
- Investment in other securities

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Collateral

Collateral is the security that bank keeps as a safety against the credit. Collateral can be two types

- Ready or available- Cash or near cash(FDR)
- Secondary- Land, building and other fixed assets

Condition

Condition describe the intended purpose of the loan. Whether the money will be used for working capital or equipment or inventory is the features the lender considered and BASIC Bank checks the availability of security and other sister concerns of the borrower to determine the condition of a debtor.

4.5 Types of Loan

Broadly, the bank will provide credit to its clients through following windows:

1. Industrial finance
2. Commercial finance
3. Consumer finance
4. Short term agricultural credit and micro credit.

Total amount of loans that BASIC Bank provided in last three years and sectors that were financed by the bank in 2016 will be discussed in following

Types of loan 2014 2015 2016

Industrial finance 5422.23 8240.23 7434.64

Commercial

finance 1406.82 1856.19 2421.46

Consumer finance 1266.14 1670.57 2179.31

Short term

agricultural

Credit and micro

credit

844.09 1113.71 1452.87

Total (crore BDT) 8939.28 12880.70 13488.28

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Sector (only Industry loan) Amount (crore) Percentage

Food & Allied 1190.03 16.01%

Textile 518.59 6.98%

ERMG 1139.83 15.33%

Accessories 169.9 2.29%

Jute product & Allied 385.61 5.19%

Forest product & Allied 4.29 0.06%

Paper, Board Printing & Packaging 350.94 4.72%

Tannery, leather and Rubber 160.7 2.16%

Chem. Pharm and Allied 277.87 3.74%

Glass, Plastic, Ceramic & other non-metal 151.55 2.04%

Engineering 286.62 3.86%

Electrical & Electronics 20.94 0.28%

Service 494.39 6.65%

Misc. Industry 2240.03 30.13%

Industry not elsewhere classified 43.35 0.58%
7434.64 100.0%

16.01%
6.98%
15.33%
2.29%
5.19%
0.06%
4.72%
2.16%3.74%2.04%
3.86%
0.28%
6.65%
30.13%
0.58%

Sectors (Only Industry loan)

Food & Allied Textile

ERMG Accessories

Jute product & Allied Forest product & Allied

Paper, Board Printing & Packaging Tannery, leather and Rubber

Chem. Pharm and Allied Glass, Plastic, Ceramic & other non- metal

Engineering Electrical & Electronics

Service Misc. Industry

Industry not elsewhere classified

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4.6 Credit Risk Grading

BASIC Bank Limited has a credit risk management committee for managing the credit risk.

Ultimate authority and responsibility for all activities that bank does belong to the Board of Directors, The Board and other executives of the bank.

The credit assessment process of the bank is done by the branch as well as the credit divisions which include all possible aspects including eligibility of the debtor, requirement of information and several documents etc. The Bank follows Bangladesh Bank's prescribed Credit Risk Grading (CRG) model which captures quantitative and qualitative issues related to

■ Management risk

■ Business risk/industry risk

■ Financial risk

■ Security risk and

■ Relationship risk

These factors are calculating while assessing the overall grading of borrowers. Credit documentation, administration and disbursement functions of BASIC Bank Limited are strictly handled by the Credit Administration Division of the bank. Similarly, Risk Management Division of the bank reviews various parameters of credit risk like concentration, quality of assets etc. on monthly basis and places the observations to all risk committee of the bank (Disclosure under Basel III, 2016).

5.1 SME Loan

A minor business is a business that is individually owned and operated, with a small number of employees and relatively low volume of sales. A small business can be started at a very low cost and even on a part-time basis. Small business owners tend to be associated with their customers and clients very closely which results in greater responsibility and sensitivity. To run the business smoothly, entrepreneurs need money and BASIC bank offers them money which is known as SME financing (Small Enterprise Financing Policy Manual, 2012).

5.2 Purpose and Scope

This Small Enterprise Finance Policy contains the core principles for identifying, measuring, approving and managing credit risk revolving around the Small/ Micro/ Cottage Industry/ Enterprise/ Woman Enterprise financed by the Bank. These are designed to meet the organizational requirements that exist today, and to provide flexibility for the future. The policy guidelines have been recognized to shape and define the acceptable risk profile of BASIC Bank Ltd and to deliver guidance in responding to business opportunities as they arise.

5.3 Unified definition of Enterprises

Bangladesh Bank manifested unified definition for different size of enterprise in light of Industrial Policy 2010. BASIC Bank will follow such definition, its amendment if any for financing the enterprises.

Small Industry/Enterprise:

a. A manufacturing concern with fixed assets including replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs etc. in current market prices, excluding land and building, valued from Tk. 50.00 Lac to Tk. 10.00 Crore, or with 25-99 workers, will be treated as small industry/enterprise.

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b. A service concern with fixed assets including replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs etc. in current market prices, excluding land and building, valued from Tk. 5.00 Lac to Tk. 1.00 Crore, or with 10-25 workers, will be treated as small enterprise.

c. A trading concern with fixed assets the replacement cost of plant, technical services by way of capitalized costs etc. in current market prices, excluding land and building, valued from Tk. 5.00 Lac to Tk. 1.00 Crore, or with 10-25 workers, will be treated as small enterprise.

Medium Industry/Enterprise:

a. A manufacturing concern with fixed assets including replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs etc. in current market prices, excluding land and building, valued from Tk. 10.00 Crore to Tk. 30.00 Crore, or with 100-250 workers, will be treated as medium industry/enterprise.

b. A service concern with fixed assets including replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs etc. in current market prices, excluding land and building, valued from Tk. 1.00 Crore to Tk. 15.00 Crore, or with 50-100 workers, will be treated as medium enterprise.

c. A trading concern with fixed assets the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs etc. in current market prices, excluding land and building, valued from Tk. 1.00 Crore to Tk. 15.00 Crore, or with 50-100 workers, will be treated as medium enterprise (Small Enterprise Financing Policy Manual, 2012).

5.4 Types of SME Loan

The bank is financing in two forms like working capital financing and term loan financing for fixed cost.

■ Continuous Loan/ Working Capital financing

■ Term Loan

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5.4.1 Cash Credit

Cash credit (CC) is a procedure by which a banker allows his customer to borrow a money up to a certain limit. CC is a preferred approach of borrowings by traders, industrials etc. for meeting their working capital necessities. Cash credit or continuous credit are those, which forms continuous debits and credits up to a limit and have a termination date. A service charge that in effect of an interest charge is normally made as a percentage of the value of purchases.

Cash credit is generally allowed against hypothecation or pledge of goods. Hence cash credits are two types:

a. Cash credit hypothecation

b. Cash credit pledge.

a) Cash credit hypothecation:

Cash credit allowed against hypothecation of goods is known as cash credit hypothecation. In case of hypothecation, borrower holds the ownership and possession of goods on which charge of the lending bank is created.

b) Cash credit pledge:

Under this procedure a cash credit is allowed against pledge of goods or raw materials. By signing the letter of pledge, the borrower submits the physical possession of the goods under the banks operative control as security for payment of bank dues. The ownership of the goods, however, remains with the borrower.

5.4.2 Term Loan

BASICBL considers the loans, which are approved for more than one year as term loan. Under this facility, an enterprise is financed from the starting to its finishing like as from installation to its manufacture. BASICBL offers this facility only to big industries.

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The loan term as follows:

a. Short term: up to and including 12 months.

b. Medium term: more than 12 months up to and including 60 months.

c. Long term: more than 60 months.

Term Loan Financing:

There are eleven Term Loan products of BASIC Bank for the economic development as well as to facilitate disbursement of loan to small entrepreneurs.

These products are:

1. BASIC Proyash

2. BASIC Atmojoyee

3. BASIC Atmonirvor

4. BASIC Khamarbari

5. BASIC Rupali Rekha

6. BASIC Nandonik

7. BASIC Amontron

8. BASIC Haater Kaj

9. BASIC Okkhor

10. BASIC Sufola

11. BASIC Shaat Shodai. (Small Enterprise Financing Policy Manual, 2012)

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5.5 Customer Suitability /Eligibility

Credit, whether secured or unsecured, must not be made available to a customer where there is a lack of understanding of the customer or the customer's business. The Bank will not extend credit products / facilities which are inappropriate to the nature and scale of the customer's business.

The customer should:

- Have the age of 18 years or over.
- Must be a national of Bangladesh.
- Must have business aptitude and an account with valid trade license.
- Understand the facilities and the associated risks.
- Have the authority to enter into the facility.
- The facility should be suitable for the customer needs.
- The facility should not be speculative.
- The size and structure of facilities is such that up-streaming or down streaming of funds to the owners or associate companies are not facilitated.

5.6 Borrower Verification

Verification of the individual or corporate entity fulfilling all Know Your Customer (KYC) requirements is to be complied before opening of account, which is also compliance to the anti-money laundering legislation of the country as well as Bank's internal guideline. KYC requirements must be satisfied prior to opening of the account. Identification of the individual or corporate entity must be formally established through legal documentation. The borrower must be legally capable of entering a contractual credit relationship and providing a charge over any asset in any form taken as security for a loan.

5.7 Security and documentation

Loans up

to Taka 5.00 lac (in case without collateral)

- Hypothecation on the inventory, receivables, advance payments, plant & machineries.
- Personal Guarantees of spouse/parents/other family members.
- 2(two) third party personal guarantees with creditworthiness acceptable to the bank.

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- Postdated cheques for each installment of Term Loan and one undated cheque for full loan value.

Loans up to Tk. 5.00 lac and above (with Collateral)

- Hypothecation on the inventory, receivables, advance payments, plant & machineries.
- Registered mortgage over immovable properties with registered irrevocable Sale
- Authority.
- Postdated cheques for each installment of Term Loan and one undated cheque for full loan value.
- Lien and factoring on work order, supply order etc. assignment of bills etc. (Small Enterprise Financing Policy Manual, 2012)

5.8 Approval Authority

Approval Authority of all loans and advances rests on the Board of Directors and the Managing Director. But considering the time factor for sanction of loans and advances and to ensure proper and orderly conduct of credit business of the Bank the authority to sanction/ approve loans and advances may be delegated to senior executives of the bank by the Board/ Managing Director up to certain amount under certain terms and conditions. The approval authority will be delegated to the executives/concerned officials which shall be exercised in conjunction with Small Enterprise Finance Committee per borrower basis as approved by the competent authority. (Small Enterprise Financing Policy Manual, 2012)

5.9 Implementation

These policies must be implemented in a prudent way, in accordance with their underlying purpose and spirit. In the event of clarification or interpretation consultation must first be sought from the Small Enterprise Finance Committee (SEFC), if necessary from the Board of Directors. Such consultations are an important source of feedback on issues and aspects of these policies that may need adjustment in order to meet the needs of a changing business environment while maintaining a balance between risk appetite and flexibility (Small Enterprise Financing Policy Manual, 2012).

5.10 Procedure for giving advance

BASIC Bank follows some necessary steps to sanction loan to borrower. The steps are given below:

First Information Sheet
Loan Application Form
Credit Investigation
Project Appraisal
Credit Line Proposal
Sanction Letter
Loan Documentation
Loan Disbursement
Follow Up
Loan Adjustment
Recovery of Loan
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5.11 Risk Management

A) Historical financial analysis:

Preferably an analysis of minimum 3 years historical financial statements of the debtor should be presented. The analysis should address the quality and sustainability of earnings, cash flow and strength of the borrower's balance sheet.

B) Credit risk grading:

The credit risk grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure. A credit risk grading deploys a number /alphabet /symbol as a primary summary indicator of risks associated with a credit exposure. Credit risk grading is the basic module for developing a credit risk management system.

Function of credit risk grading:

Well –managed credit risk grading systems promote bank safety and soundness by facilitating informed decision making. Grading system measures credit risk and differentiate individual credits and groups of credit by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

5.12 Recovery Management

Monitoring Process:

Relationship Officers always monitors their customer when they started the repayment of loan and if any customer fails to pay their loan in any month they informed to Credit Relationship Manager and customer.

Early Alert Process:

If the customers showed lack of obligation or long term decline in the agreement then Relationship Officer prepare an early alert report for the customer. Early alert is an alarming situation of whether the loan will be classified or not.

Recovery Process:

When the account holder fails to meet one or more installment on that time the collection process starts and the collection department starts to working on minimizing the unpaid of the receivables and credit losses. They are permitting to recover the dues and identify the potential losses and try to prevent the losses maintaining a high standard of service and good relation with the customers. They are familiar with these type of critical situation and succeed handle it properly and familiar with the computerized system, procedures and maintain effective cooperation with other departments within the bank.

To identify and manage arrears, the following aging classification is adopted-

Days Past Due

(DPD)

Collection Action

01-14 Letter, Follow up & Persuasion over phone

15-29 1st

Reminder letter

30-44 2nd reminder letter + single visit

45-59 ■ 3rd reminder letter group visit by team member

■ Follow up over phone

■ Letter to guarantor, employer, reference all above effort follows

■ Warning on legal action by next 15 days

60-89 ■ Call up loan

■ Final reminder & serve legal notice

■ Legal proceedings begin

■ Repossession starts

90 and above ■ Telephone call and legal proceedings continue

■ Collection effort continues by officer agent

■ Letter to different banks association

Chapter 6

Performance and Ratio Analysis

BASIC Bank (Million Taka)

2012 2013 2014 2015 2016

Fixed Assets

526.82 723.08 649.68 514.23 409.03

Total Assets

97,662.98 157,072.19 171,118.53 194,173.36 204,739.63

Total Liabilities

96,899.15 147,467.02 154,393.87 168,226.27 193,931.31

Net Assets 763.83 9,605.17 16,724.66 25,947.09 10,808.32

Total Equity

6,460.46 6,039.17 13,013.92 25,947.09 10,808.32

Profit/Loss

27.89 -531.53 -1,100.16 -3,140.36 -14,930.40

6.1 Asset Activity Ratios

They are also known as asset management ratios or efficiency ratios and are used to judge the efficiency in management of assets. Assets are involved to generate sales for a financial institution and these ratios define how well the asset is utilized to efficiently generate or convert asset into sales. High asset turnover ratios are expected because they mean that the company is utilizing its assets efficiently to produce sales. The higher the asset turnover ratios, the more sales the institution is generating from its assets. It consists of fixed asset turnover and net asset turnover.

(a) Fixed Asset Turnover:

Fixed Asset Turnover Ratio calculates the value of revenue accomplished per taka of investment. The fixed-asset turnover ratio measures a company/bank's ability to generate net sales from fixed-asset investments - specifically property, plant and equipment (PP&E) - net of depreciation. A higher ratio indicates better asset management and utilization and vice versa.

$$\text{Fixed Asset Turnover} = \text{Revenue} / \text{Net Fixed Asset}$$

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The fixed asset turnover of BASIC Bank was 5.29% in 2012. Then it continuously decreased to -73.51% in 2013, then -169.34% in 2014, further -610.69% in 2015 and finally -3650.20% in 2016.

Since BASIC Bank is in a loss position for the last few years, the fixed assets turnover ratio becomes minus and increasing year by year.

(b) Net Asset Turnover:

The net asset turnover ratio measures the capacity of administration to use the net assets of the company/bank to generate sales revenue. A well-managed company/bank will be making the assets work hard for the business by minimizing idle time for machines and equipment. Too high a ratio may suggest over-trading, that is too much sales revenue with too little investment. Too high a ratio may suggest under-trading and the ineffective supervision of resources.

$$\text{Net Asset Turnover} = \text{Revenue} / \text{Net Asset}$$

Net asset turnover of BASIC Bank was 3.65% in 2012. From 2012 to onwards, it had been falling at a greater rates. It falls to -5.53% in 2013, -6.58% in 2014, -12.10% in 2015 and lastly -138.14% in 2016. The reason behind that destruction is the loss that incurs by BASIC Bank in last few years.

-4000.00%

-3500.00%

-3000.00%

-2500.00%

-2000.00%

-1500.00%

-1000.00%

-500.00%

0.00%

500.00%

2012 2013 2014 2015 2016

Fixed Assets Turnover 5.29% -73.51% -169.34% -610.69% -3650.20%

Fixed Assets Turnover

34

6.2 Return on Asset

ROA is an indicator of a company's profitability. ROA is calculated by dividing a company's net income in a fiscal year by its total assets. It is known as a profitability or productivity ratio, because it provides evidence about the management's performance in using the assets of the small business to generate profits. ROA can be used as a valuable instrument to measure progress against predetermined internal goals, a certain competitor, or the overall industry. ROA is also used by bankers, investors, and business analysts to assess a company's use of resources and financial strength.

$$\text{Return on Asset} = \text{Net Profit} / \text{Asset}$$

Return on asset of BASIC Bank

is continuously decreased over the last five years. In 2012, it was 0.03% then 0.34% in 2013 after that it went to -0.67% in 2014. -1.72% in 2015 and finally -7.49% in 2016.

-140.00%
-120.00%
-100.00%
-80.00%
-60.00%
-40.00%
-20.00%
0.00%
20.00%

2012 2013 2014 2015 2016

Net Assets Turnover 3.65% -5.53% -6.58% -12.10% -138.14%

Net Assets Turnover

35

6.3 Return on Equity

This ratio shows the amount of net income returned as a percentage of shareholders equity. Return on equity measures a company/bank's profitability by enlightening how much profit a company generates with the money shareholders have invested. It indicates a firm's competence in applying common-stockholders' (ordinary- shareholders') money.

Return on Equity = Net Profit/Equity

Same scenario is visible in this ratio too. The percentage is in a decreasing trend and decreased to -71.84% in 2016 from -8.97% in 2014.

0.03%
-0.34% -0.67%
-1.72%
-7.49%-8.00%
-7.00%
-6.00%
-5.00%
-4.00%
-3.00%
-2.00%
-1.00%
0.00%
1.00%

ROA

Return on Asset

2012 2013 2014 2015 2016

-100.00%
-50.00%
0.00% -8.97% -14.24%
-71.84%

Return on Equity

2014 2015 2016

36

6.4 Return on Deposit

This ratio shows the amount of net income refunded as a percentage of total deposits. Return on deposit measures a company's profitability by revealing how much profit a company generates with the money savers. It indicates a company's efficiency in applying deposits (liabilities) to earn profit. Here BASIC Bank's return on deposit of last five years is as follows.

Return on Deposit = Net Profit/Total deposit

Though the size of total deposit is increased over the last five years, the return on deposits is decreased. Since the net profit is minus so that it is in a declining trend.

The overall performance of BASIC Bank is not good enough and almost every aspects, the bank is facing a lots of problems. The only hope is that it's a government entity so most of the clients are safe but government has to pay a high price for this bank.

-10.00%
 -8.00%
 -6.00%
 -4.00%
 -2.00%
 0.00%
 2.00%
 0.03%
 -0.40% -0.79%
 -2.12%
 -9.45%

Return on Deposits
 2012 2013 2014 2015 2016
 37

6.5 Total SME Loan disbursement of Jubilee Road Branch

Year Disbursement Growth rate

2013 250.06 million -
 2014 300.04 million 19.99%
 2015 890.81 million 196.90%
 2016 460.33 million -48.32%

Source: Branch report

The table shows that the maximum amount of disbursement was in the year 2015 with a growth rate of 196.90% and the amount fall in 2016 so that the growth rate decreases to -48.32%. The graph shows the trend of SME loan disbursed in Jubilee road branch.

0
 100
 200
 300
 400
 500
 600
 700
 800
 900

2013 2014 2015 2016
 250.06
 300.04
 890.81
 460.33
 SME Loan Disbursement
 38

6.6 Sector wise SME Loan Portfolio position in 2016

Name of the sectors Amount Year 2016

Trading 130.28 million 28.30%
Manufacturing 330.05 million 71.70%
Service 0 0
Total 460.33 million 100.00%
Source: Branch report

BASIC Bank (Jubilee road branch) does not provide any loan in service sector in 2016. It finances almost 72% money in manufacturing and about 28% in trading sector in 2016.

28%
72%
2016
Trading
Manufacturing
39

Chapter 7
Findings, Recommendation &
Conclusion

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7.1 Findings

In credit management system of BASIC Bank Jubilee road branch, my finding are as follows:

- There are four credit officers in the credit department who are really experienced and capable of handling any kind of situation to face during the processing of any kind of loan.
- The credit officers depend on various records of borrower including financial statements for giving any kind of loan.
- Bank officials maintain regular checking of the entity of the borrower after disbursing a loan.
-

The branch is in a loss position since it disbursed some unsystematic loans during 2010-2013.

7.2 Recommendation:

BASIC Bank is one of the top class banks in our country. When I was placed at my working branch, I did not face any difficult problems regarding operation, customer service, management, human resource department or anything else. Though the bank has all required resources, it has some serious problems in utilizing those resources. Here are some advices by which the bank can perform better than now:

- The bank should follow the rules and regulations more strictly for giving credits.
- The bank has only sixty eight branches and very few ATM booths which are not sufficient for all over the country so it should increase the number of these.
- Most of the upper level executives did not maintain their responsibilities properly in the past few years as a result the bank is going through a very rough time with huge loss so they should be more careful to protect the bank and make it profitable like before.
- Many officers and managers are not trained enough to perform their duties well, they require some training programs to be more fruitful for the bank.
- Man power of the branch is not sufficient, some departments need to be increased their

employee numbers.

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7.3 Conclusion:

The BASIC Bank Limited has been attempting to work its business effectively in Bangladesh since 1992. Fundamental Bank has effectively created selflessness among its customer base by offering its great benefits through General managing an account, Credit division and Foreign Exchange divisions. This achievement has come about because of the devotion, duty and dynamic initiative among its administration over the periods. The working environment of the BASIC Bank Limited is extremely imitating. Amid the limited ability to focus time of its operation, the bank has been effectively to the position itself as a dynamic and dynamic money related organization in the nation because of the accompanying reasons. For reducing poverty, NGO's are doing a remarkable job around the globe and BASIC Bank has been financing some NGOs since 1995 and also plays an important role by giving loan to capable women in a lower rate for a sustainable growth of economy. The bank has gone through a very disgraceful period recently and makes a huge loss because of several reasons though it was a very sound and profitable institution till 2009. Government of Bangladesh and the management of the bank take remarkable steps to retain the glory of the bank and it makes the positive progress towards success slowly. The promoters of the bank visualized development entrepreneurship amongst the potential, new and small entrepreneurs and generating employment through financing small and medium scale industries. Profit maximization of the bank through financing established and larger corporations is never be the main target of the bank rather they want to stick to the triple bottom line: people, planet and profit to promote SMEs towards creating employment opportunities of large number of people and that's how BASIC Bank wants to contribute to the economic growth of the country.

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