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BBA

Welcome to Mercantile Bank Limited



দ্বিপুণ বৃদ্ধি আয়নত প্ৰকল্প



বিশেষ সঞ্চয়ে প্ৰকল্প



মাসিক সঞ্চয়ে প্ৰকল্প



মাসিক মুনাফা প্ৰকল্প



কনজুয়ার্স ক্ৰেডিট স্কীম



Q-Cash ATM Services

11A
an overview of mercantile bank limited (MBL)

Rank 17/8

LETTER OF SUBMISSION

December 17, 2005
Dr. Tanbir Ahmed Chowdhury
Associate Professor
Department of Business Administration
East West University
45 Mohakhali C/A
Dhaka

Subject: letter of transmittal

Dear Sir,

In connection of my practical orientation in MERCANTILE Bank Ltd, I would like to submit my report to you for your perusal.

I have prepared this report on the basis of my practical exposure both at Main branch and Head office in general banking, Loans and Advances, and Foreign Exchange Department of MERCANTILE Bank Ltd. It is a great pleasure for me to present you this report under the head of 'Practical orientation in Banks'.

MERCANTILE Bank provides various banking facilities under the aforesaid departments; its performance is appraising in respect of diversified credit mobilization and reduced classified loans. Needless to mention, most Nationalized Commercial Banks (NCB's) are facing acute problems of the same.

I will be very glade if the report can serve its actual purpose and I am ready to explain anything to you if you feel necessary.

Sincerely yours

Farrina Alam

F. Alam
17-12-05

Title:

An overview of mercantile bank limited (MBL)

Prepared For:

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Prepared By:

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East West University

45 Mohakhali C/A

Dhaka

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My sincere gratitude goes to **Mr. Md. Aminul Islam**, officer Export section, (MERCANTILE) Bank Limited who gave special attention to me from the very beginning and whenever I went there. I would also like to thank **Ms. Tanjina Jerin**; senior principle Officer, for her cordial attitude and helping hand guides me in all situations during my tenure in the bank.

My special thanks go to **other Staff in Mercantile Bank** for their sincere co-operation during my orientation period.

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17-12-05
Farrina Alam

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Chapter 1:

AN OVERVIEW OF BANKING SYSTEM IN BANGLADESH

INTRODUCTION:

The prosperity of a country depends upon its economic activities like any other sphere of modern socio-economic activities; banking is a powerful medium of bringing about socio-economic changes of a developing country. Agriculture, commerce and industry provide the bulk of a country's wealth. Without adequate banking facility these three cannot flourish. For a rapid economic growth a fully developed banking system is highly essential. A suitably developed banking system can provide the necessary boost for the economic uplift of the country. The whole economy of a country is linked up with its banking system.

Banks in Bangladesh can be classified into the following categories.

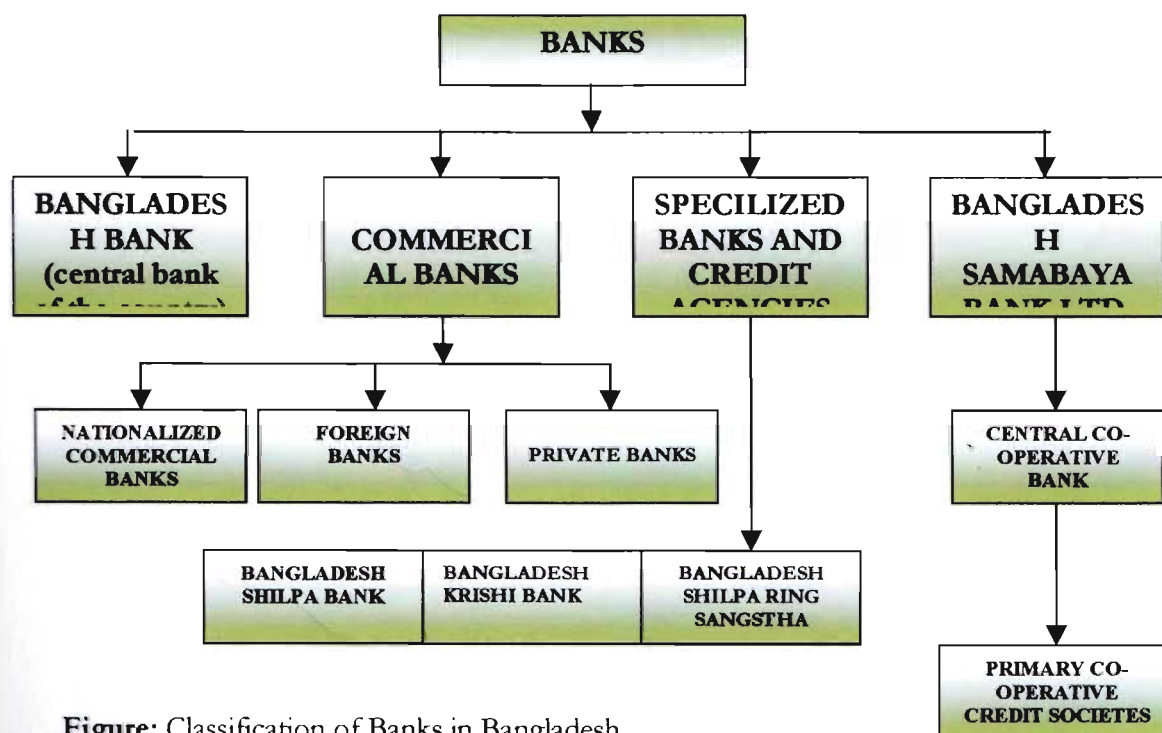


Figure: Classification of Banks in Bangladesh

1.1 AN OVERVIEW OF MERCANTILE BANK LIMITED

HISTORY & BACKGROUND:

Banking system occupies an important place in a nation's economy. A banking institution is indispensable in modern society. It plays a liberalization of economic policies in Bangladesh. 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.

Mercantile Bank has been incorporated on May 20, 1999 in Dhaka, Bangladesh as a limited company with the permission with the permission of the Bangladesh Bank; MBL commenced formal commercial banking operation from the June 2, 1999. The bank stood 15 branches all over the country up to 2001.

There are thirty Sponsors involved in creating MBL 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 like insurance companies, leasing company's etc.

MISSION OF MBL

Mercantile Bank Limited aims to become one of the leading Banks in Bangladesh by prudence, flair and quality of operations in their banking sector. The bank has some mission to achieve the organizational goals. Some of them are as follows as:

- Mercantile Bank Limited provide high quality financial services to strengthen the well being and success of individual, industries and business communities.
- Its aim to ensure their competitive advantages by upgrading banking technology and information system.
- MBL intends to play more important role in economic development of Bangladesh and its financial relations with the rest of the world by interlining both modernistic and international operations.
- MBL encourages investors to boost up share market.
- The bank creates wealth for the shareholders.
- The bank believes in strong capitalization.
- It maintains high standard of corporate and business ethics.
- Mercantile Bank Limited extend highest quality of services, which attracts the customers to choose them first.
- The bank creates wealth for the shareholders.
- The bank maintains congenial atmosphere for which people are proud and eager to word with Mercantile Bank Limited.
- Mercantile Bank Limited intend to provide better benefits to their customers and good returns to their shareholders.
- The bank intends to meet the needs of their clients and enhance their profitability by creating corporate culture.

OBJECTIVES & GOALS OF MBL:

- The objectives of MBL is not only to earn profit but also to keep the social commitment and to ensure its co-operation to the person of all level, to the businessman, industrialist-specially who are engaged in establishing large scale industry by consortium and the agro-based export oriented medium and small scale industries by self inspiration.
- MBL is always ready to maintain the highest quality of services by upgrading banking technology prudence in management and by applying high standard of business ethic through its established commitment and heritage.
- MBL is committed to ensure its contribution to national economy by increasing its profitability through professional and disciplined growth strategy for its customer and by creating corporate culture in international banking arena.

MANAGEMENT OF MBL:

The Board of Directors consists of eminent personalities from commerce and industry of the country. **Mr. Md. Abdul Jalil**, the founder Chairman of the Board of Directors, is a businessman besides being an eminent personality of the country. The last Government had been pleased to induct him as a Senior Cabinet Minister with the portfolio of Commerce.

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

Mr. Lutfar Rahman Sarkar who born in 1935, initiated his banking carrier from Habib Bank Limited as a provisionary officer. Then he served as Managing Director in Agrani Bank, Sonali Bank, Islami Bank Bangladesh Limited and Prime Bank Limited. The Chief Adviser of the Bank is the former Governor of the Central Bank of Bangladesh. He brings with him a wealth of experience of managing both the public and private sector banks.

BOARD COMMITTEES OF MBL:

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

EXECUTIVES COMMITTEES OF MBL:

All routine matters beyond delegated powers of management are decided by or routed through the Executives Committee, subject to rectification by the Board of Directors.

STRUCTURAL MANAGEMENT OF MBL:

Organization Chart of Mercantile Bank Limited

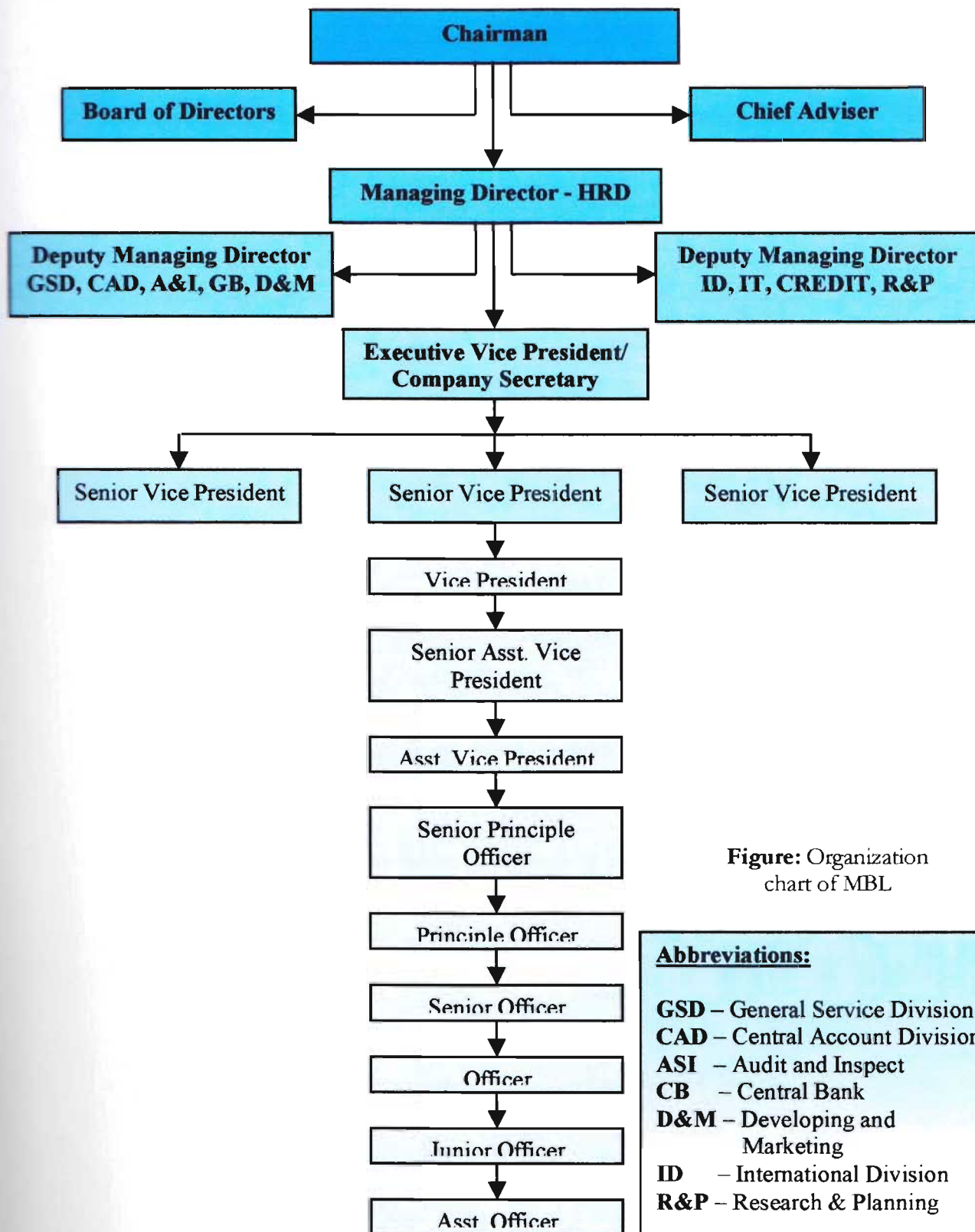


Figure: Organization chart of MBL

Abbreviations:

GSD – General Service Division
 CAD – Central Account Division
 ASI – Audit and Inspect
 CB – Central Bank
 D&M – Developing and Marketing
 ID – International Division
 R&P – Research & Planning

FEATURE OF MERCANTILE BANK LIMITED:

There are so many reasons behind the better performance of Mercantile Bank Limited than any other newly established banks:

- Mercantile Bank Limited has established a core Research & Planning Division comprising skilled person from the very inception of the bank.
- Highly qualified and efficient professionals manage the bank.
- The inner environments of the all branches of Mercantile Bank Limited are well decorated.
- Banking operations of the all branches of Mercantile Bank Limited have been computerized to provide the promptly & frequently customers service.
- The bank has established correspondent relationship with 102 of foreign banks.
- The bank has launched some financial products, which is not available in any other banks, like *Ajebon Pension Scheme*.
- Mercantile Bank Limited provides attractive interest rate that the other financial institutions.
- The bank provides loan to the customers @ lower interest with easy & flexible condition than the other do.
- The bank frequent arranges customers meeting to achieve their valuable suggestions.
- Letter of Credit (L/C) commissions and other charges are very lower than the other banks.

- Profit earning is not the main aim of the MBL. The bank is responsible to maintain the social duties.
- The bank is committed to provide the cheque amount within 30 seconds of submission the cheque.

1.2 OBJECTIVE OF THE STUDY

1.2.1 General objective of the Report

The general objective of this project is to complete the Internship. As per requirement of BBA program of East West University (EWU), one student need to work in a business organization for three months to acquire practical knowledge about real Business operation.

1.2.2 Specific objective of the Report

1. To present an overview of MBL.
2. To present the major activities of MBL.
3. To appraise the performance of MBL.
4. To present the policy implementation for MBL.

1.3 SCOPE AND Methodology of the Study

SCOPE OF THE STUDY

As I was working in the Mercantile Bank, Main Branch, I got the opportunity to learn different part of banking system. The supervisor divided the whole banking system in three parts; as a result I got the opportunity to work in all the three divisions (General

Banking Division, Credit Division, Foreign Exchange Division). As my main concern was to identify the **customer satisfaction** level of consumer credit scheme, I spent much time in credit division. As I was attached to the credit division, I had to deal with so many customers who come to take loan or already took loan from MBL. Moreover, for gathering information about CCS I conducted customer survey on them who have already taken the CCS from this Branch. From the survey I had the opportunity to gather information about-

- Who and why people look for CCS.
- The customers who mainly look for this scheme, their income level, occupation, age group, habitants etc.
- What are the benefits those customers look in CCS.
- Habit and life style of the customer who takes the loan.
- From where they become acquainted about the scheme.
The reason of becoming defaulter.
- Measurement of their overall satisfaction level about this loan.

Methodology of the Study:

Although there were so many limitations, it was tried to use both the primary and secondary sources of collecting information to make the report presentable with as less abstraction as possible.

SOURCES OF INFORMATION:

A. Secondary data

Data that were published before for some other reason can be collected using internal and external sources.

- i) **Internal Secondary data:** To furnish the report properly some papers has been collected form the officials of Mercantile Bank Limited. Information from annual reports, journals, newspapers and other published documents have been used. Besides other published information about the organization, depth interview of the branch manager and second branch manager have also taken. The information mainly about CCS was taken from the authorized officer who deals with this scheme.
- ii) **External Secondary Data:** For better interpretation some data has been collected from Bangladesh Bank. Internet Browsing is also one source of external Secondary data.

B. Primary data

Primary data is always known as survey data. This type of data is collected from the respondent. For this project **personal Interview with the customer** has been conducted. When it became impossible to conduct face to face interview I collected the primary data by using the *Telephone Interview*.

1.4 LIMITATIONS OF THE REPORT

Although I have obtained wholehearted co-operation from employee of MBL, Main Branch and Head Office, they could not manage enough time to deal with my report. On the other hand, as it was the new branch, they were not able to give me much documents

and papers. On the way of my study, I have faced the following problems that may be terms as the limitations/shortcomings of the study.

- **Budgeted times for the Study:**

The first obstruct is time itself. Due to the time limit, the scope and dimension of the study has been curtailed. Mercantile Bank Limited is a big organization. It is very tough to deal with this Bank within this short time. On the other hand due to short time I could not become able to conduct with all the customers who have taken the loan. The respondents are scared with different places. Due to the short time it was not possible me to do random sampling and conduct with the respondent by going everywhere.

- **Data Insufficiency:**

It was very difficult to collect data from such a big organization. My internship was at Main branch.

- **Lack of Records:**

Sufficient books, publications, facts and figures are not available. These constraints narrowed the scope of accurate analysis. If these limitations were not been there, the report would have been more useful and attractive.

Chapter 2

An overview of the principle activities of MBL

2.1: types of deposit scheme

This Branch Deposited money from different deposit scheme, these are -

- i. Current Deposit
- ii. Savings Deposit
- iii. Short Term Deposit
- iv. Fixed Deposit
- v. Sundry Deposit
- vi. Deposit Under Scheme:
 - a. Mashik Sanchaya Prakalpa
 - b. Digun Bridhi Amanat Prakalpa
 - c. Mashik Munafa Prakalpa
 - d. Special Savings Scheme
 - e. Ajibon Pension Scheme

Different types of schemes in MBL:

- Monthly Saving Scheme
- Monthly Benefit Scheme
- Double Benefit Deposit Scheme
- Special Saving Scheme
- Consumer Credit Scheme
- Doctor's Credit Scheme
- Leas Finance Scheme
- Advance Saving Scheme
- One Counter Service Scheme
- Ajebon Pension Scheme
- Rural development

2.2 TYPES OF CREDIT SCHEME

The word credit comes from the Latin word “credo” meaning “I believe”. It is a lenders trust in persons / firms / company’s ability or potential ability to command goods or services of another in return for promise to pay such goods or services at some specified time in the future. The making of loans and advances has always been prominent profitable function of bank. Sanctioning credit to customers and others out of the funds at bank Limited made in different forms, such as, loans, overdrafts, Cash Credits, bills purchased and discounted etc. Mercantile Bank Ltd. Deals with the money from the depositor repayable on demand. So, it can not afford to lock up it fund for long periods. MBL usually grant short-term advances, which are utilized to meet the working capital requirements of the borrower. Only a small portion of a bank’s demand and time liabilities is advanced on long term basis where the banker usually insists on a regular repayment by the borrower in installments.

TYPES OF CREDIT FACILITIES EXTENDED BY MBL

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

CREDIT	
Funded	Non - Funded
<ul style="list-style-type: none"> • Overdraft • Consumer Credit • Loan • PAD • LTR • Packing Credit • Hire purchase • Staff loan • Term Loan • Cash credit against 	<ul style="list-style-type: none"> • Letter of Credit • Bank guarantee

Figure: Types of Credit Facilities offered by MBL

2.3 Principle of foreign exchange of MBL:

Foreign exchange means foreign currency and it includes any instrument drawn accepted made or issued under clause (13), Article 16 of the Bangladesh bank order, 1972. All deposits, credits and balance payable in any foreign currency and draft, travelers cheque, letter of credit and bill of exchange expressed or drawn in Bangladesh currency but payable in any foreign currencies.

Bangladesh bank issues Authorized Dealer (AD) license by observing the bank's performance and also the customers associated with the bank for conducting foreign dealings. So, Mercantile Bank Main branch is an authorized dealer (Code # 1471).

Back Ground of Bank's Involvement:

For a buyer the following risks are involved-

- Risk of non-delivery of goods.
- Risk of receiving sub standard goods.
- Risk of fraud in goods.

For the seller the following risk is involved-

- Risk of non-payment.

To reduce the aforesaid risks an independent system is introduced which will safeguard the buyer as well as seller in an international trade.

SOME IMPORTANT DOCUMENTS OF L/C:

Forwarding: Forwarding is a letter given by the advising bank to the issuing bank. Several copies are sent to the issuing bank. All copies including original should be kept in the bank.

Bill of exchange: according to the section 05, negotiable instrument (NI) Act-1881, a "bill of exchange" is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay [on demand or at fixed or determinable future time] a certain sum of money only to or to the order of a certain person or to the

bearer of the instrument. It may be either at sight or certain day sight. At sight means making payment whenever documents will reach in the issuing bank.

Invoice: Invoice is the price list along with quantities. Several copies of invoice are given. Two copies should be given to client and the other copies should be kept in the bank. If there is only one copy, then its photocopy should be kept in the bank and the original copy should be given to the client.

Packing List: Packing List is the letter describing the number of packets and there size. If there are several copies, then two copies should be given to the client and the remaining should be kept in the bank. But if there is only one copy, then its photocopy should be kept in the bank and the original copy should be given to the client.

Bill of Lading: Bill of Lading is the bill given by the shipping company to the client. Only one copy of bill of lading should be given to the client and the remaining copy should be kept in the bank.

Certificate of Origin: Certificate of Origin is a document describing the producing country of the goods. One copy of the certificate of origin should be given to the client and the remaining copy should be kept in the bank. But if there is only one copy, then its photocopy should be kept in the bank and the original copy should be given to the client.

Shipping Advice: the copy mentioning the name of the insurance company should be given to the client and the remaining copy should be kept in the bank. But if there is only one copy, then its photocopy should be kept in the bank and the original copy should be given to the client.



Chapter: 3**Financial performance of MBL****3.1 Deposit Mobilization:****Table: 1** Deposit amount as end of July 2004 at Main Branch

SL No	Name of Deposit	Amount in Tk.	% of total amount
1	Current Deposit	2,27,52,560.41	10.34%
2	Savings Deposit	1,00,13,995.43	4.26%
3	Short Term Deposit	1,11,27,831.08	4.73%
4	Fixed Deposit	13,15,64,300.64	55.9%
5	Deposit Under Scheme	4,92,45,340.88	20.92%
6	Sundry Deposit	1,05,90,807.13	4.5%
	Total	23,52,94,835.57	100%

Source: Monthly affairs of Main Branch of MBL

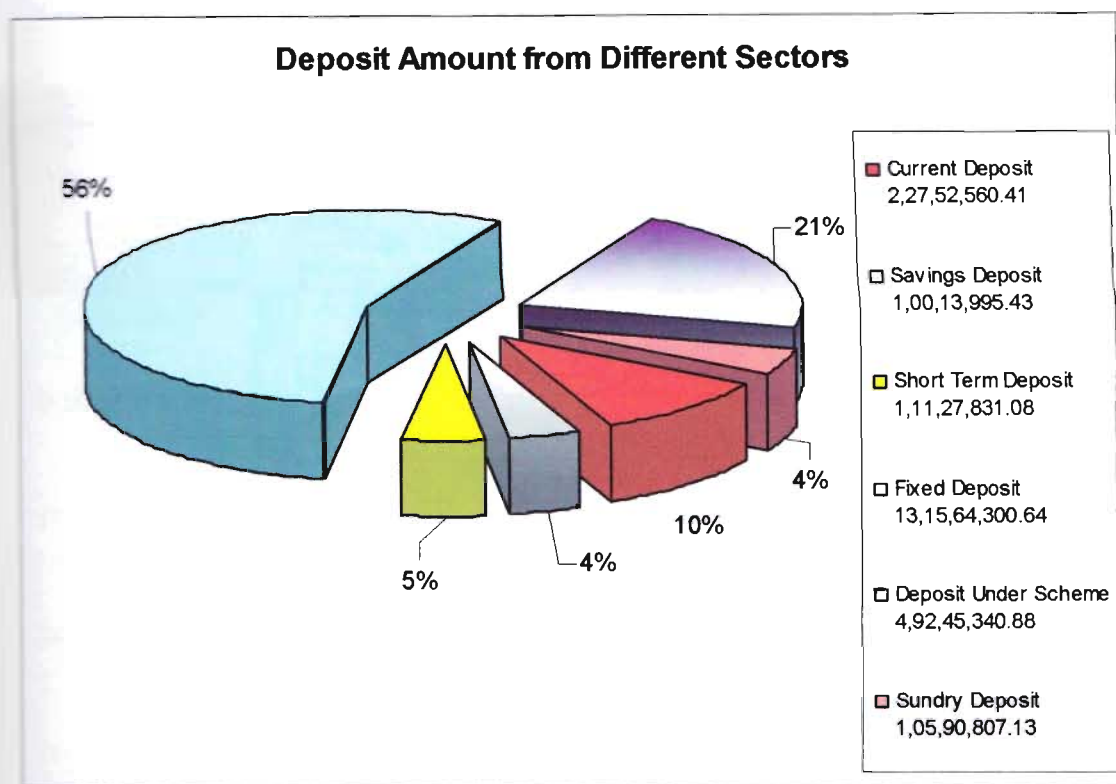


Figure: Deposit Amount from Different Sectors

Table: 2 Deposit under Scheme as on end of July 2004 at Main Branch

Sl No.	Name of Deposit	Amount In Tk.	% of Total Amount
1	Mashik Sanchaya Prakalpa	63,82,043.83	12.96%
2	Digun Bradhi Amanat Prakalpa	18,704,940.09	37.98%
3	Mashik Munafa Prakalpa	21,550,000.00	43.76%
4	Special Savings Scheme	22,60,512.87	4.59%
5	Ajibon Pension Scheme	3,47,844.09	0.7%
	Total	4,92,45,340.88	100%

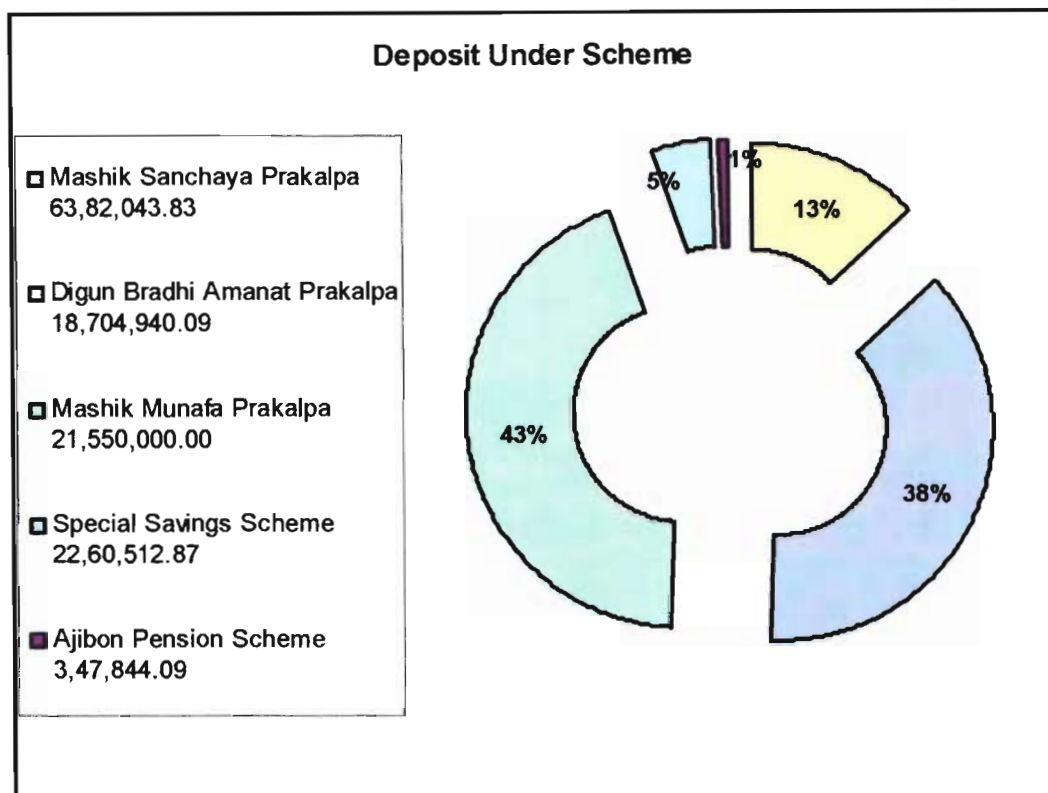


Figure: 2-6 Deposit under Scheme as on end of July 2004

MONTHLY SAVING SCHEME:

The prime objectives of this scheme are to encourage building up a habit of saving. In this scheme, one can save a fixed amount of money every month and get a lucrative lump sum amount of money after five, eight or ten years.

Interest Rate:**Table: 3** Interest Rate Schedule of Monthly Savings Scheme

Figure in taka

Monthly Deposit	100	250	500	1000	5000	10000	25000
5 year	8280	20500	41000	82000	400000	800000	2000000
8 year	16360	40000	80000	160000	780000	1560000	3900000
10 year	23690	59000	118000	236000	1100000	2200000	5500000

MONTHLY BENEFIT SCHEME:

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

DOUBLE BENEFIT DEPOSIT SCHEME:

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

MBL gives the interest just double amount of deposit regarding Amount Deposit Scheme.

For example-

Table: 4 Interest Rate Schedule of Double Benefit Scheme

Time Period	Deposit Amount	After Matured
6 Year	10,000	20,000
6 Year	50,000	1,00,000
6 Year	2,00,000	4,00,000
6 Year	5,00,000	10,00,000
6 Year	10,00,000	20,00,000

SPECIAL SAVING SCHEME:

Under this scheme, depositor's money will be more than tripled in a ten years period and the main attraction of this scheme is, one can get his money back after one year onwards with attractive benefits.

Interest Rate (for example):**Table: 5** Interest Rate Schedule of Special Saving Scheme

YEAR	Savings Amount			
	5,000	10,000	50,000	1,00,000
	Amount-Interest with Savings			
1	5,450	10,900	54,500	1,09,000
2	5,995	11,990	59,950	1,19,900
3	6,655	13,310	66,550	1,33,100
4	7,454	14,909	74,545	1,49,090
5	8,330	16,661	83,308	1,66,616

CONSUMER CREDIT SCHEME:

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

In case of this credit facility the consumer have to pay 15% of equity, 1% service charge and 1% risk fund. Payment should be made by monthly installment within the 1st week of every month. Installment amount is compound made (interest with principal). The rate of interest is 15% in case of Consumer Credit Scheme.

3.2 Loan and advances**Loan Amount/Equity Participation/Time:****Table: 6** Loan Amount of CCS

Particulars	Loan Amount	Equity Participation	Term Period
Car/Microbus	4 laks	30%	4 years
Household	1 lak	15%	2 years
Treatment/Journey	.5 lak	..	2 years

SMALL LOAN SCHEME:

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

LEASE FINANCE:

This scheme has been designed to assist and encourage the genuine and capable entrepreneurs and professionals for acquiring capital machineries, medical equipments, computers and other items that may help them to be economically self-reliant.

DOCTORS' CREDIT SCHEME:

Doctors' Credit Scheme is designed to facilitate financing to new doctors, established doctors, clinic and Hospitals at easy terms.

Objectives:

- To make chamber, purchase treatment instruments etc. for newly FCPS or Postgraduate holder doctors.
- Redecoration, purchase modern tools for established doctors.
- To help the purchase modern tools, for better treatment in to the private hospitals and private clinics.

RURAL DEVELOPMENT SCHEME:

Rural development scheme has been evolved for the rural people of the country to make them self-employed through financing various income generating activities. This scheme is operated through the rural branches of MBL.

Objectives:

- To developing rural people
- To increasing purchasing power among the rural people.

OVERDRAFT

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

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

Nature – short term loan

Outstanding amount: From June 2001 to July 2002 total amount of TK. 16395496.04 was outstanding.

Interest rate: 16% per annum.

Terms and Conditions:

- I. Bank may cancel / alter the sanction without assigning any reason whatsoever.
- II. In case of client failure to pay the Bank's dues within the validity of the limit bank may en cash client pledge without any prior intimation to client.

CONSUMER CREDIT

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

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

- Government Organization
- Semi-Government Organization
- Multinational Organization
- Bank and Insurance companies

- Reputed Commercial Organization
- Professionals

Nature: Mid-Term micro credit.

Interest Rate: 15% per annum in case of household items and car

Outstanding amount: From June 2003 to July 2004 the outstanding amount was TK. 3, 01, 13,741.02

Terms and Conditions:

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

SMALL LOAN

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

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

Interest Rate: 15% per annum.

Outstanding amount: From June 2003 to July 2004 total amount of TK. 349345.07 was outstanding.

Terms and Conditions:

- I. Disbursement will be made after completion of all formalities.
- II. Bank reserve the right to cancel or amend the terms and condition partly or wholly at is direction without assigning any reason whatsoever.
- III. When the principal debtor defaults in fulfilling the obligation or promise liability bestow on guarantor.

LTR (LOAN AGAINST TRUST RECEIPT)

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

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

Interest Rate: 15% P.A with monthly rest subject to the change that may be made by the bank from time to time.

Outstanding amount: From June 2003 to July 2004 amount TK. 3859083.41 was outstanding.

Terms and Conditions:

- I. Disbursement will be made after completion of all formalities as per sanction terms.
- II. Suppliers credit report to be obtained before opening of L/C's.
- III. Excess drawing over the sanction limit is strictly prohibited.

- IV. Customer will maintain effective and constant supervision and follow up to ensure timely adjustment of the loan to avoid overdue.

PACKING CREDIT

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

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

Interest Rate: 10% per annum with monthly rest subject to the charge that may be made by the bank from time to time.

Outstanding amount: From June 2003 to July 2004 TK. 2,01,98,263.13 was outstanding.

Terms and Conditions:

- I. Disbursement will be made after completion of all formalities as per sanction terms.
- II. The amount of advance against packing credit will be adjusted from the amount payable to exporter on negotiation or purchase of the bill.
- III. The exporter letter of credit should be irrevocable, constricted and valid and confirming bank must mark lien on it.

HIRE PURCHASE

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

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

Interest Rate: 15% per annum.

Outstanding amount: From June 2003 to July 2004 TK. 53405562.05 was outstanding.

Terms and Conditions:

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

PAYMENT AGAINST DOCUMENTS (PAD)

A loan facility provided by the banks to the customers against documents/bills, like Bills of Lading, Warehouse keeper's Certificate/receipts, Railway receipts, Delivery order, Dock Warrant.

Eligibility: These types of credit facilities are given generally Exporter and Importer.

Interest Rate: 15% per annum.

Outstanding amount: From June 2003 to July 2004 TK. 9,05,002.52 was outstanding.

Terms and Conditions:

- I. In the event of default by the borrower bank has the right to sell the goods.
- II. Insurance policy to be obtained against the goods covering fire and RSD risk at the cost of customer.
- III. Bank reserves the right to cancel or amend the terms and condition partly or wholly at its direction without assigning any reason whatsoever.

CASH CREDIT AGAINST HYPOTHECATION

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

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

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

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

Rate of Interest: 15% per annum.

Renew system: It can be renewed after one year.

Outstanding amount: From June 2003 to July 2004 total amount of TK. 5, 91, 31,051.93 was outstanding.

Terms and Conditions:

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

3.3 Foreign exchange performance

LETTER OF CREDIT

Opening or issuing letter of credit is one of the important services provided by MBL. A letter of credit is a document authorizing a bank to pay the bearer a specified sum of money; it provides a useful means of settlement for a foreign trade transaction, the purchaser establishing a credit in favor of his credit at a bank.

Letter of Credit is of two types:

1. Traveler's letter of credit issued for the convenience of the traveling public, and
2. Letter of commercial credit issued for the purpose of facilitating trade transaction.

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

Terms and Conditions:

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

Rate of Commission: 0.4% for 90 days.

0.6% for 120 days.

Outstanding amount: From June 2003 to July 2004 totals amount of Tk. 3594628.65 was outstanding.

LETTER OF GUARANTEE:

A letter of guarantee has special significance in the business of banking as a means to ensure safety of funds lent to the customers. In case, the borrower is unable to provide the security of tangible assets or, the value of the assets falls below the amount of the loans, and the borrower's personal security is not considered sufficient, an additional security is sought by the banker in the form of a guarantee given by a third person.

Terms and Conditions:

- I. The banks legal adviser must verify all the security documents.
- II. When the principal debtor defaults in fulfilling this obligation or promise the liability bestow on guarantor.

III. Bank reserves the right to cancel or amend the terms and condition partly or wholly at its direction without assigning any reason whatsoever.

Sector wise Disbursement of Credit:

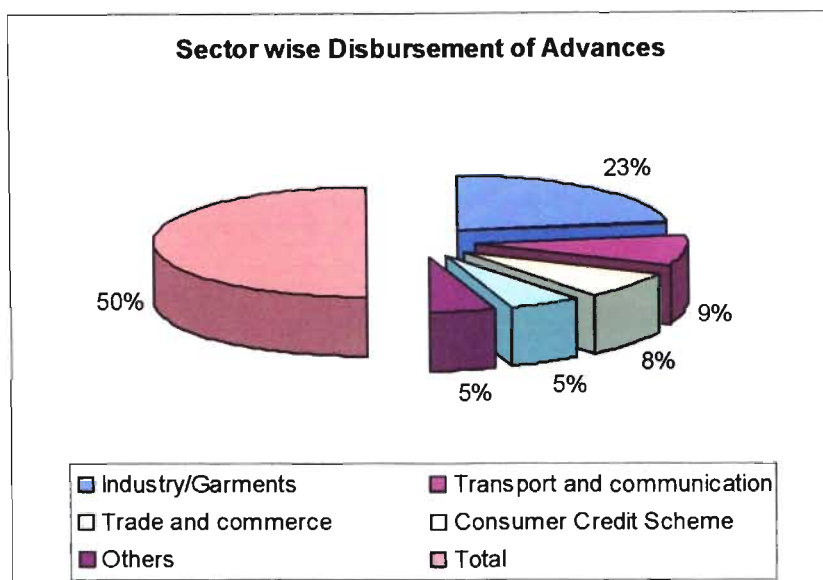
Mercantile Bank Limited has deployed its funds in every sector. It basically emphasizes four specified sectors. These are Industry sector, Transport and Communication, Trade and Commerce and Consumer Credit. The rest of the sector is known as others. Which include any of the sectors that seem viable in MBL viewpoint. We can see that the bank is highly lending in Industry sector.

Table: 7 Sector wise Disbursement of Credit

Amount in Lac Tk.

Sector	Amount	% Total advance
Industry/Garments	5172.01	45.44
Transport and communication	2011.23	17.67
Trade and commerce	1826.51	16.05
Consumer Credit Scheme	1212.51	10.65
Others	1159.25	10.14
Total	11381.51	100%

Source: Financial report of MBL.



However, the existing loan structure of private commercial banks is usually dominated by the commercial lending, in case of MBL the proportion of this lending is too high. From this Graph this is more clearly visible that bank is too exposed to the industry sector, which is a wise decision from the government of view. Because proper industrialization hasn't set up yet. This tendency of MBL ultimately helps industrialization of the country. However, this scenario is bad for the MBL. If one big lender becomes defaulter, MBL loses huge amount of money. More over it is very tough to recover from big defaulters. On the other hand service holder, teacher or some small businessmen take Consumer Credit Scheme. So it is very easy to pressurize him, if one become does not pay regularly. MBL has also found that there is huge demand for CCS that can be profitable enough for them, if they could increase the recovery rate of CCS. As a result, for their own sac, from now on MBL has decided to provide more Consumer Credit Scheme rather than big Industrial loan.

MODE WISE DISTRIBUTION OF ADVANCES

Again if we look at the structure of loan form different mode of finance point of view, we find that MBL, Main Branch lend every mode as per client's requirements.

Table: 8 Mode wise Disbursement of Advances as on July31, 2004

(Amount in TK.)

Particulars	Advance	% of Total advance
L.T.R	28,59,083.41	1.22%
Packing Credit	1,01,98,268.13	4.37%
Lease Finance	10,18,407.08	0.45%
Hire Purchase	4,34,05,562.05	18.60%
P.A.D	7,05,002.52	0.30%
Cash Credit Hypothecation	4,91,31,051.93	21.04%
Secured Over Drafts	1,63,95,496.04	7.02%
Consumer Credit Scheme	1,01,13,741.02	4.3%
Small Loan	2,49,345.07	0.1%
Foreign Bills Purchase	9,93,66,709.13	42.56%
Letter of Guarantee	15,94,628.65	0.68%
Total	23,34,42,666.38	100%

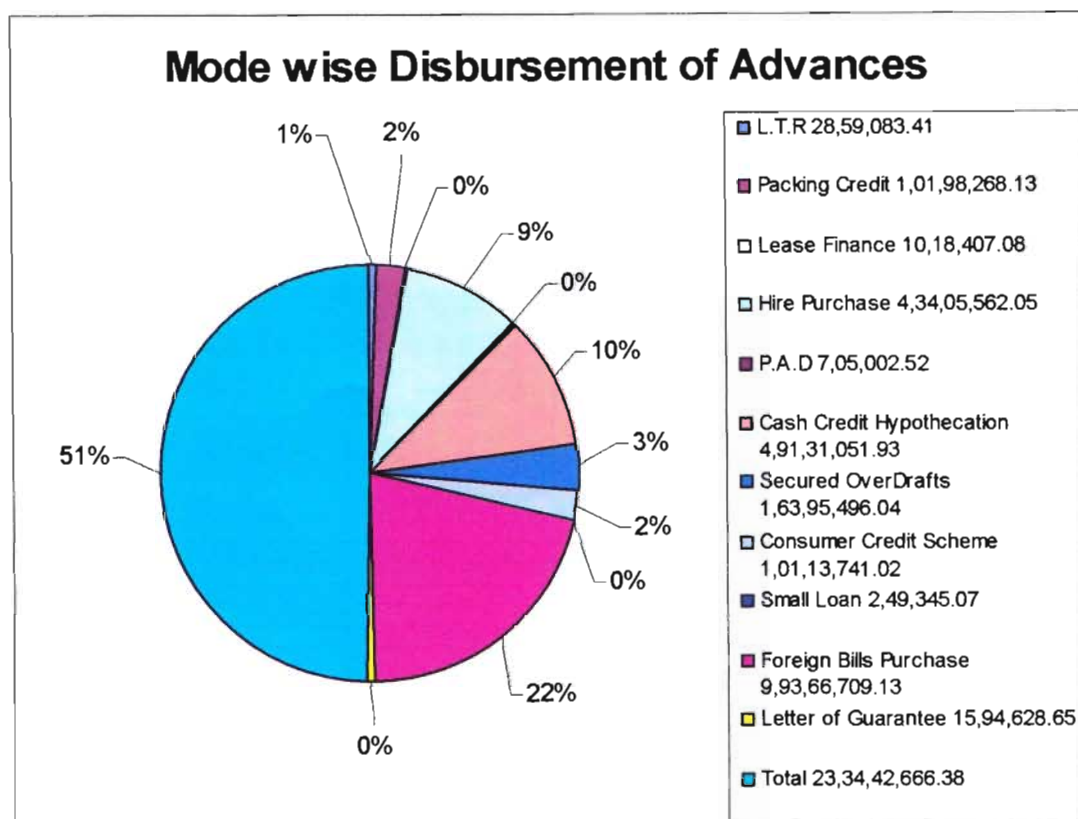


Figure: Mode wise Disbursement of Main Branch

The significant amount of the lending went to Bill purchase and, which were 42.56%. In LTR, Overdraft, Consumers Credit proportion was also substantial. The six big pie charts represent these six types of facilities. All these six models of lending are needed for short term financing. Therefore it is clear that MBL highly appreciate the short term financing. This nature of lending of BML is, in one sense, good if we relate it with the upward yield curve of Bangladesh economy. However, it did not give MBL the scope of risk diversification by long term investment. The interest rate in Bangladesh was almost stable in the last few years. However, it never declined in between this period. Moreover, by the end of last years, it started inking. Nevertheless, the investment behavior of a bank not only depends on interest rate, but also on the matching period deposits and advances.

DISBURSEMENT, OUTSTANDING AND RECOVERY OF TERM LOAN:

Demand loan like PAB, LIM, Packing Credit etc. are given for a very short period of time MBL recovery on demand loan is hundred percent. But in case of terms like loan general include sector wise loan i.e. Industry, Transportation and Communication, Trade and Commerce and others; the average recovery is almost 97 percent above. IN Table shows recovery on Terms loan of MBL time to time.

Table: 9 Disbursements, Outstanding & Recovery of Term Loans

(Amount in million Tk.)

Particular	Total Disburse	Outstanding	Due	Overdue	Recovery
Loans General	24.49	30.55	5.39	0.19	97%
Lease	25.56	26.16	.94	.41	96%
Hire Purchase	241.42	216.29	16.91	.73	96%
Consumers Credit Scheme	137.22	121.25	18.16	.66	97%
Small Loans	9.9	9.09	1.04	.05	95%

Sources: Financial Report of MBL

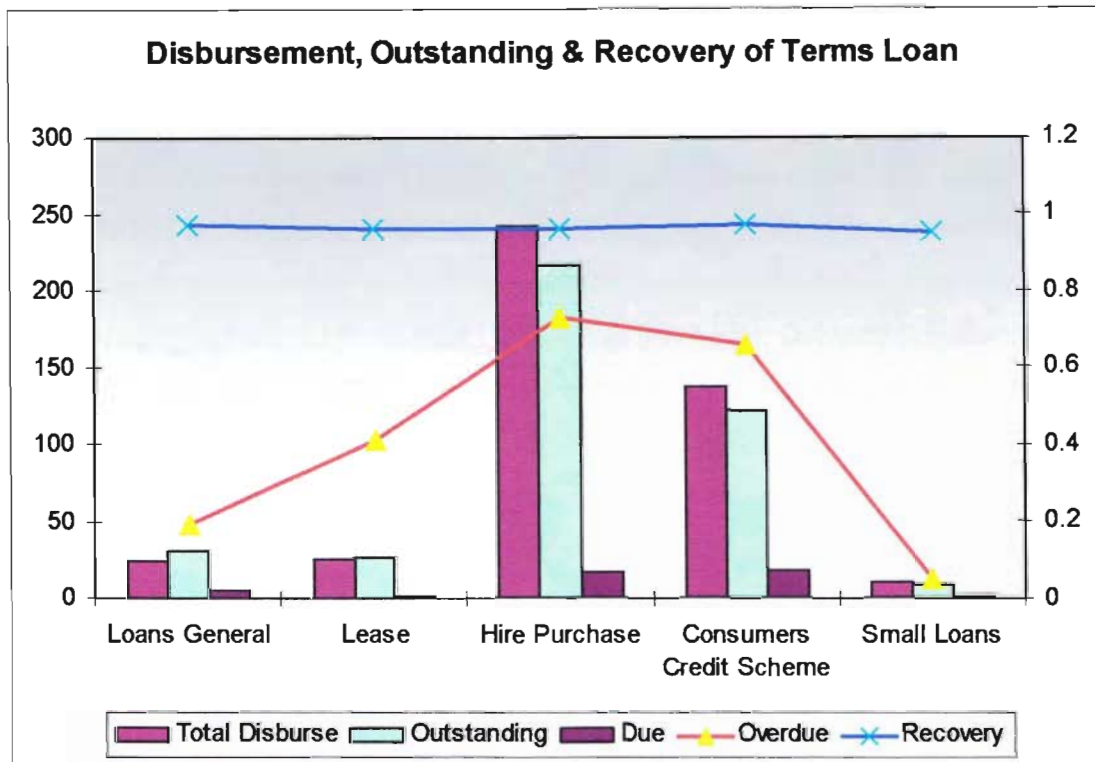


Figure: Disbursement, Outstanding & Recovery of Terms Loan

From the graph, it is clear that a large amount has advance on hire purchase and recovery rate on hire purchase in 96%, which is very high. The second large amount advance on customer credit which recovery rate is also satisfactory. The recovery rate on consumer credit is 97%. It is clear that a minor amount is due. The overall performance on MBL on term's loan is very satisfactory which indicate its credit management efficiency. So this figure helps to conclude that MBL is brilliant at Loan Recovery.

MANAGEMENT OF CREDIT

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

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

CREDIT POLICY OF MBL:

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

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

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

CREDIT SANCTIONING AUTHORITY OF MBL

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

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

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

- I. The Managing Director can exercise all the powers vested in other executives of the bank.
- II. Other than Managing Director, the executives only to when such power is delegated exercise the delegation of powers.
- III. The Managing Director may suspend exercise of delegated power of any executive through specific or general order.

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

- I. The borrower must be a man of integrity, and must enjoy good reputation in the market.
- II. The borrower must have the capacity and capability for utilizing credit properly and profitably.
- III. The enterprise of the borrower must be viable and profitable. That is proposal of the borrower must be evaluated properly and carefully so as to ascertain its profitability. The enterprise must be able to generate sufficient fund for debt servicing.
- IV. A customer to whom credit is to be allowed should be as far as possible within the command area.
- V. No sanctioning officer can sanction any credit to any of his near relations and to any firm/company where his relations have financial interest.
- VI. There shall be no power to sanction clear advance.

PROCESSING AND SCREENING OF CREDIT PROPOSAL

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

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

On receiving the proposal, the Credit Division of Head Office place the proposal in the Head Office Credit Committee. The committee further analyze proposal critically and if agree in principle they sanction the same as par delegated business power. Again if the merit and magnitude of the proposal is beyond the delegated business power of the Head Office Credit Committee/Managing Director they forward the proposal to the Board of the Bank with recommendation for approval.

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

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

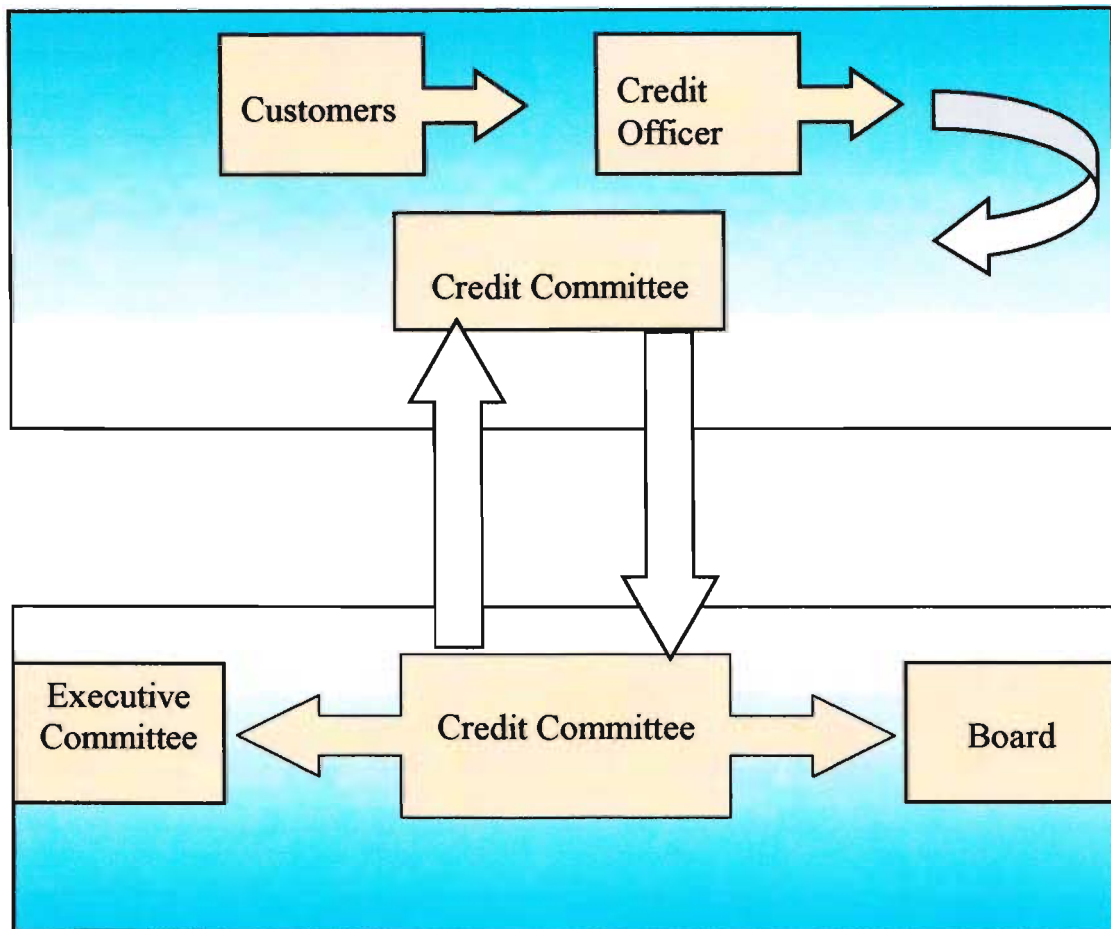


Figure: - Credit Proposal Flow Chart

3.4. Interest Earning Asset of MBL:

Table-1

Year	Interest Earning Asset	Growth %
2002	1527.05	-
2003	1681.59	9.11
2004	2322.98	27.61

Source: from annul report

Analysis: From this table we can see growth % of Interest Earning Asset has been increased from 9.11 in 2003 to 27.61 in 2004.

3.5 Non-interest Earning Asset of MBL :

Table-2

Year	Non-interest Earning Asset	Growth %
2002	104.12	-
2003	150.88	30
2004	147.52	-2.2

Source: from annul report

Analysis: From this table we can see growth % of Non-interest Earning Asset has been decreased from 30 in 2003 to -2.2 in 2004.

3.6 ROI (percentage) of MBL:

Table-3

Year	ROI	Growth %
2002	4.04	-
2003	6.67	.39
2004	5.92	-.12

Source: from annul report

Analysis: From this table we can see growth % of ROI has been decreased from .39 in 2003 to -.12 in 2004.

3.7 ROA (percentage) of MBL:

Table-4

Year	ROA	Growth %
2002	1.57	-
2003	1.18	- .24
2004	1.45	.18

Source: from annul report

Analysis: From this table we can see growth % of ROA has been increased from -0.24 in 2003 to 0.18 in 2004.

3.8 Income from Investment of MBL:

Table-5

Year	Income from Investment	Growth %
2002	10.84	-
2003	14.06	22.9
2004	21.98	36

Source: from annul report

Analysis: From this table we can see growth % of Income from Investment has been increased from 22.9 in 2003 to 36 in 2004.

3.9 EPS of MBL:

Table-6

Year	EPS	Growth %
2002	49.24	-
2003	57.88	8.64
2004	64.1	10.7

Source: from annul report

Analysis: From this table we can see growth % of EPS has been increased from 8.64 in 2003 to 10.7 in 2004.

3.10 Net Income per Share of MBL:

Table-7

Year	Net Income per Share	Growth %
2002	49.24	-
2003	57.88	8.64
2004	64.1	10.7

Source: from annual report

Analysis: From this table we can see growth % of Net Income per Share has been increased from 8.64 in 2003 to 10.7 in 2004.

3.11 Price Earning ratio of MBL :

Table-8

Year	Interest Earning Asset	Growth %
2002	N/A	-
2003	N/A	-
2004	13 times	-

Source: from annual report

Analysis: From this table we can see at 2004 price earning ratio is 13 times and in 2002-03 is non-applicable.

CHAPTER 4:

4.1 Findings and Recommendation of the study:

Credit Department:

The total picture of mobilizing and recovering loans and advances are very poor for the NCBs of our country. But MBL has changed the scenario remarkably. The bank has made a provision of tk. 103.14 million up to December 04 as 1% against unclassified loan as per Loan Classification Guideline of Bangladesh Bank. The amount of classified loan is reducing year after year. Now it is little over 3.5% that are within the world standard. Only one loan is defaulted (Outstanding amount is about 14 Lac.) out of tk. 26 crore loan outstanding. The percentage is 0.53%. Even after there are some loop holes in disbursing and monitoring loans and advances. These are as follows----

1. A prospective customer is allowed to take credit facilities at a lower interest rate. Again, the interest rate is charged a higher rate to a customer who is not so prospective. So, the bank officials to create positive attitude to the clients should ban discriminatory attitude.
2. Lending Risk Analysis (LTR) is done in the head office, it is not given due weight in case of loan disbursement. They think it is not such a helpful methods to judge the client because of its subjectivity. But it is not true. Actually this comes from ignorance to some extent. So, LTR should be done in appropriate considering the importance of the same.
3. Sensitivity analysis is an effective method in appraising the project. Market is very sensitive. At any time product price may increase due to increasing cost of raw materials, unavailability of supplies, and so on. So, it should do the same by increasing the sales price.
4. Loan monitoring & follow-up is a continuous process. But it is not followed in due manner. Monitoring the loans by on-site as well as off-site supervision helps the banker to build banker-customer relationship. So, it should give importance on the same.

General Banking:

Mercantile Bank Ltd. is very in the point of customer satisfaction. A good no. of Govt. a/c is maintained satisfactory that increases deposit position of the branch. Besides, I have observed some irregularities. The observation and pertinent suggestions are as follows---

1. There is a provision of depositing a minimum amount of money at the time of opening an account and also maintain a minimum balance all the time. But it is not strictly followed, particularly for prospective customers. I think the amount should be fixed at a level that is not altered from customer to customer.
2. Every account opening must have some documentary requirement (s). Without proper documentation, sometimes accounts are opened. Bankers should take special care in this arena to safe guard his position.
3. Trade license must be renewed by the a/c holder every year and that copy should be deposited in the branch. But getting certified copy is very tough after opening the a/c. I think bank can impose some sort of monetary penalty to the a/c holder if he/she fails so intentionally that ultimately motivates his/her to update the documentary requirement.
4. Letter of thanks is to be sent to the introducer as well as to the a/c holder to confirm the authenticity of a/c holder and to get feedback from the introducer if finds any dissimilarity by him. But it is not practiced. It should be implemented soon for the aforesaid reason. In addition, it also builds up banker-customer relationship.
5. The Remittances Section needs more staffs for smooth working. The respective officer, who used to record the incoming and outgoing DD, MT and TT, often does all the works by himself. This is totally a tremendous pressure on him. A helping hand for him should be given for relieving his pressure and for accurate and proper recording of DD, MT and TT.
6. No customer is allowed to issue any PO or TT until he has on a/c with Mercantile Bank Limited. This policy is being followed according to the Bangladesh Bank Order to restrain "Hoondi" business.
7. Demand liabilities particularly cash payment is made within maximum 5 minutes that helps the branch to attract more customer(s), doing banking business with the bank. This is handled with personal care.
8. Flexible banking hour attracts more clients doing banking transaction with the branch. In some cases, customers, coming outside the banking hour can honor the cheque without delay. As per Bangladesh Bank Order, transaction hour is now 9 am to 2 pm (During Ramadan) and 9 am to 3 pm (Normal).

On the other hand, personnel dissatisfaction is also observed. To resolve this problem, bank can introduce some monetary awards/incentives to the cash related people.

Foreign Exchange:

Even after branch has an organized Foreign Exchange Department. The import and export business that are usually done through the branch make it a profitable one. The branch's foreign exchange business position as on 31.12.2004 as follows-

Sector	Total Outstanding (amount million Tk.)
Import	20380.80
Export	15250.60
Remittance	474.00

All official are competent in foreign exchange dealing and they have vast experiences in this field. But couple of problems is associated with this department. I specifically observe the following problems and in light of that some recommendations are cited to overcome them---

1. Lack of co-operation exists between the credit and the Foreign Exchange Department of the branch. Foreign trade needs lots of credit facilities as provided by the credit department. This non-cooperation creates problems for the importers and exporters who are in great need of credit facilities available in the branch. Coordinated operation between these two vital departments should be established in order to provide better service to the importers as well as exporters and make the branch a more profitable one.
2. Branch uses SWIFT (Society for Worldwide Inter bank Financial Telecommunication) for dealing foreign exchange operations. System is swift but the cost taken by the bank is very high. It takes Tk. 3500/= as SWIFT charge in addition to other charges. It's a great burden for the customer to pay such a big amount. So, bank may reduce the charge without disrupting the facilities.
3. I have incorporated ID (International Department) functions with this Though report, it is not through studied due to time limitations. I have covered only SWIFT operation and exchange rate determination.

Conclusion

This report has attempted to explain the banking practices that are followed by the Mercantile Bank Limited both in Head Office and Main Branch. Also I have attempted to harmonize the practical exposure during my tenure and link the theoretical knowledge, gained in the previous terms of BBA program. But the banking trade is too vast that this report can by no means claim exhaustive.

During the internship, it is found that the branch provides all the conventional banking service as well as some specialized financing activities to the economy. Foreign Exchange services department the largest department of the branch in terms of manpower and profit earned. In this year, it earned more than 60% of branch's total profit. This department provides all the services related to international and disburse credit if the proposal is sound. As specialized financing, it provides term finance to medium and small-scale industries. By providing various services, Main Branch, Mercantile Bank is playing an important role in the banking system and in the payment system of Bangladesh.

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