
Internship Report
On
*“In Depth Knowledge about Prime Bank’s
Foreign Exchange Department”*

Prepared for
Syeda Shaharbanu Shahbazi
Senior Lecturer
BRAC Business School
BRAC University

Prepared by
Name: Mahmudul hasan
ID:08304054
Dept: B.B.S

BRAC University

DATE of SUBMISSION: 9th November , 2013

LETTER OF AUTHORIZATION

Syeda Shaharbanu Shahbazi
Senior Lecturer
BRAC University
Mohakhali, Dhaka.

9th November, 2013

Mahmudul Hasan
Internship, BUS 400
BRAC University

Subject: Letter of Authorization.

Dear Mahmudul Hasan,

I, hereby, authorize you of Internship Work, Bus 400 to prepare a comprehensive report on the topic "*In Depth Knowledge about Prime Bank's Foreign Exchange Department*", using all that have been taught throughout your internship period. You are selected to present an integrated and coordinated your skills at applying theoretical and practical knowledge via this internship work.

Any inquiries are most welcomed.

Thank You.

Syeda Shaharbanu Shahbazi

LETTER OF TRANSMITTAL

9th November, 2013

Syeda Shaharbanu Shahbazi

Senior Lecturer

BRAC University

Mohakhali, Dhaka

Subject: Submission of internship report on “*In Depth Knowledge about Prime Bank’s Foreign Exchange Department*”.

Dear Madam,

I am feeling happy to submit internship report on “*In Depth Knowledge about Prime Bank’s Foreign Exchange Department*” (Bus 400). This report helped me to get a very good and proper understanding about the Foreign exchange department of Prime bank ltd. To prepare this report, I have given my best effort despite some limitation.

I shall be highly encouraged if you are kind enough to receive this report. If you have any further enquiry concerning any additional information I would be very pleased to clarify that.

Thank You.

Sincerely yours,

Mahmudul Hasan (08304054)

.....

ACKNOWLEDGEMENT

First of all, I would like to express my deep gratitude to all mighty Allah for his infinite grace that allowed me to complete this internship work. A lot of effort and study has been involved in this internship work.

I would like to express my sincere gratitude and cordial thanks to my instructor Syeda Shaharbanu Shahbazi, Senior Lecturer, BRAC University for her valuable advice and support regarding the writing of this report. I would also like to thank my honorable madam for her kind concern, valuable time, advice and constant guideline throughout the internship period and making of the report.

This report really helps me to acquire knowledge about the foreign exchange department. This knowledge will help me in my future corporate life and also in my higher study. This report also helps me to work on a theoretical perspective field.

I would like to express my foremost gratitude to Prime Bank's employee and Sir who helped me and gave me their valuable time, providing me with the most relevant information on the basis of which I have prepared this report. I am thankful to all of them for helping and guiding me and for being nice and kind to me.

And, finally again I would like to thank my honorable Madam who give me her valuable opinion regarding the report time to time. Without her advice I cannot be able to complete my report work.

TABLE OF CONTENTS

No	Particulars	Page No
	Acknowledgement	vi
	Executive Summary	viii
1.0	About Prime Bank	1-13
1.1	Background of Prime Bank	2
1.2	Mission and Vision	3
1.3	Product and services	4
1.4	Objective of the bank	4-5
1.5	Management of the bank	5
1.6	Management hierarchy of Prime Bank Ltd	6
1.7	Functional structure of PBL	7-11
1.8	SWOT analysis of Prime Bank Ltd	11-13
2.0	Internship At Prime Bank	14-16
2.1	Key responsibilities	15
2.2	Limitations of the branch	16
2.3	Recommendation	16
3.0	Project Part	17-21
3.1	Origin of the Report	18
3.2	Background of the study	19
3.3	Objective of the report	19-20
3.4	Methodology of the Report	20
3.5.1	Collection of data	20
3.5.2	Organization of data	20-21
3.6	Limitation of the study	21
3.7	Scope of the Report	21
4.0	Trade finance(Foreign Exchange)	22-51
4.1	Functions of Foreign Exchange Department	24-28
4.2	Export	29-37
4.3	Import	37-48
4.4	Remittance	48-51
5.0	Recommendation & Conclusion	52-55
5.1	Recommendation	53-54
5.2	Conclusion	54-55
	Reference	55-56

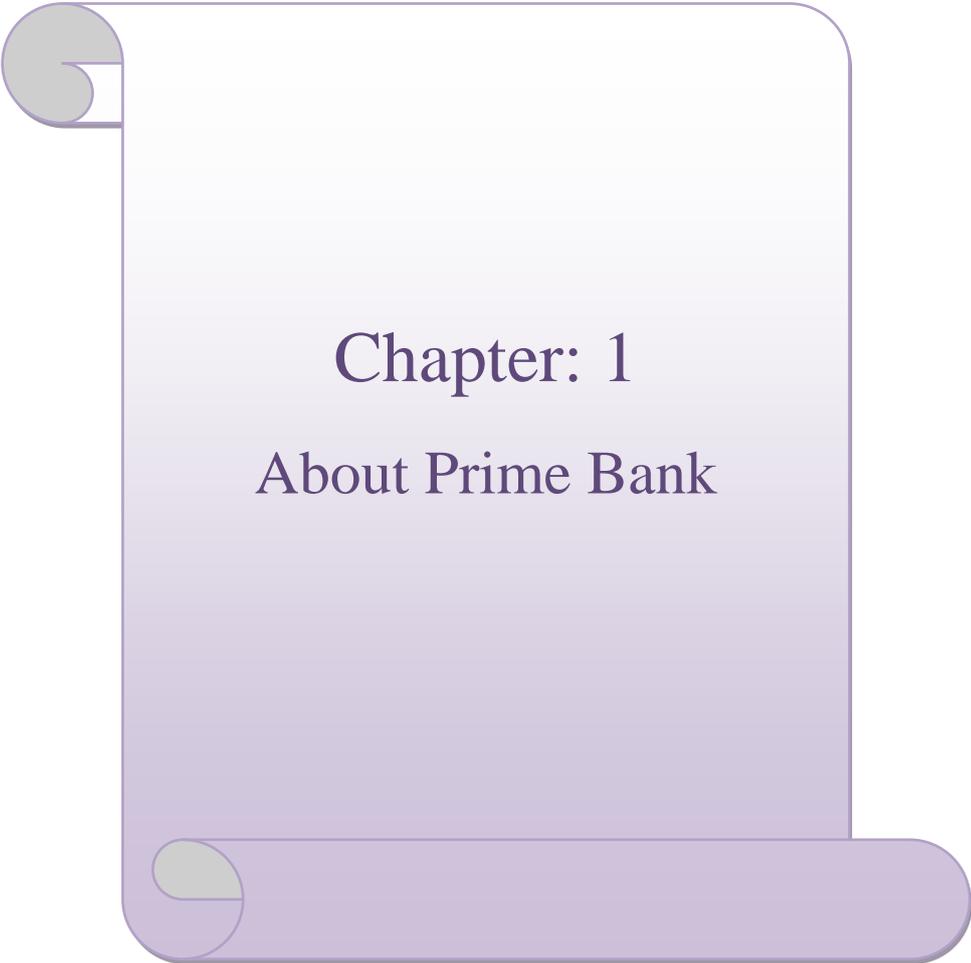
Executive Summary

This report aims toward providing an overview on Foreign Exchange department of Prime Bank Limited. The report is prepared within the broader framework of Internship Program of the Department of B.B.S, BRAC University. I have chosen an important topic of banking system, the Foreign Exchange Operation. While preparing this report it has been tried to reveal the insights of the functions of Foreign Exchange Department. Simultaneously efforts have been made to provide an in depth knowledge about the Trade Finance mechanism and the overall activities of Foreign Exchange Department. And a few recommendations and suggestions were also prescribed based on the observation and findings.

While discussing the different aspects and functions of the bank, priority has been given to depict the real situation as far as appraisal and management system in Prime Bank Ltd. are concerned by employing the experience gathered during the internship program.

At the same time for easier understanding of the report, an overview of prime bank, supporting topics and terms are explained in light of textbooks and regulatory guidelines. The objectives, vision, mission, management and overall performance of Prime Bank Limited are included in this report to state a clear understanding about the bank.

Different sections of Foreign exchange department and the details of its functions are explained here. Simultaneously analysis on the foreign exchange and all of its elements has also been done. Utmost care has been given to explain all necessary aspects related to the subject matter for easier and quick understanding of the report.



Chapter: 1

About Prime Bank

1.0 History of Prime Bank

1.1 Background of Prime Bank

In the backdrop of economic liberalization and financial sector reforms, a group of highly successful local entrepreneurs visualized an idea of introducing a commercial bank with different outlook. For them, it was competence, excellence and consistent delivery of reliable service with superior value products. Accordingly, Prime Bank was created and commencement of business started on 17th April 1995.

As a fully licensed commercial bank, Prime Bank is being managed by a highly professional and dedicated team with long experience in banking. They constantly focus on understanding and anticipating customer needs. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition.

Prime Bank has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through internationally accepted CAMELS rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation.

Prime Bank offers all kinds of Commercial Corporate and Personal Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software.

Prime Bank, since its beginning has attached more importance in technology integration. In order to retain competitive edge, investment in technology is always a top agenda and under constant focus. Keeping the network within a reasonable limit, its strategy is to serve the customers through capacity building across multi-delivery channels. PBL is better placed and poised to take its customers through fast changing times and enable them compete more effectively in the market. (Prime Bank Limited, 2011)

1.2 Vision and Mission

“A Bank with a Difference” is the motto of Prime Bank Limited. So the motto itself is self-explanatory to deliver the vision of the bank. Prime Bank limited is prepared to meet the challenge of the 21st century well ahead of time. To cope with the challenge of the new millennium it hired experienced and well-reputed banker of the country from the inception. The bank has efficient and dedicated professionals and equipped with modern technology to provide the best service in the need of the people and thus to realize its vision.

➤ Vision

- To be the best Private Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity.

➤ Mission

- To build Prime Bank Limited into an efficient, market-driven, customer focused institution with good corporate governance structure.
- Continuous improvement of our business policies, procedure and efficiency through integration of technology at all levels.

➤ Focus of Efforts

- “on delivery of quality service in all areas of banking activities with the aim to add increased value to shareholders’ investment and offer highest possible benefits to our customers”

➤ Strategic Priorities

- “ To have sustained growth, broaden and improve range of products and services”

1.3 Product & Services

>	Retail Banking
>	Corporate Banking
>	Islamic Banking
>	SME Banking
>	NRB Banking
>	Offshore Banking
>	Treasury

1.4 Objective of the Bank

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

- ❖ To mobilize the savings and channeling it out as loan or advance as the company approve.
- ❖ To establish, maintain, carry on, transact and undertake all kinds of investment and financial business including underwriting, managing and distributing the issue of stocks, debentures, and other securities.
- ❖ To finance the international trade both in import and export.

- ❖ To carry on the foreign exchange business, including buying and selling of foreign currency, traveler's cheques issuing, international credit card issuance etc.
- ❖ To develop the standard of living of the limited income group by providing Consumer Credit.
- ❖ To finance the industry, trade and commerce in both the conventional way and by offering customer friendly credit service.
- ❖ To encourage the new entrepreneurs for investment and thus to develop the country's industry sector and contribute to the economic development.

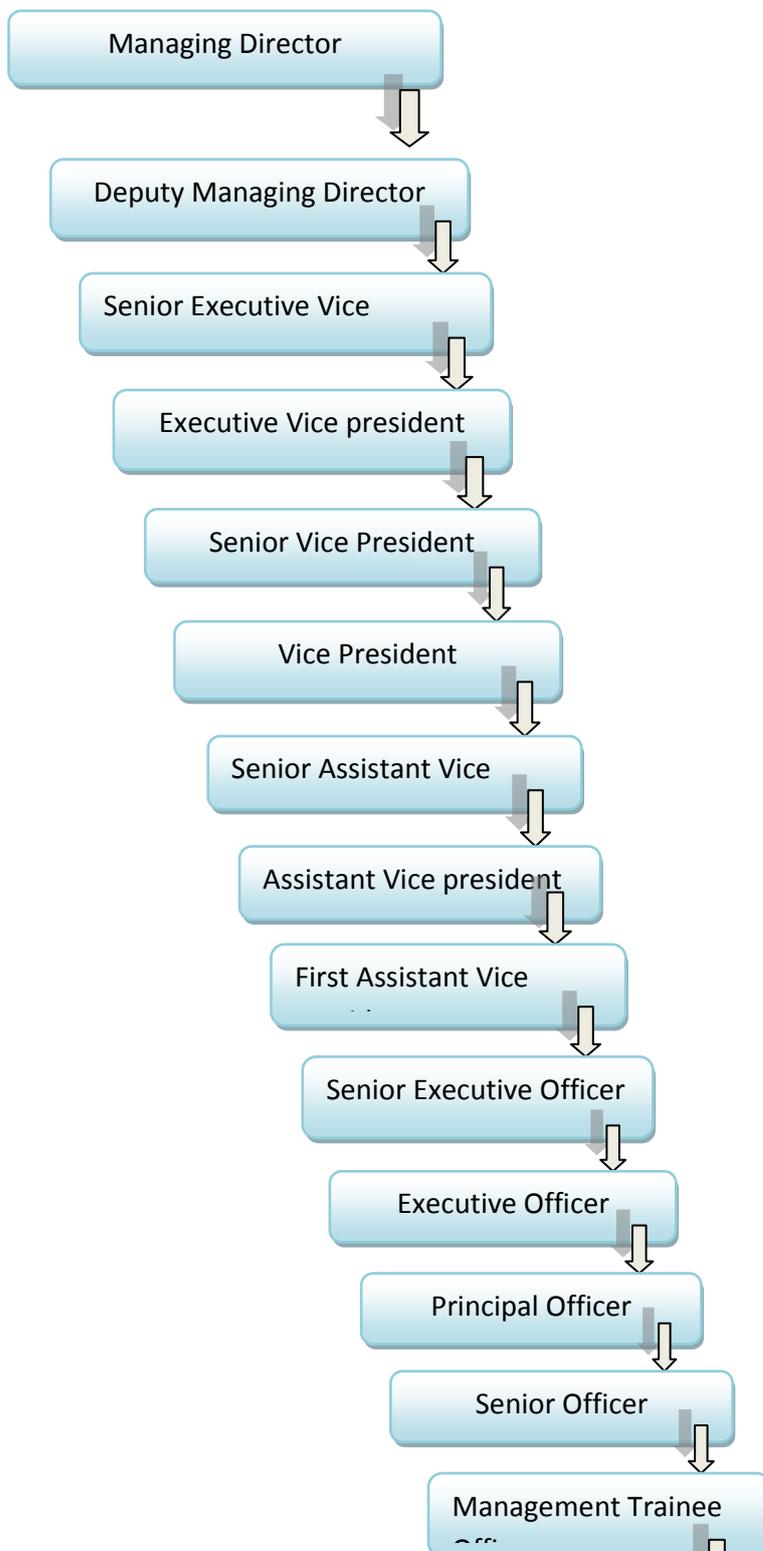
1.5 Management of the Bank

Boards of directors are the sole authority to take decision about the affairs of the business. Now there are 13 directors in the management of the bank. All the directors have good academic background and have huge experience in business. Captain Imam Anwar Hossain is the chairman of the bank. The board of directors holds meetings on a regular basis.

- ❖ Executive Committee: The Executive Committee consists of the members of the Board of Directors. This committee exercises the power as delegated by the Board from time to time and approves all matters beyond the delegation of Management.
- ❖ Management Committee: The Management Committee consists of the Managing Directors and Head Office Executives. They discuss about the progress on portfolio functions. Different ideas and decisions, guidelines regarding deposits, lending and management of Human and Material resources are the main concern of this committee.

All these committees meet on a regular basis for discussing various issues and proposals submitted for decisions.

1.6 Management Hierarchy of Prime Bank Limited



1.7 FUNCTIONAL STRUCTURE OF PBL:

Prime Bank Ltd. has the following functional departments in its head office.

Logistic & Support Services Division (L&SSD)

This Division was formerly known as General Services Division (GSD). Their main function relates to procurements and supply of all tangible goods and services to the Branches as well as Head office of Prime Bank Limited. This includes

- i. Every tangible functions of Branch opening such as making lease agreement, interior decoration etc.
- ii. Print all security papers and Bank Stationeries.
- iii. Distribution of these stationeries to the branch
- iv. Purchase and distribute all kinds of bank's furniture and fixtures.
- v. Receives demand of cars, vehicles, telephones etc from branched and different divisions in head office and arrange, purchase and delivery of it to the concerned person / Branch.
- vi. Install & maintain different facilities in the Branches.

Financial Administration Division (FAD)

Financials Administration Division mainly deals with the account side of the Bank. It deals with all the Head Office transactions with bank and its Branches and all there are controlled under the following heads:

- i. Income, Expenditure Posting: All income and expenditures are maintained and posted under these heads.
- ii. Cash Section: cash section generally handles cash expenditure for office operations and miscellaneous payments.

- iii. Bills sections: this section is responsible for inland bills only.
- iv. Salary & Wages of the Employee: Salary and wages of the Head Office executives, Officers 7 Employees are given in this department.
- v. Maintenance of Employee Provident Fund: Employee provident fund accounts are maintained here.

Consolidation of Branch's Accounts: All branches periodically (especially monthly) sends their income and expenditure i.e. profit and loss accounts and Head Office made the consolidation statement of income and expenditure of the bank. Here branch Statements are reviewed. This division also prepares different monthly, quarterly, half-yearly statements and submits to Bangladesh bank. It also analyzes and interprets financial statements for the management and Board of director.

Credit Division

The main function of this division is to maintain the Bank's credit portfolio. A well reputed and hard working group of executives & officers runs the functions of this division. Other major functions are the following:

- i. Receives proposals
- ii. Proposes and appraises.
- iii. Get approval
- iv. Communication and Sanction
- v. Monitoring and follow-up.
- vi. Set price for credit and ensure effectiveness of it.
- vii. Prepare various statements for onward submission to Bangladesh bank.

International Division

The objective of this division is to assist management to make international dealing decisions and after decision is made, guide Branches in their implementation. Its functional areas are as follows:

- i. Maintaining correspondence relationship.
- ii. Monitoring foreign exchange rate and exchange dealings.
- iii. Maintaining Nostro A/Cs and reconciliation.

- iv. Authorizing of signing and test key.
- v. Monitoring foreign exchange returns & statements.
- vi. Sending updated exchange rates to concern branches.

Computer Division

Prime Bank operates and keeps records of its assets and liabilities in computers by using integrated software to maintain client Ledger and general Ledger. The main function of this division is to provide required Hardware and Software. The functions of this division are:

- i. Designing software to support the accounting operation.
- ii. Updating Softwares, if there is any lagging.
- iii. Improvisation of software to get best possible output from them.
- iv. Hardware and Software troubleshooting.
- v. Maintain Connectivity in through LAN, Intranet & Internet.
- vi. Provide updated CD's of Online Accounts to the Branches
- vii. Routine Checkup of Computers of Different Branches.

Public Relations Division

It has to perform certain functions related to all types of communication. The broad routine functions can be enumerated as follows:

- i Receiving and Sanctioning of all advertisement application
- ii Keeping good relation with different newspaper offices
- iii Inviting concern ones for any occasion.
- iv Keeping good relation with different officers of electronic media.

Marketing Division

Marketing Division is involved in two types of Marketing.

Asset marketing: Marketing of assets refers to marketing of various kinds of loans and advances. In-order to perform this job, they often visits dome large organizations and

attract them to borrow from the Bank to finance profitable ventures.

Liability Marketing: The process of Liability marketing is more or less same as Asset marketing. In this case different organizations having excess funds are solicited to deposit their excess fund to the Bank. If the amount of money to be deposited is large, the Banks sometimes offer a bit higher price than the prevailing market rate.

Human Resources Division

HRD performs all kind of administrative and personnel related matters. The broad functions of the division are as follows:

- i. Selecting & Recruitment of new Personnel.
- ii. Prepare all formalities regarding appointment and joining of the successful candidates.
- iii. Placement of Manpower.
- iv. Deal with the transfer, promotion and leave of the employees.
- v. Training & Development.
- vi. Termination and retrenchment of the employees.
- vii. Keeping records and personal file of every employee of the Bank.
- viii. Employee welfare fund running.
- ix. Arranges workshops & trainings for employee & executives.

Inspection & Audit Division

Inspection and Audit division works as internal audit division of the Company. The officers of this division randomly go to different Branches examine the necessary documents regarding each single account. If there is any discrepancy, they inform the authority concerned to take care of that/those discrepancies. They help the bank to comply with the rules and regulation imposed by the Bangladesh Bank. They inform the Bangladesh Bank about the Current position of the rules and regulation followed by the Bank.

Credit Card Division

Prime Bank obtained the principal membership of Master Card International in the month of May, 1999. A separate Division is assigned to look after this card. The

Marketing Team of this division goes to the potential customers to sell the card.

Currently Prime Bank Ltd. offers four types of card:

- (1) Local Silver Card.
- (2) International Silver Card
- (3) Local Gold Card
- (4) International Gold Card

Recently Prime Bank has obtained the membership of VISA credit Card and soon they will start marketing of it.

Merchant Banking and Investment Division

This division concentrates its operation in the area of under writing of initial public offer (IPO) and advance against shares. This division deals with the shares of the Company. They also look after the security Portfolio owned by the Bank. The Bank has a large amount of investment in shares and securities of different corporations as well as government treasury bills and prize bond.

Management will have to keep close coordination with other banks as well as the Bangladesh Bank to find out how to solve the problems related to Documentary Credit operations. Coordination with Bangladesh Bank is an absolute necessity as Documentary Credit related activities of all Authorized Dealer (AD) branches of all commercial banks are strictly regulated by Bangladesh Bank. Still banks have little to do to tackle the problems caused by the external factors. But banks can do something to minimize the problems caused by the internal factors. Necessary measures include automation, establishing remittance-drawing arrangements with foreign exchange houses and banks, regular performance appraisal and promotions depending on that will minimize mistakes by the employees to a great extent.

1.8 SWOT Analysis of Prime Bank Limited

Every organization is composed of some internal strengths and weaknesses and also has some external opportunities and threats in its whole life cycle. The following will briefly introduce Prime Bank's internal strengths and weaknesses, and external opportunities and threats as were observed in the three months of my internship program.

1.8.1 Strengths

- Favorable reputation because PBL is a very old commercial bank in banking sector
- Top management has contributed heavily towards the growth and development
- Strong financial position
- Provides its customers excellent and consistent quality in every service.
- Quality service with relatively lower price.
- Friendly interactive and informal working environment.
- Strong position in CAMEL rating

1.8.2 Weaknesses

- Pay structure have a big discrimination within officers and executives.
- The employees are burdened with extra workloads and works late hours.
- Pay order processing is not satisfactory.
- Incoming Mail processing is slow.
- Advertising and promotion is one of the weaknesses of PBL. It is not that efficient in marketing activities.
- Lots of inexpert and laggard assistant officers and existing manual vouchers.
- Entrance of new private banks
- Less ATM booths all over the country.

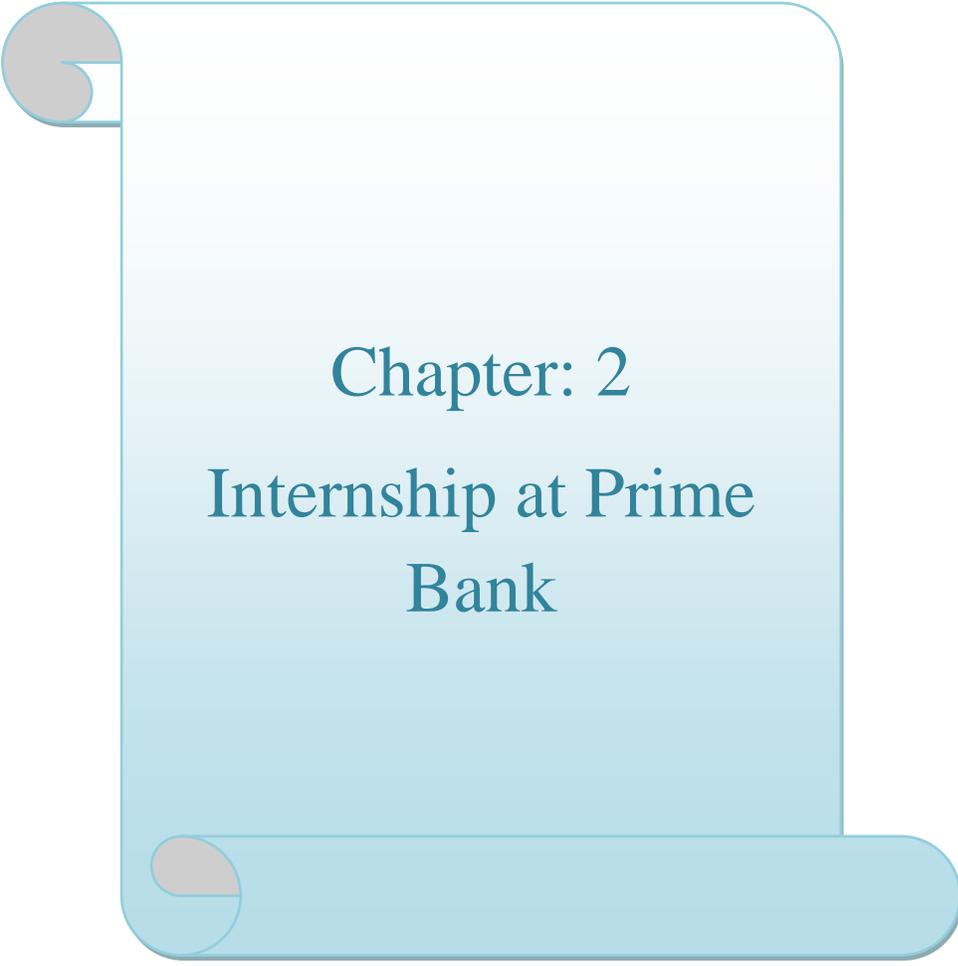
1.8.3 Opportunities

- Can recruit experienced, efficient and knowledgeable work force as it offers good working environment.
- The Bank has already introduced on line modern facilities to its customer.
- Expand product line to meet broader range of customers,

- Can motivate the employees to work more efficiently by increasing the remuneration.

1.8.4 Threats

- Upcoming private local banks.
- Comparatively high salary margin.
- Challenge of new entries.
- Immerge of the multinational banks and their rapid expansion.
- Rival banks easily copy the products offering of PBL. Therefore, the bank needs continuous product innovation to survive with competition.



Chapter: 2
Internship at Prime
Bank

2.0 Internship at Prime Bank

2.1 Key Responsibilities:

At Prime Bank (Mohakhali Branch) I started my journey as an Intern on 23rd January and finished it on 23rd April. In between this period I conducted some banking activities for the first time in my life and that are-

- **Opening LC:** At foreign exchange department I opened LC for several times.
- **Writing down the cheques details:** After receiving the cheques, the junior officers used to give it to me for recording purposes. Then I used to record the cheques details to the register and sent the cheques to the clearing room. I did this duty for one month.
- **Updating the EXP Register:** After one month I was sent to foreign exchange department and I worked there for 15 days. There my major job was to update the exp register which means that if there is any change regarding the export activities I have to check it and correct it.
- **Multiple tasks at Credit department:** After working at foreign exchange, I was shifted to the credit department. There I got different activities to do. Like
 - Printed letters for the customers regarding the increase in locker price.
 - Verify whether the Guarantors of car/ any purpose loans are informed about their responsibilities or not.
 - Rearranged the loan files, identified the close files and separated them from the accessible files.

These are some activities that I did in my Internship period. Beyond these I also did some other duties as well when anyone required.

2.2 Limitations of the Branch

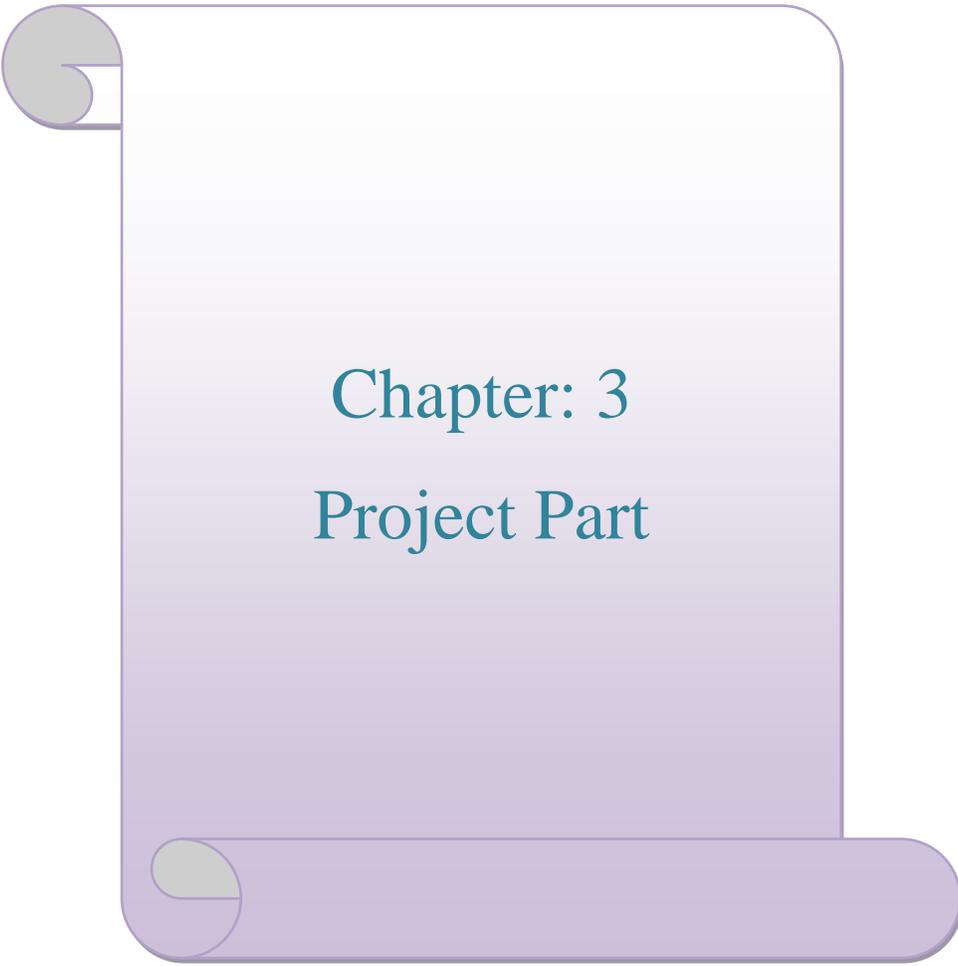
Prime Bank Mohakhali Branch, where I worked was positioned in a well-located area as well as the office was well decorated. Though it's a good branch but still I found some limitations of it.

Like –

- It does not have adequate officers to handle the front desk especially for the rush hours.
- I found that their customers are not satisfied by the services they get.
- The relationship among the co-workers is not that much that it should be.
- Employ dissatisfaction level is very high.

2.3 Recommendation: From my point of view Prime Bank Mohakhali Branch can improve its present condition through pursuing the following:

- Appoint adequate officers.
- Improve the customer services.
- Maintaining good relationship among the co-workers.
- Increasing the motivating factors among the employees.



Chapter: 3
Project Part

3.0 Introduction

Banks are very old form of financial institution that channel excess funds from surplus unit to deficit unit in consideration of a price called Interest. Banking business definitely established on a relationship of Debtor-Creditor between the surplus unit called depositors and the bank and between the deficit unit called borrowers and the bank. Economic development of a country requires a well organized, smooth, easy to reach and efficient saving-investment process. The banking sector of Bangladesh compared to its economic size is moderately bigger than many other economies of equal level of development and per capita income. There are forty-seven commercial banks operating in this small economy. Although over the last thirty years, the country achieved noticeable success regarding the access to banking services, in 1972 population per branch was 57,700 and in the year of 2010, it was 20,162 per branch. The statistics indicates that getting banking services is not a significant problem for the country. Being the central bank of the country, Bangladesh Bank is responsible to regulate, monitor and supervise all the banks operating in the country. This particular report provides an overview of trade finance mechanism and reporting system in Bangladesh in context of Prime Bank Ltd. So here I have worked on the Trade finance mechanism and the overall activities on Foreign Exchange Department of Prime Bank.

3.1 Origin of the Report

As a prerequisite for the Bachelor of Business Administration Degree of BRAC University, I was required to complete Internship in a suitable researching area and submit a report on findings. I have chosen Prime Bank's Foreign exchange Department's activities to explore my knowledge in this financial area. Without practical exposure, theory can never be fruitful. For this reason, BBS program has been designed in such a way that a student can get practical knowledge. I'm instructed to prepare the report under the consul of my respective project instructor Syeda Shaharbanu Shahbazi on 20th September 2013 and the last date of submission is on 9th November 2013.

3.2 Background of the Study:

Trade finance is of vital importance to the global economy, with the World Trade Organization estimating that 80% to 90% of global trade is reliant on this method of financing (Investopedia, 2013). The central bank has to monitor the trade finance activities of the commercial banks to ensure that the regulations are maintained at international standards and also to control its foreign exchange currency reserve.

There are a number of ways for the exporters and as well as importers to use trade finance for their business expansion and payment insurance, which are well prescribed by the International Trade Administration (2007) in its publication of *“Trade Finance Guide: A Quick Reference for U.S. Exporters”*. The commercial banks in our country follow the regulations given in *“Foreign Exchange guideline vol 1”* by Bangladesh Bank (2012). T.T. Sethi’s (2004) book *“Money Banking and International Trade”* illustrates how the international trade affects the foreign exchange rate and the foreign currency reserve. The work of The Foreign Exchange Committee (2004) in their widely cited publication *“Guidelines for Foreign Exchange Trading Activities”* focuses on the exploratory research that the rapid growth in technology increases the uncertainty of trade finance and related activities.

This particular report provides an overview of trade finance mechanism and reporting system in Bangladesh in context of Prime Bank Ltd. The objective is to find the most influencing factors that determine the acceptability of trade finance reporting system.

3.3 Objective of the Report:

A careful statement and purpose help in the preparation of a well decorated report on which others can take the right type of decisions. The major objective of this study is to gain practical exposures about the foreign exchange mechanism and find out the acceptance level of the new online trade finance reporting system by measuring the influencing factors, in context of Prime Bank Ltd.

The specific objectives of the study may be spelled out as follows-

- To get an overall view of the Prime Bank Ltd. and its general banking activities.
- To analyze the foreign trade finance mechanism and reporting system.

- Conduct a research on the user feedback to make a descriptive analysis over the new reporting system on the basis of the factors that influence its acceptability.
- Interpret the outcomes to expose the performance level of the online reporting system and find out the problems to provide recommendations on how to improve.

3.4 Methodology of the Report:

This report is investigative in nature. The study has been performed based on the information extracted from different sources and organized by using a specific methodology.

3.5.1 Collection of data

Primary sources of data:

- Face-to-Face conversation and shared experience with the respective officers

Secondary sources of data:

- Annual Report 2011/2012 of Prime Bank Ltd.
- Bangladesh Bank publications
- Official websites of Bangladesh Bank and Prime Bank Ltd.
- Other websites such as Wikipedia, Investopedia etc.
- Related books, journals, and articles

3.5.2 Organization of data

The collected data was compiled in the following steps-

- ✓ In the first step, the data from the conversation and experience with the respective officers, along with the downloaded information available on the internet and other publications, was organized to create a theoretical platform.
- ✓ Drafts of the report parts were prepared and mistakes were corrected through modification after consulting with the respective supervisor.
- ✓ Finally, both the soft copy and the hard copy of the report were submitted.

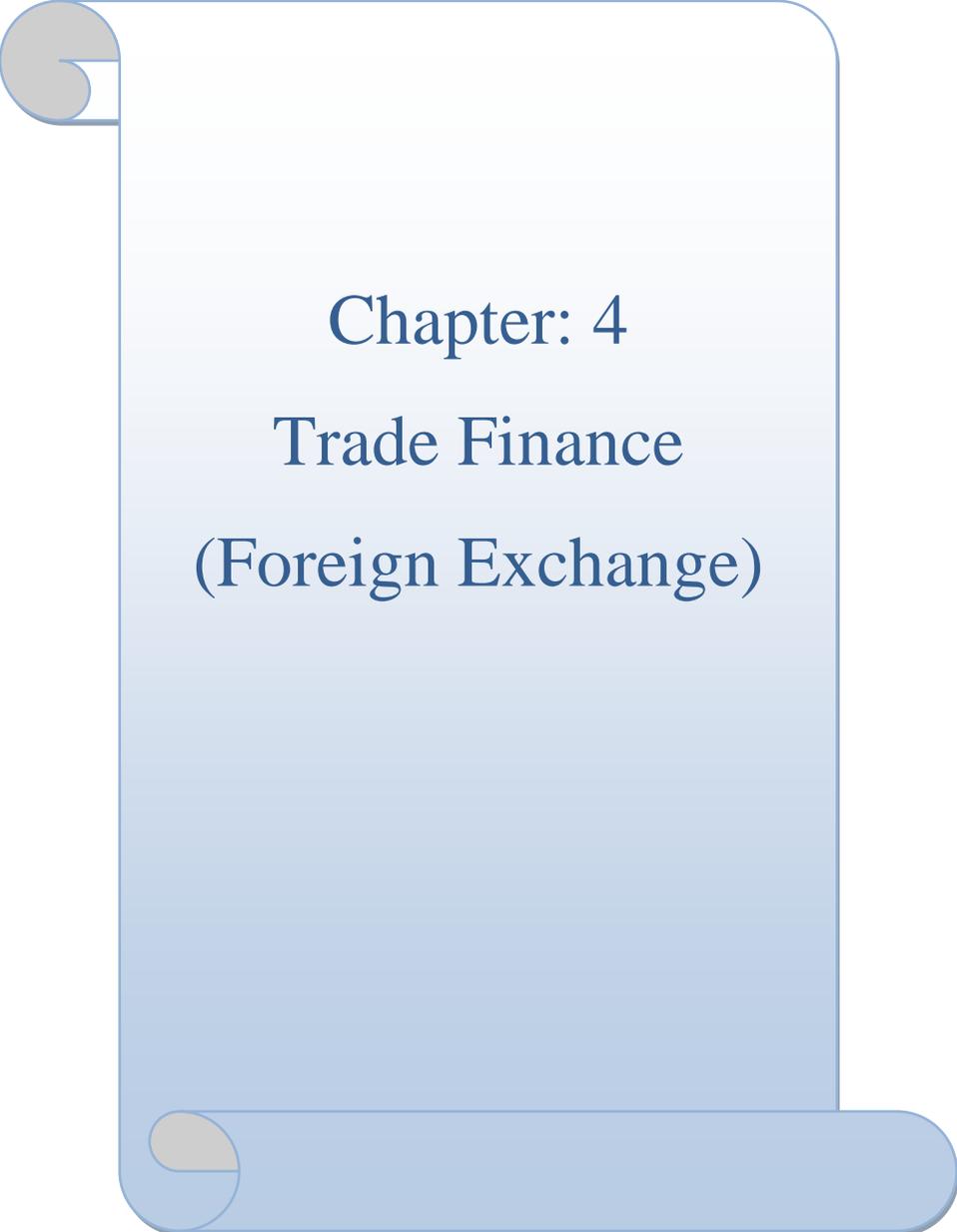
3.6 Limitation of the Study:

- o It was not possible to cover adequate sample size for the survey even after visiting several Authorized Dealer (AD) branches of Prime Bank Ltd.
- o Limited accessibility and permission for revealing of some data due to confidentiality.
- o Less availability of concrete data regarding the trade finance reporting procedure.
- o Long times to collect the required data from survey as the respondents were busy.
- o The sampling method may have omitted many respondents from selection, who could have provided better feedback.
- o Inadequate time to prepare an expert level research report.

3.7 Scope of the Report:

While preparing this report I had an opportunity to gain deep knowledge about the banking mechanism, especially in the foreign exchange department. I have also come through many different personalities, who shared their experiences, while conducting the research on Trade Finance reporting system.

The report has also given the readers the opportunity to learn about the foreign exchange and other banking mechanism, the related regulations, and the obligations for monitoring. The research that this report has covered would give the central bank the necessary feedback information regarding their new online trade finance reporting system, which would help them figure out the problems of the new system for further upgrading. The commercial banks can also gain from the information by learning about their officials' troubles regarding the reporting system so that they can come up with a solution to help their employees be more comfortable and more efficient by making their work easier.



Chapter: 4
Trade Finance
(Foreign Exchange)

CHAPTER 4.0 TRADE FINANCE (FOREIGN EXCHANGE)

Trade finance is an important and integral part of commercial banking which works to facilitate the foreign exchange transactions. It is very much Lucrative and remunerative operation for the bank. In order to conduct Foreign Exchange operation systematically and methodically the Foreign Exchange Regulation (FER) Act, 1947 enacted on the 11 March 1947 in the British-India provides the legal basis for regulating receipts and payments and dealings in the foreign exchange and securities (Bangladesh Bank, 2012). Basic regulations for conducting Foreign Exchange Operation are issued by the Government as well as by the Bangladesh Bank in the form of Public notice, circulars, SROs etc. Knowing how significant part trade financing plays in the operation of a commercial bank, all the major branches of PBL have the foreign exchange department.

Trade finance: Trade finance refers to financing international trading transactions. In this financing arrangement, the bank or other institution of the importer provides for paying for goods imported on behalf of the importer through instruments such as LC/Letter of Credit (Wikipedia, 2013). Trade finance typically involves short-term financing to facilitate the import and export of goods. These operations may involve payment if documentary requirements are met (e.g., letter of credit), or may instead involve payment if the original obligor defaults on the commercial terms of the transactions (e.g., guarantees or standby letters of credit). Either way, the respective financial institution or bank facilitates the transaction by insuring the payment. Trade finance includes such activities as lending, issuing letters of credit, factoring, export credit and insurance (Trade Finance, 2013). Trade finance is of vital importance to the global economy, with the World Trade Organization estimating that 80 to 90% of global trade is reliant on this method of financing (Investopedia, 2013).

Foreign exchange: Foreign Exchange means exchange of foreign currency between two countries. If the "Foreign Exchange" is considered as a subject, it means all kinds of transaction related to foreign currency. In other words, foreign exchange deals with foreign financial transactions. Foreign exchange transactions encompass everything from the conversion of

currencies by a traveler to billion-dollar payments made by corporate giants and governments for goods and services purchased overseas through trade finance (Investopedia, 2013).

4.1 Functions of Foreign Exchange Department

Foreign exchange department performs many functions to facilitate the foreign exchange transactions. These functions are:

- Facilitating import trade
- Facilitating export trade
- Provide funded and non-funded credit facility
- Maintaining foreign currency accounts
- Selling of foreign currency bonds

The foreign exchange department consists of mainly two sections- L/C operations and foreign remittance, which perform all the functions mentioned above. The foreign exchange department structure of Prime Bank Ltd. is shown in the following tree:

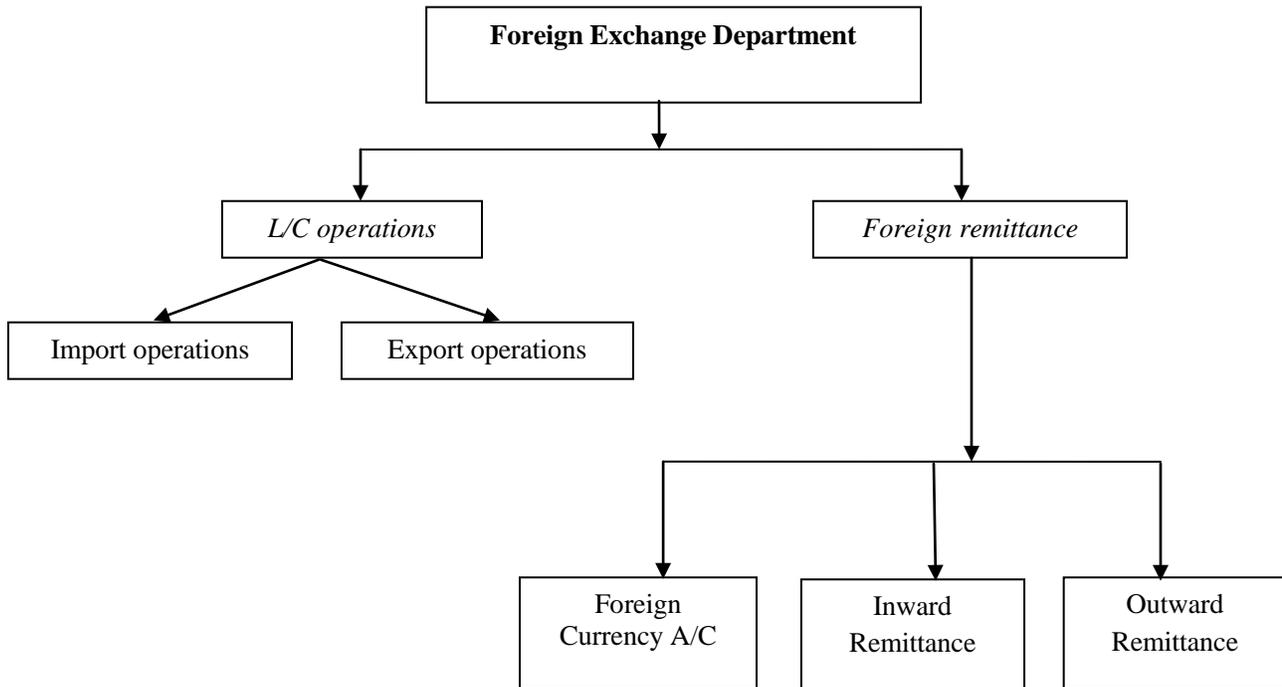


Chart: Foreign exchange department structure (Source: Self)

4.1.1 Regulation for the foreign exchange division

Foreign Exchange transactions are being controlled by the following rules and regulations:

- Foreign Exchange act 1047.
- Bangladesh bank issues Foreign Exchange Circular from time to time to control the export, import and remittance operation.
- Ministries of commerce issues export and import policies giving basic formalities for import and export.
- Sometimes CCI issues public notices for any kind of change in Foreign Exchange transaction.
- Bangladesh bank published two volumes in 1996. These comprise the complete instructions to be followed by the authorized dealers in transactions related to Foreign Exchange. (Bangladesh Bank, 2012)

4.1.2 Foreign exchange transaction terms

There are some terms which are important to know for foreign exchange transactions. It will help better understand the foreign exchange transaction mechanism.

The issuing bank: It is the bank that issues documentary credit on account of its client.

The advising bank: This is the bank acting as agent of the issuing bank, to advise L\C to the exporter or beneficiary.

Reimbursing bank: This is the bank acting as agent of the issuing bank, authorized to make payment or to honor reimbursing claim of the negotiating bank.

Negotiating bank: This bank provides value to the beneficiary against presentation of documents complying credits terms. Usually this is exporter's bank that purchases the export documents.

The applicant/importer/buyer: The importer or buyer is the applicant of a Letter of Credit. Applicant must be the client of the issuing bank.

The beneficiary/exporter/seller: The exporter or seller of the goods is the beneficiary of a Letter of Credit.

Notify party: The notify party is the Bank to whom the arrival of shipment has to be notified or informed.

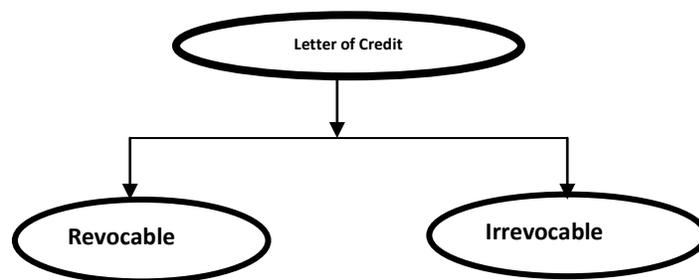
Letter of credit: Letter of Credit (L/C) is a credit contract whereby the buyer's bank is committed (on behalf of the buyer) to place an agreed amount of money at the seller's disposal under some agreed conditions.

Since the agreed conditions include amongst other things, the presentations of some specified documents, the letter of credit is called Documentary letter of Credit. The Uniform and practices for Documentary credit published by International Chamber of Commerce (1993) Revision, publication no 500 defines Documentary Credit: Any arrangement, however named or described, where by bank (the issuing bank) acting at the request and on the instructions of a customer (the applicant) or its own behalf (SA, ICC Publishing, 1993).

1. Is to make a payment to or to the order of a third party (the beneficiary) or is to accept and pay bills of exchange drawn by the beneficiary.
2. Authorizes another bank to effect such payment.
3. Authorizes another bank to negotiate against stipulated documents provided that the terms and conditions are complied with.

Letter of Credit basically divided into two types:

- Revocable L\C: Revocable L\C is a credit which can be amended/ cancelled by issuing bank, without prior notice to the seller.
- Irrevocable L/C: Irrevocable L/C is a credit, which cannot be amended or cancelled with out the agreement of all parties.



Source: Self

Some other types of L\C s are:

1. Confirmed L\C.
2. Transferable L\C.
3. Confirmed L\C.
4. Revolving L\C.
5. Restricted L\C.
6. Red Clause L\C.
7. Green Clause L\C.
8. Back-to-Back L\C.

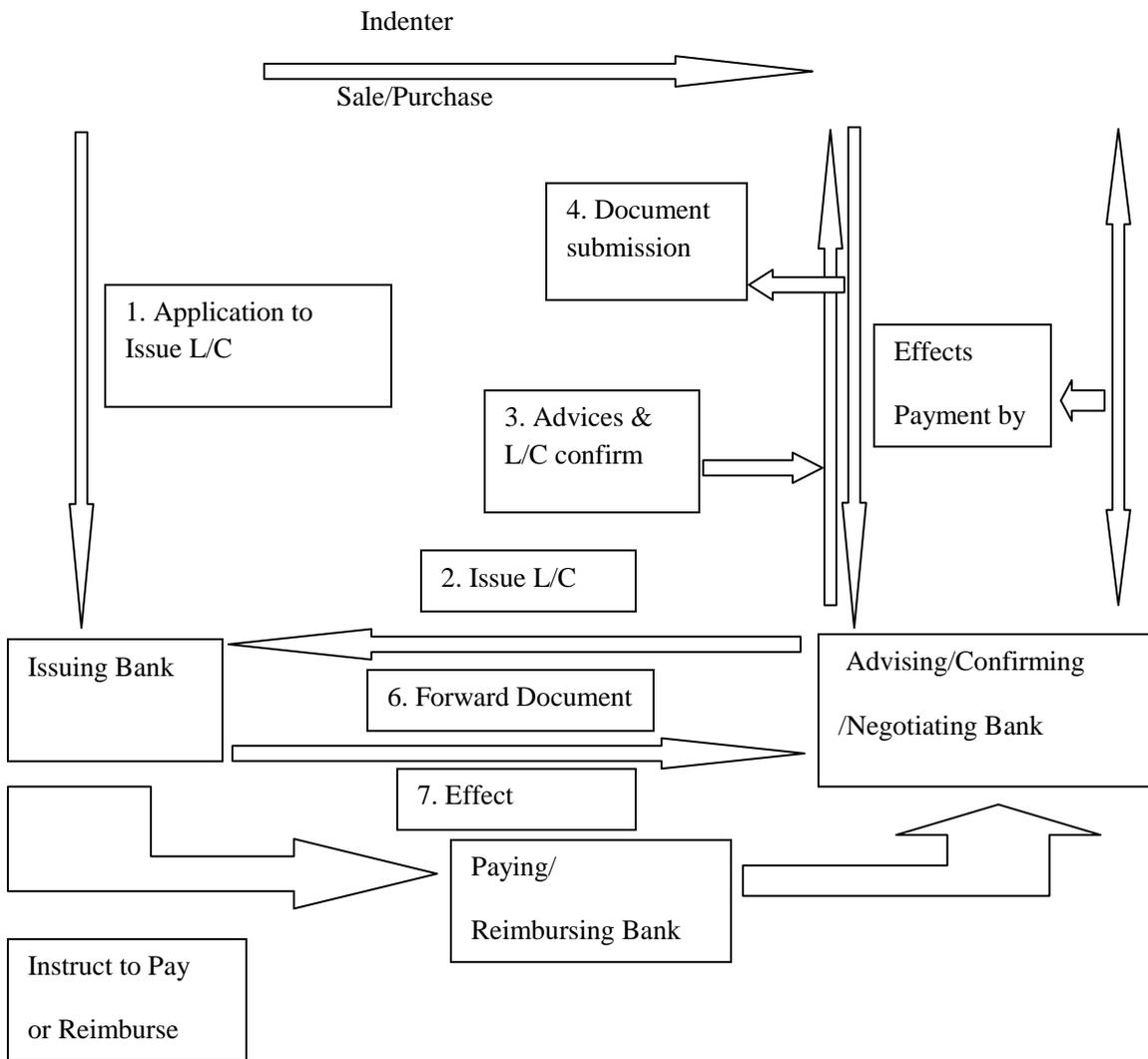


Chart: Operational Mechanism of Letter of Credit (Source: Self)

4.2 Export

Export means sending one country to another country for sale export brings the foreign currency for the country higher the export higher the reserve of the foreign currency. The Export section of Prime Bank engaged with various export related activities for encouraging the Exporter. The major function of this section is comprises with purchases, collection & negotiate the export bill, provide the exporter in financing and helps the exporter in different issues.

A person desire to export should make application to obtain ERC (Export Registration Certificate) from CCI&E then the person should step in to a bank along with ERC to obtain EXP from the Bank.

Year	Export (million taka)
2011	133,396
2010	106,943
2009	76,097
2008	68,550
2007	51,316

Table: Export from 2007 to 2011 (Source: Prime Bank Limited, 2011)

Export has been increasing from 2007 to 2011. The increasing trend of export is a positive indication for PBL regarding profitability.

4.2.1 Duties and responsibilities of exporter's bank

- Bank advises the L/C to the exporter. Here bank acts as an advising bank of the customer. Proper authentication of the L/C is a primary duty of an advising bank.
- After receipt a request from the exporter for issuance of EXP form-
 - Bank takes the original L/C or contract form from the exporter.
 - They checks all terms & conditions of the L/C or contract and the title of the goods must be checked carefully.
 - Bank ensures that the exporter has the ERC.

- Bank will also ensure that the credentials of the buyers or consignees abroad and in this regard bank may want to know the creditworthiness of the buyer through their foreign correspondents like greater care to be taken by the bank for ensuring the repatriate the proceeds.
- After the fulfillment of the above processing, the bank certifies the full set of EXP form but before certification EXP form will be filled up and signed by the exporter.
- Then bank receives the shipping documents from the exporter-
 - Bank examines the document carefully as per L/C.
 - If any discrepancy found, they inform the exporter for their rectification or disposal instructions,
 - Then bank sends the documents to the L/C issuing bank or paying bank as per instructions of the L/C or contract with the covering letter mentioning payment instructions properly.
 - Bank instruct the buyer's bank to deliver the document against payment or acceptance and it depends on the tenor of document drawn (sight or usance basis).
 - In the case of the document drawn on usance basis, bank request the L/C issuing bank or paying bank for the confirmation of their acceptance,
 - Some other common instructions to be mentioned on the forwarding schedule of the documents
 - Bank mentions the discrepancies on the covering letter if any containing in the document.
- Before sending the documents, bank endorses the Bill of Lading or airway bill, transport documents in favor of the L/C issuing or paying bank. Bank may endorse the BOL in favor of buyer if full proceeds against the said bill are received in advance. Bill of exchange also may be required in favor of the bank.
- Bank will take decision whether to negotiate the documents or send for collection basis.
 - Bank will send EXP's duplicate copy to the Bangladesh bank for their record. However before sending them, EXP must be filled up and signed by the banker.

- After sending the documents, bank waits to receive the payment as per L/C. Bank takes proper care and follow-up for repatriating the proceeds.
- After credit information bank realizes the proceeds and credit the same to the exporter's account and necessary charges or dues to be realized.
- Finally the bank reports all the export proceeds which are received during the month to Bangladesh bank under-
 - Foreign currency transaction reporting along with supporting papers and documents.
 - EXP's triplicate copy or EXP non-attached voucher is exp form is not available at the time of reporting by proceeds realized.
 - Advanced received voucher id export proceeds before issuance of exp form or export proceeds received in advance through Fund Telephonic Transfer.

4.2.2 Financial incentives given by PBL

Prime bank finances its clients through different credit facilities called lien of export L/C which an exporter can obtain against lien on irrevocable, confirmed and unrestricted export letter of credit in form of the following-

Export cash credit (hypothecation): Under this agreement, credit is sanctioned against hypothecation of raw materials of finished goods intended for export. As the bank has got no security in this case except charge documents, it normally insists on the exporter in furnishing collateral security. The letter of hypothecation creates charge merchandise in favor of the bank. But neither the ownership nor the possession is passed to it.

Export cash credit (pledge): Such credit facility is allowed against pledge of exportable goods or raw materials. In this case cash credit facility is extended against pledge of goods to be stored in the warehouse under bank's control by signing letter pledge documents. The exporters surrender the physical possession of failure of the exporter to honor his commitment; the bank can sell the pledge merchandise for recovery the advance.

Export cash credit against trust receipt: In this case, credit limit is sanctioned against trust receipt (TR). Here, unlike pledge, the exportable goods remain in custody of the exporter. This type of credit is granted when the exporter wants to utilize the credit for processing, packing and rendering the goods in exportable conditions. This is allowed only for first class exporters.

Export credit guarantee scheme (ECGS): Export credit insurance was seen primarily as a tool in the hands of the government for promoting export. This is to assist the exporters to get bank finance without any difficulty and to realize the proceeds of the export immediately after shipment. Objectives of the schemes are-

- To enable the exporters to obtain easily better loan facility from financial institutions.
- To cover the credit risk against losses resulting from other related risks.

Packing credit: Packing credit is a short –term advance granted by a bank to an exporter against valid export L/C contract for the purpose of the purchase of materials or finished goods or manufacturing, processing, packing, transporting up to warehouse of shipment etc, of exportable for export. The drawing is required to be adjusted once within 3 to 6 months.

Financing of export credit is made in two stages:

1. Pre-shipment finance: Pre-shipment credit as the name suggests is given to finance the activities of an exporter prior to the actual shipment of the goods for export. The purpose of such credit is to meet working capital needs starting from the point off purchasing of raw materials to final shipment of goods for export to foreign country. Before allowing such credit to the exporters the bank takes into consideration about the credit worthiness, export performance of the exporters, together with all other necessary information required for sanctioning the credit in accordance with the existing rules and regulations. Pre-shipment credit is given for the following purposes-

- Cash for local procurement and meeting related expenses
- Procuring, processing, packing and transporting of the goods for export
- Payment of insurance premium
- Inspections fees and freight charges etc.

2. Post shipment finance: This type of credit refers to the credit facilities extended to the exporters by the banks after shipment of the goods against export documents. Necessary for such credit arises as the exporter cannot afford to wait for a long time without paying manufacturers/suppliers. Before extending such credit, it is necessary on the part of banks to look into the financial soundness of exporters and buyers as well as other relevant documents in accordance with rules and regulations in force.

Banks in our country extend post shipment credit to the exporters through-

✓ Negotiation of documents under L/C

According to the article #02 (under UC 600, ICC pub, 2007 revision), “negotiation means the purchase by the nominated bank of drafts or documents under a complying presentation, by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to the nominated bank.” If the documents are in order, prime bank purchases the same on the basis of banker- customer relationship. This is known as foreign documentary bill of purchase (FDBP). In this case, exporter gets their export bill before realization of their bill.

✓ Advances against export bills surrendered for collection (FDBC)

If the bank is not satisfied with the documents submitted to prime bank gives the exporter reasonable time to remove the discrepancies or sends the documents to letter of credit opening bank of collection. This is known as foreign document bill of collection (FDBC). Negotiating bank sends the documents on the basis of collection for the following discrepancies:

- L/C expired
- Late shipment
- Late presentation
- L/C overdrawn
- Unit price differ between L/C and commercial invoice
- Consignee name and address differ between L/C and other documents
- Discrepancies in B/L

- Any other major discrepancies.

FDBP/FDBC signifies that the exporter will receive payment only when the issuing bank gives payment. Prime bank makes regular follow-up with the L/C issuing bank in case of any delay in getting payment.

4.2.3 Mode of payment for export Bills under L/C

The most common methods of payment under a L/C are:

Sight payment credit: In a Sight Payment Credit, the bank pays the stipulated sum immediately against the exporter's presentation of the documents.

Negotiation credit: In Negotiation Credit, the exporter has to present a Bill of Exchange payable to him in addition to other documents that he negotiates.

Deferred payment credit: In deferred Payment, the bank agrees to pay on a specified future date or event, after presentation of the export documents. Payment is given to the party @ D.A 60-90-180 as the case may be. But the Head Office paid @ T.T Clean rate. The difference between the two rates is the Exchange Trading for the branch.

Acceptance credit: In acceptance credit the exporter presents a Bill of Exchange Payable to him and drawn at the agreed tenor (That is on a specified future date or event) on the bank that is to accept it. The bank signs its acceptance on the bill and returns it to the exporter. The exporter can then represent it for payment on maturity. Alternatively he can discount it in order to obtain immediate payment.

Advising L/C: An export L/C is transmitted to the bank for advising and an advising letter is sent to the beneficiary.

Test Key Arrangement: Test Key Arrangement is a secret code maintained by the banks for the authentication for their telex messages.

4.2.4 Reporting to central bank

At the end of every month, the reporting regarding the following information is mandatory.

- Filling of E-2/P-2 schedule of S-1 category; which covers the entire month amount of import of goods, currency, country etc.
- Filling of E-3/P-3 schedule for all charges, commission with T/M form.
- Disposal of EXP form.
- Original EXP is forwarded to Bangladesh Bank with invoice & indent.
- Duplicate EXP is kept with the bank along with the Bill of Entry/Certified Invoice.
- Triplicate EXP is kept with the bank for Office Record.
- Quadruplicate is kept for submission to Bangladesh Bank in case of imports where documents are retired.

Traditional reporting system by PBL

The Prime Bank Ltd. used to employ outsourced software called “Oracle” for reporting their export related activities to both their head office and the central bank. This software is integrated with the internal functioning software of PBL. The covered area:

Exporter list: Whichever exporting party is to negotiate through the bank, it keeps the record of the list of all the exporters. Every exporter’s detail information such as full company name, address, ERC (Export Registration Certificate) number, Tax Identification Number (TIN) etc is also kept recorded

Export details: Here, a specific exporting activity details are given entry. It includes EXP serial number with date, detail product list with specific commodity code and description with the amount and unit price, the destination country and company etc.

EXP setup: The export procedure for the bank then starts with the setup and issuance of EXP. It includes the exporter and export details, the shipment date, negotiation expiry date, ports of export and destination, invoice details, certificate of origin detail, packaging list detail, transport document details, related LC/contract number and bank reference numbers, related foreign LC/contract details in case of Back-to-Back LC etc.

EXP reports: The original EXP information is forwarded to the Bangladesh Bank server for the first reporting. Then after the shipment, the date of shipment, date of negotiation, and original

export value is updated and reported as the duplicate EXP after the concerned bank acknowledgement of the export. After the payment, the realized value of the EXP is updated and reported with the triplicate EXP for export proceeds realization. When the whole export procedure is completed, a quadruplicate EXP report is submitted with all the updated information to Bangladesh Bank.

Online reporting system through Bangladesh Bank

The new online reporting system is through Bangladesh Bank web server. Every bank and its AD branches have their own login authorization to use this web based software of Bangladesh Bank for reporting. The area that this new system covers is the following:

Issue Exp: Here an online form is to be filled with the EXP information details. It includes EXP serial number and year, exporter details, product description, ports of loading and discharge, last shipment and negotiation date, necessary documents details, related LC and bank reference numbers, foreign LC/contract details in case of Back-to-Back etc. The issued EXP information can be edited in Update EXP and EXP correction sections. Foreign LC/contract details can be edited/amend in the Foreign LC information Edit/Amend section.

Export acknowledgment by bank: This is the duplicate reporting information details. The form is filled up with the updated information after the bank acknowledges the export being made and it is submitted as the duplicate report.

Export proceeds realization: After the bank receives the payment for export from the importer's bank, the information is updated here along with the realized value. This is submitted as the triplicate report.

Advance receipt voucher: The advance of payment receipt voucher information is updated here in ARV (Advanced Receipt Voucher) section.

Exporter's information entry: The detail information of the exporters is given, which includes exporter's name and address, ERC and TIN number etc. For any update or edit of the given information, Exporter's Information Correction section is given.

Search: The issued EXP and ARV can be searched for finding the detail information regarding an EXP or ARV.

EXP cancellation: If an EXP gets cancelled, it needs to be reported as cancelled in this section. There are options to cancel the EXP before and after the duplicate report submission.

EXP correction: The EXP can be corrected, edited or updated in this section before both the duplicate and triplicate report submission.

4.3 Import

Bangladesh is one of the developing countries in the world. So like the other developing countries Bangladesh imports more than it exports. Imports of goods into the Bangladesh is regulated by the Ministry of Commerce in the terms of the Import- Export Act, 1950, various Import policy orders and also public notices issued from time to time by the office of the Chief Controller of Import and Export (CCI&E).

Imports are the foreign goods and services purchased by the customer, firms and government in Bangladesh. The importers are asked by their exporters to open Letter of Credits (LC), so that their payment against goods is insured. The importer take help of a bank to import their goods through LC.

The bank defines import as to bring in, from abroad, something kind of goods and services. It includes the following services-

1. Letter of credit opening
2. Presentation/retirement of import document

The import mechanism first involves the issuing of a L/C as an instrument by a bank on behalf of one of its customers, authorizing an individual or a firm to draw draft on the bank or on one of its correspondents for its account under certain conditions which is predetermined in the credit. Secondly the bank's import mechanism involves the retirement of import mechanism on receiving the payment or under certain conditions against the security of payments made by he importer in documents required an advance payment date.

Year	Import (million taka)
2011	174,384
2010	147,704
2009	96,452
2008	91,424
2007	70,617

Table 2: Import from 2007 to 2011 (Source: Prime Bank Limited, 2011)

4.3.1 Import operation

Import procedure is a result of the negotiation between two parties. Once the importer has accepted the supplier's offer, he agrees to open a letter of credit. Thus the import procedure of the bank starts with the opening of the credit.

Terms of credit: First of all the concerned banker asks the importer to present and show the terms of the credit that the importer wishes to issue. The terms of the letter of credit are based on the contract between the importer and the exporter and the import license or the authorization permits for import under free list as the case may be, issued in the name of concerned import. The terms of the credit specify importantly, amount of the credit, name and address of the beneficiary and the opener, particulars of goods, quantity and price basis, tenor of bill of exchange, period and mode of shipment, whether part shipment allowed, port of shipment and of destination, nature of credit, expiry date, names and number of sets of shipping and other documents.

Letter of credit application: To open the credit, the importer must fill up and sign a stamped letter of credit application to record the full details of the import, which serves as an agreement between the bank and the opener.

Presentation of the application for opening of the letter of credit: When the importer requests the bank for opening of a L/C, by agreeing to the request, the bank makes a promise of payment to the supplier by issuing it. But the importer must make out an application for this purpose. The

application must be written in a plain paper of letter head pad and it should be submitted being attached with the following certificates and papers.

- ✓ Current deposit account no.
- ✓ Partnership deed and solvency certificate (if partnership firm)
- ✓ Article of association (if private limited company)
- ✓ Memorandum of association (if private limited company)
- ✓ Certificate of commencement of business (if public limited company)
- ✓ Photocopy of trade license, VAT registration number, TIN number
- ✓ Import registration certificate from CCI&E

4.3.2 Duties and responsibilities of importer's bank

- Total supervision of import department (Cash, Back to Back L\C).
- Foreign Correspondence related to above.
- Payment of Back-to-Back L\C and endorsement of Export L\C against payment.
- Follow up Back-to-Back L/C overdue bills.
- Correspondence regarding Back-to-Back L/C and Cash L/C.
- Maintenance of due rate diary.
- Maintain & record related L/C Documents.
- Audit Compliance.
- Matching of Bill of Entry with IMP, Follow-up of pending Bill of Entry.
- L/C opening and Amendment (Back to Back L/C).
- Endorsement of Export L/C when opening.
- Balancing of L/C contingent Liability (Back to Back L/C).
- Follow-up of Sub Judicial Bills and maintaining liaison with Head Office and Foreign Correspondent.

- All correspondence related to Back-to-Back L/C with Head Office and Foreign Correspondent.
- Supervision of checking Lodgment and Retirement of import documents.
- Issuance of Certificate and attestation of papers/documents of garments clients as required by BGME, EPB & regulatory bodies.
- Checking, Lodgment, retirement of import Documents under Back-to-Back L/C.
- Issuance of Shipping Guarantee (Back to Back L/C).
- Fill up of IMP form (Cash L/C).
- Inform negotiating Bank about maturity date of Back to back L/C.
- Quarterly statement of Bonded Ware House.
- Balancing Accepted liability.
- Statement of Outstanding Accepted Import Bills under Back-to-Back L/C.
- L/C opening and Amendment of Cash L/C and Inland L/C.
- Maintenance and Record of Pass book and IRC.
- Maintenance and Record of related L/C document.
- Credit Report.
- Statement of IRC Renewal fees to CCI&E.
- Preparation of monthly Foreign Exchange Business position.
- L/C lodgment (cash).
- Checking of Cash L/C Documents.
- L/C Retirement.
- L/CA Issue.
- BL/C Statement.
- Differed Payment (Cash).

- Follow-up of outstanding BL/C.
- Correspondent (Cash L/C).
- Proof sheet of L/C Margin and Contingent Liability.
- Issuance of Shipping Guarantee (Cash), IMP form fills up (Cash).

4.3.3 Import procedure

Import procedure involves many steps performed by several institutions and parties. The entire procedure that is involved for facilitating import is given step by step in the following lines:

- Buyers offer issuing Bank to Open Letter of Credit (L/C).
- Opening Bank sends Letter of Credit (L/C) to advising Bank.
- Advising Bank transferred Letter of Credit (L/C) to the suppliers.
- Suppliers send shipments documents to the Negotiating Bank and Claims on the Issuing Bank.
- Negotiating bank sends the shipment documents to the advising Bank.
- Opening Bank transfers the shipment to be buyer/importer.
- Letter of Credit (L/C) opening Bank purchases Foreign Currency from Bangladesh Bank.
- Bangladesh Bank credits to the Central Bank account of the Supplier's country.
- Central Bank then credits the Reimbursement Bank A/C.
- Opening Bank has an A/C in Reimbursement Bank. Opening Bank requests to pay the required amount to Negotiating Bank from their A/C.
- Intender acts as a Cosigner/Media between Importers & Exporters. Intender must have a certificate of Bangladesh Bank.
- After the Negotiating Bank receives payment, it forwards the Letter of Credit (L/C) to the Beneficiary (Exporter) or its Advising Bank.

Then the Beneficiary (Exporter) receives the Letter of Credit (L/C) from Advising Bank. After proper shipments of goods as per terms and conditions of the Letter of Credit (L/C), required

documents like commercial invoice, bill of lading and bill of exchange are presented to the Negotiating Bank by the beneficiary for negotiation. If the documents are in order as per Letter of Credit (L/C) then the Negotiating Bank negotiates the drafts making payment to the beneficiary. Then the Negotiating Bank forwards the drafts along with the shipping documents to the Letter of Credit (L/C) Opening Bank. The Negotiating Bank reimburses the amount paid against the draft from the Reimbursement Bank.

The description of some important terms among the above import procedure steps is given in the following:

L/C opening: There are few steps involved in L/C opening process. These are:

- At first the L/C opener is required to fill up the prescribed application form for requesting to open an L/C for the favor of L/C opener.
- After receiving the application form with the other required documents submitted by the opener they are to be thoroughly scrutinized. The points, which shall be scrutinized are described bellow-
 - ✓ The amount and the description of the goods in the application should be reverent with the indent or Performa Invoice or import contract.
 - ✓ The amount is covered by the insurance amount.
 - ✓ The items are not banned with the country's regulation.
 - ✓ The indent produced has the Import Registration Certificate Number and the Indenter's Registration Number. The Indent has indenting Agent's Signature and Importer Signature.
 - ✓ Whether transshipment and partial shipment is allowed.

If all documents along with the applicants are in order, the financial position and credit worthiness of the importer, market demand of the goods are assessed, margin of L/C also determined. The rate of margin depends on the financial condition of the banker, importers status of relation, importers previous performance, nature of goods etc. This margin is to be retained from the importers either in cash or debating the importer's current account wit the bank. The importer is also required to pay the other concerning charges like FCC (Foreign Corresponding Charges), Telex Charge, Handling Charges and Commission etc.

After all these steps, L/C is opened and forwarded to the advising bank.

Scrutinizing of L/C application: The Prime Bank Ltd. official scrutinizes the application in the following manner-

- The terms and conditions of the L/C must be compiled with UCPDC 500 and Exchange Control & Import Trade Regulation.
- Eligibility of the goods to be imported.
- The L/C must not be opened in favor of the importer.
- Radioactivity report incase of the food item.
- Survey Report or Certificate in case of old machinery.
- Carrying is not of Israel or of Serbia-Montenegro.
- Certificate declaring that the item is in operation not more than Five years.
- Certificate of Origin
- Pro forma invoice with detail product description

L/C advising: The advising or notifying bank advises the Letter of Credit (L/C) to the exporter. It is the bank situated in the exporting country and it may be a Branch of the opening Bank. It becomes customary to advise a credit to the Beneficiary through an advising bank or negotiating bank.

Adding confirmation: Confirming Bank is a Bank, which adds its confirmation to the credit, and it is done at the request of the Issuing Bank. The confirming Bank may or may not be the Advising Bank. A confirmation adding letter includes information such as L/C no. and amount, items to be imported etc.

L/C transmitting: Letter of Credit (L/C) can be transmitted to the Advising Bank through three methods- Telex, courier or SWIFT. L/C is sent to advising bank in three copies. The Advising Bank authenticates the original copy of L/C and delivers it to the exporter. The Duplicate is kept with the advising bank.

Amendment: Parties involved in a Letter of Credit (L/C), particularly the seller and the buyer cannot always satisfy the terms and conditions in full due to some genuine reasons. In such

situation, the credit should be amended. Prime Bank Ltd. transmits the amendment by tested Telex to the Advising Bank. In case of Revocable Credit it can be amended or cancelled by the Issuing Bank at any moment and without prior notice to the beneficiary. But in case of Irrevocable Letter of Credit (L/C), it can be neither amended nor cancelled with the consent of the Issuing Bank, the Confirming Bank (if any) and the beneficiary.

Examination of documents: Prime Bank Ltd. officials check whether these documents have any Discrepancy or not. Here Discrepancy means the dissimilarity of any of the documents with the terms and conditions of the Letter of Credit (L/C). If any discrepancy is found, the LC may be edited for amendment but the importer has to pay the amendment charge or discrepancy fee.

Lodgment: The Opening Bank receives Import bills, which have been negotiated. After receiving the documents they are to be thoroughly scrutinized before lodgment.

Scrutinizing of documents: First, it must be ensured that full set of documents as mentioned in the L/C have been received. There are five documents for scrutinizing, which are detailed in the following:

1. Letter of credit

- Each and every clause in the L/C must be complied with the documents submitted meticulously.
- The documents are not stale
- The documents are negotiated within letter of credit validity
- The documents do not exceed the L/C value

2. Drafts

- Draft is not dated earlier than the date of B/L & L/C date.
- Amount in words & figure is correctly mentioned and is identical with the amount mentioned in the invoices
- It must be made out in the name of the beneficiary's bank or to be endorsed to the order of the bank

- Draft is signed by the beneficiary or an authorized person on their behalf and their signature are verified by the bank

- It must be correctly drawn on the party as indicated in the L/C

3. Invoices

- The invoices are addressed to the importer
- Invoices are dated not later than the B/L date and not earlier than the issuing date
- Description of goods given in the invoices is exactly in accordance with the L/C
- The price, quality, quantity etc must be as per L/C and correctness of calculation should be examined

- The invoice must be in the language of L/C
- Invoices are signed by the beneficiaries themselves or by an authorized person on their behalf

- The number of B/L and name of the vessel has to be correctly mentioned.

- The invoice value must not be less than the value declared in EXP form.

- Invoice must bear HSCODE, P.O, Style number etc

4. Insurance policy

- Description of the goods given in the insurance policy is in accordance with the terms of L/C

- Name of the carrying vessel has been correctly mentioned

- Insurance policy is dated and signed by an authorized person.

- The merchandise is insured for the actual invoice value unless otherwise specified the L/C

- Insurance policy is in negotiable form and is properly endorsed in bank

- The date appearing in the insurance policy is not later than the date appearing upon the bills of lading

- Insurance policy is drawn in the currency of the credit or as required in the relative L/C. The name of the claim paying agent is given in the insurance policy.

- All the risks have been covered as required in the relative L/C

- It covers transshipment is indicated in the bill of lading.

5. Certificate of origin

It is issued by recognized authority according to the L/C terms and conditions. It certifies the country of origin of goods. Generally it is called for by importers in certain countries to comply with their customs requirements and to enable rate of duty to be determined, especially type of origin and G.S.P form is also issued.

Retirement of shipping documents: The importer receives the intimation and gives necessary instruction to the bank for the retirement of the disposal of the shipping to clear the imported bills or for the disposal of the shipping document to clear the imported goods from the Custom Authority.

The following steps are involved in retirement

- Calculation of interest (if any) and other charges
- Passing voucher.
- Entry in the register.
- Endorsement in the transport document and in the Bill of Exchange

4.3.4 Reporting to central bank

At the end of every month, the reporting regarding the following information is mandatory.

- Filling of E-2/P-2 schedule of S-1 category; which covers the entire month amount of import of goods, currency, country etc.
- Filling of E-3/P-3 schedule for all charges, commission with T/M form.
- Original Letter of Credit Authorization Form (LCAF) is forwarded to Bangladesh Bank with invoice & indent.
- Duplicate LCAF is kept with the bank along with the Bill of Entry/Certified Invoice.

Traditional reporting system by PBL

Again, Prime Bank Ltd. used to report their import activities through “Oracle”. Since it is integrated with the internal software of PBL used for LC issuance and proceeds, most of the information is retrieved automatically. The areas that are covered:

LC opening: The information details of an issued LC are given here. It includes LC serial number and related LCAF number, issue date, bank reference number, importer details with name, address and IRC (Import Registration Certificate) number, indent details with product description (commodity code, amount, unit price, origin), import details with last date of shipment and negotiation etc.

LC drawings: After the payment is made by the bank, the IMP details are given by filling up the information entry form in this section. The entries to be given are LC number, IMP serial, IMP amount and date, invoice number and amount, transport document number and date with ports of export and entry, invoice details with imported product code, amount and unit price etc. This form is forwarded to Bangladesh Bank server as the IMP report.

Online reporting system through Bangladesh Bank

Again, like the EXP reporting, import activities are now reported through Bangladesh Bank web server through authenticated login information. The areas that the online IMP reporting cover:

LCAF information: The information from the Letter of Credit Authorization Form is given entry here. It includes LCAF number, date of opening, importer details with name, address and IRC number, LC value with currency, product description with commodity code and amount etc. It gives a unique LCAF id number for reference of LCAF and for further editing of this section.

LC/Contract information entry: The details of issued Letter of Credit are given here. It covers LCAF number and issue date, bank reference number, LC type, exporting country, sales term, last date of shipment and negotiation, indent details with product origin, code, amount and unit price etc. Related foreign LC/contract information is given in case of Back-to-Back LC.

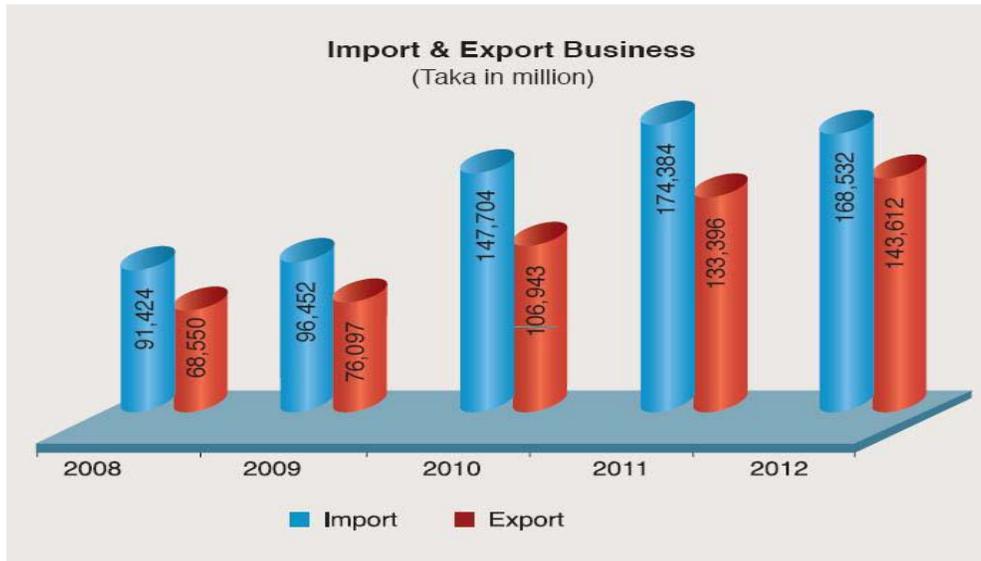
IMP information entry: This is filled after the bank pays for the imported goods to the exporter’s bank. The covered information are LC number, IMP serial, IMP amount and date,

invoice number and amount with date, ports of export and entry, import type, transport document number and date with vessel name, invoice details with product code, amount and unit price etc.

Bill of entry information: After the goods are imported and get customs clearance, the bill of entry information is update here.

Local LC: The local LC opening, acceptance and payment information are given here.

The comparative amounts of import and export business are given in the below graph.



Source: Prime Bank Limited Annual Report, 2012

4.4 Remittance

Foreign remittance means purchase and sale of freely convertible foreign currencies as admissible under exchange control regulations of the country. Purchase of foreign currencies constitutes inward foreign remittance and sale of foreign currencies constitutes outward foreign remittance.

Year	Remittance (million taka)
2011	36,890
2010	28,433
2009	26,447
2008	22,669
2007	15,905

Table: Remittance from 2007 to 2011 (Source: Prime Bank Limited, 2011)

4.4.1 Inward remittance

Inward Remittance refers to the extent where by bank makes payment to the client against foreign demand draft. They will make payment to the client by verifying the, test key number, and signature of the authorized officer. The bank makes payment immediately if the amount is less than TK-100,000.00. If the amount exceeds TK-100,000.00, it must wait to get the credit advice from the issuing bank.

Purpose of inward remittance:

- Family maintenance.
- Indenting commission.
- Recruiting Agents commission.
- Donation.
- Gift.

Modes of foreign inward remittance:

There are several modes of foreign inward remittance. These specific modes are described below:

- T.T (Telegraphic Transfer)

Cable or telex instructions of payment are called as Telegraphic Transfer, where foreign banks issue a T.T in favor of someone in Bangladesh. It credits the amount, received from the remitter to the NOSTRO A/C of its correspondent bank, on receipt of the T.T in foreign currency or in equivalent Bangladesh Taka to the beneficiary.

- M.T (Mail Transfer)

M.T is an instrument issued by a remitting bank to the paying bank advising in writing to make payment of certain amount to specific beneficiary.

- D.D (Demand Draft)

A demand draft is a negotiable instrument issued by a bank drawn on other bank with the instruction to pay a certain amount to beneficiary on demand. Prime Bank Limited charges TK. 400 per demand draft.

- T.C (Travelers Cheque)

It is an instrument issued by the Banks/Company's payable to the purchaser on presentation.

- P.O (Pay Order)

A payable order is a written under issued by a branch of bank, to pay a certain sum of money to specific person or a bank. It may be said as to be a banker's cheque as it issued by a bank and payable by itself.

4.4.2 Outward remittance

Foreign currency being made out abroad may be termed as foreign outward remittance. That means the foreign currency that goes out abroad is called foreign outward remittance.

Purpose of outward remittance:

- Household remittance.
- Advance payment.
- Education purpose.
- Exporting traveling.

4.4.3 Findings from secondary data

The secondary data for the research part was collected from the Bangladesh Bank website where the new online reporting system is located. After observing the whole procedures of reporting of export and import data, the following findings are gathered.

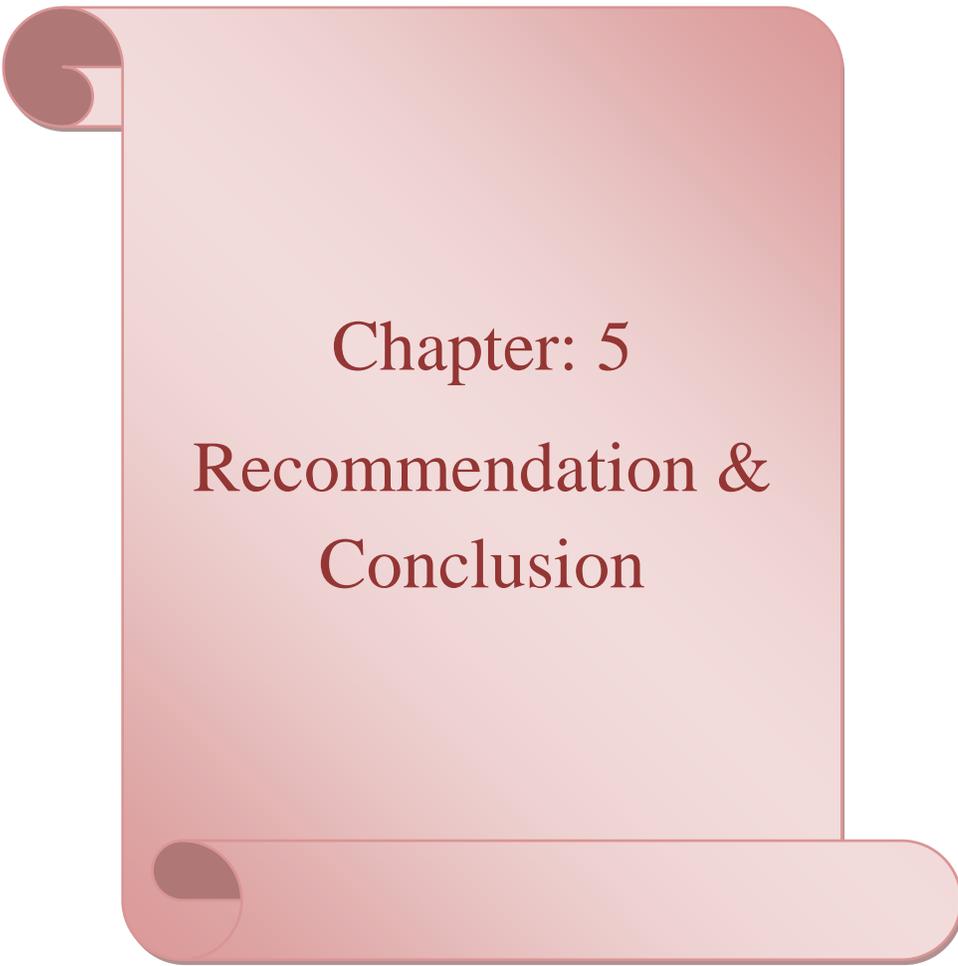
The new online reporting system is easier to use because of its interactive nature, well organized procedure, and convenient availability. This information is consistent with the previous finding from the primary data where most of the users almost slightly agreed that the new system is more convenient to use.

Further, it was found that the online reporting procedure is quite lengthy and also there are some repetitive steps. Moreover, the online system asks for a wide range of data that are found in various documents. All of these facts lead to the conclusion that the online reporting system consumes more time and so the users dislike it. This is again consistent with the primary data finding that the time saving is the most significant factor but almost all the users have disagreed that the online system saves more time.

Again, it is observed that one does not need higher knowledge on technology to use the online system. The new system does not seem to use any significant level of technology. It is also consistent with the previous finding that the use of technology does not influence the new system very much.

Finally, it was found through observation that one does not require frequent training to use the online system. This information is consistent with the previous finding that the necessity of training is not an important factor for the new system. However, on the other hand, this same information raises conflict with the previous finding that most of the users almost slightly agree that training is necessary for better reporting. This inconsistency might be due to the fact that the users cannot reach system support and exchange feedbacks when in trouble so they feel the necessity of training programs to solve their problems. However, again previous finding says that the increasing necessity of the training program decreases the acceptability of the new system, which is consistent with the previous inconsistency.

The overall findings are very consistent between the findings from the secondary data and the previous findings from the primary data.



Chapter: 5
Recommendation &
Conclusion

5.0 Recommendation

5.1 Recommendations

On the basis of the findings from the observation and research, there are some recommendations that can be used for fruitful purposes.

For Prime Bank Limited

- ✓ The Bank is still using lots of registers to record foreign exchange transactions. This is really time consuming and has possibility of occurring errors. Moreover, space is limited for hard paper documents. Therefore, the bank should come under complete computerization as soon as possible.
- ✓ Must withdraw the SMS banking charges or at least give the customers preference about using this service to avoid customer dissatisfaction.
- ✓ Priority suit should be setup in the branches to provide quick and better service to valued and important customers
- ✓ Bank must introduce new services time to time as competition is increasing
- ✓ The remuneration package could be increased to further motivate the employees.
- ✓ Should take necessary steps to adapt to the new online reporting system.
- ✓ Prime Bank should increase their number of employees to reduce stress and bring momentum in service delivery.

For Bangladesh Bank

- ✓ Bangladesh Bank should take user feedback into account while developing the online monitoring system.
- ✓ Must find a way to make online reporting procedure better, shorter and linked in order to lessen time consumption.

✓ Should set up a quick system support and feedback program to avoid the necessity of frequent training sessions.

5.2 Conclusion

Foreign Exchange Division is crucial for any bank. A bank's performance largely depends on this division. Foreign Exchange activities have an equal significance to economic growth and development of the country. So through this division the banks are contributing to the interest of the country.

Working three months in Prime Bank Ltd. Mohakhali Branch, the overall procedure of Foreign Exchange activities has been observed. As being the top class bank of Bangladesh (according to the CAMEL rating), it has a good reputation and faith to exporters-importers of Bangladesh. Moreover, Prime Bank Ltd. has got a fleet of talented, experienced and efficient officials working in the Foreign Exchange Division. They are quite efficient at handling large scale of export-import operation and maintaining a good relation with the client, as well as reporting the trade finance data to Bangladesh Bank, within their tight schedule.

The findings from the research imply to conclude that the employees of the Prime Bank Ltd., who report the trade finance data to the central bank, have moderately rejected to recognize the new online reporting system, introduced by Bangladesh Bank, as a good one. Although they have accepted the fact that the new system is more convenient to a slight degree, they are all quite dissatisfied with the amount of time it consumes to use the system. However, the online system is on its upgrading phase. After each upgrade, training programs should be conducted to help the users learn about the changes and also to help the developers of the system take feedback for further upgrading. The commercial banks may also increase their manpower in the foreign exchange department to take on the increased work pressure mounted over the introduction of the new system.

Further research: Since the selected factors in the conducted research only cover 65% of the influencing factors, of which only two affect the system significantly, there is a scope of further research to find out some other significant factors that could help both the parties to improve the

new online system further. Besides, there should be more research on the issue considering the users from other commercial banks as well.

REFERENCES

- Bangladesh Bank, Central Bank of Bangladesh. (2012). *Establishment 2013*. Retrieved from <http://www.bangladesh-bank.org/aboutus/index.php>
- Bangladesh Bank, Central Bank of Bangladesh. (2012). *Online Foreign Exchange Transaction Monitoring System 2013*. Retrieved from <http://www.bangladesh-bank.org/eservices.php>
- Bangladesh Bank, Central Bank of Bangladesh. (2012). Regulations and guidelines. *Foreign Exchange guideline vol 1*. Retrieved from <http://www.bangladesh-bank.org/openpdf.php>
- International Trade Administration. (2007). *Trade Finance Guide: A Quick Reference for U.S. Exporters*. Washington, USA: U.S. Department of Commerce. Retrieved from http://trade.gov/media/publications/pdf/trade_finance_guide2007.pdf
- Investopedia. (2013). *Foreign Exchange Definition*. Retrieved from <http://www.investopedia.com/terms/f/foreign-exchange.asp>
- Investopedia. (2013). *Trade Finance Definition*. Retrieved from <http://www.investopedia.com/terms/t/tradefinance.asp>
- Prime Bank Limited, a bank with a difference. (2011). *About Prime Bank 2013*. Retrieved from

<https://www.primebank.com.bd/index.php/home/about>

- Prime Bank Ltd. (2012). *Annual Report 2011*. Dhaka, Bangladesh: Prime Bank Limited
- Prime Bank Ltd. (2013). *Annual Report 2012*. Dhaka, Bangladesh: Prime Bank Limited
- SA, ICC Publishing. (1993). *Uniform Customs and Practice for Documentary Credits. Documentray Credits*. UK: 2nd edition, Butterworths. Retrieved from <http://freepdfdb.com/doc/5-2865807.html>
- Sethi, TT. (2004). *Money Baking and International Trade*. New Delhi: S. Chand & Company Ltd.
- The Foreign Exchange Committee. (2004). *Guidelines for Foreign Exchange Trading Activities*. New York: The Foreign Exchange Committee. Retrieved from <http://www.newyorkfed.org/fxc/2004/fxc040713b.pdf>
- Trade Finance. (2013). *What is trade finance?* Retrieved from <http://www.tradefinancemagazine.com/AboutUs/Stub/WhatIsTradeFinance.html>
- Wikipedia, the free encyclopedia. (2013). *Trade finance 2013*. Retrieved from http://en.wikipedia.org/wiki/Trade_finance