

INTERNSHIP REPORT

Selected Topics:

“LC Procedures & Foreign Remittance Operations of
Mercantile Bank Ltd.”



Mercantile Bank Ltd.

LC Procedures & Foreign Remittance Operations of Mercantile Bank Ltd

Submitted To

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Date of Submission: 26th January, 2015

LETTER OF TRANSMITTAL

26 January, 2014

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Dear Madam,

Here I present my Internship report titled “L/C Procedures and Foreign Remittance Operations of Mercantile Bank Ltd” with due gratitude and appreciation. As per partial fulfillment of the requirements for the MBA Degree, I have completed the internship from Mercantile Bank Limited, Gulshan Branch, Dhaka. The internship program has given me the opportunity to learn about different aspects of this well reputed organization. Before facing the corporate world, I have gathered general idea about the organization culture and activities. However, I have gathered all the facts that I could within this short period and have tried my level best to exert all the things as much presentable as possible.

Yours faithfully,

Kaushik Ghosh

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Acknowledgements

At the beginning, I would like to express my sincere gratitude to Almighty, the most merciful and beneficial for empowering me to prepare the report within the scheduled time. I also want to thank especially to my internship supervisor Ashpia Habib, Lecturer, BBS, BRAC University for her inspiring guidelines, valuable suggestion, constructive criticism and constant help throughout the work and in preparation of this report.

I also express my warm gratitude and cordial thanks to the management and officials of Mercantile Bank Limited, Gulshan Branch who have given me the opportunity to work with them and helped a lot by providing the information and enabling me to prepare this report. I have received their generous help and support. I would like to take the opportunity to express my wholehearted gratitude to my fellow friends, near and dear ones who offered encouragement, information, inspiration and assistance during the course of constructing this report.

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Executive Summary

This report is all about the operations of Mercantile Bank Ltd. and its main concentration is all about the Foreign Dealings and their concentrated areas. One of the largest businesses carried out by the mercantile bank is foreign trading. Main transactions with overseas countries in respects of import; export and foreign remittance come under the preview of foreign exchange department of Mercantile Bank Ltd. Mercantile bank always play a vital role to bridge between the buyer and seller. The first part of the report contains origin, objective, methodology, scope, limitations of preparing the report. Secondly, it includes a general description about mercantile bank limited to get a clear view about the bank. It contains overview, vision, mission, structure, organogram, services, etc of mercantile bank limited. Thirdly, it describes the job responsibilities that I had performed. Fourthly, this part explains three main functions of Foreign Exchange department in a detailed way. It contains Export L/C and its procedures, Import L/C and Its procedures and lastly the remittance operation of Mercantile Bank. At the end of this report I point out some of the findings and recommendations were given to evaluate the position of the bank and how it can perform better in the competition.

CHAPTER 1:
INTRODUCTION

1.1 Background of study

All over the world the dimension of Banking has been changing rapidly due to deregulation, technological innovation and globalization. Banking in Bangladesh has to keep pace with the global change. Now Banks must compete in the market place both with local institution as well as foreign ones. To survive in such a competitive banking world, two important requirements are –

- Development of appropriate financial infrastructure by the Central bank and
- Development of “Professionalism” in the sense of developing an appropriate manpower structure and its expertise and experience.

To introduce skilled Banker, only theoretical knowledge in the field of banking studies is not sufficient. An academic course of the study has a great value when it has practical application in real life situation. So, I needed proper application to get some benefit from my theoretical knowledge to make it more tactful, when I engaged myself in my practical life situation. Such all application is made possible through Internship.

1.2 Objective of the study

To complete the Internship as per requirement of MBA program of BRAC University the following objectives need to be considered-

- To present an overview of foreign exchange division of MBL.
- To appraise performance of foreign exchange division of MBL.
- To appraise foreign exchange activities of MBL.
- To know about what kinds of risk the bank is facing in the foreign exchange transaction
- To develop practical knowledge about foreign exchange.
- To have an overall concept about foreign exchange activities relating to import, export, outward and inward remittances, buying and selling of foreign commission etc. come under the purview of foreign exchange business.

- To identify problems of foreign exchange division of MBL To learn about the import and export dealing of business organization.

1.3 Scope of the Study:

MBL is one of the leading banks in Bangladesh. The report covers the background, functions and mostly the foreign exchange system of the bank. The scope of the study is just to acquaint with the foreign exchange scenario of MBL.

1.4 Methodology of the Study:

The study requires a systematic procedure from selection of the topic to final report preparation. To perform the study the data sources are to be identified and collected, they are to be classified, analyzed, interpreted and presented in a systematic manner and key points are to be found out. The overall process of methodology is given below:

A. Selection of the topic: The topic of the study was suggested by my supervisor. Before assigning the topic it was discussed with me so that a well-organized internship report can be prepared.

B. Identifying data sources: Essential data sources both primary and secondary are identified which will be needed to complete and work out the study. To meet up the need of data primary sources are used and study also requires interviewing the official and staffs were necessary. The report also required secondary data. This report is mainly prepared by the secondary sources of information and some few primary sources of information like –

Primary data

- Discussion with officials of The Mercantile Bank Limited
- Face to face conversation with the clients
- Expert's opinions and comments
- Direct involvement in the foreign exchange activities in MBL
- Direct Observation
- Questioning the concerned persons

Secondary data

- Relevant books Newspaper, Journals etc.
- Annual report of MBL
- Periodicals published by Bangladesh Bank

- Office circular and other published papers, documents and reports
- Various brochures
- Various type of statement
- Various register books
- Various printed form

1.5 Limitations of the Study

The report is written mainly on the basis of face to face conversation with the officials and little practical experience in the bank. So, no perfect study is conducted to measure the viability of the report. The following are some other limitations –

- Limitation of time was one of the most important factors that shortened the present study. Due to time constraints, many aspects could not be discussed in the present study.
- Confidentiality of data was another important barrier that was faced during the conduct of this study. Every organization has their own secrecy that cannot be revealed in public.
- Rush hours and business was another reason that acts as an obstacle while gathering data.
- As, I had more dependence on the primary sources, so there might be some level of inaccuracy with those collected information.
- Insufficient books, publications, Facts and figures narrowed the scope of accurate analysis.
- MBL does not have rich and wealthy collection of various types of Banking related Books and Journals.
- Confidential information regarding past profit or product cost, financial information was not accurately obtained. Alike all other banking institutions, MBL is also very conservative and strict in providing those information. In those cases, I have relied upon some assumptions, which in result have created certain level of inaccuracy. Still, I had tried my best in obtaining that sensitive information, as much as possible.

CHAPTER-2
**OVERVIEW OF
MERCANTILE BANK LTD**

2.1 Overview of the Bank

Mercantile Bank Limited was incorporated in Bangladesh as a Public Limited Company with limited liability under the Bank Companies Act, 1991 on May 20, 1999 and commenced commercial operation on June 02, 1999. The Bank went for public issue of shares on in 2003 and its shares are listed with Dhaka Stock Exchange and Chittagong Stock Exchange. The Bank has 91 branches spread all over the country. MBL is a highly capitalized new generation Bank with an Authorized Capital and paid-up Capital of Tk. 8000.00 million and Tk. 4968.90 million respectively. With assets of TK. 116,655,283,665 and more than 1814 employees, the bank has diversified activities in retail banking, corporate banking and international trade. MBL undertakes all types of banking transactions to support the development of trade and commerce in the country. MBL's services are also available for the entrepreneurs to set up new ventures and industrial units. The bank gives special emphasis on Export, Import, Trade Finance, SME Finance, Retail Credit and Finance to women Entrepreneurs. To provide clientele services in respect of International Trade it has established wide correspondent banking relationship with local and foreign banks covering major trade and financial centers at home and abroad.

MBL emerged as a new commercial bank to provide efficient banking services and to contribute socio-economic development of the country. With the passage of time it has expanded its number of branches and variety of services along with its core business of taking deposits and granting loans. Rising trend of the bank's profitability over the last 8 years is also materialized. The MBL is committed to the delivery of the superior shareholders' value. Foreign Exchange Department of the bank is one of the most important departments. Now it has become the backbone of the bank. With the aim to be the 'Bank of Choice', it is operating in the industry with a team of devoted personnel to excel both their own career and the bank's future.

2.2 Vision:

“Would make Finest Corporate Citizens”

2.3 Mission

Will become most caring, focused for equitable growth based on diversified deployment of resources and nevertheless will remain healthy and gainfully profitable bank.

2.4 MBL at a Glance

Name	Mercantile Bank Limited
Status	Public Limited Company
Date of Incorporation	May20, 1999
Subscription for Shares	October 21-22, 2003
Listed in Dhaka Stock Exchange	February 16, 2004
Listed in Chittagong Stock Exchange	February 26, 2004
Head Office	61, Dilkhusa Commercial Area, Dhaka-1000
Chairman	M Amanullah
Managing Director	M. EhsanulHoaque
Number of Branches	91
Number of Employees	1814
Services Provided	Deposit Scheme, Credit Facility and Foreign Exchange Services
Technology Used	Member of SWIFT, Unix Based software- PC Banking & Demonous, Online Banking
Website	www.mblbd.com
SWIFT	MBLBBDDH

2.5 Objectives of MBL

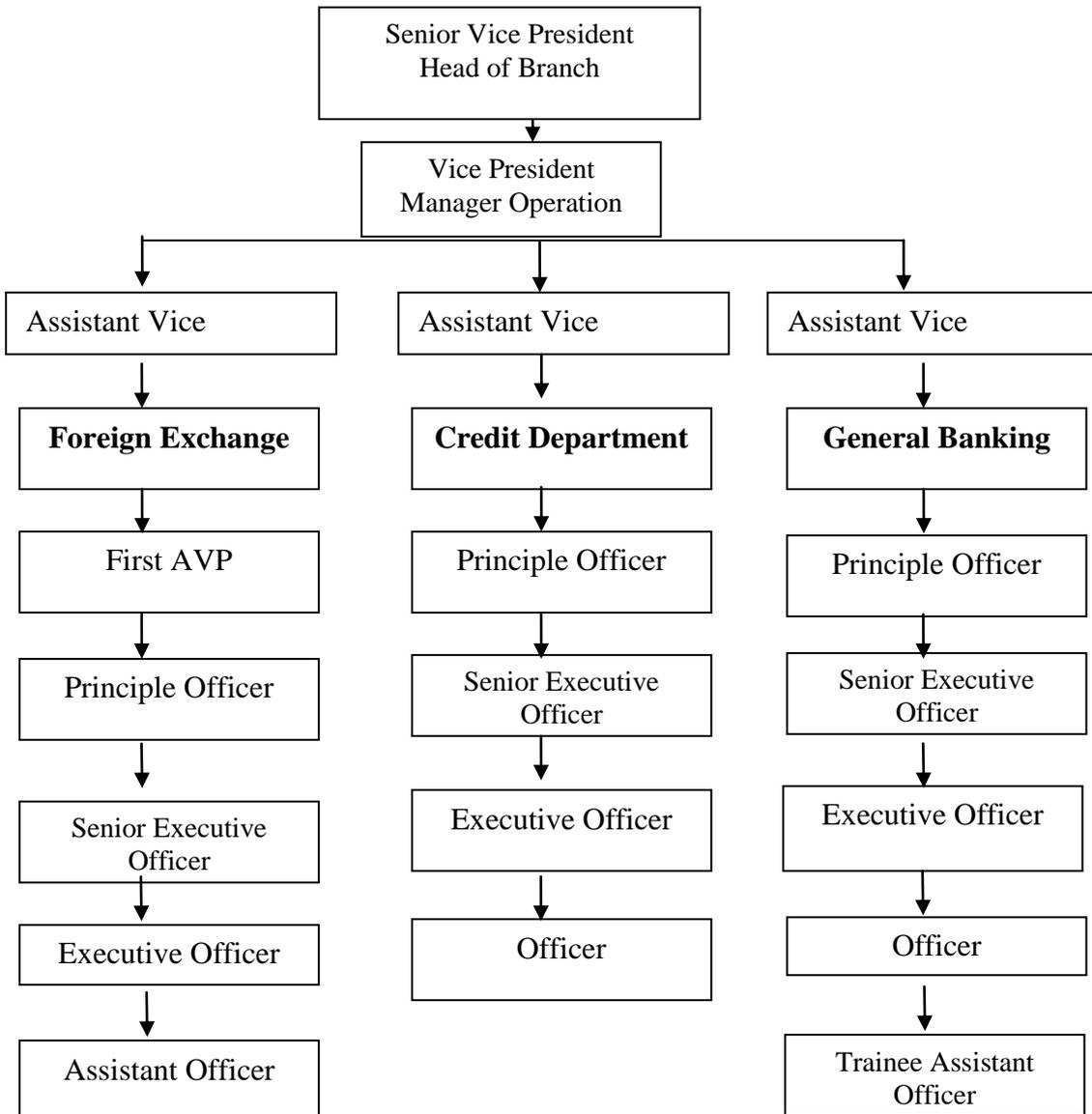
2.5.1 Strategic objectives

- To achieve positive Economic Value Added (EVA) each year.
- To be market leader in product innovation.
- To be one of the top three Financial Institutions in Bangladesh in terms of cost efficiency.
- To be one of the top five Financial Institutions in Bangladesh in terms of market share in all significant market segments we serve.

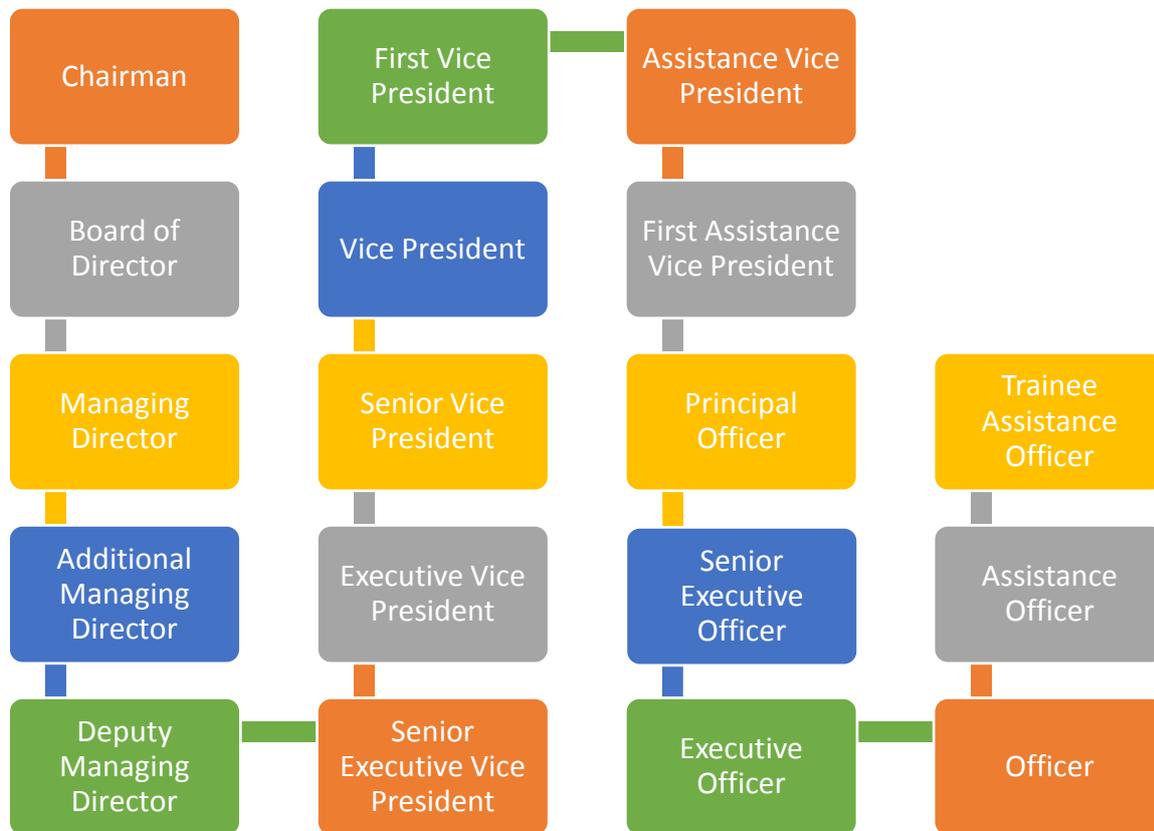
2.5.2 Financial objectives

- To achieve 20% return on shareholders' equity or more, on average.

2.6 Operational organogram of MBL



2.7 Management Hierarchy of MBL



2.8 Product and Services

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

Deposits	Loan	Cards
<ul style="list-style-type: none"> - Current Deposit Account - Saving Deposit Account - Fixed Deposit Account - Double Benefit Deposit Scheme - MashikSanchayPrakalpa - Quarterly Benefit Deposit Scheme - 1.5 times Benefit Deposit Scheme - Advance Benefit Deposit Scheme - Special Savings Scheme - School Banking - Educational Planning Deposit Scheme - Super Benefit Deposit Scheme 	<ul style="list-style-type: none"> - Consumer credit scheme - Doctor credit scheme - Rural planning scheme - Lease Financing - Any purpose loan - Educational loan - Car loan - Home loan 	<ul style="list-style-type: none"> - Dual card - Debit Card - Prepaid Card Supplementary Card - Visa Card

2.9 Features of Mercantile Bank Ltd

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

- Highly qualified and efficient professionals manage the bank.
- MBL has established a core Research & Planning Division with efficient persons.
- The computerized operation systems in all branches of MBL have provided the frequent and prompt customer service.
- The strict leadership along with the supervision of efficient management directs all the Branches.
- The inner environment and teamwork, of all branches in MBL motivated all.
- MBL has become a member of the SWIFT system expedite foreign trade transaction.
- MBL has become introduced some scheme for the purpose of saving of low income people which are not available in other banks like “Family Maintenance Deposit (FMD)”, “Personal Loan Scheme”, “Car Loan Scheme” etc.
- The bank offers attractive saving rate than other financial institutes.
- MBL provides loan to the customers at lower interest with easy and flexible condition than the others do.

- Along with the profit generation Mercantile Bank Limited also maintain social responsibilities. Mercantile Bank Limited charges lower commission from their customer in comparison with other banks .
- The Bank is always guided their potential customers by giving valuable advises.

2.10 Departments of Mercantile Bank Limited

2.10.1 General Banking

- Account opening and KYC procedures
- Issuance of DD/TT/PO/FDR
- Interbank Transaction, OBC/IBC
- Account section
- clearing Section
- IT Section

2.10.2 Credit Department

- Credit Proposals Processing Procedures
- Documentation and Loan Disbursement Procedures
- Overview on all returns

2.10.3 Foreign Exchange Department

Cash L/C

- Opening of L/C
- Lodgment of Import Bill
- Payment against Import Bill
- B/E Matching
- IMP Reporting

BTB L/C

- Export L/C Checking
- Opening of BTB L/C (Local/ Foreign/ EDF/ EPZ)
- Lodgment and confirmation of maturity date
- Allowing of PC
- Payment against realization of Export Proceeds/ Forced Loan
- B/E Matching
- Reporting

Export

- Scrutinizing/ Negotiation/ Send on Collection
- Follow-up
- Realization
- Reporting

Foreign Remittance

- Inward
- FDD
- FTT
- Outward
- Endorsement of Traveling
- Education/ Treatment/ Others
- Cash Rebate
- FC issuing
- FDD/ FTT etc.

2.11 Credit Rating of MBL Shares

MBL has strong and stable credit rating over the last couple of years. Credit Rating Information and Services Limited (CRISL) has reaffirmed the long term rating of MBL to 'AA-' and short term rating to 'ST-2' based on its financial up to December 31, 2013 and other qualitative and quantitative information up to the date of rating. CRISL also placed the Bank with "Stable Outlook".

Basis of Information	Date of Rating	Rating		Rating Company
		Long Term	Short Term	
2012	18 June, 2013	AA-	ST-2	CRISL
2013	6 May, 2014	AA-	ST-2	CRISL

CHAPTER 3
JOB DESCRIPTION

3.1 Job Description as a intern in Mercantile Bank Gulshan Branch

3.1.1 Description of the job

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

3.1.2 Specific responsibilities of the job

- Dealing with customers
- Assisting employees in their day to day operations
- Maintaining different registers
- Computer posting of transactions
- Sorting of Cheque, vouchers
- Entry of cheque and deposits slips number and amount in the registers and give the serial number to those slips
- Sorting of cheque according to serial number
- Editing of L/C issue statement
- Filling up EXP and IMP forms
- Filing different L/C related documents
- Matching month wise L/C and Bills transaction value between server and register
- Endorsement of different papers

3.1.3 Different aspects of job performance

- It helped me to learn banking activities
- It has enhanced my knowledge
- I was able to complete almost every task successfully

3.1.4 Critical observation

- Working environment was excellent
- Employees were very much helpful
- I learned a lot of things in a short time.

CHAPTER 4:
**LC PROCEDURE AND
FOREIGN REMITTANCE
OPERATIONS OF
MBL**

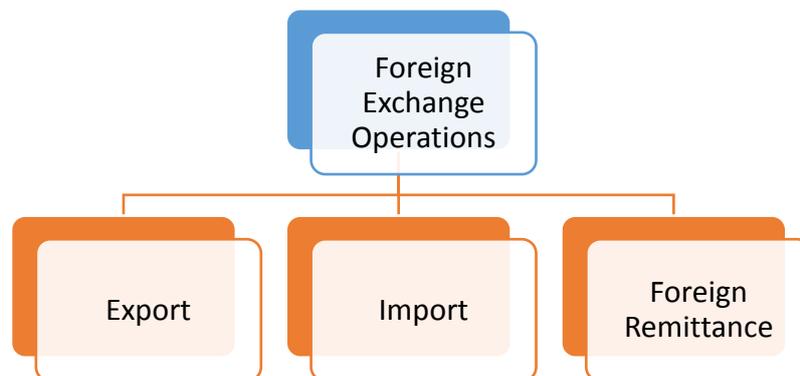
4.1 Foreign Exchange Overview

International trade of a country refers to its imports and exports of commodities from and to other countries. No nation in the world is self-sufficient and as such, international trade emerges. International trade is essential for the prosperity of the trading nations, because:

- Every country lacks some vital resources that it can get only by trading with others.
- Each country's climate, labor forces and other factor endowments make it a relatively efficient producer of some goods and an inefficient producer of other goods; and
- Specialization permits larger output and can therefore offer Economies of Scale in production.

As more than one currency is involved in International trade, it gives rise to exchange of currencies which is known as Foreign Exchange.

As per Foreign Exchange Act., foreign exchange means and includes all deposits, credits and balances payable in foreign currency as well as foreign currency instruments such as drafts, TCs, Bill of Exchange, Promissory Notes and Letters of Credit payable in any foreign currency. This definition implies that all business activities relating to Import, Export, Outward & Inward Remittances, buying & selling of foreign commissions, etc. come under the concern of foreign exchange business. As per above discussion we can classify the foreign exchange operations into three sections:



4.2 Letter of credit (L/C):

Before Discussion of L/C Procedures and Remittance operations lets know about the Term L/C and Its Functions very shortly.

L/C can be defined as 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 presentation of some specified documents, the letter of credit is called Documentary Letter of Credit.

The terms of the letter of credit depend on the contract between the importer and exporter.

The terms of the credit specify:

- The amount of credit A/C holder
- Name of the opener
- Name of the beneficiary
- Address of the party
- Tenor of the bill of exchange
- Period and mode of shipment and destination
- Nature of credit
- Expiry date
- Name and number of sets of shipping document etc.

4.2.1 Types of Documentary Credit:

Revolving Credit:

The revolving credit is one, which provides for restoring the credit to the original amount after it has been utilized. How many times it will be taking place must be specifically mentioned in the credit.

Transferable Credit:

A transferable credit is one that can be transferred by the original beneficiary in full or part to one or more subsequent beneficiaries.

Back to Back Credit:

The back to back credit is a new credit opened on the basis of an original credit in favour of another beneficiary.

Red Clause Credit:

A Red Clause credit is a credit with a special condition incorporate into it that authorizes the confirming bank or any other nominated bank to make advances to the beneficiary before presentation of the documents.

Standby Credits:

The Standby Credit is a documentary credit or similar arrangement, however named or described which represents an obligation to the beneficiary on the part of the issuing bank to:

- repay money borrowed by the applicant or advanced to or from the account of the applicant
- make payment on account of any indebtedness undertaken by the applicant or
- Make payment on account of any default by the applicant in the performance of an obligation.

4.4 Parties to a Letter of Credit:

The parties are:

- The issuing bank
- The confirming bank, if any, and
- The beneficiary.

Other parties are:

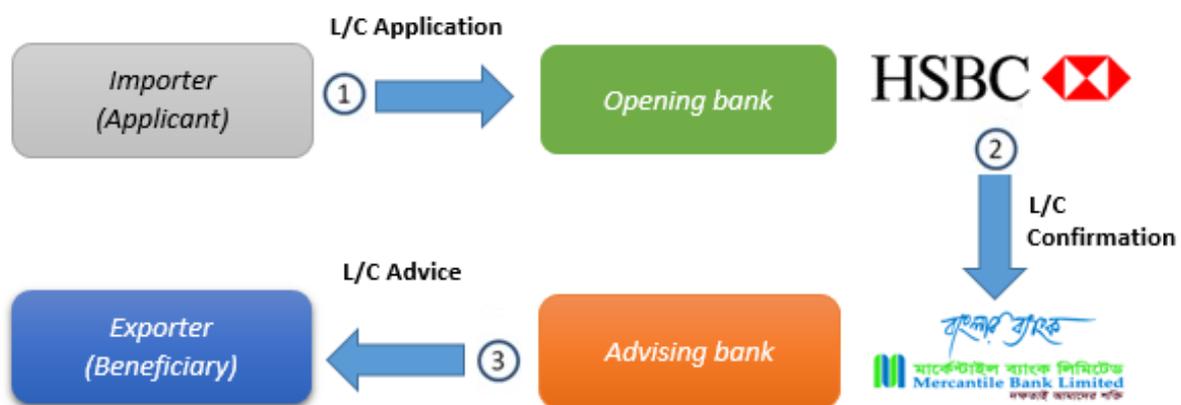
- The applicant
- The advising bank
- The nominated paying/ negotiating bank/ accepting bank and
- The transferring bank, if any.

4.2.2 Operations of Documentary Credit:

The following five major steps are involved in the operation of a documentary letter of credit:

- Issuing
- Advising
- Amendment, if necessary
- Presentation and
- Settlement

L/C Opening Process



Process of opening L/C is as follows:

1. Importer will request Opening Bank (Foreign Exchange Bank) to open Letter of Credit as the guarantee and the fund will be used as payment to the exporter according to the agreement in the sales contract. The L/C is for and on behalf of the exporter or other person or entity appointed by the exporter in accordance with the terms of payment in the sales contract.
2. Opening bank will open L/C via correspondent bank in the Exporter's country, in this case the advising Bank. The process of opening L/C is conducted via electronic media, while the written confirmation will be set in L/C confirmation which is then forwarded by the opening Bank to the advising Bank to be delivered to the Exporter.
3. Advising Bank will check the validity of the L/C from the opening Bank, and if it is confirmed, then the advising Bank will send the cover letter (L/C advise) to the receiving Exporter. If the advising Bank is requested by the opening Bank to also guarantee the payment of the L/C, then the advising Bank should also act as confirming Bank.

4.2.3 Legal Frame Work

- Foreign Exchange Regulation Act 1947 and GFET
- Import Policy and Export Policy
- Directives of NBR and other authorities
- UCPDC-600
- URR-525
- URC-522
- Sanctioned Terms and Conditions of the Bank

4.3 Export Policy and Procedure:

Export is a cross-border trade. Export refers to the flow of goods and services produced within Bangladesh, but purchased by economic agents (individuals, firms, governments) of other countries. Export policies formulated by the Ministry of Commerce, GOB provide the overall guideline and incentives for promotion of exports in Bangladesh. As per export policy of Bangladesh, any firm or company intending to undertake export trade is required to obtain an ERC (Export Registration Certificate) from the offices of the Chief Controller of Imports and Exports (CCI&E). The ERC is required to renew every year. The ERC number is to incorporate on EXP forms and other papers connected with exports. The export-oriented private sector, through their representative bodies and chambers are consulted in the formulation of export policies and are also represented in the various export promotion bodies set up by the government.

4.3.1 Export L/C

There are a number of formalities, which an exporter has to fulfill before and after shipment of goods. These formalities or procedures are enumerated as follows –

- 1. Registration of Exporters:** For obtaining ERC the intending exporters are required to apply to the Controller / Joint Controller / Deputy Controller / Assistant Controller of Imports and Exports, Dhaka / Chittagong / Mymensingh / Sylhet / Comilla / Barisal / Bogra/ Rangpur/ Dinajpur in the prescribed form along-with the following documents:
 - Nationality Certificate issued by the local authority;
 - Trade License issued by the municipal authority.

- Memorandum and Articles of Association and Certificate of Incorporation in case of Limited Bank;
 - Bank Solvency Certificate;
 - Income Tax Clearance Certificate;
 - Copy of Lease Agreement of business premises.
2. **Securing the order:** After getting ERC, the exporter may proceed to secure the export order. He can do this by contracting the buyers directly through correspondence.
 3. **Obtaining EXP:** After having the registration, the exporter applies to MBL with the trade license, ERC and the Certificate from the concerned Government Organization gets EXP. If the bank is satisfied, an EXP is issued to the exporter.
 4. **Signing of the contract:** After communicating with buyer the exporter has to get contracted for exporting exportable items from Bangladesh detailing commodity, quantity, price, shipment, insurance and mark, inspection, arbitration etc.
 5. **Receiving of the Letter of Credit:** After getting the contract for sale, the exporter should ask the buyer for Letter of Credit (L/C) clearly stating terms and conditions of export and payment. The following are the main points to be looked into while receiving a Documentary Credit.
 - The terms of L/C are in conformity with those of the contract;
 - The L/C is an irrevocable one, preferably confirmed by the advising bank.
 - The L/C allows sufficient time for shipment and negotiation;
 - The L/C is regulated under the framework of UCPDC, ICC publication no—600.
 6. **Checking and advising of the Letter of Credit:** On receipt of export L/C, it is to be recorded in the bank's inward register and then the signature on the L/C or confirmation of SWIFT L/C is to be verified by an authorized officer and finally the L/C is to be forwarded to the beneficiary under the forwarding schedule of the Bank.
 7. **Transferring the Letter of Credit:** At the request of the original beneficiary, the Bank can transfer the L/C to the second beneficiary. The signature of the original beneficiary on the letter of request must be verified by an authorized officer of the Bank. A transferable L/C can be transferred once only as per terms and conditions specified in the L/C. The L/C may be transferred to more than one beneficiary. While transferring a credit the Bank will retain the original Export L/C at their custody and every transfer must be noted on the back of the original L/C. The Bank maintains a register to keep records of all transfers.

8. Procuring the materials: After receiving L/C opened in his favor, the exporter will procure or manufacture the merchandise as per terms contract and will get the goods ready for execution of export shipment.

9. Shipment of goods: Then the exporter arrange the delivery of goods as per L/C terms and prepare and submit shipping documents for Payment/ Acceptances / Negotiation in due time.

10. Documents required for execution of an export shipment:

- EXP Form,
- ERC (valid)
- L/C Copy
- Shipping Instruction,
- Transport Documents
- Insurance Documents,
- Invoice
- Certificate of Origin,
- Inspection Certificate,
- Quality Control Certificate
- G.S.P Certificate,
- Other Documents as required by the Documentary Credit.

11. Cash against Document (CAD) Contract: In lieu of export LC export can also be made against execution of contract of sale and purchase between the buyer and seller. Usually a CAD contract is made in case of exporting Jute goods. There are some Bangladesh Jute Mills Corporation (BJMC) enlisted intermediary firms. They make CAD contract with the importer. Some intermediary firms the client of MBL. After making contract, the intermediary firm (original exporter) purchases jute from a jute mill. Then, the jute mill's bank usually an NCB sends forwarding with the following documents to MBL.

- Commercial invoice made by the jute mill
- Bill of exchange drawn on exporter payable to jute mills bank (authorized that bank as “ pay to the order of MBL”)
- Mills specification
- EXP form – triplicate and quadruplicate on which seal and signature of authorized officer of the jute mill's bank is given. Along with these jute milldocuments exporter presents documents, which were required by the CAD contract.

Exporter presents the documents for negotiation to MBL and request to remit the amount at which he purchased jute from jute mill to the jute mill's bank and credit the rest to his account in MBL.

12. Issuance of EXP Forms: Before lodging the EXP Forms with the Customs/Postal Authorities, the exporter should get copies of the forms certified by an Authorized Dealer. After receipt of the EXP Forms from the exporters for certification purposes, the Authorized Dealers will see and ensure that each set of the forms is duly filled in. Thereafter, they will record full particulars of the forms in the Export Register to be maintained and assign a number for each set of the EXP Forms in the following manner, which is to be inserted in the space provided at the top of each form.

EXP No.

Authorized Dealer's Code Number				Register Serial					Year	

The first three boxes of EXP number will bear the branch code prescribed by Bangladesh Bank for each Authorized Dealer branch and the next 5 boxes are meant for mentioning the serial number of the Export Register of the branch and the last two boxes are meant for mentioning the last two digits of the year of registration. The Authorized Dealers will also have to complete the forms themselves by mentioning all the required information/particulars/code number etc. in the forms at the appropriate places and certify the forms in the manner prescribed therein under seal and signature of the authorized official of the Authorized Dealer.

13. Examination of Document: Banks deal with documents only, not with commodity. As the negotiating bank is giving the value before repatriation of the export proceeds it is advisable to scrutinize and examine each and every document with great care whether any discrepancy(s) is observed in the documents. The bankers are to ascertain that the documents are strictly as per the terms of L/C Before negotiation of the export bill. Bank officers assigned for examining the export documents may use a checklist for their convenience.

14. Negotiation of export documents: Negotiation stands for payment of value to the exporter against the documents stipulated in the L\C. If documents are in order, MBL purchases

(negotiates) the same on the basis of banker- customer relationship. This is known as Foreign Documentary Bill Purchase (FDBP). If the bank is not satisfied with the documents submitted to MBL gives the exporter reasonable time to remove the discrepancies or sends the documents to L/C opening Bank for collection. This is known as Foreign Documentary Bill for Collection (FDBC).

a. Procedure for FDBP:

- After purchasing the documents, MBL gives the following entries

FDBP A/C -----Dr.

(At OD sight rate)

Customer A/C -----Cr.

(Before realization of proceeds)

Bank would realize only postage charges from the exporter.

- Subsequently, Bank will send the documents to the L/C opening Bank for payment with a forwarding letter detailing the enclosures. Upon realization of proceeds the Negotiating Bank would pass the following vouchers:

Head Office A/C-----Dr.

(At T.T Clean rate)

FDBP A/C-----Cr.

Income A/C Profit on Exchange Trading-----Cr.

(Adjustment after realization of proceeds)

- A FDBP Register is maintained for recording all the particulars.

b. Foreign Documentary Bills for Collection (FDBC):

MBL forwards the documents for collection due to the following reasons,-

- If the documents have discrepancies.
- If the exporter is a new client.
- The banker is in doubt.

FDBC signifies that the exporter will receive payment only when the issuing bank gives payment. MBL make regular follow-up with the L/C opening Bank in case of any delay in getting payment. The exporter submits duplicate EXP Form and Commercial Invoice.

Subsequently, the value of the bill is calculated and the following accounting entries are given:

Head Office A/C-----	Dr.
@ T.T Clean	
Client's A/C-----	Cr.
@ OD sight	
Government Tax A/C-----	Cr.
@ 0.10 % of Invoice value	
Postage A/C-----	Cr.
Income A/C profit on Exchange-----	Cr.

After passing the above vouchers, an Inter Branch Exchange Trading Debit Advice is sent for debiting the NOSTRO account. An FDBC Register is maintained, where first entry is given when the documents are forwarded to the issuing bank for collection and the second one is done after realization of the proceeds. In case of discrepancies of minor nature, Bank may negotiate the documents depending on their confidence on the customer against execution of the Letter of Indemnity.

While negotiating export bills under the letter of credit, special care should be taken to the under-noted points:

Letter of Credit:

- Whether it is revocable or irrevocable and, if necessary, amendments to the clauses difficult to fulfil have been obtained.
- Whether it has been authenticated and if it is valid (not expired).
- Whether it is subject to Uniform Customs and Practices for Documentary Credit ICC Publication no.600 of the International Chamber of Commerce.
- Whether the opening bank is of good means and standing. If not, confirmation from a third bank should be obtained.

Bill of Exchange:

- The draft should be drawn or endorsed to the order of the bank.

- Whether the date, amount in words and figures, drawee's name, drawer's signature, endorsement, tenor etc, are strictly in terms of the credit.
- Whether stamp of requisite value has been properly affixed. If so the same should be recovered from the shipper.

Invoice:

- The invoice should contain quality, unit price, and total value with deductions, if any, as stipulated in the relative documentary credit. The correctness of calculation should also be examined.
- The number of copies should exactly meet the requirement of the credit.
- Charges such, as postage, telex, etc, should be included unless specifically authorized under the credit.

Insurance:

- Whether the credit terms so stipulated, insurance cover should be obtained by the exporter.
- Whether the policy should be obtained from an approved insurance company.
- The description of the goods should be in conformity with the description in the Bill of Lading and should relate to the vessel and voyage mentioned therein.
- It should be for the policy should not be later than the date of shipment.
- The policy must cover all risks stipulated in the credit.
- Insurance certificate in lieu of policy should not be accepted unless it is permissible in the credit.
- Marks on the packages and the quantity of the goods must agree with those mentioned in the invoice and Bill of Lading.

Bill of Lading:

- The Bill of Lading must state the number of original and the full set i.e. all the negotiable copies as stated in the Bill of Lading must be presented.
- The Bill of Lading must state that the goods have been "shipped on board and "Received for shipment" Bill of Lading" should not be accepted unless stipulated in the credit.
- The port of loading, the port of destination and name of the carrying Vessel must appear on the Bill of Lading.

- It must be duly signed and endorsed by the Shipping Company or by an authorized agent.
- The B/L must bear an on board notation which must include the Port of Loading, Date of Shipment and name of the carrying Vessel and it must be signed by the person signing the B/L.
- If the invoice price is on CFR basis the Bill of Lading must be marked “Freight Pre-paid” and freight is payable at destination, “Freight to collect” is marked on B/L.
- It must be clean Bill of Lading and it should not bear any clause declaring defective condition of goods and or packaging,
- It must be ensured that the Bill of Lading is dated as stipulated in the credit. Bill of Lading showing shipment on deck should not be accepted unless specifically authorized in the credit.
- It should provide evidence of the origin of the goods as specified in the credit. It is usually issued by an independent office or organization e.g.’ a Chamber of Commerce.

Other Documents:

- Any other document such as Weight and Measurement Certificate, Phyto-sanitary Certificate, Surveyor’s Certificate, Insurance Certificate etc. as stipulated in the credit must be examined before negotiation of the export documents.

Negotiating Documents with Discrepancies:

- Wherever possible, the beneficiary should be asked to rectify the discrepancies.
- If it is not possible to rectify the discrepancies, the alternatives open to the negotiating bank are either:-
 - To negotiate the bill under an Indemnity Bond signed by the beneficiary.
 - To negotiate the bill under reserve; or
 - To obtain authority from L/C issuing bank to negotiate the documents with discrepancies.

COMMON DISCREPANCIES CHECK LIST: General

- Late shipment
- Late Presentation
- Early shipment i.e. shipment made before issuance of DC or before time stipulated in DC
- L/C expired
- L/C over-drawn
- Partial shipment or transshipment beyond L/C terms

Bill of Exchange:

- Amount of B/E differ with Invoice
- Not drawn on L/C Issuing Bank
- Not signed
- Tenor of B/E not identical with L/C
- Full set not submitted

Invoice:

- Not issued by the beneficiary
- Not signed by the beneficiary
- Not made out in the name of the applicant
- Description, price, quantity, sale terms of the goods not correspond to the credit
- Not marked one fold as 'Original'
- Shipping mark differ with B/L & Packing List

Packing List:

- Gross wt., Net wt. & Measurement, Number of Cartons/Packages differ with B/L
- Not marked one fold as 'Original'
- Not signed by the Beneficiary
- Shipping marks differ with B/L

Bill of Lading/Airway Bill etc.

- Full set of B/L is not submitted
- B/L is not drawn or endorsed to the order of Mercantile Bank Limited
- “Shipped on Board”, “Freight Prepaid”, “Freight Collect”, etc. notations are not marked on the B/L
- Name and address of the Notify Parties are not mentioned or differ with L/C
- B/L does not indicate the name and the capacity of the party i.e. carrier or master, on whose behalf the agent is signing the B/L
- ‘Shipped on Board’ notation not showing name of Pre-carriage vessel/intended vessel
- ‘Shipped on Board’ notation-showing port of loading and vessel name (In case B/L indicates a place of receipt or taking in charge different from the port of loading).

Settlement of Local Bills: The settlement of local bills is done in the following ways -

- The customer submits the L/C to MBL along with the documents to negotiate MBL official scrutinizes the documents to ensure the conformity with the terms and conditions.
- The documents are then forwarded to the L/C opening bank.
- The L/C issuing bank gives the acceptance and forwards an acceptance letter.
- Payment is given to the customer on either by collection basis or by purchasing the document.

Accounting treatment for purchase of local bills:

Local Bill Purchase Documentary -----	Dr.
Party A/C-----	Cr.
Commission-----	Cr.
Interest A/C-----	Cr.

A LBPDP Register is maintained to record the acceptance of the issuing bank. Until the acceptance is obtained, the record is kept in a collection register.

Mode of payment of export bill under L/C

As per UCP 600, 1993 revision there are four types of credit. These are as follows:

- Sight payment
- Deferred payment
- By acceptance

- Negotiation

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

Deferred payment Credit: In deferred payment, the bank agrees to pay on a specified future date or event, after presentation of the export documents. No bill of exchange is involved. In MBL, payment is given to the party at the rate of D.A **60-90-120-180** as the case may be. But the Head office is paid at T.T clean rate. The difference between the two rates us the exchange trading for the branch.

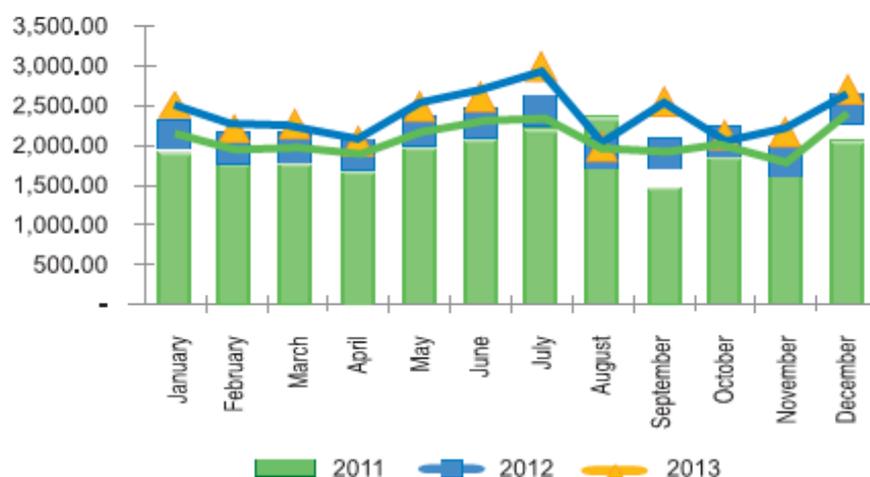
Acceptance credit: In acceptance credit, the exporter presents a bill of exchange payable to him and drawn at the agreed tenor (that is, on a specified future date or event) on the bank that is to accept it. The bank signs its acceptance on the bill and returns it to the exporter. The exporter can then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

Negotiation Credit: In Negotiation credit, the exporter has to present a bill of exchange payable to him in addition to other documents that the bank negotiates.

Export Earning During the Fiscal Year 2012-13

The Economy earned USD 27.03 billion as export earning in FY 2012-13 as compared to USD 24.30 billion in FY2011-12 registering 11.22% growth in FY2012-13 over the previous fiscal. Despite of political unstable situation the growth trend of export was appreciable. Ready-made garment sector faced a challenging situation because of phasing out GSP facility by US which had a adverse impact on the image of our country. The Growth trend of Export is as follows-

Monthwise Export Earning (Million USD) over 2011-2013



4.4 Import Policy and Procedure:

Imports of goods into Bangladesh is regulated by the ministry of commerce and industry in terms of the Import and Export (Control) Act, 1950, with import policy orders issued by annually, and Import Registration Certificate (IRC) and Public Notices issued from time to time by the office of the Chief Controller of Import and Export (CCI & E). Through the process of import some vital but which are inadequate in our country products are imported to meet the local needs of the people. MBL also plays an important role of importing goods.

To obtain Import Registration Certificate (IRC) the following certificates are required:

- Trade License
- Income tax clearance certificate
- National certificate
- Banks solvency certificate
- Asset certificate
- Registration partnership deed (if any)
- Memorandum and article of association
- Certificate of incorporation (if any)
- Rent of the business premises

4.4.1 Requirements for Import:

To import through Mercantile Bank limited a customer / client requires-

- Bank account
- Import Registration Certificate (IRC)
- Taxpaying Identification Number (TIN)
- Pro-forma invoice/ indent (PI)
- Membership certificate
- L/C application form duly attested
- Insurance cover note with money receipt
- Others

4.4.2 Procedures of Opening L/C to Import:

To open an L/C, the requirements of an importer are:

- He must have an account in MBL.
- He must have Importers Registration Certificate (IRC).
- Report on past performance with other bank. MBL collects this report from Bangladesh Bank.
- CIB (Credit Information Bureau) report from Bangladesh Bank.
- A proposal approved by the meeting of executive committee of the bank. It is necessary only when the L/C amount is small or there is no limit. f. If the L/C amount is large or there is a limit, then an approval from Bangladesh Bank is needed. Usually this approval is needed for amount more than one crore.

Accounting posting for Opening L/C: For opening L/C, importer will apply to the issuing bank. In that case, importer is called applicant or opener. After opening an L/C bank will create a contingent liability. In that case, the accounting posting will be the following:

Customers' Liability..... Dr.

Banker's Liability.....Cr.

Generally L/C is opened against some margin. While paying the money by the issuing bank, issuing bank will reverse the above entry and the entry will be:

Contingent LiabilityDr.

Customers' LiabilityCr.

Then the issuing bank will give another entry:

Payment against Document (PAD)Dr.

MBL General Account Cr. Exchange Gain..... Cr.

PAD will debit because the bank will pay the money against some documents. MBL General Account is a miscellaneous account. It will be credited because by this entry MBL creates a liability. He has to pay the money to the advising bank. And the gain made by the transaction is shown at Exchange Gain Account. All these entries are made after receiving some documents from the exporters. The above procedure is called Lodging. After giving the above entry, MBL will inform the clients for collecting the documents from the bank.

Importers will pay the due to the bank and collect the documents. In that case, the entry will be –

Party AccountDr.

PAD AccountCr.

After opening the L/C, MBL (issuing bank) must receive the documents for any other proceedings. These documents are ---

- Bill of Lading
- Invoice
- Packing List
- Country of Origin

Lodgment of the Documents: After receiving the documents from the exporters, at first MBL write it in the PAD Register. PAD Register contains date, PAD number, L/C number, and name of the drawer, name of the drawee, amount, and number of copies of various documents, name of the imported items. This written procedure is called Lodgment.

Retirement of the Documents: The process of collecting documents from bank by the importer is called retirement of the documents. The importer gives necessary instructions to the bank for retirement of the import bills or for the disposal of the shipping documents to clear the imported goods from the customs authority. The importer may instruct the bank to retire the documents by debiting his current account with the bank or by creating Loan against Trust Receipt (LTR). Following steps are taken while retiring the documents

- Calculation of interest.
- Calculation of other charges.
- Passing vouchers.
- Entry in the register.
- Endorsement in the Bill of Lading and other transport documents and in the bill of exchange.

Import Payment during the Fiscal Year 2012-13:

Import Payment during FY2012-13 marked negative growth of 4.32% and stood at US 33.98 billion in FY 2012-13 as compared to USD 35.52 billion in FY2011-12. However, in the

calendar year 2013, total import payment stood at 36.30 billion as against USD 34.17 billion of 2012, indicating a moderate growth of 6.22% in 2013 over 2012. The trend of the import payment is as follow-

Monthwise Import Cost (million USD) over 2011-2013



4.5 Foreign Remittance Operation of Mercantile Bank Ltd.

Foreign Remittance means foreign currency transferred from one country to another country through proper banking channel. In the other word conversion of one foreign currency in terms of another currency is called Foreign Remittance.

Foreign Currency (FC) Accounts

Convertibility of Taka in current account transactions symbolized a turning point in the country's exchange management and exchange rate system. Now the operation of foreign currency account has been more liberalized. Funds from this A/Cs are freely remittable to any country according to the needs of A/c holders. MBL provides the service of foreign remittance through foreign currency accounts to the clients.

Types of Account:

- FC Account
- Resident Foreign Currency Deposit Account
- Non-resident Foreign Currency Deposit Account.

Currency in which FC A/Cs can be opened

FC Accounts can be opened either in

- Pound Sterling
- US dollar
- Euro
- Japanese Yen

Papers/ Documents required for opening FC A/C

a) For Bangladesh wage Earners

- Photocopy of 1st seven pages of valid passport and visa page.
- Photocopy of employment contract/ appointment letter/ work permit.
- Two copies of passport size photograph of each account holder and nominee duly attested.

b) For foreign National/ company/ Firm

- Two copies of photograph of account holder for individual operations of other account holder.
- Copies of relevant pages of passport for individual and operators of other account holder.
- Copies of service contract/ work permit, if any for individual.
- Copies of registration in Bangladesh with Board of investment/ Bangladesh Bank for foreign/ joint venture firm.
- Copies of the memorandum and articles of Association/ Laws/ Bye Laws, etc. on joint venture Agreement for joint venture co.

4.6 Foreign remittance

There are two types of Foreign Remittance:

- Outward Remittance
- Inward Remittance

4.6.1 Outward Remittance:

The term “Outward remittances” include not only remittance i.e. sale of foreign currency by TT, MT, Drafts, Traveler’scheque but also includes payment against imports into Bangladesh & Local currency credited to Non-resident Taka Accounts of Foreign Banks or Convertible Taka Account. Two forms are used for Outward Remittance of foreign Currency such as: -

IMP Form: All outward remittance on account of Imports is done by form IMP.

T.M. Form: For all other outward remittances T.M. form is used.

Private Remittance:

- Family remittance facility
- Remittance of Membership fees/registration fees etc.
- Education
- Remittance of Consular Fees
- Remittance of evaluation fee
- Travel
- Health & Medical
- Seminars & workshops
- Foreign Nationals
- Remittance for Hajji
- Other Private remittance.

Official & Business Travel:

- Official Visit
- Business Travel Quota for New Exporters
- Business Travel Quota for Importers and Non-exporting producers
- Exporters’ Retention Quota.

Commercial Remittances:

- Opening of branches or subsidiary companies abroad
- Remittance by shipping companies airlines & courier service
- Remittance of Royalty and technical fees
- Remittance on account of training & consultancy
- Remittance of profits of foreign firms/branches
- Remittance of Dividend

- Subscriptions to foreign media services
- Costs/ for Reuter monitors
- Advertisement of Bangladeshi Products in mass media abroad
- Bank Charges

4.6.2 Inward Remittance

The term” Inward Remittance” includes not only purchase of Foreign Currency by TT, MT, Drafts etc. but also purchases of bills, purchases of Traveler’s cheques. Two forms as prescribed by Bangladesh Bank are used for purchase of Foreign Currencies such as.

EXP Form: Remittances received against exports of goods from Bangladesh are done by form EXP. Form C: Inward remittances equivalent to US\$2000/- and above are done by Form” C”.

However, declaration in Form C is not required in case of remittances by Bangladesh Nationals working abroad. Utmost care should be taken while purchasing Currency Notes, Travelers cheque, Demand Draft & similar Instrument for protecting the bank from probable loss as well as safety of the Bank officials concerned.

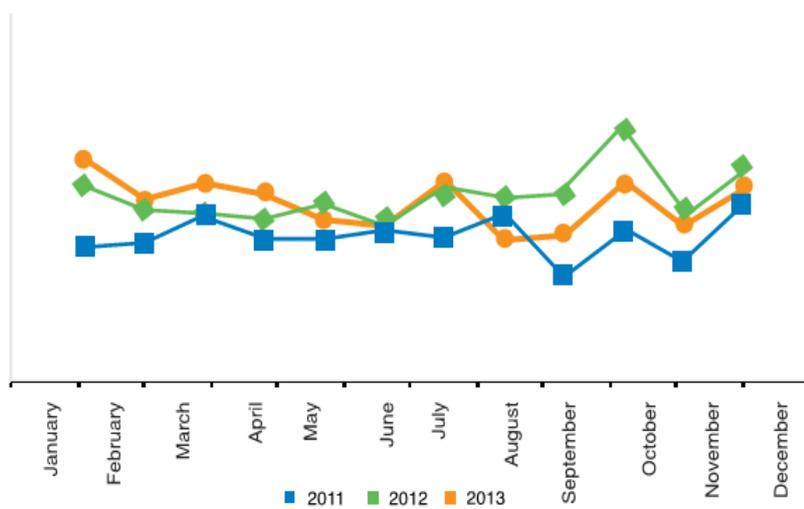
1. Purchase of Currency Notes, Travelers’ cheques, Drafts etc. Following General observations are required in addition to common judgment/intelligent /vigilance of the dealing officers: -

- Currency notes to be checked very carefully so as to avoid risk of purchasing counterfeit Notes.
- While purchasing Travelers cheque signature of the holder to be obtained on the TC/s in front of the Bank officials and should be verified with the signature of the holder already given at the time of issuance of T.Cs,
- Drafts should not be purchased under any circumstances unless the holder is a regular/valued customer of the bank. Indemnity Bond to be obtained for revering the amount paid in advance to the holder in case of dishonor of the instrument.\
- The private chque should not be purchased under any circumstance without prior approval of Head Office.

Foreign Remittance Inflow:

Remittance Inflow during FY 2012-13 was USD 14.46 billion compared to USD 12.84 billion in 2011-12, attaining 12.60% growth in 2012-13 over the last fiscal year. In calendar year 2013 total remittance inflow declined to USD 13.84 billion from USD 14.18 billion in 2012 indicating negative growth of 2.39% in 2013 over the year 2012.

Trend of Monthly Remittance Inflow over 2011-2013



Chapter 5: SWOT Analysis, Finding and Recommendations

5.1 SWOT Analysis

It is a very essential performance measurement tools by which any organization can know about its position in market and what are the constraints that a company need to face in present and future. During my internship period in MBL I have found some aspects relating to the Bank's strength, opportunity, weakness and threats, which are more or less. I think affecting the Bank's performance in total, which are explained below:

Strength	Weakness
<ul style="list-style-type: none"> - Top management. - Satisfactory asset quality. - Not engaged in unfair business practice. - Well-known reputed bank in the market. - Concentrated market. - Officers are highly educated and experienced. - Deposit is larger than advance. - Attractive credit and deposit schemes than competitive markets. - Strictly complies of government banking rules, regulations and acts. - Interactive corporate culture - Provider of good quality services 	<ul style="list-style-type: none"> - Small market shares in Banking-business. - No long-term strategies - Failed to provide a strong quality recruitment policy in the lower and some mid level position - Short time experience in the banking sector. - Growth is slower than other competitive banks. - Training programs to officers are not so effective and adequate. - Lack of advance technology utilization in all aspects. - Low promotional sector
Opportunities	Threats
<ul style="list-style-type: none"> - Can provide more attractive and deposit facilities and credit facilities. - Investment in the Secondary market - Opportunity in retail banking - Can increase the advertising of the Bank to highlight latest services of MBL - Expansion of its product line to enhance sustainable competitive advantage - Can adopt high technology based inter-branch networking system 	<ul style="list-style-type: none"> - The number competitors in banking sectors are increasing - Increasing cost of fund - The low compensation package of the employees from mid level to lower level position - Governments increasing rules and regulations are not so inspiring. - Competitors are using more advance technological system - Government tendency of imposing tax and VAT is becoming stricter

5.2 Findings

By analyzing the various data the following finding have been found:

- Mercantile Bank has a well-known reputation because of its foreign Exchange operations.
- Clients are very much satisfied by the service that is given through foreign exchange department.
- All the officers are very much skillful and patentee about their work and always try to help other officers if they face any trouble regarding Foreign Exchange operations.
- The Foreign Exchange Department is very much Strong because they always negotiate with the foreign Bank in term of L/C opening and amendment of L/C, It is giving a competitive advantage to the Mercantile Bank Ltd.
- Many well-known companies and industries are very much rely on mercantile bank foreign exchange department because of the reputations and responsiveness.
- Mercantile Bank Ltd provide little assistance in relation with foreign exchange to the small entrepreneur comparing to large business houses. Small entrepreneur has to keep higher margin, sometimes 100%, regarding opening a L/C.
- MBL has limited promotional activities about foreign exchange services to increase motivate its present and potential investment client.
- Numbers of employees are fewer than the volume of works which creates problem in operations.
- The operations of international trade are conducted as per local and international laws, rules, customs and practices.
- Financing in the international trade is very crucial for the economy as well as it is risky. Sometimes the government imposes restriction to import and export some products. As a result the rate of opening L/C become reduces.
- Officers have a good knowledge and command over foreign exchange operations but they need more efficiency on technical portion like software uses and other technological operations.
- The internship program is not well organized. So candidates cannot know about all the operations that a department like foreign exchange deals with their foreign and local clients or industries.
- MBL thinks more traditionally than other banks which will become great threats for future banking operations.

5.3 Recommendations:

The analysis shows that Mercantile Bank Ltd. Should expand their foreign exchange Services by adopting a planned and well-articulated strategy so they can achieve success in long run. Which help them to retain customer satisfaction and earn profit. I was involved in a three months long internship and a big portion of this three month I spend most of time in foreign exchange department. On the basis of my observation I would like to present the following recommendations-

- Mercantile Bank Ltd should offer some services to attract the foreign remittance because most of the remittance is coming through outside the country, so collecting remittances can be a good way of generating revenue for the company.
- Need to revise the Foreign Exchange relate charges so that new and existing customers can be more flexible in opening L/Cs.
- At MBL decision making process should be free from ambiguity and be time conscious.
- Garments Industry is a big earning sector for MBL so Mercantile bank should be more concentrated and careful about their dealings.
- Officers should be more concern of Bangladesh Bank's circulars like duly online posting of essential documents that are related with foreign exchange.
- In case of exporting goods the Bank should aware about under invoicing so that nobody can get chance to avoid Tax, Vat, and Duty.
- The internship program should be more organized so that candidates can learn core banking functions so that they can use this practical experience in their future career.
- Mercantile bank should arrange training session for the officers about the use of updated technology so that they can compete with other emerging banks.
- Finally, Bank managers need to remain up to date with future trends; in other words, they need marketing intelligence to update their customer service and overall banking system.

Chapter 6:
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