



Internship Report
On
“Procedures of L/C” of IFIC Bank Ltd

Submitted to

Asphia Habib

Lecturer

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BRAC University

Submitted by

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ID: 12104152

Date: 30/05/2016

INTERNSHIP REPORT

“Procedures of Letter of Credit (L/C)”

Of



Letter of Transmittal

To,

Asphia Habib,

BRAC Business School,

BRAC University

Subject: Submission of internship report.

Dear Madam,

I am writing to submit my internship report on “IFIC Bank LTD”. I am submitting this report as a course requirement for completion of my Bachelor of Business Administration program. For completion of this report I have tried my best to follow the instructions given by you.

This report is based on the practical experience I have gained during my work at IFIC Bank Motijheel Branch. This report relates my practical experience with my theoretical knowledge and has helped me to develop my personal skills and learn new expertise which I will be able to use later in my career.

I will be highly encouraged if you receive my report and grateful to you for your relentless guidance which helped for completion of my report. If you have any further inquiry regarding my report I will be pleased to clarify that.

Sincerely yours,

Mohammad Niazul Islam

Id: 12104152

Acknowledgement

Firstly I would like to show my gratitude to Almighty ALLAH, The most gracious and The most merciful for giving me enough knowledge to come this far and giving me patience to complete my internship report.

During this tenure of three months I have gathered a lot of practical experiences which now I can relate to my theoretical knowledge and all this would not have been possible without the proper guidance of my honorable supervisor **Asphia Habib**. I show my sincerest gratitude to her for being patient with me and guiding me throughout my internship program which helped me in making this report.

I would like to thank **Kazi Rezvzur Rahman**, Senior officer, and **Rubayet Morshed**, Senior Officer Foreign exchange, IFIC Bank Ltd, Motijheel Branch Dhaka, for helping me from the very first day of my internship period in learning the understanding the insights of the foreign trading of foreign exchange division of IFIC Bank and under whose supervision I enjoyed my work. I would like to thank **Shamim Ahmed**, Public relations officer, IFIC Bank Ltd for giving me the opportunity to work for his reputed organization.

Last but not the least I want to thank all the personnel of BRAC University and IFIC Bank Ltd for their co operation and assistance in making this report. It would not have been possible without them.

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Executive Summary

This report is about my internship at IFIC Bank Ltd Motijheel branch. In this report I have discussed about every major aspect of my work experience during my internship period.

In this report you will find information about every service provided by the bank starting from its retail clients to its corporate and SME clients and different working procedure of the bank. I have mainly worked at the Foreign exchange division of IFIC Bank Ltd Motijheel branch and have discussed about my work experience their and the procedure of opening an L/C with the foreign exchange division of the bank.

My report contains details about my job description at IFIC Bank Ltd and detailed information about specific jobs I did at the foreign exchange division of the bank and the skills and knowledge I have gathered. The main part of the report discusses about the L/C procedure followed by the bank and the variety of services the Bank provides to its foreign exchange customers. For the information used in this report I have included some information from my observations and verbal discussion with bank officers, some numeric data have been collected from annual reports of IFIC Bank Ltd.

At the end it contains a graphical representation regarding of the commissions earned over the years by the foreign exchange division which gives an idea about the success of the foreign exchange division of IFIC Bank Ltd.

Chapter 1: The organization

Introduction

As an undergraduate student of Bachelor of Business Administration student from BRAC Business School which is one of the elite business schools of my country I had to do an internship in an organization with proper corporate culture to enhance my practical skills of becoming a business graduate other than my theoretical knowledge of the subject. Writing this report has made me clear about the new expertise I have learned during my internship program and has also helped me to enhance my intellect as a graduate.

I choose to do my internship in the banking sector because as a finance student I always the urge to work in a bank. I was appointed as an intern by IFIC Bank Ltd Motijheel branch for 3 months starting from January third and ended in April third this year. Later the management assigned me to the foreign exchange division IFIC Bank Motijheel Branch. IFIC Bank is one of the most reputed private banks of the country with most of its business profits generating from foreign trade. Foreign exchange department mainly deals with export and import oriented businesses which included communicating with clients for the necessary documents needed to open a letter of credit for their exports and imports. The internship report has been based on my practical experiences that I have gathered from working there as an intern.

This project talks about the L/C procedure followed by IFIC Bank foreign exchange division for opening a Letter of credit or advising a letter of credit to the customer of the bank. This project also talks about the different types of L/C as it is important part of the L/C procedure. The project also includes the various examinations of documents done by the bank officers of foreign exchange division of IFIC Bank Ltd in order to maintain the terms and conditions of the L/C. The main focus of the project is to give a view of the practical procedure of L/C at IFIC Bank foreign exchange division.

Background of the Organization

International Finance Investment and Commerce Bank was established in 1976 in a joint collaboration between the government of Bangladesh and few private investors of the country. The bank was incorporated with limited liability. The organization of formed to serve customers with more efficient service regarding their monetary and business transaction both in the country and with foreign countries as a finance company. As a part of that commitment many foreign branches of IFIC bank Ltd was opened in foreign countries as a joint venture with other institution of other countries. Later in the years when government relaxed rules and started giving licenses to private commercial banks to operate in the country, IFIC Bank Ltd was turned into a fully operating commercial bank in 1983. The government still holds 32.75% share capital of the bank, 11.31% is held by the directors and the rest is held by the general public. Chairman of IFIC Bank Ltd is Salman .F. Rahman, a prominent businessman of Bangladesh.

IFIC started foreign trade in a limited scale during the 1980s and as time passed and the bank's operation grew larger in size its foreign exchange department became one of its most profitable division of the bank. In 1987 IFIC Bank Ltd opened its first overseas branch at Karachi in Pakistan followed by a second branch in Lahore Pakistan in 1993. Expanding the bank's operation outside its home country's boundary was a vision of its directors and as a result IFIC Bank Ltd set up a joint venture in Nepal named Nepal Bangladesh Bank in 1994.

IFIC Bank expanded its operations more widely in Nepal when its second joint venture in Nepal, titled Nepal Bangladesh Financing and Leasing Co. Ltd started its operation in 1999. As a first generation private bank of Bangladesh the vision of the management was set to take the bank to a more places where they will be able to venture new markets and as a result a new bank was setup in Pakistan named NDLC-IFIC Bank Ltd and the foreign branches of IFIC were joined to it. Providing better service to its clients was always a mission of the bank so to cope up with technological advancements and to provide clients with more efficient service IFIC bank incorporated MISYS solution in 2005 for real time online banking application so that clients can use banking facilities without coming to the bank. Technological advancements of the bank's facilities led to the introduction of IFIC bank's VISA debit and credit cards in 2007 for easier cash withdrawal and use by its clients. Today the bank has reached an epitome of success and has recently opened its 100th branch at Tejgaon Gulshan Link road in Dhaka and introduced

mobile banking facilities to its clients for more efficient service and greater customer satisfaction.

Mission Statement

“Our Mission is to provide service to our clients with the help of a skilled and dedicated workforce whose creative talents, innovative actions and competitive edge make our position unique in giving quality service to all institutions and individuals that we care for.”

Visions for the future

“At IFIC Bank we want to be the preferred financial service provider through innovative, sustainable and inclusive growth and deliver the best in class value to its stakeholders.”

Objective of the Report

To highlight the basic principles of IFIC foreign exchange division, to show the L/C procedure at IFIC bank, to give a brief idea about the different banking facilities offered by IFIC Bank Ltd and to give an analytical review of the performance of foreign exchange division of IFIC Bank Ltd based on its performance in the past years.

Methodology

The methods used to collect information regarding making of this report are:

- Discussions with bank officers (my supervisor)
- Observations made while working at the foreign exchange of IFIC Bank Motijheel branch
- IFIC Bank annual report
- Different publications of Bangladesh Bank
- Some secondary data collected from IFIC Bank Ltd website

Limitations

Few limitations I faced while preparing this report were:

- There are restrictions on availability of data provided by the bank because of their organizational policies
- I have worked at the foreign exchange division but couldnot venture into other sectors of my branch due to workload and time shortage.
- Time period of my internship was short because three months is not enough to get an idea about the whole operations of a bank so I had to focus my report mainly on foreign exchange division.
- The reliability of my report depends on data collected from annual reports.

Product/ Service offerings

Services provided by the bank can be divided into five major divisions which are as follows:

- Corporate Banking
- Retail Banking
- SME Banking
- Treasury & Capital Market
- Agricultural Credit

Corporate Banking: Corporate Banking division of IFIC Bank is specially designed to work with corporate clients who need specialized care for their businesses. IFIC has divided its corporate products and services according to the needs of its different clients. They are

- **Working capital finance:** Businesses that need a lot of working capital for their day to day expenses regarding manufacturing/ trading or services can take this finance options. Store based working capital products include secured over draft, cash credit, packing credit, short-term loans payable on demand bank guarantees. Non Store based products include bank guarantee, performance guarantees and bid bonds are also supporting the business of our customer.

- Project Finance: Project finance gives finances to businesses for building long term infrastructure for achieving their business goals, these finances are given based on their debt and equity rather than the balance sheets of the sponsors.
- Term Finance: is given for a given amount of time. Term finance basically included small amount of finance that are need by corporate businesses which have to pay to the bank within the time given for the finance.
- Trade Financing: includes the finances the bank provides to its clients for import and export of goods through letter of credit (LC). Bank provides these for non funded products for which the clients can avail working capital finances. Bank also provides finances for import of raw materials for a business export good. These are called back to back LCs (letter of credits) for which the clients can pay after the goods have been exported.
- Lease Financing: In lease financing bank buys and asset selected by its client and then leases the asset to its client for operation. The asset can be machinery which the client uses in manufacturing products. Client pays rentals and interests to the bank and when its client has generated enough money to pay for the asset they can acquire the asset from bank. This facility helps the clients with more financial flexibility and the clients can enjoy tax benefits.
- Syndication Finance: Some projects are too risky and require a bulk amount of finance. To avoid over allocation and risk few banks share the amount of finance needed for a project by a particular client. IFIC bank in collaboration with other banks allows syndication financing for its valuable clients.

Retail Banking

As a reputed bank operating a long time IFIC bank Ltd has a very good reputation when it comes to retail banking. Retail banking deals with individual customers rather than businesses. IFIC Bank Ltd values its individual customers dearly and has several services available for them according to their preferences which are as follows:

- **Consumer Finance:** These are finances given to individual consumers of the bank. This can be in the form of individual loan or bank overdrafts. Any adult person who is an Account holder of IFIC Bank Ltd can facilitate personal loan facilities. Tenure for return of loan varies from 12 to 36 months. Loan sizes are as follows:
 - Maximum 95% of the face value of FDR
 - Maximum 100% of MIS account.
 - Maximum 100% of the principal amount
 - Maximum 90% of ICB unit certificate

Apart from these loan facilities IFIC Bank Ltd gives Easy loans which are paid against the consumers financial and fixed assets. Other facilities include

- Customer Durable Loan – It is given to buy durable products such as computer, television and have to be paid back to the bank with a certain percentage of interest.
- Parua (Education Loan) – IFIC Bank Ltd gives loan for education purposes up to 800,000 Tk which have to be paid back within 12 to 48 monthly installments.
- Home Loan – This loan can be availed by all credit worthy customers who want to buy or make a new home or mortgage their existing home for renovation.
- Any Purpose Loan- These loan can be taken to meet financial needs of personnel.
- Marriage Loan- Up to 300,000 TK can be loaned with a return policy of 12 to 36 monthly installments.
- CNG Conversion Loan- CNG conversion loan has to be paid between 12- 36 monthly installments. Loan amounts peaks till 100,000 Tk.

- Medical Loan- For medical and treatment purposes IFIC Bank Ltd provides loan up to 300,000TK which can be paid back with 36 monthly installments.
 - Holiday Inn Loan- IFIC Bank Ltd provides Loan to holiday goers up to 300,000Tk which can be paid back with 36 monthly installments.
 - Peshajeebi Loan (For professionals) - A loan amount of 10, 00,000 Tk can be availed and paid back to the bank with 12-48 monthly installments.
 - IFIC Auto Loan- IFIC provides a maximum of 20, 00,000 TK to buy a car which is repayable to the bank with 12-60 monthly installments.
- **Deposit Products:** Deposit products include normal savings account for day to day cash withdrawal and deposit of cash and the client receives interest on his deposit. Client will be able to enjoy ATM and internet banking for this savings account. Apart from savings account the bank offer many deposit products for its clients such as:
- Smart savings Account- An interest bearing savings account.
 - Super Saving Plus- It is a special savings account that gives monthly return on deposits and gives insurance up to 500,000 for accidents.
 - Current account- It's a non interest bearing account with other facilities similar to a savings account.
 - Special Notice Deposit Account- This account is used for day to day deposit and withdrawal and interest is calculated on daily balance and paid at monthly.
 - Fixed Deposit Account- A deposit accounts that pay interest after a fixed time which is chosen by consumers themselves. For example: 3, 6, 12 months.
 - Pension Saving Scheme- Pension savings accounts have a tenure of 3 to 5 years and consumers can get loan facilities up to 80% if the principal amount. The deposit is tax deductible and consumers can get the full money after maturity.
 - School Savings Plan (A Plus) - Savings plan for school going students. Students can get scholarship up to 5000 Tk if they can pass with grade A+.
 - Monthly Income Scheme (Protimash) - A fixed deposit that gives monthly return on investment. Tenures of the fixed deposit can be up to 3 years and gives 100% credit facility.

- Three Year Deposit Plus(3YDPS)- A deposit of 3 years which can be opened in joint names and has up to 90% credit facility of the deposited amount.
 - Double Return Deposit Scheme (DRDS) - This scheme requires a minimum deposit of 25,000 Tk and will return double the initial deposit in 7 years.
 - Millionaire Dream Plan (MDP) - This plan needs consumer to deposit Tk 5200 for 10 years for the results to come out. Other shorter tenure plans are also available under this scheme but with larger deposit amount. Credit facility up to 90% of the deposited amount can be availed and it also provides insurance up to 500,000 Tk incase consumer faces any accident.
 - Sanchita (Female Savings Account) - This is a savings account designed especially for female for encouraging women empowerment.
- **IFIC CARD**
 IFIC Bank Ltd provides VISA debit and credit cards to its consumers for easier purchase of products and cash withdrawals from any ATM with VISA logo on it.
 Debit cards are issued against a person's savings/current account. Debit cards are of three types: Local, Local Business and International Debit Card.
 - Local Debit card can be used to withdraw cash and purchase goods and services with Bangladesh only.
 - Local Business Debit Card is issued against proprietorship accounts or STD accounts and these debit cards can withdraw a larger amount of cash than local debit cards.
 - International Debit Card can only be used outside Bangladesh and issued against an individual foreign currency account maintained with any branch of IFIC Bank Ltd.
 - **NRB Account**; NRB accounts are for non-resident Bangladeshis who live abroad and remit foreign currency to our country.
 - Foreign currency account- Foreign currency account can be opened in USD/GBP/EURO by a NRB. Foreign currencies earned by NRB's can be remitted to this account and a local nominee can operate this account locally.

- NFCD- is a fixed deposit plan for NRBs where deposits can be made in USD/GBP/EURO for a fixed tenure and interest will be pair according to daily published exchange rates.
 - Wage Earners Development bond- A NRB can buy a wage earner development bond at an interest rate of 12% for a fixed tenure of 5 years. Lower Interest will be paid in case of early encashment.
 - USD premium bond can be purchased by a NRB using a foreign currency account and the principal amount can be paid in US dollars or Taka with the interest being paid in Taka. Tenure of 3 years and an interest of 6.5% are fixed on this.
 - USD investment bond- This bond can be issued from the balance of FC account and has a interest rate of 6.5% payable within 3 years
 - Inward Money remittances: IFIC has many money exchange house which can be used to exchange currencies. Few of them are as follows : IFIC Money Transfer (UK), Oman International Exchange(Oman), Placid N.K corporation (USA), Multinet Trust Exchange (UAE), Al-Fardan Exchange(UAE), Coinstar Money Transfer Limited (UK), MoneyGram, Xpress money Services, Trans Fast Remittance.
- **Student File Service**
Using Student file service of IFIC Bank Ltd foreign currencies can be remitted to Bangladeshi students living abroad studying in reputed universities through selected dealer branches. Applicable countries are: USA, Canada, Australia, U.K, New Zealand, SAARC countries and Myanmar.
 - **SMS and Internet Banking**
IFIC Bank Ltd provides both SMS and internet banking facilities through which consumers can access their accounts without visiting the bank. Consumer can check their deposit amount, get an account statement, get notification for their deposits and check their debit and credit card bills.

SME Banking

IFIC Bank Ltd provides Finance to Small and Medium Enterprises which fall under SME banking facilities. Small and Medium enterprises are also very important clients of the bank because they have a large amount of daily transaction when they are calculated in masses. For the benefit and facilitate SME sector of the country IFIC Bank Ltd provides collateral free credit facilities to the SMEs. IFIC Bank Ltd provides different loan facilities for SMEs namely:

- Easy commercial loan: This loan is given against FDR, share certificate, Government security, etc which are eligible for credit.
- Retailer's loan: Any enterprise having a valid trade license can apply for this loan to meet the needs of a business's working capital.
- Muldhon loan: A loan with monthly repayment facility for any business which is operating over two years.
- Women entrepreneur's loan (Protyasha): A loan for a business incorporated in Bangladesh which is run by women for two years in the same line of business.
- Transport loan: Loan to buy transport for commercial use either for public or individual use.
- Working capital loan: Loan to meet working capital needs of businesses engaged in manufacturing for processing and manufacturing products for sell.
- Project loan: Loan given to set up manufacturing units of manufacturing business.
- Contractor's loan: Businesses operating in contractual task such as construction of road and other facilities can execute overdrafts to continue their work.
- Bidder's Loan: Businesses engaged in construction and supply can avail bidder's loan to give payment orders or demand drafts to tender bidder.
- Letter of guarantee: A tender bidder can sometimes have trust issues regarding a contract. Letter of guarantee is a guarantee of the bank to pay incase the business fails to pay.
- Letter of credit against imported merchandise (LIM): Bank gives LC facility to SMEs for import in case of non- funded facility.

- Loan against trust receipt: A loan for working capital of enterprises for processing of imported goods.
- IFIC Prantonari: Loans to grassroots women who need loan for cottage for manufacturing Nokshikatha, Jamdani and handicrafts items who have no access to financial facilities.
- IFIC Shilpo Shohoy: Credit item for any Bangladeshi potential entrepreneurs who has the matter of Cottage and Micro Enterprise ice, Pottery, Cane and Bamboo, Handloom, Goldsmith, Handicrafts, etc. Maximum of 300,000 Tk loan can be taken from the Bank returnable by maximum 60 monthly installments.

IFIC Bank Ltd has few deposit schemes for SME holders such as:

- Arjon: A deposit facility has monthly return on investment of 50,000TK designed only for SME clients and gives credit facility up to 90% of principal amount.
- Joma: Deposits starting from 5,000 Tk only can be deposited for a tenure of 3 years and after that full amount after maturity designed only for SME clients

Treasury and Capital Banking

IFIC Bank has a committed Treasury group which is equipped for giving all treasury arrangements through extensive variety of Treasury items. IFIC Treasury has four distinct work areas, which are spent significant time in their own region to give best administrations appreciation to valuing, most ideal answer for client necessity and business sector data. The diverse Treasury Desks are as per the following:

- **Money Market Desk:** Currency market merchants organize short and medium term stores at most efficient terms which are required by the bank beside client store preparation endeavors. Currency market work area guarantees that the bank remains adequately fluid, meeting all its budgetary responsibilities and commitments to its clients other than meeting the SLR and CRR necessity at least hazard and cost to the bank. In anxiety liquidity condition the work area dependably oversees adequate asset to give business needs.
- **Foreign Exchange Desk:** IFIC Forex Desk is one of the main business sector creators in spot, swaps, and forward exchanges in between bank market. The Bank has great wellsprings of Foreign Currency through its own particular fare clients, Non-living arrangement Remittances and neighborhood and multinational corporate houses settlements/sends out. The Bank is likewise all around prepared to value world significant money spot and forward costs. The Treasury is associated with the International Market through on-line Dealing Platforms of various universal banks to cite extremely focused costs on world real coin spot and advances.
- **Investment Desk:** Investment desk in Treasury Front Office operates within the policy frame approved by the Board of Directors of the Bank. Fund invested in different securities both for maintenance of SLR & income generating activities. The philosophy is to manage and maximize income within certain parameters and limits. The trained employees takes every profitable investment opportunity by keeping a close look at the market and when they a suitable opportunity to earn profit for every profit invested whether in local or foreign market they take it.

- Asset Liability Management Desk: This desk helps in effective allocation of funds to against an asset's merits. The team looks at the possible future growth and downfalls of an asset and helps the treasury department in allocating funds

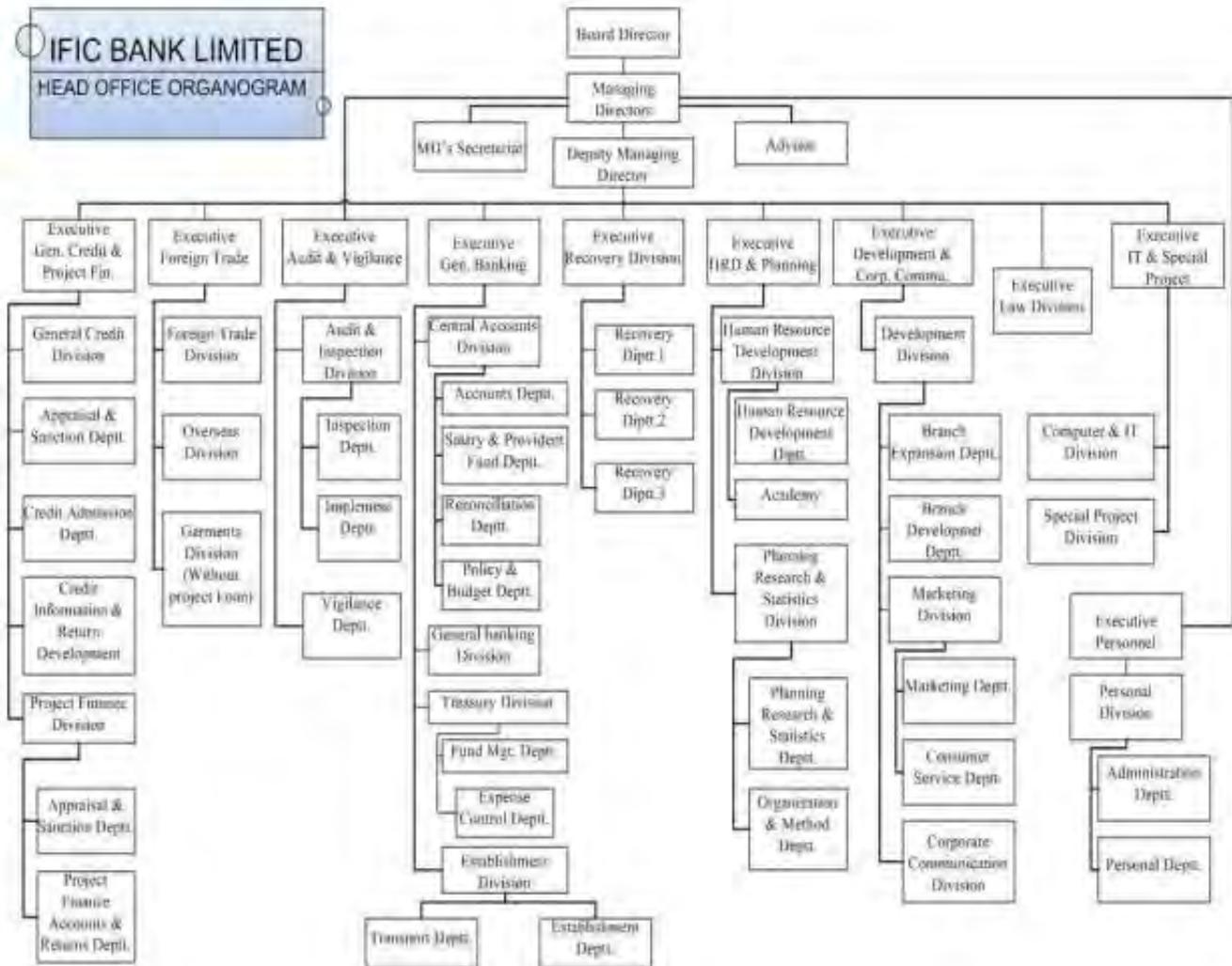
IFIC Bank Limited is committed to capital Market of the nation and offers world standard business administration, for individual and institutional financial specialists. The Bank is in charge of beginning of offers, purchase and exchanging of securities of Capital markets. Services provided under this facility are:

- Brokerage services: Buying and selling of shares in the secondary market through IFIC brokerage service by their dedicated dealers and arrangement of safe keeping of securities.
- Margin Loan Facilities: To give loan to clients operating in secondary securities market by a margin set by the management under Margin rules and regulation, 1999 securities and exchange commission
- Opening of Bo accounts for transactions of clients in the securities market.

Agricultural Credit

- IFIC-KRISHI SHILPO: This loan facility is for agro-based industries. SME's engaged in processing aromatic rice, flour, oil, etc. Personal net cash flow should be greater then applied loan amount to avail this facility.
- Loan against Crop Cultivation at 4% interest rate.
- IFIC Green Earth: This loan is given up to 400,000TK for construction of bio-Gas plants using cow dung in rural areas.

Operational Network Organogram



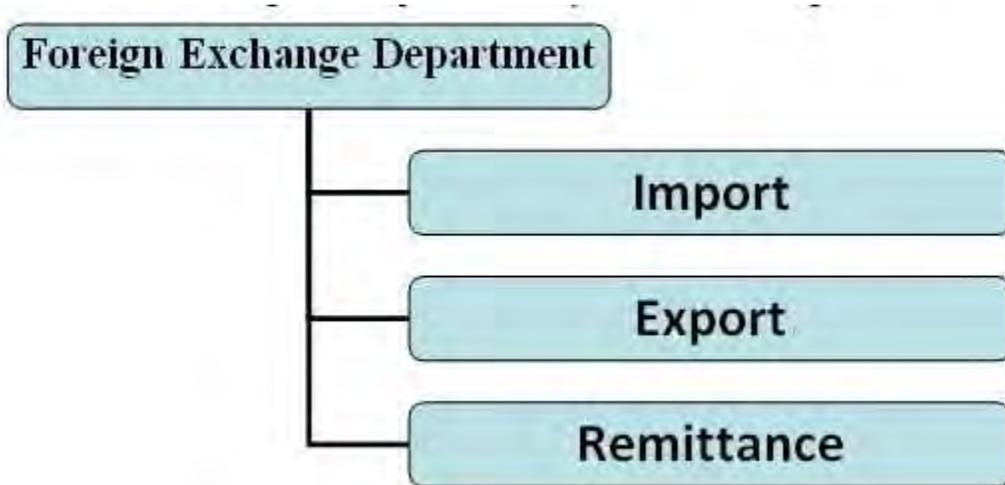
Management Hierarchy



Chapter 2: Job

Job Description

I worked as an intern at Foreign exchange division of IFIC Bank Ltd Motijheel branch. This department of the bank deals with three services of the bank. They are import, export and foreign remittance.



For 3 months and during this period I have been attached to various works of the export and import wing of foreign exchange division such as:

- Assisting officers in their day to day work: Bank officers work under a lot of pressure and they have a lot of task to be completed in a single day. As an intern I assisted officers by partially completing their tasks so that they can get to the end result in a shorter time.
- Assisted client in opening L/C: As an intern of foreign exchange division my task was mainly related to handling L/C documents and communicating with clients wanting to open L/C for import and export of their goods and services. So I assisted clients in filling up these L/C forms so that no document is missed and I also sometimes checked the data given by them if it seemed suspiciously wrong.
- Filing L/C documents: The foreign exchange division of IFIC Bank is one of the busiest departments of the bank as mostly clients of export oriented goods always occupy the

place during office hours. I with few of my other colleagues had to file a large number of LC documents apart from assisting them in opening an LC because without proper filing bank officers who were going to work on the LC documents next could start working on it.

- Posting L/C transactions to Bangladesh Bank Server: Everyday a large number of Import and export L/C are issued from the Foreign exchange of IFIC Bank Motijheel Branch. Bank employees cannot cope up with handling L/C documents and posting the LC data of different organizations into the Bangladesh Bank server so that Bangladesh Bank can keep a track of these organization yearly exports and imports. These data help the government to find taxes payable by each organization. I was assigned to post data of local LC payments and Foreign L/Cs done by companies into the Bangladesh bank server by using a password encoded account of the bank. I also posted data on computer generated system that gave L/C number of a particular LC so it is easier to find the specific LC information next time that L/C is required.
- Maintaining hand written registers of L/C transactions: I had to write registers which recorded the amount of payment received by each client. The register recorded the L/C number, the date of payment, and exchange rate of USD on that date, the amount of payment received in taka converted by that exchange rate.
- Creating Microsoft Excel databases: I created excel databases of the L/C payments to clients. My supervisor guided me throughout the process and showed me a sample of database of what needed to be included in the excel file.
- Assisted in writing FDD: Foreign demand draft is issued by the foreign exchange division to pay a certain person a certain amount. The FDD draft looks like a pay order. I assisted an officer in filling up FDD.
- Duplication of L/C: I duplicated L/C documents when a bank officer was on leave. I worked at his place for 15 days.

Different Aspects of Job Performance

- I got a firsthand experience of working in the banking sector and got a chance to deal with real life problem solving situations.
- This internship program helped me to learn about export and import oriented business and gave me a slight idea about the system of export and import.
- All the bank officers are very hard workers and they hardly keep any work pending for the next day. Employees are the heart of an organization and I got to experience that while working at IFIC Bank Ltd.
- Working at IFIC Bank enhanced my critical thinking ability and taught me new ways to keep calm and work efficiently under pressure.

Chapter: 3

Procedures of Letter of Credit (L/C)

Letter of credit (L/C)

A letter of Credit or as it is called in other words documentary credit is a written instrument written by the bank on request of its customers, the importer (buyer), where the bank promises to pay the exporter of the goods (beneficiary) provided the beneficiary provides all the documents mentioned in the L/C document and meets all other conditions mentioned in the L/C document.

L/C system came into existence because of the failure of previous documentary system earlier which posed risk for both importer and exporter and is a very important part of non-funded business for banks. The evolution of documentary system led to the L/C system.

There may be few parties involved in a letter of credit which are namely:

- Applicant: An applicant is the person who applies to the issuing bank to open an L/C to import good and issue payment to the seller once all terms and conditions have been met. An applicant is the buyer of the goods.
- Beneficiary: Beneficiary is the seller of goods. Beneficiary sells/exports the goods to the applicant/buyer and receives payments after providing the sailing documents to the issuing bank via the advising bank.
- Issuing Bank: Issuing bank is the bank of the applicant (buyer) where the application for a Letter of credit (L/C) is made. The bank examines the documents provided by the applicant and opens a L/C in favor of the beneficiary. The issuing bank will give payments once the beneficiary (seller) provide the bank with shipments documents provided the terms of the L/C is met
- Advising Bank: Advising bank is the bank of the seller (beneficiary) which usually resides in the country of the beneficiary. The issuing bank contacts a bank to advise the credit to the beneficiary and that bank is called the advising bank. Advising bank may also need to prove the authenticity of the credit to the issuing bank on behalf of the beneficiary.
- Confirming Bank: A confirming bank is usually a bank that guarantees the letter of credit apart from the issuing bank and assumes the same responsibility as the issuing bank. So the beneficiary has the guarantee of payment once he has met all the terms and conditions of the L/C even if the issuing bank fails to pay him.

- **Negotiating Bank:** Negotiating bank is the bank that negotiates documents delivered to the issuing bank by the beneficiary of a L/C. This bank verifies the documents and negotiates the terms and conditions of a L/C on behalf of the beneficiary to avoid any discrepancies
- **Reimbursement Bank:** This is the bank which issues payment once all the terms and conditions of L/C are met. The issuing bank has an account with the reimbursement bank and payment is made to the beneficiary from this bank as the issuing bank usually has an account in reimbursement bank.

A usual letter of credit involves applicant, beneficiary, the issuing bank and the advising bank of an L/C.

Types of letter of credit (L/C)

There are two types of letter of credit:

- **Revocable:** In case of a revocable letter of credit the issuing bank can cancel a letter of credit agreement even after delivery of goods have been made and payment of goods have not been made to the seller. Revocable L/C poses more risk to the seller of goods than the buyer. In modern day banking the use of revocable LC is very minute.
- **Irrevocable:** In case of irrevocable L/C agreement, the credit cannot be revoked/amended without the consent of all the parties involved. This type of L/C gives assurance of payment to the seller.

There are two types of payment methods in L/C agreements. They are:

- **Sight credit** which guarantees payment as soon as the documents are presented to the issuing bank as the issuing bank orders the reimbursement bank to release payment.
- **Deferred payment** has certain agreement in the L/C which allows the issuing bank to issue payment after a certain period of the submission of the documents of delivery.

Procedure of Opening a Letter of Credit

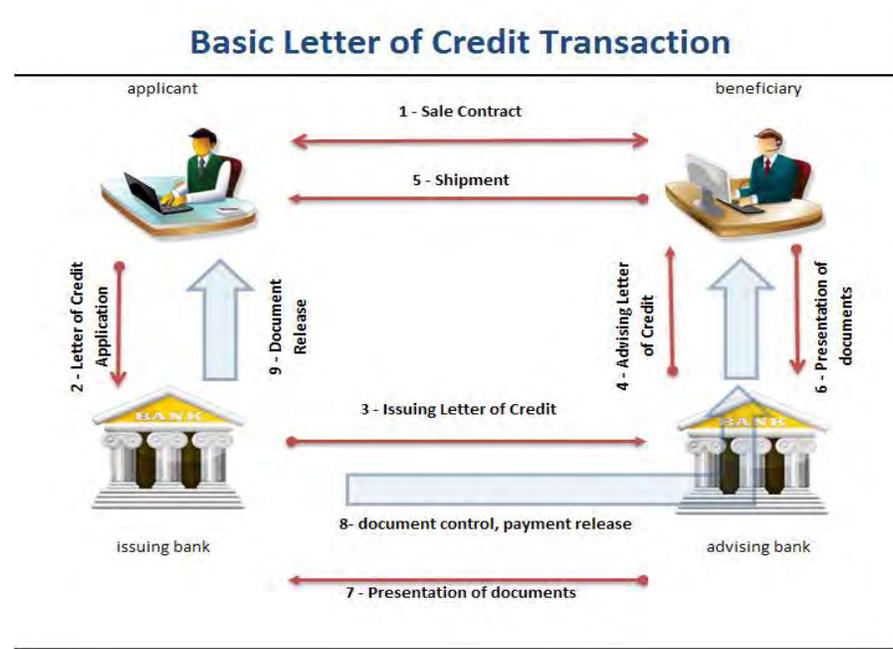


Figure: Procedure of a Letter of Credit

The usual procedure of an L/C is very simple and can be described in a few simple steps:

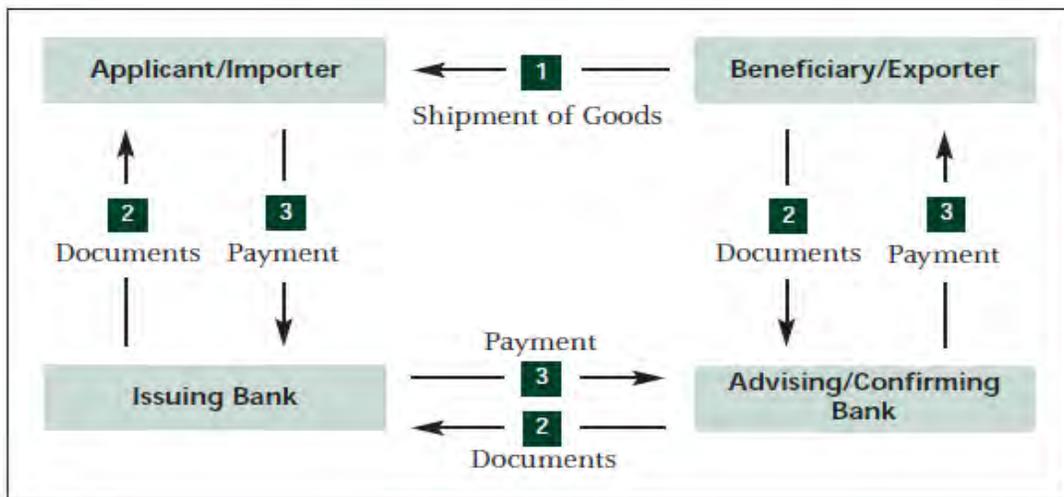
- Seller (beneficiary) and buyer (applicant) agrees to on a contract to make payment on a letter of credit system.
- Buyer applies to issuing bank, a bank of the buyer in his country to open a L/C in favor of the beneficiary.
- Issuing bank then contacts a bank of the seller's country which is called the advising bank to advise and confirm the credit to the seller. The advising bank sends the documents of the letter of credit to the seller informing him about the terms and conditions of an L/C.
- The beneficiary of the LC examines the terms and conditions and when we agrees to the terms and conditions mentioned in the documents, the beneficiary prepares the goods and documents and arranges carrier for goods.
- After the goods have been shipped, seller provides documents proving the delivery of goods to the advising bank.

- The advising bank examines the documents gives payment and sends the documents and sends it to issuing bank for authenticating the documents have met the terms and conditions of L/C.
- The issuing bank then dispatches payment order to the advising bank.
- Once the carrier has reached the country of the applicant. The buyer of goods shows bill of lading to the carrier of goods and claims ownership of goods leading to taking delivery of his goods.

This is the procedure of how a L/C agreement works all around the world avoiding discrepancies in payment and delivery.

Payment Process of a Letter of Credit

Payment Under a Letter of Credit



Procedure of a letter of credit from a walk-in client to a L/C:

Import

To open an import L/C with IFIC Bank Ltd an importer is required to submit the documents:

- A bank account with IFIC Bank Ltd.
- Applicant has to have an IRC certificate (import registration certificate). IRC certificate should be updated and should meet the boundary of price of goods imported.
- Tax's payers identification number (TIN).
- Pro-forma invoice
- Membership certificate from a recognized chamber of commerce and industry or registered trade association.
- Properly filled letter of credit authorization form (LCA) signed by the importer.
- L/C application duly signed by the importer
- One set of IMP form
- Insurance cover note with money receipt
- VAT registration certificate in case of commercial imports
- Attested photocopy of allocation letter by allocation authority, administrative ministry specifying the source, amount, purpose and validity of the import.
- Other documents required by the chief controller of imports and exports (CCI&E).
- Importer might have to submit report of solvent performances with other banks to IFIC Bank Ltd.
- Credit information bureau (CIB) report from Bangladesh bank.
- A proposal approved by the executive committee of the bank in case LC amount is small.
- An approval letter from Bangladesh Bank if LC amount is large usually for amounts more than 100,000,00TK.

Proposal of L/C

Bangladesh Bank has a guideline for all the operating banks of our country. IFIC Bank Ltd follows those guidelines and works accordingly with its clients when licensing an L/C. In case of L/Cs with small amounts only the LCA (letter of credit authorization certificate) is enough to open an L/C but with L/Cs with large amounts imported need to submit an application the foreign exchange division to get a limit on the L/C amount. Limit on the L/C amounts sets the range of an L/C in monetary terms. Features of the application include:

- Details of the importer's bank account.
- Nature of the importer's business.
- The limit required by the importer.
- Terms and conditions of payment.
- Goods to be imported.
- Security offered
- Repayment schedule.

The L/C Application Form

L/C arrangement was imposed for trade outside borders to provide assurance for both seller and buyer regarding payment and delivery of goods. To ensure the safeguard of the assurance provided by L/C agreements detail information is required in a L/C form of both the parties. The information required is as follows:

- Full name and address if applicant.
- Full name and address of beneficiary.
- Draft amount.
- Availability of credit.
- The bar within which the document has to be presented.
- Sales type (CIF/FOB/C&F)
- Specification of commodities, price, quantity, etc
- Country of origin

- Bangladesh Bank registration no.
- LCAF no.
- IRC no.
- Document no.
- Account no.
- Insurance cover.
- Name and address of insurance company
- Mentioning if transshipment is allowed
- Last date of shipment
- Last date of negotiation
- Other terms and condition
- Whether confirmation of credit is required by the beneficiary.
- The L/C document must be signed by the authorized personnel before submitting to the issuing bank

L/C documents also include:

- Pro-forma invoice describing the goods, quantity, etc.
- Insurance cover note, issuing company name and insurance number.
- Four set of IMP/EXP form depending on export or import LC
- Bill of exchange
- Bill of Lading
- Airway bill
- Commercial invoice
- Packing list
- Country of origin
- Bill of entry
- Clearance report

Examination of L/C Documents

Every L/C document has to be checked thoroughly by bank officers because wrong information in the L/C documents can lead to cancellation, can cause problem with the central bank and even can defer payment from issuing bank to the seller. The information that are checked with most importance by IFIC Bank officers are:

- L/C application is stamped as per government rule to ensure a smooth processing.
- All information mentioned in different columns are authentic
- Approval of Bangladesh Bank, Valid registration with reputed trade association to approve L/C
- The terms and conditions of the L/C are within the Bangladesh Bank foreign exchange guidelines, import trade regulations, UCPDC, etc.
- The amount and quantity goods to be imported are according to the pro-forma invoice and LCAF.
- Survey report certificate in case of old machinery
- Carrying vessel is not of Israel.

Amendment of an L/C

Sometimes problems arise regarding the terms and conditions of an L/C and all the terms and conditions cannot be met. Due to these mismatches amendment option is available in an L/C agreement. Most of the time it's the buyer and seller who are unable to meet the terms of L/C and they apply to the issuing bank for amendments of L/C. IFIC Bank foreign exchange passes the amendments to the advising bank or the seller's bank through swift document or airmail. Standard amendment charges are charged to the client as set by the head office of IFIC Bank Ltd. Through the amendments of L/C, new terms and conditions of L/C are set. Charges are debited from the client's account in the bank or as per the preference of the client.

Presentation of Seller's (beneficiary's) Documents

After agreement with the terms and condition of L/C the seller of good will manage carrier for the goods and deliver the goods to the carrier. After delivery of goods to the carrier the seller will submit the documents of delivery which are delivery chalan in case of delivery is made by road, airway bill in case delivery is made through airplane and shipping bill in case the carrier is a ship before the expiry date of L/C. The bank will examine the documents and if the documents are in order the bank will pay, accept the documents and send it to IFIC Bank foreign exchange division where the bank officers will check the documents to verify the documents meet the terms and conditions of LC. The documents usually receive by IFIC Bank Foreign exchange divisions are:

- Invoice
- Bill of lading
- Certificate of origin
- Packing list
- Shipping bill
- Bill of exchange
- Survey document of goods before shipment
- Shipment certificate

After receiving and examining the entire document for mismatches with terms and conditions of L/C. IFIC Bank foreign exchange division officers usually inform the advising bank with seven working days to issue payment to the beneficiary.

Some usual problems that are found by bank officers are:

- Expiration of L/C
- Late shipment
- Overdraft of L/C amount
- Goods vary with the description given in L/C

Recording L/C Information

Once the L/C procedure is complete the bank records all these information in their registers. I have filled registers of LC documents. The information IFIC Bank foreign exchange keeps of L/Cs are: Number of the record, L/C number, date of opening the L/C, name of the applicant, amount of the L/C in monetary terms, Type of goods imported through the L/C arrangement.

Payment is made by sending an inter branch credit advice (IBCA) to credit the L/C amount to IFIC Banks account maintained in the country of the exporter through which the exporter receives his payment.

Retirement of L/C Document

To own custody of the goods imported, importers applies to the bank to receive shipping document (bill of lading) to relieve his goods from customs authority. The importer may pay the bank by debiting from his current account or apply for a loan to the bank for retirement of the documents. After the importer have received bill of lading and provided it to the customs authority, he will be able to take delivery of his goods.

Few of the steps IFIC Bank maintains for retirement of import documents are:

- Calculation of interest
- Calculation of other charges
- Passing voucher
- Keeping record in their registers
- Endorsement in the Bill of lading and other transport document

Post Import Financing

Some customers may not have enough cash to pay the bank and can apply for loan to bank for clearance of their goods from the port. Bank can provide with loan to the importer which is called post import financing and the loan is called “Loan against trust receipt (LTR)”.

LTR gives importer the opportunity to release his goods from customs authority with the bank retaining the ownership title of the bank. Importer can sell or use these goods only for payment to the Bank or payment of the trust receipt. IFIC Bank offers this facility to only its most loyal and trusted customer to avoid default loans.

Export

Export is very important for the growth of a country's economy, export helps in bringing foreign currency into our country and through export of goods we are expanding our country's business globally.

Bangladesh is mainly an export oriented country with businesses exporting: ready-made textile garments, jute, medicines, frozen shrimps and tea to foreign countries. To export these products our local businesses need to be a part of an export L/C.

Procedure of an export and import L/C are very similar. Export L/C has the reverse mechanism of an import L/C, where our local exporter will have a local bank as the advising bank for collecting payment for the exporter.

IFIC Bank Foreign exchange division helps in a bundle of ways to its clients who export goods.

The facilities are as follows:

- Export letter of credit advising
- Pre-shipment export financing
- Exports document negotiation
- Letter of credit confirmation

Procedure of an Export L/C

Our country has certain policies to regulate the goods to be exported under “Import and Export Control Act 1950”. To meet the policy standards an exporter has to get a valid export registration certificate (ERC) from chief controller of import and export (CCI&E). The certificate needs to renew every year if an exporter wants to continue export.

The foreign exchange division of IFIC Bank deals with two kinds of export L/C:

- Export L/C
- Back to Back L/C

Export L/C

To maintain L/C arrangement followed worldwide an exporter has to fulfill various criteria of an L/C agreement. They are as follows:

- Obtaining export registration certificate (ERC)
- Obtaining EXP
- Contract signing with the buyer of goods
- Receiving letter of credit
- Manufacturing the goods for export
- Manage carrier for delivery of goods
- Presentation of export documents to advising bank
- Wait for payment to be issued

After the exporter submits export documents (delivery chalan, commercial invoice, etc) to IFIC Bank foreign exchange, bank purchases the documents on bank-customer relationship. This is called foreign documentary bill purchase (FDBP). FDBP signifies that the exporter of seller of the goods will only receive payments when the issuing bank will give payment. The exporter submits duplicate and commercial invoice and the total bill are calculated. Once the issuing bank issues payment order it is debited in the account of IFIC Bank located in the country of issuing bank. Bank then pays the exporter from IFIC Bank Motijheel branch.

This is how the payment procedure of an export L/C works.

IFIC Bank foreign exchange division also manages local documentary of credit. In a local L/C a buyer can open an L/C to buy goods from a seller residing in the same country through local banks operating as Issuing bank and advising Bank. In case of an Inland L/C arrangement, IFIC Bank follows the following steps:

- IFIC Bank receives L/C from issuing bank
- IFIC bank advises the L/C to the seller.
- Sellers submits necessary documents to IFIC Bank foreign exchange division after delivery
- IFIC bank officers examine the documents for ensuring the terms and conditions of the L/C have been met
- After the documents are forwarded to the L/C issuing bank, the issuing banks forwards an acceptance letter to IFIC Bank foreign exchange division
- On the acceptance letter a maturity date is given on when the payment will be met.
- After maturity of the letter of acceptance payment is made to the beneficiary.

Examining Export L/C documents

Both import and export documents are examined by IFIC Bank officers to check to mismatch with the terms and conditions of L/C. Generally officers look for the following information:

- Exporters have submitter L/C documents before submission date
- L/C is restricted or not
- Shortage of documents
- Verifying one document with another
- Partial shipment or transshipment
- Matching Bill of exchange value with commercial invoice
- Matching tenor of Bill of exchange and L/C
- Matching details of goods mentioned in commercial invoice with those mentioned in L/C
- Matching the quantity of goods with the quantity mentioned in the bill of lading
- Transport documents

Bill of exchange

When the seller and buyer agree for a late payment then a bill of exchange is made. A bill of exchange must have certain credentials such as:

- It must be dated
- It must be named out in the name of the beneficiary's bank
- The advising bank must verify the signature of the drawer (the buyer of goods)
- Amount must be equal to invoice amount
- L/C number should be mentioned for which the bill of exchange is drawn

Financing of an Export L/C

- Pre-shipment financing: As the name suggests pre-shipment financing is a facility given by IFIC Bank to the exporter for the working capital needed for raw materials to produce the goods needed for export to foreign country. Bank gives such financing based on the credit worthiness, past export performance of a client and all other necessary information needed to sanction this credit.
- Post-shipment financing: Bank gives post shipment credit facilities to exporters who cannot wait for the issuing bank to dispatch payment order to the advising bank because exporters have to pay its supplier of raw materials, labor wages, etc. Bank gives credit for these purposes to the exporter of goods based on financial soundness of the exporter and in accordance with rules and regulations of IFIC Bank Ltd.

Back to Back L/C

A back to back L/C is made by the beneficiary of the Master L/C. A back to back L/C is mainly an import L/C that is made by the beneficiary of the Master L/C keeping the Master L/C as security to the advising bank for issuance of second L/C. A back to back L/C may be made to import raw materials needed to manufacture goods of the Master L/C. The beneficiary of back to back L/C may be located inside or outside the country of the beneficiary of the master L/C. The bank keeps no monetary security in case of a back to back L/C.

IFIC Bank foreign exchange division requires the following documents for opening a back to back L/C:

- Master L/C
- Valid import and export registration certificate (IRC and ERC)
- Duly signed and filled up L/C form and LCAF
- Pro-forma invoice
- Insurance cover note with money receipt

A beneficiary of a master L/C can open a back to back L/C with IFIC Bank foreign exchange division upon submission of these documents.

Payment of Back to Back L/C: In case of payment of a back to back L/C deferred payment is made with maximum payment periods ranging from 60 to 360 days because the payments are made after realizing export proceeds from issuing bank. In case of import of machinery IFIC bank can extend the tenure of payment until 360 days.

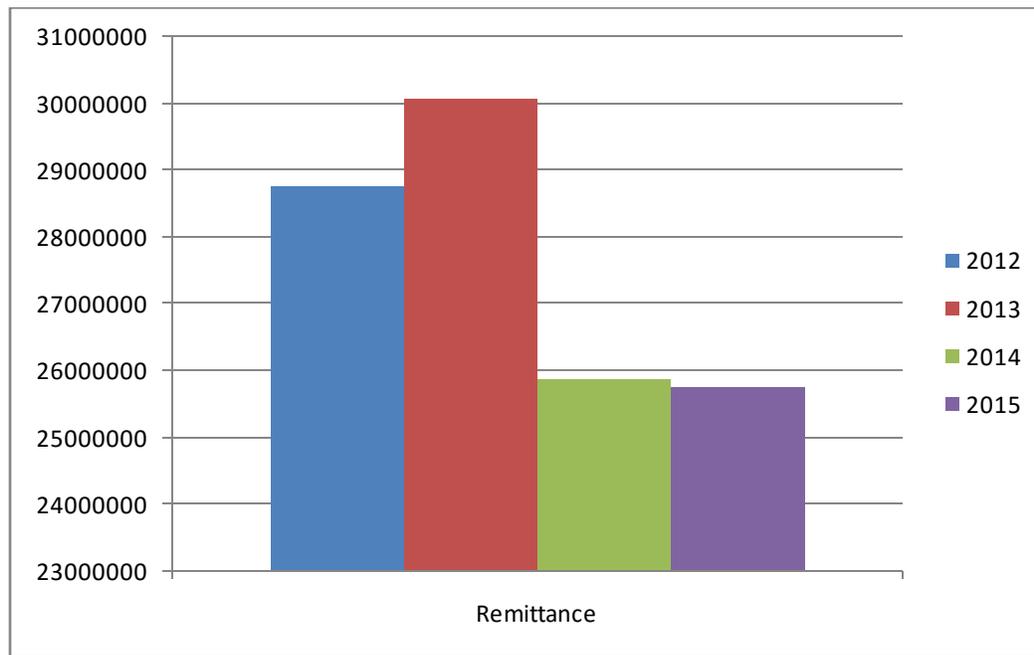
This information of back to back L/Cs has to be reported to Bangladesh Bank after every month end. Bangladesh bank keeps track of all the L/Cs made by the bank every month. Information that Bangladesh Bank keeps track of are:

- The entire months amount of goods, currency, etc
- Fining charges, commission
- A record of IMP form

Analysis and Results on Commission Earned Every Year by IFIC Bank Ltd

Commission received from remittance from 2012-2015

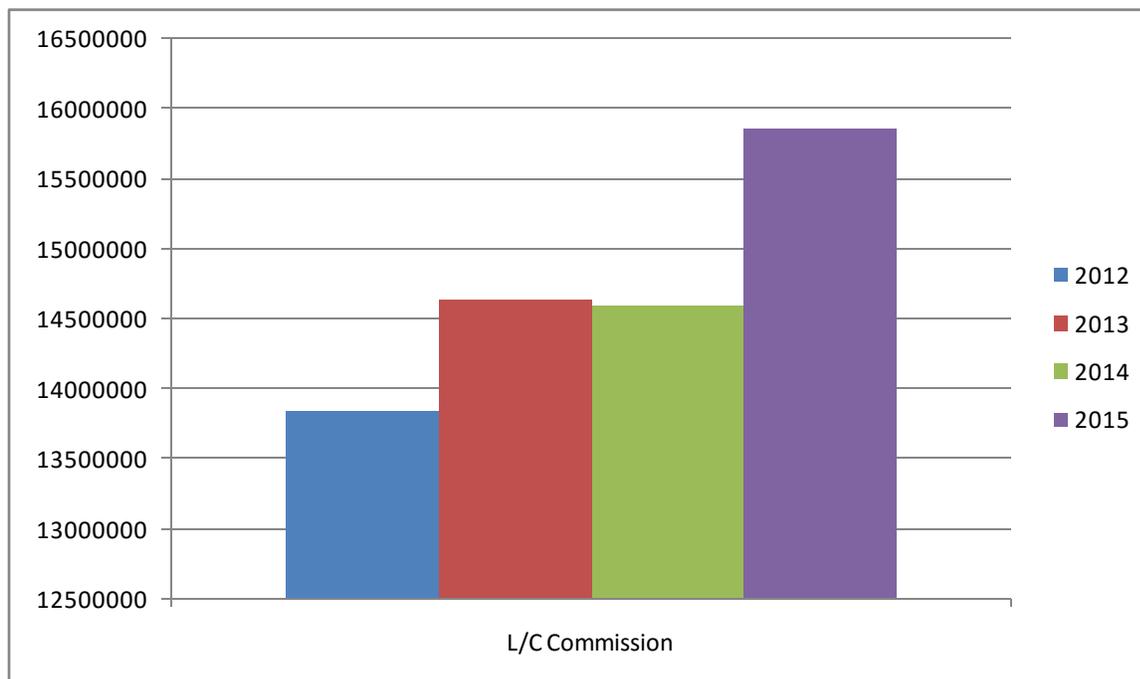
Year	2012	2013	2014	2015
Amount (TK)	28,763,582	30,063,499	25,879,190	25,777,423



This chart shows how the commission earned over a four year period from remittance in the foreign exchange division has varied over the years. The chart represents data collected from annual report of IFIC Bank Ltd.

Commission received from Foreign L/C from 2012-2015

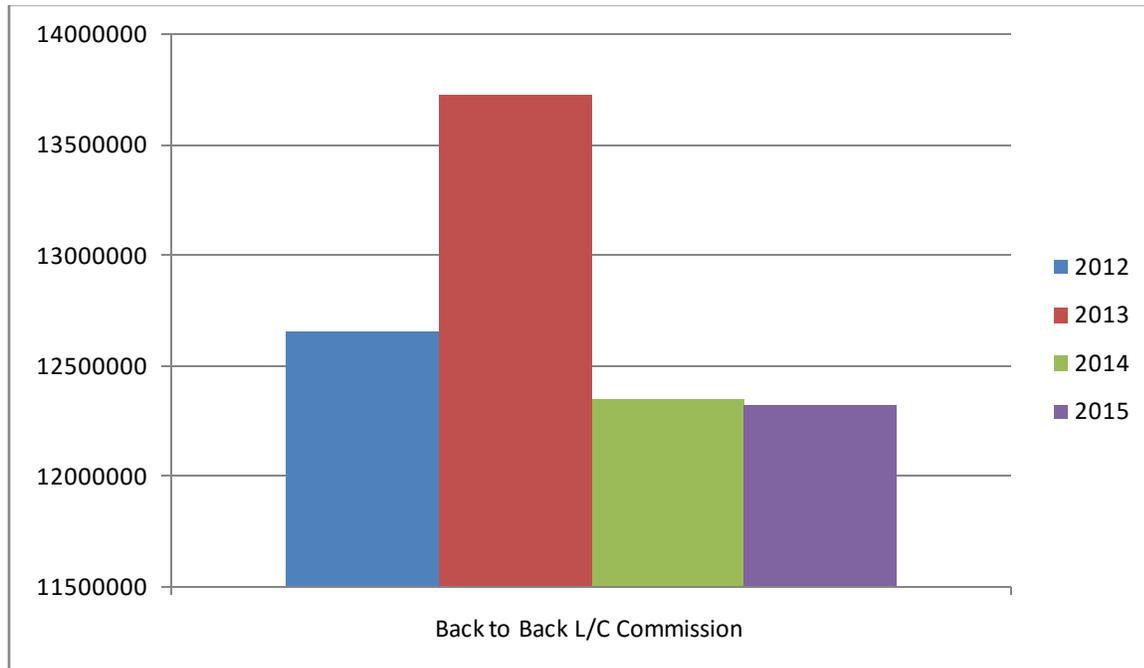
Year	2012	2013	2014	2015
Amount (TK)	138,424,870	146,403,096	146,014,551	158,611,498



This graph shows the commission earned by IFIC Bank Ltd from year 2012-2015. As we can see commission earned in 2013 is more the commission earned in 2012 which means bank had an increase in its income from LC. Applying proper strategy and guidance from management of IFIC Bank Ltd helped in increasing income and as a result its income from LC commissions is increasing for the next coming years.

Commissions earned from back to back L/C 2012-2015

Commission	2012	2013	2014	2015
Amount (TK)	126,588,904	137,308,549	123,571,692	123,266,595



As we can see 2013 has been the most resourceful year for IFIC Bank Ltd in the matter of back to back L/C because it earned the highest commission from back to back L/C in 2013. In others years around 2013 the bank earned approximately the same amount of revenue which I think is safe to say is the usual income of the bank from commissions of back to back L/C

Recommendation

- IFIC Bank foreign exchange department should find ways to decrease the processing time of an L/C so that clients can get faster service.
- Clients are a bit unclear about the charges for L/C processing. So allocation of fees charged for an L/C should be made clearer to clients.
- Foreign exchange of Motijheel branch should hire more employees because the numbers of existing employees are not adequate enough to process all the documents in quick time.
- Bank should put more focus on making documentation and filing of L/C documents easier.
- Some officers are not user friendly to technological advancements. Bank should train those employees for faster use of computer leading to quicker processing of L/C documents.
- Increase Promotional Activities.

Critical Observation

- Customer satisfaction is a must in a service orientated business because if the customers are not satisfied with the service the business cannot prosper.
- As my supervisor was very supportive towards me and showed appreciation towards my work it gave me a sense of recognition, so I think employee appreciation plays a vital part in performance of an employee.
- Work environment plays an important role for the sustainable future of an organization.

Conclusion

IFIC Bank Ltd is one of the most successful and oldest private banks of Bangladesh. I have learned a lot from the experienced workforce and resourceful corporate culture of IFIC Bank Ltd. IFIC Bank Ltd with its well trained and equipped workplaces has a very dedicated HR policy when it come to serve its customers. The bank is improving day by day as it is growing in size and through research and market survey. It is continuously developing new services for its customers so that they can flourish more in their field of business IFIC Bank Ltd with its expanded network of branches is making banking for businesses and common people easier with time.

My report based on my internship has been made to give an idea about my experience at IFIC Bank Ltd foreign exchange and the products and services provided by the bank. The knowledge I have accumulated by during my internship period of three months at IFIC Bank Ltd will surely help me in my future corporate career and my analysis on the income from few foreign exchange services provided by IFIC Bank Ltd is to give an idea about the business income of IFIC Bank Ltd. As I have completed my internship from foreign exchange division at Motijheel branch of IFIC Bank Ltd my report is based on services of foreign exchange division and my project is based on the procedures of L/C of IFIC Bank Ltd.

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