

Report On
“Overview of LC in Export and Import”.

By

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An internship report submitted to the Brac Business School in partial fulfillment of the
requirements for the degree of
Bachelor of Business Administration

Brac Business School
Brac University
June 2022

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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

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18104020

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Letter of Transmittal

Jubairul Islam Shawon
Lecturer
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Internship report submission on “*Overview of LC in Export and Import*”.

Dear sir,

It is an absolute honor to be able to present report on “*Overview of LC in Export and Import*”.

I hope that I was able to maintain all the guidelines that was provided in order to complete my internship report. I did my best regarding the collection of data and information from respective sources and personal research. The knowledge and experience I have gained cannot be described in words still I did my best to sum up all of the things that I learned in this report. The guidance that you have provided me have helped me to prepare this report.

If you have any further queries I will be happy to clarify it to you.

Sincerely yours,

Md. Rabbi Al Tamim
18104020
BRAC Business School
BRAC University
19th June, 2022

Non-Disclosure Agreement

[This page is for Non-Disclosure Agreement between the Company and The Student]

This agreement is made and entered into by and between Prime Bank Ltd. and the undersigned student at BRAC University Md. Rabbi Al Tamim, ID: 18104020.

Md. Rabbi Al Tamim
18104020
BRAC Business Scholl
BRAC University

Acknowledgement

All the praises to the Almighty ALLAH for providing me with blessings and opportunities in life. My most gracious gratitude towards my parents and close ones for their encouragement which motivated me in completion of my report. I would like to appreciate the efforts of all the faculties and teachers who have provided me the knowledges and guidance thorough my lifespan.

It was my pleasure and privilege that I got chance to complete my internship in *Trade Service Division of "Prime Bank Ltd."*

I have given my best for this project and there were many individuals who have supported and provided me help and guidance. I would like to convey my sincere appreciation to all those individuals.

I was very lucky to be under the supervision of *Mr. Abu Taher Md. Zakaria (Senior Vice President)*. He was very helpful and provided me with necessary guidance and information regarding the completion of my project. I am also grateful to my office colleagues for giving me their valuable time from their work to share their knowledge, experience and helping me to complete my project and make my whole internship period rememberable. I would like to express my regards to –

- ❖ Shibu Prashad Samaddar (EVP)
- ❖ Md. Abdul Quddus (SVP)
- ❖ Mrs. Shahnaz Akhter (SAVP)
- ❖ Md. Shafiqul Islam (AVP)
- ❖ Sk. Ashraful Islam (AVP)
- ❖ Md. Jakir Hossain (AVP)
- ❖ A.H.M Homayun Kabir (AVP)
- ❖ Md. Toufiqul Islam (SEO)
- ❖ Ms. Umme Salma (EO)
- ❖ Thamina Tamanna (EO)
- ❖ Ms. Shahida Afroz (EO)
- ❖ Rashed Mahmud (EO)
- ❖ Md. Imrul Hasan (SO)
- ❖ Md. Samaun Tawrid (SO)
- ❖ Kamruzzaman Khan (SO)
- ❖ Shabab Mahmud (JO)

And all the other office members for making my time memorable. My special thanks and appreciation to brother Sumon and Nur Muhammad for providing service throughout the internship period.

Executive Summary

Throughout the timeline of my whole university life I have gained various knowledges from the courses of my BBA program majoring in ***Human Resource Management*** which is offered by ***BRAC Business School, BRAC University***. This was the period of learning concepts and next learning step was to implement all those concepts and knowledges practically. The internship program offered by BRAC University enables students to gain that experience. I have learned about importance of Letter of Credit in the world of export and import during my internship program in the ***Trade Service Division of “Prime Bank Ltd.”***

Prime bank is one of the renowned private bank of Bangladesh consisting of 146 branches and 170 ATM and operation in corporate, consumer, MSME and sustainable banking. The business started on April 17,1995 and currently they are providing a huge support on the economy of Bangladesh.

This report is based on my 90 days internship experience in ***Trade Service Division of “Prime Bank Ltd.”*** which focuses on overview of “Prime Bank Ltd.”, Trade Service Division, LC, LC process, other LC related information and in depth analysis of my learnings and recommendations for the bank.

The first chapter is about the necessary information of interns and a small trailer of my internship period in ***Trade Service Division of “Prime Bank Ltd.”*** while the second chapter will give reader the knowledge about ***“Prime Bank Ltd.”*** Third chapter contains information and related to LC process, importance of lc in export and import and other lc related information knowledge which I have gained from my internship. In this world exporting and importing is the key to all businesses. There might be less risks while doing businesses domestically but while doing international business there is a significant amount of risk involved in the payment and delivery of the products because there is no guarantee that seller will send products or buyer will pay the amount or any other alternatives. Another simple but important factor is communication which is plays effective role in doing international businesses. Letter of Credit or LC is the “x” factor of this equation because it ensures safety of both buyer and seller. Letter of Credit can be called one form of agreement which ensures that the buyer will have to pay when the seller has the proof that the items have been shipped to the destination. There is no need for advance payment for buyer and it is also an assurance for the seller if the buyer is unable to pay or if any legal action arises. Banks are the ones who process the LC and they take the liability of all of the risks which is a time consuming and lengthy process but safety is ensure for both exporter and importer.

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List of Acronyms

LC-	Letter of Credit
PBL-	Prime Bank Limited
TSD-	Trade Service Division
BB-	Bangladesh Bank
HRM-	Human Resource Management
BEFTN-	Bangladesh Electronic Funds Transfer Network.
SWIFT -	Society for Worldwide Interbank Financial Telecommunications

Chapter 1

Overview of Internship

1.1 Student Information

I am Md. Rabbi Al Tamim holding the id number 18104020 in BRAC university completed my **Bachelor of Business Administration** majoring in “**Human Resource Management**” and minoring in “**Marketing**”.

1.2 Internship Information

1.2.1 Period, Company Name, Department/Division, Address

My internship program period was 90 days from 20th February to May 20th 2022 in **Prime Bank Ltd. Trade Service Division**. The office is in 68 Gulshan Avenue Richmond Concord (2nd Floor) Plot #8A, Block # CES(F), Dhaka-1212 Bangladesh.

1.2.2 Internship Company Supervisor’s Information: Name and Position

I was assigned under **Mr. Abu Taher Md. Zakaria (Senior Vice President)** of **Prime Bank Ltd. Trade Service Division**. He is a very hardworking and humble person who is always focused towards well fare of his employees and goals.

1.2.3 Job Scope

Banking sector is one of the biggest and toughest sector as a bank has to offer variety of products and services to variety of customers. There are various departments present in a bank performing various kinds of activities. But the scope of this report was limited to a particular area of Prime Bank Limited, Trade Service Division in Gulshan. To sum up, this study only covers the activities of Prime Bank Limited, Trade Service Division.

1.3 Internship outcomes

1.3.1 Contribution to the company

I was an intern in the **Prime Bank Ltd. Trade Service Division** and in my 90 days period of time the duties that were bestowed upon me helped to ease a very small amount of pressure from the team members. First of all, I started with file compiling and checking errors in the LC documents along with researching the LC documents for basic learning. After that I had to enter credit report data in the CRD website. Price verification was one of the key points of LC process and I was entrusted with that duty along with sorting and endorsing LC documents. I would have liked to learn and do some works like other employees but it was confidential work and unless I were employee they could not teach me everything but still they offered me all the knowledge in limit. My contribution to the team saved around 30 minutes of workload from each of them.

1.3.2 Benefits to the student

There was so much knowledge present and I was lucky enough to grab some. I got to learn about the whole LC process. Though my work was desk related works still the other benefits I got to learn-

- How to work under pressure? I used to do sort documents for filing or endorsing and at the same time I used to do price verification and check list. I would have to take instant decision of which work should I complete first.
- How to interact and deliver documents to clients?
- How an office works and learned official etiquettes?

1.3.3 Difficulties faced during internship period

The most difficult part regarding this internship period was that the confidentiality of the LC related work and LC related information as they are very sensitive and it was very difficult to find information from other sources as well. So, there were very little amount of information disclosed to me and as a result I missed some crucial part to add. Time was also a limitation as to know more about LC I would have to spend more time.

Proper sitting accommodation was missing for an intern and as I was a HRM student it was tough to related all the things with my line of knowledge.

1.3.4 Recommendations

My only recommendation would be to provide a proper sitting accommodation for interns.

Chapter 2

Organization Part

2.1 Introduction

From April 1995, Prime Bank Limited stepped in the banking world. Prime Bank is a fully licensed commercial bank which has always been managed by the knowledge and experience of highly dedicated professional team of banking sector. Throughout the course of time, banking sector of Bangladesh was changing to cope up with the world and the management adjusted their policies accordingly to adapt with the changes that occurred.

In the commercial banking sector Prime bank reached the top position in a very short period of time. According to various sources including Bangladesh Bank have acknowledged Prime Bank as one of the top tier banks in our country. The secret behind the success of prime bank is that, the Prime Bank Limited has been offering both commercial and personal banking services which covers all the segments available in the society including Corporate Banking, Retail Banking, and Consumer Banking Services to the consumers within the framework of Banking Company Act and rules and regulations enforced by our central bank authority Bangladesh Bank.

Prime Bank's reputation grew up due to its expertise in Corporate and Institutional Banking while bringing innovation in Digital Banking services. According to Global Finance, Prime Bank has been recognized as the Best Bank in Bangladesh in 2020 and same year the bank was awarded as the Best Digital Bank in Bangladesh by Asiamoney. (Prime Bank, 2020)

From the start of their journey Prime bank was focused on giving proper importance on technological integration in the banking sector. To survive and reach the top tier they were always focused on technological investment in order to keep their customers satisfied.

In the world we are in now Bank has become the most secured and easiest way of transaction. Providing quality services to customers is the key of Prime bank reaching the top on the fast-growing private sector. Currently Prime Bank has 146 branches and 170 ATMs across the country. In this fast-paced world, they are always enhancing their IT capabilities and upgrading risk management system with strengthened infrastructure and enhanced productivity.

Prime Bank has also built up their positive reputation in the trade sector of Bangladesh through LC processing. They work with big clients like ACI , Eskayef Pharmaceuticals, Pran-RFL and the list will keep on going. They are not only just creating new relationships but also maintaining the old ones. They have very dedicated and hardworking team in the Trade Service division and they are bringing the desired result for the Bank. (Prime Bank Annual Report)

2.2 Overview of the Company

2.2.1 History

Bringing forth something different in the commercial banking sector of Bangladesh Prime Bank Limited is delivering services and products since 1995. Their superior valued products along with providing reliable service with consistency, competency and excellency. The board of trustees are considered as reputed individuals in trade and commerce field and their range of stakes are not limited because they have reach in almost every business area from including shipping, textile, finance, energy and so on. In the beginning PBL had only one branch situated in Motijhil, Dhaka and later on the office got shifted to Adamjee Court Annex Building and they introduced their Islamic banking sector in December that same year.

After public offering at an initial stage, the bank got listed in Chittagong Stock Exchange in 1999 and Dhaka Stock Exchange in 2000 respectively. After that in 2003 Bangladesh Bank issued licensed to Prime Bank which enabled them to become a primary dealer for buying and selling securities. Keeping in mind about the non-residential customers, in 2007 PBL opened an Offshore Banking Unit at Savar and later on two more unit at Chittagong and Narayanganj were added.

Being a fully licensed commercial bank, Prime Bank is constantly focusing on understanding and foreshadowing customer needs. Though the Prime Bank is smaller in age than other banks but it has already made significant progress as it is currently now a top class bank in Bangladesh due to high CAMELS rating which is internationally accepted.

A country's economy is mostly dependent on the bank because the bank facilitates both economical and financial transactions. When it comes to providing quality services to the customers and adding value for the shareholders the bank satisfied everyone of them. PBL is known as the second generation banks because it was one of the few banks which got permit from the Bangladesh in the early 90's. These second generation banks remain immune from the bad loan culture till date.

PBL was designed in such a way that they could provide both commercial and investment banking services to all kinds of customers from small entrepreneur to big business firms. Not only the bank invested in trade and commerce but also participating in the socioeconomic development in the agricultural, industrial, housing and self-employment sectors. (BankInfobd, 2010)

At the end of the fiscal year 2021, Prime Bank generated revenue of 23.22B taka and net income was 1.83B taka. (Marketwatch, 2022)

2.2.2 Mission

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

2.2.3 Vision

Prime Bank’s vision is ***“To be the best Private Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity.”***

2.2.4 Corporate Philosophy

For their customers

PBL focuses on providing services to the customers with the most courteously and efficiently in every aspect of its business and being innovative in the development of new banking products and services.

For their Employees

Through promoting employees well-being by providing attractive remuneration and fringe benefits and good staff morale through proper staff training and development and provision of opportunities for career development.

For their Shareholders

By forging ahead and consolidating its position as a stable and progressive financial institution. By generating profits and fair return on their investment.

For their Community

By assuming their role as a socially responsible corporate citizen in a tangible manner along with adhering closely to national policies and objectives thereby contributing towards the progress of the nation. They uphold their ethical values and best practices. Constantly seeking to improve performance by aligning their goals with stakeholders expectations because PBL values them.

2.2.5 Slogan

“A Bank With a Difference.”

2.2.6 Corporate Milestones

1995	05.02.1995	Memorandum and Articles of Association signed by the sponsors
	12.02.1995	Incorporation of the company
	12.02.1995	Certificate of commencement of Business
	20.02.1995	License issued by Bangladesh Bank
	08.04.1995	License issued for opening the first branch, Motijheel
	17.04.1995	Formal launching of the Bank
	17.04.1995	Commencement of Business from Motijheel Branch
	18.12.1995	Commencement of Islamic Banking Business from IBB, Dilkusha
1999	29.08.1999	Initial Public offering - Publication of Prospectus
	09.09.1999	Initial Public offering - Subscription Opened
	22.09.1999	Initial Public offering - Subscription closed
	15.11.1999	Listed with Chittagong Stock Exchange Limited
2000	27.03.2000	Listed with Dhaka Stock Exchange Limited
	29.03.2000	Trading of Shares in Dhaka Stock Exchange Limited
	29.03.2000	Trading of Shares in Chittagong Stock Exchange Limited
2001	29.03.2001	Registered Merchant Banker with SEC
2005	17.04.2005	Completion of 10 years of service
2006	08.07.2006	Introduction of Prime Exchange Co. Pte. Ltd. (Subsidiary of Prime Bank Limited)
2007	15.03.2007	Opening of First Off-shore Banking Unit at DEPZ , Savar, Dhaka
	01.04.2007	Introducing of Temonous as Core Banking Software T24
2008	11.03.2008	Launching of ATM
2009	01.08.2009	Launching of Internet Banking
2010	02.08.2010	Introducing of PBL Exchange UK Limited - London Branch
	03.08.2010	Introducing of PBL Exchange UK Limited - Birmingham Branch
	04.08.2010	Introducing of PBL Exchange UK Limited - Oldham Branch
2011	22.02.2011	Introduction of Prime Exchange Co. Pte. Ltd. (Jurong East Branch)

2.2.7 Products & Services offerings

The products and services that are offered by PBL-

➤ *Consumer Banking*

- Deposits,
- Loans,
- Cards,
- Internet Banking,
- Neera,
- SMS Banking,
- Locker Services

➤ *Wholesale Banking*

- Corporate & Institutional Banking (CnIB)
- Commercial Banking
- International Banking
- Transaction Banking – Trade Financing Solutions & Cash Management
- Structured Finance
- Treasury

➤ *Islamic Banking*

- Deposits
- Investments
- Foreign Trade
- Remittance
- Fund transfer

➤ *MSME Banking*

- Loan Products
- Deposit Products
- Trade Services
- Enterprise Development Services

➤ *NRB Banking*

- Foreign Remittance Services
- Account Facilities for NRBs
- Bank's Overseas Network
- Exchange Houses
- Correspondent Bank Accounts for Wire Transfer
- Rules for opening and operating FC accounts
- USD Premium Bond
- USD Investment Bond
- Wage Earners Development Bond

➤ **Offshore Banking**

- EXP Certifying
- LC Advising
- Export Negotiation and Export Bill
- Discounting LC opening
- LTR Creation
- Short Term Loan & OD for working capital
- Guarantee NCFD Deposit and Current FC A/C Deposit

➤ **Treasury**

▪ **Money Market Services:**

- Call lending & borrowing
- Term placement and borrowing
- Repo & Reverse Repo

▪ **Primary Dealer Services**

- Trading Treasury Bills and Bonds in the secondary market.
- Acting as a Primary Dealer for Government Bonds and Securities.
- Maintaining Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR).
- Providing financial advisory services to the prospective customers of Government securities for bond market development.

▪ **Investment in Govt. Treasury Bill & Bond Govt.**

- T-Bills with standard tenor of 91, 182 and 364 days maturity.
- Govt. T-Bonds are available within 2, 5, 10, 15, 20 years maturity.
- Minimum investment amount in Face Value of Taka one lac and its multiples.
- Issued in scripless form (Dematerialized Format).
- The central Bank releases monthly auction calendar through BB website.
- T-Bills are issued/traded at a discount and redeemed at the face value at maturity.
- Bonds are fixed coupon bearing debt instrument but issued/traded at par/premium/discount based on the tenor, coupon rate and market yield. Bonds pay half yearly coupon interest and the principal is repaid on maturity. Yield/Price is determined by the demand and supply in the market.
- Both T-Bills and T-Bonds are tradable in the secondary market.

▪ **Asset Liability Management (ALM) Services:**

- Matching Volume of Assets with volume of liability in different tenors to minimize liquidity risk.
- Provide rates of deposit of different deposit schemes.

▪ **Foreign Exchange Services:**

- Trading of Foreign Currencies in terms of Spot & Forward etc.
- Making quotations of foreign exchange rates in nine major currencies.
- SWAP trading in USD/BDT.

2.2.8 Prime Bank Ltd. Subsidiaries

Prime Bank Ltd. has the following subsidiaries-

- Prime Bank Investment Limited
- Prime Bank Securities Limited
- Prime Exchange Co. Pte Ltd.
- PBL Exchange (UK) Limited
- PBL Finance (Hong Kong) Limited
- Prime Bank Foundation

2.3 Management Practices

2.3.1 Organogram

PBL has a very well-built organizational hierarchy where everyone fulfills their duty with responsibility. From PBL website their corporate organogram was discovered and it is given below-

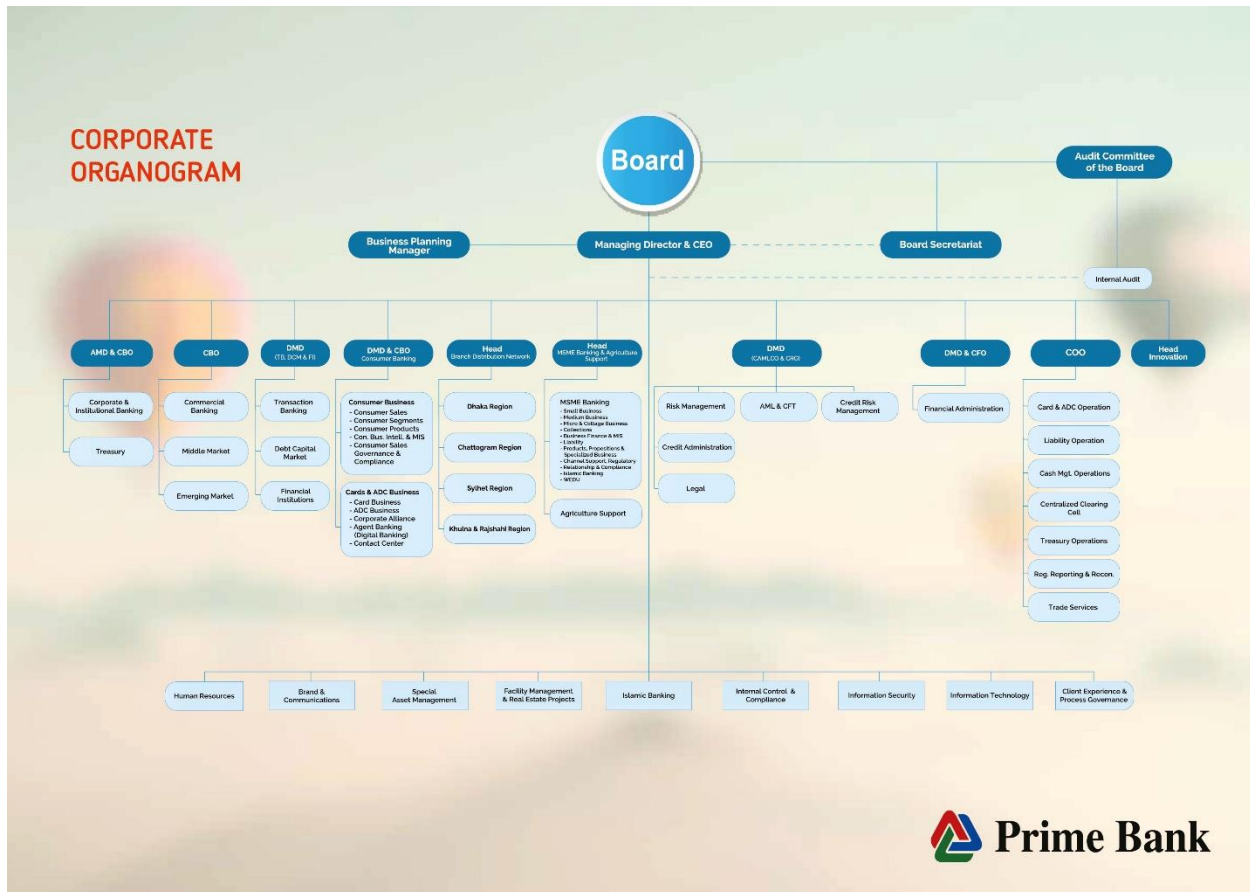


Figure 1 Organogram

Along with the organogram their management hierarchy is following-

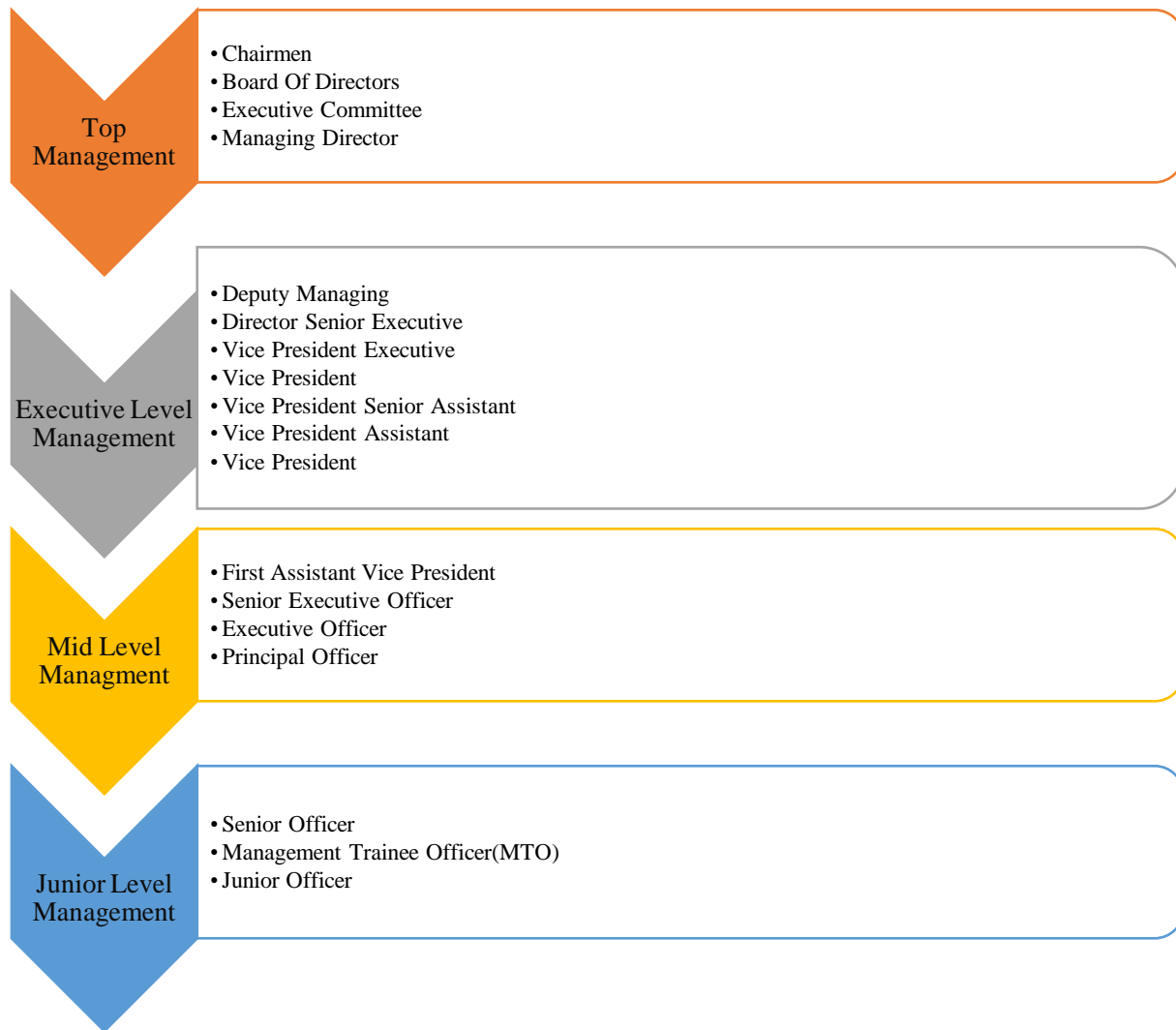


Figure 2 Hierarchy of Management

PBL has 19 highly experienced and capable persons present in the board of directors. Tanjil Chowdhury is Chairman of the board of directors while the renowned Azam J Chowdhury is fulfilling Director's role.

Executive committee consists of 6 people with Zaeem Ahmed as the chairman and Audit committee consists of 4 people with Anwaruddin Chowdhury FCA as the chairman. Management Committee consists Managing Director & CEO Hassan O. Rashid along with the head office executive.

2.3.2 PBL Leadership Style

From my personal observation and interviewing the executive level management I learned that their leadership style is democratic leadership style. The Executive level management addresses any issues or new proposals to the top management and later those issues or proposals are presented to the board of directors through meetings. In the meeting the members of the board of directors discuss amongst themselves and takes decisions. Post meeting the decision is announced and implemented accordingly.

Democratic leadership enabled Prime Bank employees to share their knowledges and experiences through which they have created a strong bonding amongst themselves as the employees feel more connected with the bank which results in producing excellent results thus building up their strong management system. The communication gap is not missing and when every employees feel that they are a part of the decision making process it boosts up their motivation and they try to work harder to achieve the goals.

2.3.3 Recruitment and Selection Process

From PBL website I have discovered that PBL follows almost same format for their recruitment and selection process like other banks and it is as follows-

For freshers:

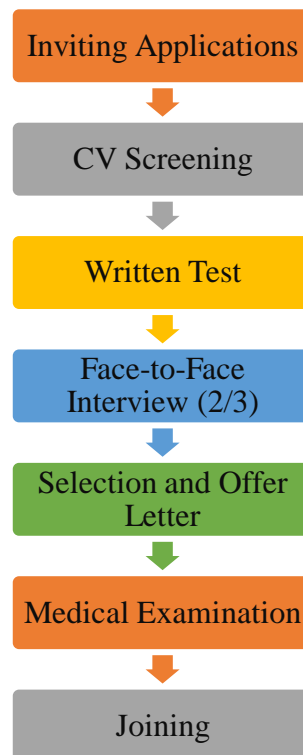


Figure 3 Recruitment Process freshers

For lateral intrants-

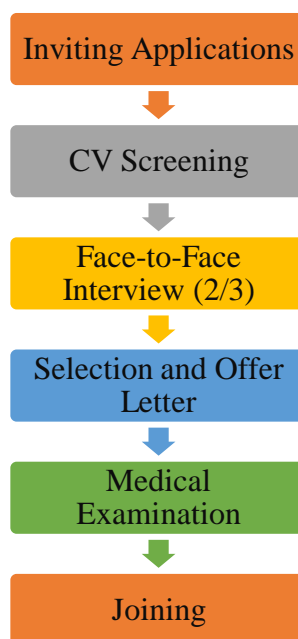


Figure 4 Recruitment Process Lateral Intrants

2.3.4 The Compensation System

From January 2022 Bangladesh Bank fixed the salary for the assistant officer, trainee assistant officer, trainee assistant cash officer or equivalent officials minimum Tk 28,000 during the probation period and after they finish their probation period they are to be paid total salary minimum Tk 39,000 per month including basic. They have also suggested to revise the salary structure of the other officials to decrease the salary gap. So, currently the compensation system is structured according to the Bangladesh Bank's decision. (Zahid, 2022)

Moreover, in order to maintain competition in the market PBL regularly reviews the compensation and benefits by researching the market and peer group study. PBL have built a well-crafted total rewards system which helps the Bank in attracting, motivating and retaining talent. PBL pays honorarium to the Board of Directors for attending meetings only as they are not eligible for any compensation. (Prime Bank Annual Report, 2020)

All the employees of PBL are paid competitive remuneration package and their remuneration policy of the Bank strictly prohibits any sort of gender biasness between employees. Not only the employees are paid monthly competitive base pay including allowances (House Rent allowance, Medical allowance, Conveyance allowance etc.) but also bonuses on a yearly performance basis.

PBL Administration presented Broad banding Pay Structure in order to guarantee a performance driven work culture through a strategic remuneration plan synchronized with the performance of individual employee. From the time it has been presented, PBL begun to hone a scale based pay structure for each grade. In arrange to remunerate individual performance this pay structure takes after a adaptable pay arrange which compensates the individual, not the grade. Fundamental thought process of this arrange is to empower representatives to create unused aptitudes and paying for the aptitudes agreeing to their commitment and value.

In short, broad banding can be considered as a flexible pay system for both the employees and the employers and this new pay structure helped them in:

- ❖ Facilitating and encouraging both internal & lateral movement (Through Job Rotation)
- ❖ Rewarding performers more than the non-performers (Through Pay for Performance)
- ❖ Adding trust & greater autonomy in line management (Through Teamwork/ Relationship)

In order to motivate the employees PBL offers various cash and non-cash benefits which includes:

- Company provided car for top level Executive employees
- Car allowance for all Executive level employees
- Leave fair assistance allowance
- Medical treatment allowance
- Maternity benefits & Maternity leave
- Car loan facility REGULATORY DISCLOSURES & REPORTING 115
- House loan facility
- Staff loan at reduced interest rate
- House furnishing allowance
- Mobile phone allowance
- Travel allowance
- Technical allowance
- Festival bonus
- Allowance for employees' meritorious children
- Annual leave
- Study leave etc.

PBL also offers both long-term and retirement benefits to employees:

- Leave encashment
- Provident fund
- Gratuity benefit
- Retirement benefit
- Partial and full disability benefit
- Death benefit to family members etc. (Prime Bank Annual Report, 2020)

2.3.5 Performance Appraisal System.

PBL developed a comprehensive performance management program which assesses employees' annually performance against business targets and their useful and leadership capabilities are moreover evaluated by the line administration. By utilizing this process they can also recognize the competency crevice and training needs of employees. Each employee except those who are under probation or undergoing training through an yearly performance evaluation process which guarantees that employees get clear feedback together with their enhancement points (performance and proficient capabilities) from their directors. It moreover helps them to advance their employees for long term career improvement and improved commitment in organizational execution. PBL rates their employees in 4 segments – Excellent, Very Good, Good & Satisfactory.

Moreover, their broad banding policy discovers the potential within an employee and if that employee is eligible to be promoted. When an employee reaches the highest grade within a Band and if the employee is ready to take or has taken higher responsibilities and match the criteria of the next Band then they get promoted. (Prime Bank Annual Report, 2020)

2.3.6 The Training and Development initiatives

PBL provides on hand training for the new employees. For a certain period of time employees gather knowledges about their working roles from their assigned trainer and start off with basics works according to their post and as the time passes by the work load gets upgraded step by step and the trainer guides the trainee throughout the timespan.

Whenever PBL Human Resource Department comes across new trends or any knowledge that is must for the employees lecture style training is provided by the team leaders to enlighten the employees about the changes or fill them in with necessary information. On a regular basis PBL offers different learning programs for employees by using Zoom for their skill and knowledge developments.

Through proper training need assessment PBL Human Resources (HR) Division frequently undertakes effective designed training programs which targets the right group of employees. PBL strongly believes that consistent efforts should be given for acquiring and developing the right set of skills that are required for an employee to adapt and flourish in the changing market. In 2020, the internal HR Training and Development Centre of PBL not only arranged training on different topics for 2449 enthusiastic participants but also 1604 employees were sent to participate in different training programs or conferences in home and abroad. The banking sector is full of complexity and diversity with evolving nature of threats and risks. That is why the training module is updated time to time for employees to cope up with the trend of financial market. (Prime Bank Annual Report, 2020)

2.4 Marketing Practices

2.4.1 Marketing strategy

PBL's marketing strategy is almost similar to their competitors but there are some extra efforts from them which helped them to grab their position in the current market. They follow various strategies for their marketing purpose each of these strategies are like a pillar for their success. Banks have to do very limited amount of marketing unlike other businesses because it is the safest and most durable way of transaction is to use banks. Everyone is bound to use bank in any part of the time. So, reaching out to people gets a lot easier. PBL has the following strategies on their side-

Internal Marketing- As discussed earlier PBL board of directors consists of very highly profiled influential people of various sector. Their reach is enormous in Bangladesh. They brought those connections to use and built up a very strong customer base for their bank and this works like a cycle. For Example- They have connections with various companies and they influence those companies to do transaction or LC or any bank related work with PBL. As a result, the employees of those companies get connected with the bank and they will influence their known ones to do transactions with the bank and they will do the same thus a chain gets created.

Not only the Board of Directors but also the employees of PBL are as much as responsible for bringing customers for their bank. For Example- Employees have to fulfill the yearly targets according to the bank and they influence their known persons and others to do transaction or any other business with the bank and another cycle gets created. This method is simple but very effective and word of mouth is one of the key factor in this manner.

Product Marketing- From the given figure PBL follows Product Development Strategy-



Figure 5 Product Marketing

PBL introduced new products like Prime DIGI and Prime Motorcycle Financing to grab the attention of the customers. Most of the banks have almost everything in common but there are some unique factors that differentiates them. PBL's new products are present to disrupt the competition and delight the customers. Product development strategy helped them to gain competitive advantage through placing new product offerings in the best possible position resulting in sales growth, revenue, and profits.

Advertising- At first PBL used to do a lot of TVC ads and promotions along with news paper promotions but as the trends changed from this sector to digital marketing they focused on that sector.

Digital Marketing- PBL was smart enough to catch the trend of digital marketing and they have got their desired result through it. They have used Facebook promotion, SEO and other internet marketing sectors at their advantage. They are now more connected to their customers using these platforms and building strong relationships with them.

2.4.2 Target customers, targeting and positioning strategy

From the beginning, PBL had build up strong relation through their channels with the elderly people but it was not an ideal choice to sustain for a longer period of time. For sustaining stability PBL started to focus on developing a strategy that focuses on larger group of people. They introduced various products like different types of savings accounts, various schemes, deposits, master card, credit card , Islamic banking and many more which focuses on the customers of almost every aspect.

PBL targets their customer according to market segmentation strategy. They segmented their market in the following manner-

Geographic Segmentation: Country region, City or metro size, Density, Climate.

Demographic Segmentation: Age, Gender, Family Size, Family life-style, Income Occupation, Education, Religion, Race, Generation, Nationality.

Psychographic Segmentation: Social Class, Lifestyle, Personality.

Behavioral Segmentation: Occupation, Benefits, User status, Usage rate, Loyalty rates, Readiness stage, Attitude towards product.

2.4.3 Marketing channels (for product as well as services)

PBL have following marketing channels-

- **Direct selling-** As discussed earlier internal marketing is based on direct selling as it involves professional communication with the potential customer. For Example- Board of Directors influencing the companies they have contact with.
- **Network marketing-** This is also a factor of internal marketing discussed earlier. Board of directors using their relationship with the other companies is a form of network marketing.
- **Digital Marketing-** Using digital platforms like Facebook and other media's for their marketing distribution. SEO can also be included in this channel. Through which PBL are able to reach out to their potential customer.

2.4.4 Product/New product development and competitive practices

PBL recently introduced a new product name “Prime DiGi” which is a Digital Savings Account. PBL has the first mover advantage by innovating the idea of a digital savings account which targets the youths of Bangladesh and they are first one to innovate it. In order to open digital savings account customer will not have to come to branch for account open & operation purposes. Bank’s RM (Relationship Managers) is ready to take care of all the formal procedures in order to open the account by meeting the customers at their desired location and daily banking transaction of Prime DiGi will be conducted via alternative delivery channel like Debit Card, Altitude, RTGS (Real Time Gross Settlement), BEFTN (Bangladesh Electronic Funds Transfer Network) and so on. (Prime Bank, 2020)

Moreover, PBL introduced a new loan named Prime Motorcycle Financing targeting the people of 21 to 65 years age. It is an attribute of Prime Flexi Pay Method of credit card that enables the customer to purchase a motorcycle thorough an approved limit by a virtual card. The most interesting and different facility of this bike loan is its Life Insurance Coverage which is provided by Metlife Bangladesh. PBL decided to add this unique feature due to large amount of casualties due to motorcycle accidents. They provide this support to both male and female customers to showcase that they promote gender equity and they provide same service to everyone. (Prime Bank, 2020)

2.4.6 Advertising and promotion strategies

PBL started to utilize digital marketing platforms for promoting its products and focusing towards the advancement of technology and information system to cope up with the changing customer’s need. PBL uses digital platforms like display advertising, social media (Facebook page), Micro 21 sites, Electronic direct mailer, website, and online portals for advertisement. PBL mainly focuses on Facebook marketing as it has large number of users and easily accessible. Social media marketing is not just a primary social tool rather an important tool of PBL in order to create and strengthen customer relationship. PBL faced a lot of challenges while making proper consumer connections by following the traditional marketing as it was almost impossible to interact with the customers on a regular basis using the traditional marketing platforms like Print Media, Television Adds etc. But now PBL can easily communicate with their customers every day, every week & every month and convey all the updated information regarding their new products, credit card offers to the customers. Moreover PBL has built up the ability to stay connected and show solidarity to their customers through wishing them in every occasions like EID, Puja & other occasions as well as special days like Women’s Day, MSME Day, Friendship Day).

Without social media, it would not have been possible to reach out to customers and building relationship with them efficiently and effectively. PBL always kept their focus on creation of value added content for their reader. Not only they are connected with the customers in social media but also fast in responding to the customers to their queries and their website is there to provide information required. Every offer that contains large details are usually connected to a micro site.

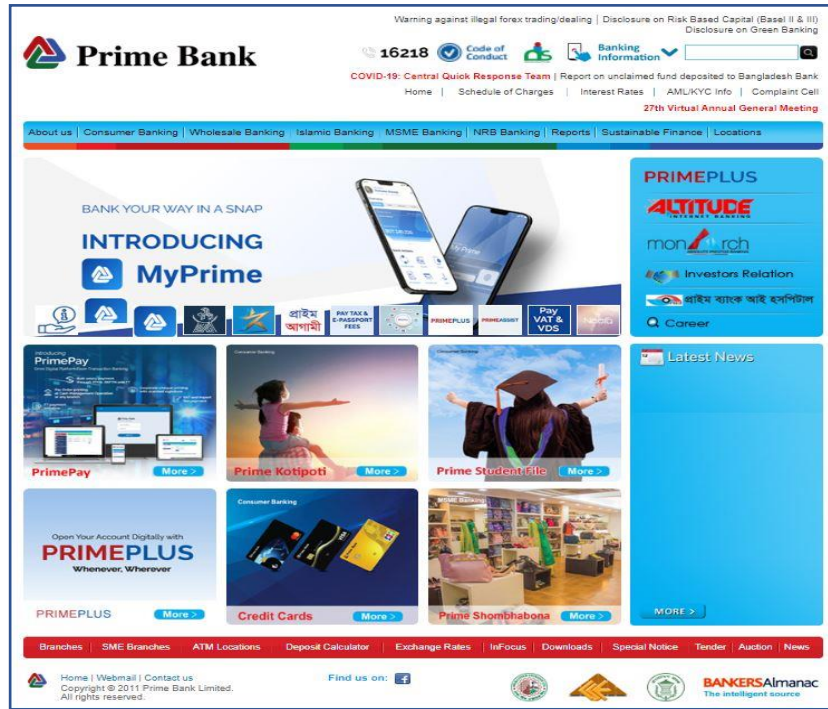


Figure 6 Prime Bank Limited Website

Furthermore, Electronic Direct Mailer or EDM is a very useful tool in marketing as PBL's promotional and marketing messages gets directly delivered to the inbox of the most significant merchants and high officials of the bank which brings effective results. Through online news portals PBL promotes its foreign remittance facilities.

2.5 Financial Performance and Accounting Practices

2.5.1 Financial Performance

Financial performance analysis is conducted to assess the viability, stability and profitability of a business, sub-business or project. The reports are made by using ratios and the information are taken from financial statements and other reports.

For my internship report I have conducted horizontal, vertical and ratio analysis to reveal the financial performance of Prime Bank Limited. I have collected the data form the 2018, 2019 & 2020 annual report of Prime Bank Limited.

In the ratio analysis I have used the followings ratios-

- Liquidity ratios
- Activity ratios
- Debt ratios and
- Profitability ratios

2.5.1.1 Horizontal Analysis

Horizontal analysis helps to provide information about the growth of the bank. By using the following formula-

$$\text{Change since base period} = (\text{Current year amount} - \text{Base year amount}) / \text{Base year amount}$$

In the following table current year is 2020 and base year is 2019.

(BDT in Million)

Particulars	2020	2019	2018	Change
Total Assets	347,502	323,788	295,613	7.32%
Deposit	233,028	216,444	197,518	7.66%
Loans & Advances	232,400	213,955	205,810	8.6%
Total Import	147,811	185,735	182,263	(20.41%)
Total Export	118,091	137,787	134,616	(14.29%)
Total Operating Income	12,653	14,131	12,899	(10.45%)
Total Operating Expenses	6,944	7,181	7,180	(3,3%)
Net Profit after Tax	1,797	1,662	2,193	8.12%
Total Liabilities	318,737	295,637	267,720	8.81%
Total Shareholder's Equity	28,765	28,150	27,894	2.18%

Interpretation

From the table we can notice that the Total Assets increased by 7.32% between the year 2019 and 2020. Deposit got increased by 7.66% as compare to 2019. Total Loan and Advances increased by 8.6% in 2020 from 2019. But unlike 2019 from 2018 Total Import and Export decreased by 20.41% & 14.29% in 2020 from 2019. Total Operating Income also decreased by 10.45% in 2020 as compare to 2019 along with decrease in Total operating expenses by 3.3% between the year 2019 and 2020. Net Profit after Tax got increased by 8.12% in 2020 as compare to 2019. Total Liabilities increased by 8.81% in 2020 from 2019 and Total Shareholder's Equity increased by 2.18% in 2020 from 2019.

2.5.1.2 Vertical Analysis

For Vertical Analysis following formula has been used-

(Each item of Profit & Loss Account/ Total Operating Income) = %

Particulars	2020		2019		2018	
	TK. BDT in Million	Percent	TK. BDT in Million	Percent	TK. BDT in Million	Percent
Net Interest Income	5,574	44.05	8,273	58.55	7,650	59.30
Total Operating Income	12,653	100	14,131	100	12,899	100
Total operating Expenses	6,944	54.88	7,181	50.81	7,180	55.66
Total profit before tax	3,998	31.6	4,650	32.90	3,938	30.53
Net profit after tax	1,797	14.20	1,662	11.76	2,193	17

Interpretation:

From the vertical analysis of profit & loss statement of PBL shows that the Net Interest Income as a percentage of total operating Income is 44.05% in 2020, which was 58.55% in 2019 and 59.30% in 2018. So, there is a gradual decrease from 2018 to 2020. Total Operating Expenses as a percentage of total operating Income is 54.88% in 2020, which was 50.81% in 2019 and 55.66% in 2018. There is a little ups and downs present in 3 years timespan. Total profit before tax as a percentage of totals operating Income is 31.6% in 2020, which was 32.90% in 2019 and 30.53 in 2018. Net profit after tax as a percentage of totals operating Income is 14.20% in 2020, which was 11.76% in 2019 and 17% in 2018.

2.5.1.3 Ratio Analysis

Liquidity ratios

Current Ratio: Total Current Assets \ Total Current Liabilities

2020	2019	2018
1.20	1.19	1.02

Net Working capital: Current Asset - Current Liabilities (BDT in Million)

2020	2019	2018
28765	28151	27893

Capacity Ratio: Loans & Advances/Total Assets

2020	2019	2018
0.67	0.66	0.70

Activity ratios

Total Asset Turnover Ratio: Total Operating Income/Total Assets

2020	2019	2018
0.036	0.044	0.044

Cost Income Ratio: Total Operating Expenses / Total Operating

2020	2019	2018
54.88	50.82	55.66

Debt ratios

Debt to Equity Ratio: Total Debt/Total Equity

2020	2019	2018
9.02	9.52	10.42

Profitability ratios

Gross Profit Margin: (Total Operating Income – Total Operating Expenses)/Total Operating

2020	2019	2018
55.03	54.74	54.72

Income Operating Profit Margin: Operating Profit / Total Operating Income

2020	2019	2018
2.45	3.81	3.62

Net profit Margin: Net Profit After Taxation / Total Operating Income

2020	2019	2018
7.04	8.50	5.88

Earnings per Share (EPS): Net Profit after Taxes / No. of Ordinary shares outstanding

2020	2019	2018
1.59	1.47	1.94

Return on Assets (ROA): Net profit After Taxes / Total Assets

2020	2019	2018
0.54	0.54	0.76

Return on Equity: Net Income / Average Shareholders' Equity

2020	2019	2018
6.31	5.93	8.31

Analysis

From the above ratios we can notice that in most of the cases PBL is having a hard time to maintain regularity in their financial factors. There is always ups and downs present and that is an alarming thing because they are not being able to consistent and which is an indication that they might face sustainability issue in future. But Covid might be a factor here which is clearly shown as there are significant amount of proof presents indicating the effect it had on PBL and in the banking industry.

2.5.2 Accounting Practices

2.5.2.1 Core Accounting Principals

From my point of view PBL follows core accounting principal because their set of accounting principal ensures that their financial statements are complete, consistent, and comparable. These help them to maintain clarity which makes it easier for investors to analyze and extract necessary information from PBL's financial statements which includes trend data over a certain time frame. It also helps for comparison of financial information in the market. PBL tries to make sure that they are transparent and that is why each and every year they release annual reports. All the relative information and accounting disclosures are present in the annual report.

2.5.2.2 The Method of Accounting

PBL follows accrual basis of accounting because the bank records revenue before receiving payment for services the bank is selling or expenses recorded as incurred before the bank has paid for them. It is considered standard accounting practice and PBL have to use the accrual method of accounting because their revenue is below a specific threshold set by the IRS which is called the gross receipts method.

According to A corporation or partnership meets the gross receipts test for any taxable year if the average annual gross receipts for the 3-taxable-year period ending with the taxable year, which precedes such taxable year, does not exceed \$26 million till 2021 and it was raised to \$27 million in 2022. (IRS, 2022)

If, 1 USD = 84 BDT,

Then, 26M USD X 84 BDT= 2,184 M BDT

PBL's net profit after tax is 1,797 million BDT in 2021. That is why they follow accrual basis of accounting for more accurate picture of the bank's current condition though its relative complex and expensive to implement.

2.5.2.3 The Accounting Cycle

The accounting cycle ensures the accuracy and conformity of financial statements. Though most of the accounting is done electronically now a days but ensuring everything is correct is playing safely since errors can compound over time.



Figure 7 Accounting Cycle

PBL follows the accounting cycle and maintains it properly which can be seen in their Annual reports of each year.

2.6 Operations Management and Information System Practices

2.6.1 The Use of Information Systems

Behind the success of PBL there are various factors that are the foundation of their success and one of the factor for PBL was to discover a solution which will be able to manage cyber security as well as create a system that is easy to understand and affordable for implementation and maintenance. That solution is IBM Security QRadar which simplifies integration with bank's existing Technology and Information security tools & systems. Moreover, for decreasing the cost of ownership, deployment and operation QRadar uniquely combines log management, security event and information management, and network behavior analysis in a single solution. In 2020, PBL became one of the very few banks in Bangladesh to have an SOC which was designed for increasing intelligence, speed and accuracy of security investigations proving as a driving factor for digital innovations. (IBM India Pvt Ltd, 2021)

PBL has equipped all units of it with modern technologies like Computer Network, Telex, fax, SWIFT & e-mail etc. Bank has their own Web Page. The bank is uses LAN at branch level and also uses a database named PC Bank for their data collection, processing, storing and disseminating information for supporting decision making, coordinating, controlling process. They have their developed app named MyPrime or Altitude. Users can check their account balance, transfer funds, pay the bills, recharge their mobile, view account activities, transfer history and many more. Conveniently manage their accounts, credit cards, deposits and loans with the MyPrime Internet Banking app.

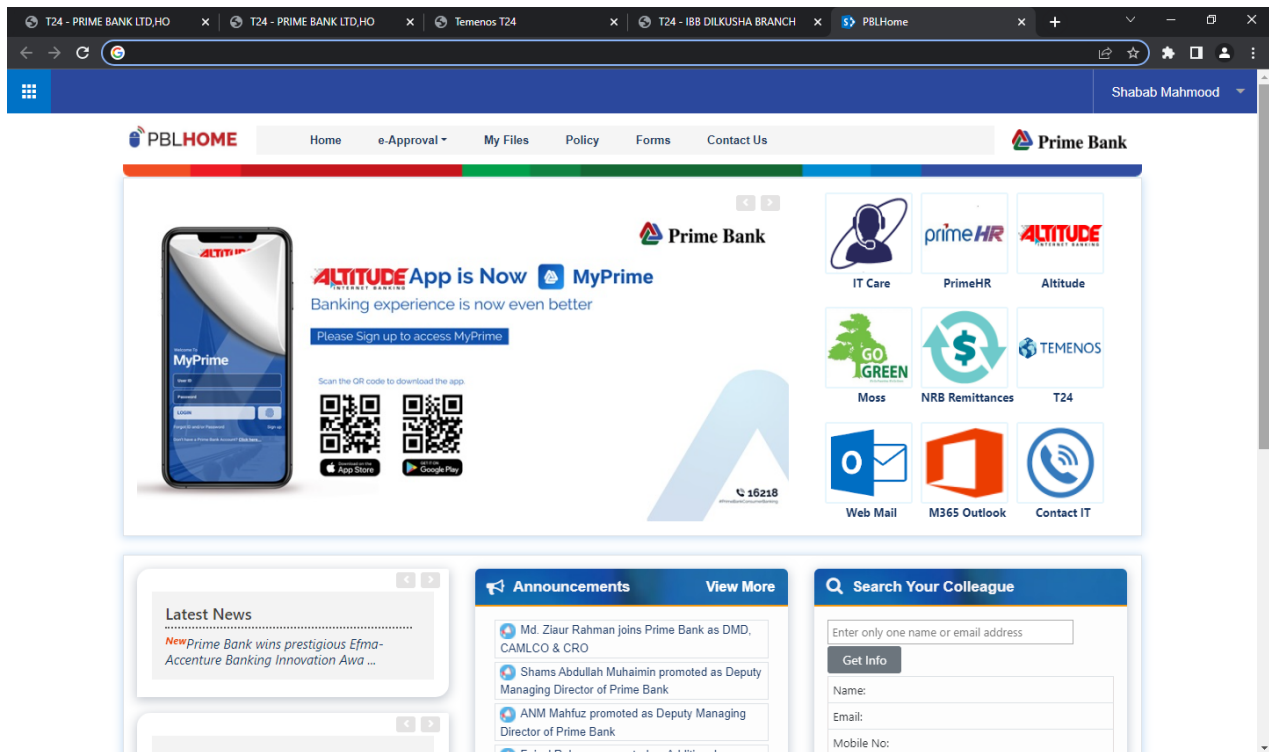


Figure 8 PBL Home website

2.6.2 Use of Database or Office Management Software

PBL branch level uses a local area network of Peer-to-Peer architecture which is a distributed network. By using it all the work stations are able to exchange data by direct access and share peripheral devices such as printers, without logging to separate server.

All the branches have the same central database kept up for collection, storing, handling, recovering all of the banking transactions. It is maintained by an application program named “PC Bank” created by Leads Organization limited Bangladesh. By utilizing this database employees are able to illuminate the account holders around their account balance, occasional transaction for a certain period, any transaction relative to account holders’ store, withdrawal of cash, Loan proceeded to party’s’ account, T.T payable /Issue, D.D, unused account opening, etc. proficiently and precisely.

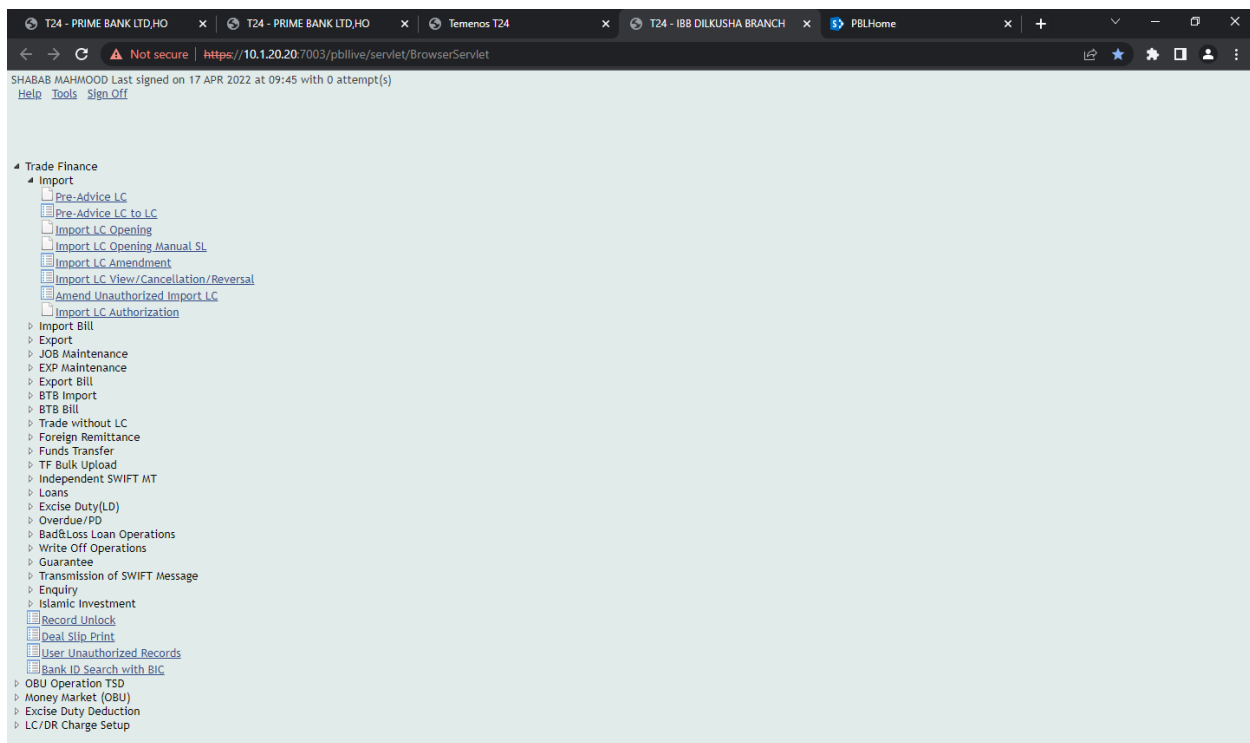


Figure 9 PBL Database

Apart from these they use basic Microsoft office software, MS outlook, notes etc. for their daily works. They use IP address 192.168.201.34 & 192.168.201.35 for connecting all the PC’s in their bank.

2.7 Industry and Competitive Analysis

2.7.1 Porter's Five Forces

Porter's five forces analysis for PBL-

Threat of New Entrants – (LOW) – There are a lot of barriers in banking sector and discourages any new entrants to join in that highly competitive market. There are major obstructions for new entrants like licenses and brand identification counting other variables that control the section of new potential competitors like scaling economies (least necessities for profitable operations), at first exceptionally high investments and fixed costs, cost advantages of competitors, client brand loyalty, shortage of fundamental assets like qualified expert staff, access to conveyance channels which are controlled competitors, long-term service contracts, high exchanging costs for clients, noteworthy effect of government activity and many more.

Power of Buyers – (HIGH) - Power of buyers in banking sector is very high. Mainly institutions, organized groups, Non-Governmental Organizations, Faith Based Organizations, Community Based Organizations and individual clients are the buyers for banks. There are many competitors in the industry offering various offers so they have the power to switch any time resulting in the high power of buyers.

Power of Suppliers- (HIGH) - Suppliers have the power of price increments or quality reduction of the purchased products. They have the power to imbalance the profitability flow of banking industry. The suppliers supply raw materials, equipment, machineries, associated services and labor etc. Without them it would be very hard to run the business so their power is high.

Threat of Substitute Product – (HIGH) – There is a very high competition in the market and all of the competitors offer almost same products at same rates or facilities and if customer is not interested then they would shift to others. So, substitution risk is very high. Factors like brand loyalty, customer relationships, switching costs, price for performance of substitutes, current trends play vital role regarding the matter.

Competitive Rivalry – (HIGH) - It is highly competitive industry in Bangladesh people have a lot of option to chose from. Banks are competing for position and whether they use tactics like price competition, advertisement battles, new product, quality competition and increased customer service or warranties to compete against each other to grab the customer from one another.

2.7.2 SWOT analysis.

PBL's Internal Strengths & Weaknesses and external Opportunities & Threats analysis-

Strengths

- Positive reputation.
- Top management's contribution to the Banks growth.
- Stable financial condition and strong liquidity position.
- Providing top quality consistent services at reasonable cost.
- Strong CAMEL grade.
- Concentrated market and widespread of the branches.
- Diversified product line.
- Strong IT infrastructure.

Weaknesses

- Pay system discrimination amongst workers.
- Employees are overworked till late hours.
- Marketing is not satisfactory.
- Fewer ATM booths.

Opportunities

- Favorable working environment.
- Credit card business & SME and Agro based industry loan
- Advertisement of the Bank.
- Newly launched AMEX Card.

Threats

- Unstable export, import.
- Banking activities of Competitors.
- Government pressures to reduce interest rate
- Bangladesh Bank's new rules and regulations

2.8 Summary & Conclusion

To sum up, It can be said that PBL have come a long way and they have developed a lot over the course of time and they are adapting according to the trend. They have achieved many milestones in this timeframe and gained loyal customers. They have a decent corporate culture and valuable employees working hard for the development of the Bank. They survived in this highly competitive market and made their brand name reach out to people. But they are lagging behind in lot of sectors where their competitors are shining. They have their strengths and weaknesses and they should start to shift gears for future.

PBL have a long road ahead of them and they have more room to grow. They need to adapt few changes and for that they have to do more research. They will have to find out their lacking and work on them to make Prime Bank Limited reach the top spot.

2.9 Recommendations

I would like to recommend few things to PBL that I think would be benefitting to them-

- **Working Environment-** Their working environment should be more developed for motivating the employees. In TSD the place was too much congested as there were almost 90 employees where it was supposed to accommodate around 50 employees.
They should rent another floor or renovate this current one to accommodate 90 employees. Their dining should be renovated as well because it looks similar like a road side hotel. In order to renovate they can outsource it to the designers who will be able to bring out the best from that place.
- **Updated Personal Computer-** Although they have a very good management information system but employees working pc's are not up to the mark for most of the people so they should update them. They are very slow as they have very old configuration. Employees should get decent enough pc for their working performance.
Every pc should get minimum intel core i5 10th gen or above, minimum 128Gb SSD and minimum 16GB of ram.
- **Employee welfare-** They should focus on employee welfare more as their employees have to work longer shifts. During my internship period I witnessed that employees had to work long hours daily because of their workload.
To ease up their work load PBL can either hire new employees or reduce the workload on the employees for their physical and mental health and if any employee is stuck in office after office hours working extra time they should be compensated for that extra work which will motivate them.

Chapter 3

Project Part

3.1 Introduction

3.1.1 Background

In the world of export and imports a certain amount of risk is present and the risk gets higher if anyone is unfamiliar with the company they are dealing with. Even having reliable business partners will not save from unexpected events which might trigger major disruptions along with severe financial consequences. Fortunately, there is a way to avoid such risk. A letter of credit or "LC" is a letter from a bank that guarantees that payment from the buyer to the seller will be received on time and in the correct amount. In the event that the buyer is unable to pay at the time of purchase the bank will be required to pay the full or remaining amount of the purchase. It can be provided as a base. It is also a cost-effective payment system which helps a number of transactions to go smoothly including foreign trade. Both buyers and sellers can also reduce their risk, ensuring prompt payment while being more secure in the delivery of goods or services through LC. (Investopedia, 2021)

LC is used for facilitating marketplace transactions by providing the credit of a third party most of the time a bank who plays as an independent assurance of payment in commercial agreements. The reliability and certainty of payment in LC helps parties to overcome hesitation of entering into a transaction because they have a secure source of credit to rely on and thereby assessing the possible risks more accurately in the undertaking. (Investopedia, 2021)

There are many advantages of using LC like-

- One can easily do businesses with unknown parties around the world.
- The terms and conditions can be customized any time according to the requirements of both parties and come to a mutual list of clauses.
- Seller receives money on fulfilling terms.
- It works as a credit certificate for buyer and on the other hand seller is free of credit risk.
- It is quick to execute.
- Payment assured is Disputable Transactions

Through knowledge of various forms of LC helps to determine which can be used at times and better understanding of the dealings. Although LC is a very useful thing but working with has its number of disadvantages because of their unavailability to anyone and requiring a number of professional procedures which makes the whole process very difficult and time-consuming.

3.1.2 Objective(s)

The main objective of this report is to describe the reason behind Letters of credit being used extensively in the international trade from the practical knowledge.

Specific Objectives- I will accomplish my objective by meeting the following objectives:

- In depth analysis of Letter of Credit and different stages of LC processing.
- Analyzing the entire process of LC and its functionality.
- Identifying the importance of LC in import and export.

3.1.3 Significance

To have knowledge about LC is a huge plus point because in the world of export and import it plays a vital role. Letter of Credit or LC is very important in the world of trading because it acts as a security for both exporter and importer. LC helps in expanding business internationally with safety and it can be customized any time according to buyer and seller. It ensures that seller receives payment on fulfilling terms in other words it works as a credit certificate for both buyer and seller. Free of credit risk and quick in execution for creditworthy parties. Payment assurance along with timely payments which leads to better cash flow and there are many more significance like these. If the LC was not present then there would be no guarantee that importer and exporter will stay at their end of the deal. The worldwide trade would have been hampered due to trust issues. LC also helps to prevent money laundering through trading. It is also a documental proof for the trading.

3.2 Methodology

The research approach that I have used for this study is qualitative research. No surveys were conducted for this study and the data was collected from primary sources and secondary sources. All the information provided are from reliable and legal sources. The report focuses on the topic given above, which is only a part of the trade service division made for internship project.

Primary- I have taken interviews of the employees working in the division and using all of them for completing my report.

Secondary- I have collected data from Bangladesh Bank, Prime bank websites, annual reports and few journals, blogs etc.

3.3 Findings and Analysis

3.3.1 Letter of Credit

A letter of credit (LC), can be called a documentary credit, banker's credit, letter of undertaking or a payment instrument used for international trade which provides a financial assurance from a trustworthy bank to a goods exporter. LC plays vital role in supporting international trading specially in time like responsiveness of receiving parties for assessing are slower and harder. In these types of situation bank are the one to take the risk and handle the overall trade. (dripcapital, 2021)

3.3.2 LC Function

In international trade LC is the one and only safe and secure as well as important payment technique. LC's usefulness can be seen specially when the buyer and seller are unknown to each other and separated by geography or regulations accordance to country and various trade cultures. The first step of international trade is to reduce the risk of seller while selling products to a buyer. In order to accomplish that LC guarantees that the seller gets compensated for submitting the proper documentation accordance to buyer and seller contract of sale. Payment mechanism of a LC works in a way that it discharges the buyer's legal responsibilities for having a bank pay the seller now. As a result, instead of buyer a bank takes the risk of paying seller. After the seller provides the bank required negotiable documents that represent the goods, the bank has to pay the value of the goods to the seller. After the submission of paperwork the products will historically be under the custody of the issuing bank which provides protection against a possibility that the buyer will not return the money to the bank. If the buyer is unable to pay then the seller will be able to file a demand for payment from the bank. The bank must cross-examine the beneficiary's demand and honor the credit after it matches the clauses of LC. (dripcapital, 2021)

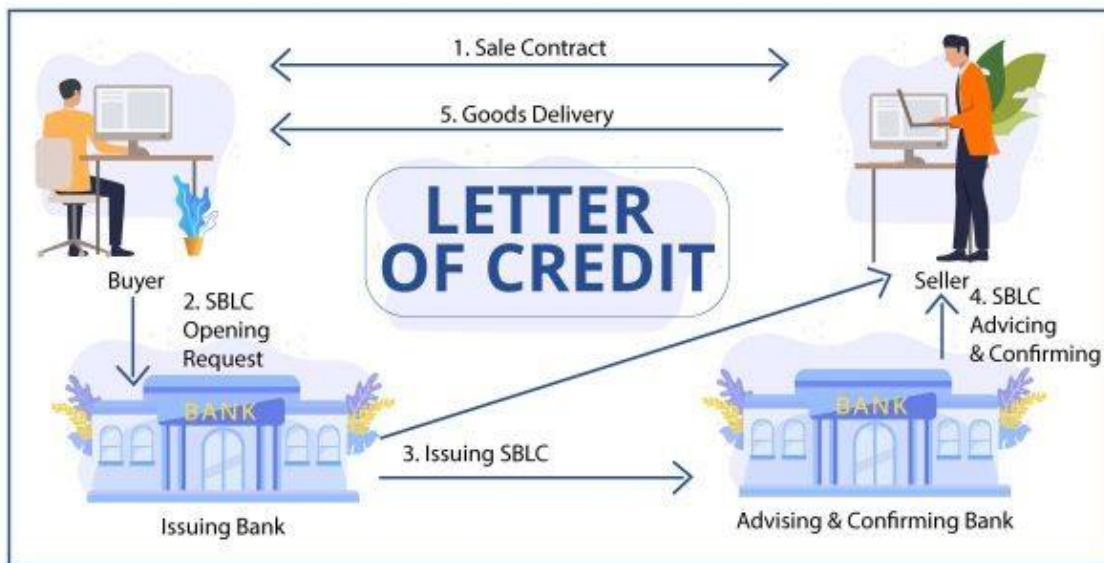


Figure 10 Letter of Credit

3.3.3 Types of LC

There are many types of Letter of Credits which are outlined below:

Import / Export: An Import LC is for the importer, while an Export LC is for the exporter of commodities.

Revocable or irreversible: If the LC is revocable or irreversible gives the ability to alter the LC or make modifications in LC without alerting or obtaining permission from the seller by the buyer and the issuing bank. The applicant will have to contact the issuing bank for making any modifications (amendments) or cancel the LC (unless it is expired). After that the vendor must check and authorize it.

Confirmed/Unconfirmed: When an LC is considered to be verified after the bank certifies that all of the documents of buyer and seller are in order.

Restricted/Unrestricted: In this cases, either the advising bank or the confirmation bank will be able to buy a bill of exchange from the vendor and later on the merchant can show the bill of exchange to any bank for obtaining payment.

Deferred Letter of Credit: A conditional assurance from the bank to pay the seller on behalf of the buyer when the transaction gets completed within a certain time frame.

At Sight LC: An LC at sight is a LC which is due immediately or accordance to the letter of credit's terms. This is the quickest method of payment for vendors to buyers from other countries.

Red Clause: This gives the right of withdrawing the pre-paid portion of the money to seller from the bank before shipment of the merchandise.

Back to Back: A manufacturer might lack sufficient money to make things, but the customer is persistent on having them and in this situation back to back LC is opened. The bank provides an advance payment to the producer.

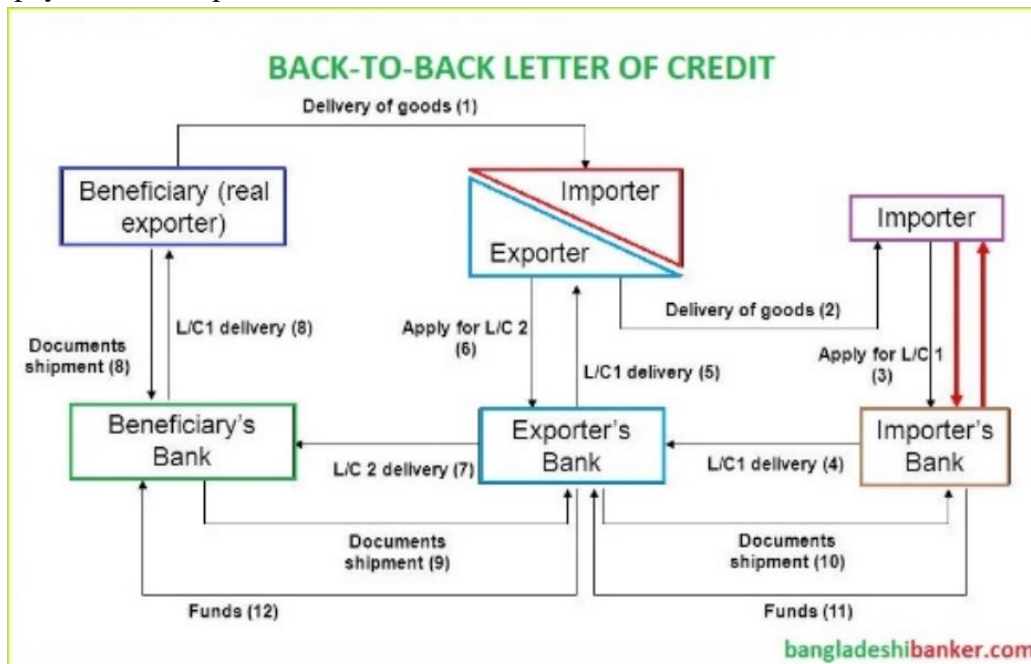


Figure 11 Back to Back LC

Standby Letter of Credit: This LC is meant to be served as a payment source if a contract is non-performance. Caution against the non-fulfilment of a duty.

UPAS LC: UPAS LC is a delayed payment letter of credit which is issued by an issuing bank in response to a customer's request where the beneficiary will have to provide necessary documents to obtain money from the sponsoring bank immediately on the basis of the issuing bank's acceptance. Customers will have to pay for the products and all associated costs to the issuing bank within the due date.

3.3.4 LC Payment

Because containing inconsistencies in LCs which might result in the exporter not being paid and that is why documentation must be completed by skilled specialists. Most of the times there are seven procedures involved while utilizing a letter of credit to get payment:

- The importer has to arrange an LC opening in the exporter's favor by the issuing bank.
- The issuing bank will send the LC to the nominated bank and the nominated bank will send it to the exporter.
- The exporter delivers products and documentation to a freight forwarder.
- The freight forwarder or the dispatcher or the exporter submits documentation of delivering products to the designated bank.
- The nominated bank will verify paperwork for LC compliance and receive money from the issuing bank for the exporter.
- The issuing bank will debit the importer's account.
- The issuing bank will provide paperwork to the importer for claiming the goods from the courier and clear them through customs.

3.3.5 LC Shipment & Transportation

First of all, the importer requests the bank to issue a letter of credit which is submitted on the basis of importer's promise of securities or cash to cover any unanticipated risks in honoring the payment owed to the exporter. After that the issuing bank will prepare the LC and send it to the exporter's designated bank. Then exporter arranges the shipment of goods and once the ship has sailed, he sends his bank hard copies of all the shipping paperwork through DHL which is necessary for cargo clearance. The following items will have to be included in the documents:

- Commercial Invoice
- Packing list
- Bill of lading
- Origin certification
- Other certifications or documentation issued by the competent authorities of the exporting nation may be subject to differing criteria by various banks.

At any time, the importer can pay the bank that issued the LC after the payment is cleared the bank will deliver the shipment clearance documents. So, in order to collect the product on time importer has to clear the payment and then collect the documents. The "Carrier," whether it is a shipping line or airline or trucking firm or train issues the transport document and arrive in a variety of sizes and many forms. (dripcapital, 2021)

3.3.6 Trade Service Division of Prime Bank Limited

At PBL, most common LCs are at-sight, delayed, and UPAS LCs. If PBL is compared with other banks then they have superior financial strength and public perception. Every individual or company has to follow banking laws and regulations and particularly international trade conventions. This allows clients across the world to rely on top banks to handle their export and import transactions.

Responsibilities of PBL Trade Service Division-

- Total supervision of import & export department.
- Foreign Correspondence.
- Payment of L\C and endorsement.
- Follow up overdue bills.
- Maintenance of due rate diary.
- Maintain & record L/C related Documents.
- Audit Compliance.
- Matching of Bill of Entry with IMP, Follow-up of pending Bill of Entry.
- L/C opening and Amendment.
- Balancing of L/C contingent Liability
- Supervision of checking Lodgment and Retirement of import documents.
- Issuance of Certificate and attestation of papers/documents of garments clients as required by BGME, EPB & regulatory bodies.
- Checking, Lodgment, retirement of import Documents under Back-to-Back L/C.
- Issuance of Shipping Guarantee.
- Fill up of IMP form.
- Quarterly statement.
- Maintenance and Record of Pass book and IRC.
- Credit Report.
- Statement of IRC Renewal fees to CCI&E.
- Preparation of monthly Foreign Exchange Business position.
- L/C lodgment, Checking & Retirement.
- L/CA Issue.
- BL/C Statement. Etc.

3.4 Challenges with Letter of Credit

From my interviews, I got to know that although LC is an essential part of trade but it comes with its own problems and those are-

- Whether the lc is opened for 1 USD or 10,000,000 USD it requires same process and same amount of time and effort. So, if someone is stuck with lower amount of lc that person will work same like others but that person will get less commission. Sometime the distribution is not even which affects in performance appraisal later on.
- There are a lot of steps required to fulfill a lc process, each step is completed by a different person so if they give insufficient attention there is a high chance of making mistake. and if someone makes a mistake at any point it turns out to be a hassle to do the amendments again and rectify the mistake consumes more time and effort making delay in lc.
- The political unrest and other factors in the world also affects the LC process because all of a sudden when new rules & regulations and restrictions takes place the LC is to be adjusted according to those. For Example: While I was doing my intern Russia got ban due to wars with Ukraine and if there was even slight mention of Russia in a LC it was ordered to handle with caution or else it might cause severe consequences.
- There are lc with no product price verification with them and 50% to 60 % times those prices are not found in the sources and due to higher officials interference the price are not verified with that much care. Due to this lc are overvalued and it results in money laundering etc.

3.5 Summary and Conclusions

The importance of LC for exporting and importing is critical from every angle. It is the heart and soul of a company. The benefits exporters receive are less credit risk, reduction in misunderstanding about transactions by specifying conditions in the LC and facilitating pre shipments financing through Back to Back LC. Importers get benefit through the ensuring of the items provided by the exporter meet the standards. For Example- Eskayef Pharmaceuticals Ltd. is a corporation that focuses on import and their business would be hard to run without LC because they will not be able to bring the raw materials or other things for products.

It was my pleasure to get this opportunity to work in one of the leading bank of Bangladesh before starting of my professional life and I am feeling motivated that my work experiences will help me in future professional life.

3.6 Recommendations/Implications

Following are some recommendations that I think would be helpful for them in order to improve the efficiency of LC processing and the smooth functioning of the import-export business:

- It is a very lengthy and time-consuming process and it should be improved towards more efficiency through proper research and adaptation. As discussed earlier it takes same amount of time and effort for a small amount LC and a large amount LC.
A new method should be introduced where it takes less steps to complete the LC with less values.
- Improvements needed in the coordination of the officers participating. As there are many steps involved in the LC process and it requires different person at each step to fulfill my suggestion would be make a team of those persons who are involved in a LC process. From start to finish those team members will work together and they will be able to communicate better and resolve any issues that comes.
- To measure the performance of the officers participating in the process, performance measurement programs might be used. The work should be equally distributed amongst the employees. For example: Daily target is set to 100,000 USD and a employee can complete 5 LC on average so every employee should receive 100,000 USD worth from 5 LC. It would help to close the gap of commission amongst them. This would also help to appraise their performance more easily.
- Price verification should be implemented more strictly and Bangladesh Bank should put a strong rules regarding the issue. The LC opener will have to provide verified price while submitting documents for LC opening and no higher authority power should be involved in the process of it. It will help to decrease the overvaluation of the products and money laundering.
- The current LC process has been running for a long time experts should sit together and research new ways for the LC process to make it more efficient etc.

Appendices

Proposal

Objective- The main objective of this report is to describe the reason behind Letters of credit being used extensively in the international trade from the practical knowledge that I have gained during my internship in Trade Service Division of Prime Bank Limited and relate it with my four years long academic learning of BBA Program.

Specific Objectives- I will accomplish my objective by meeting the following objectives:

- In depth analysis of Letter of Credit and different stages of LC processing.
- Analyzing the entire process of LC and its functionality.
- Identifying the importance of LC in import and export.

Literature Review- A letter of credit or "LC" is a letter from a bank that guarantees that payment from the buyer to the seller will be received on time and in the correct amount. In the event that the buyer is unable to pay at the time of purchase the bank will be required to pay the full or remaining amount of the purchase. It can be provided as a base. (Investopedia, 2021)

Due to the nature of international transactions, including factors such as distance, different laws in each country, and the difficulty of each party's personal understanding the use of letters of credit has become increasingly popular which is a very important aspect in international trading.

There are many advantages of using LC like-

- One can easily do businesses with unknown parties around the world.
- The terms and conditions can be customized any time according to the requirements of both parties and come to a mutual list of clauses.
- seller receives money on fulfilling terms.
- It works as a credit certificate for buyer and on the other hand seller is free of credit risk.
- It is quick to execute.
- Payment assured is Disputable Transactions

Due to various reasons there are many types of LC present like Irrevocable LC, Revocable LC, Stand-by LC, at sight LC and many more.

Through knowledge of various forms of LC helps to determine which can be used at times and better understanding of the dealings. Although LC is a very useful thing but working with has its number of disadvantages because of their unavailability to anyone and requiring a number of professional procedures which makes the whole process very difficult and time-consuming.

Preliminary Methodology- I have used both primary and secondary data for the report writing.

Primary- I have taken interviews of the employees working in the division and using all of them for completing my report.

Secondary- I have collected data from Bangladesh Bank, Prime bank websites, annual reports and few journals.

Significance of the Issue- Letter of Credit or LC is very important in the world of trading because it acts as a security for both exporter and importer. If the LC was not present then there would be no guarantee that importer and exporter will stay at their end of the deal. The worldwide trade would have been hampered due to trust issues. LC also helps to prevent money laundering through trading. It is also a documental proof for the trading.

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