



**INTERNSHIP  
REPORT**





# Internship Report

---

## Foreign Exchange & Financial Performance of EXIM Bank

**PREPARED FOR:**

**Ms. Sreyoshi Ahmed**  
Lecturer  
BRAC University

**PREPARED BY:**

**Nusrat Jahan**  
**ID: 10204101**  
**Major: Finance & Accounting**

Date of Submission: 14 September 2014

## ACKNOWLEDGEMENT

---

I am greatly indebted to those people who have helped me prepare this report and express sincere gratefulness to them. First of all, I would like to thank my supervisor, Ms. Sreyoshi Ahmed , for her continued assistance regarding the project work. Secondly, I would like to show gratitude to Md. Rafiqur Rahman, Senior Vice President & Relationship manager who has allowed to do my internship in New Eskaton branch. Thirdly I would like to appreciate Mr. Al-Aminur Rashid, under whom I worked for over 2 months of my internship period and learnt relevant skills. Fourthly, I want to thank the Tanvir Mohammad Jashim who has taught me how the various foreign exchange activities take place in the New Eskaton branch of EXIM Bank using which I was able to write the foreign exchange related part of my internship report.

# LETTER OF TRANSMITTAL

---

To,  
Ms. Sreyoshi Ahmed  
Lecturer  
BRAC University

September 14, 2014

Dear Ms. Ahmed,

Enclosed is a copy of my internship report which I have prepared as a requirement for my Bachelor's Degree in Business Administration. This report has been prepared based on the information I was able to collect during my internship period at EXIM Bank, New Eskaton Branch as well as information available from other secondary sources such as the official website of EXIM Bank. This report entails detailed information regarding all the foreign exchange activities performed in the New Eskaton branch of EXIM Bank along with an in-depth analysis of the financial performance of the EXIM Bank found out by the calculation of relevant ratios.

I hope that this report will be of great value to you.

Sincerely,

**Nusrat Jahan**

**ID: 10204101**

---

# TABLE OF CONTENTS

---

Abstract .....	6
1.0 Introduction.....	7
1.1 Background of report .....	7
1.2 Objectives .....	7
1.3 Scope.....	8
1.4 Methodology (primary and secondary).....	9
1.5 Limitations .....	9
2.0 Organisation.....	10
2.1 Introduction.....	10
2.2 History.....	10
2.3 Product/Service Offerings.....	11
2.4 Operational network or organogram .....	13
2.5 Vision & Mission Statement.....	15
3.0 Job.....	16
3.1 Description/nature of job .....	16
3.2 Specific responsibilities of job.....	16
3.3 Different aspects of Job Performance .....	17
3.4 Critical observations and recommendations .....	18
4.0 Literature Review.....	20
4.1 Letter of Credit.....	20
4.2 Remittance .....	22
5.0 Methodology .....	23
5.1 Data Collection Method.....	23
5.2 Sampling Unit .....	23
5.3 Sample Size.....	23
5.4 Sampling Technique .....	23
6.0 Foreign Exchange Department .....	24
6.1 Import.....	24
6.2 Remittance .....	30
7.0 Financial Ratios .....	32
7.1 Profitability Ratios: .....	32

7.2	Liquidity Ratio.....	38
7.3	Credit Risk Ratio.....	43
7.4	Asset Activity Ratio.....	45
8.0	Findings.....	48
8.1	Foreign Exchange .....	48
8.2	Financial Performance .....	49
9.0	Conclusion .....	50
10.0	Recommendation .....	51
11.0	Appendix.....	52
11.1	Interview Questions & Answers .....	52
11.2	Calculations.....	55
12.0	Bibliography .....	58
12.1	References.....	58

# ABSTRACT

---

This internship report is based on foreign exchange activities that take place in the New Eskaton Branch and on the overall financial performance of the Export Import Bank of Bangladesh Ltd (EXIM). based on four types of ratios namely profitability, liquidity, credit risk, and asset activity ratio. In addition to the above it contains an overview of the organisation as a whole and the tasks that have been performed as part of the role of an intern.

Through several interview sessions with an experienced employee, Mr. Tanvir Mohammad Jashim working as a principal officer in the foreign exchange department it has been revealed that the New Eskaton branch performs only two foreign exchange activities namely import and remittance. The process of import occurs by the issuance of a letter of credit by EXIM Bank on behalf of the buyer or importer. An importer must be first eligible to import by making sure that they have an import registration certificate (IRC). The issuance and the mechanism by which letter of credit process occurs consist of a number of steps which have been described in this paper. Due to limitation by Bangladeshi law only one form of remittance is allowed, and hence performed in EXIM Bank, namely inward remittance or the sending of money from abroad to Bangladesh. Outward remittance is allowed only for sending money to people abroad who have a student profile. An in-depth analysis of the various ratios as stated above have depicted that the profitability of EXIM Bank has decreased, the liquidity position has improved, credit risk has lowered and asset activity remained unchanged for the years 2009 to 2013.

Overall the New Eskaton Branch of the Export Import Bank of Bangladesh aids only in import by the issuance of a letter of credit and in inward remittance through 4 exchange houses and several drawing agencies. All the financial ratios of EXIM Bank have shown positive changes except for the profitability ratios so EXIM Bank needs to focus on improving this particular ratio.

# 1.0 INTRODUCTION

---

## 1.1 *Background of report*

This report has been written as a degree requirement for ‘Bachelor in Business Administration’ at BRAC University. A minimum 12 week internship is part of the university curriculum for the above degree and is worth 4 credits. Having selected EXIM Bank for doing my internship I have written this report based on practices performed in this bank. This report entails a detailed summary of all the foreign exchange activities that take place in the day to day operation of the New Eskaton branch of EXIM Bank as well as an intensive analysis of the financial performance of this Bank by calculation of relevant financial ratios.

## 1.2 *Objectives*

The objective of this report was to give a detailed insight into the various foreign exchange activities that take place in the New Eskaton branch of EXIM Bank. The following activities take place under foreign exchange in the New Eskaton Branch of EXIM Bank:

1. Import
2. Remittance

Along with the above the report is also intended to provide an analysis of the financial performance of the bank by calculating and then analysing the following ratios:

- Profitability Ratios
- Liquidity Ratios
- Credit Risk Ratio
- Asset Activity Ratio



## 1.3 *Scope*

The report entails the following:

1. An organizational overview: Including the history of EXIM Bank, the product and services offered, the organizational structure and the vision and mission statement of the bank
2. Overview of the job: This part entails the nature of the job, the various task I performed while working in EXIM Bank, the lessons I learnt, the limitations I faced, the observations I made about banking procedures and the recommendation I made to EXIM Bank in order to improve the internship program.
3. The different foreign exchange related activities that take place in the particular branch of New Eskaton of EXIM Bank. The following are the activities under foreign exchange that take place in the New Eskaton Branch of EXIM Bank:
  - Import
  - Remittance
4. Along with the above this report will analyses the financial performance of overall EXIM Bank by calculating the below ratios:
  - Profitability Ratio
  - Liquidity Ratio
  - Credit Risk Ratio
  - Asset Activity Ratio
5. The applicable findings, conclusions as well as the probable recommendations that should be made for this bank

## 1.4 *Methodology (primary and secondary)*

This report is based on both primary and secondary sources of data. The sources of primary data were the interview session and conversation with employees under the foreign exchange section of New Eskaton. The secondary sources of data I utilised while preparing this report were the files and folders I was able to go through while I went to the foreign exchange department and the annual reports I used to calculate the different financial ratios as well as information I used from the official website of EXIM Bank and other websites.

## 1.5 *Limitations*

The employees of EXIM Bank are always under a lot of workload so the time available to them to aid us in preparing our internship report was fairly limited. In addition to that many things that happen in the foreign exchange department occur via the use of authenticated bank software to which I had no access to. As a result I had to be dependent on whatever information I could acquire by talking to the employees of EXIM Bank and the files I could go through.

## 2.0 ORGANISATION

---

### 2.1 *Introduction*

The Export Import Bank of Bangladesh is a Shariah Based Islamic Bank. University of North Carolina Wilmington(n.d) explains that the main principle of Islamic finance and banking is the sharing of profits and the prohibitions of all forms of interest. Islamic law specifically prohibits usury and the collection and payment of interest (called *riba* in Islamic discourse). Generally, Islamic law also prohibits trading in financial risk, which is seen as a form of gambling. Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shariah, known as *Fiqh al-Muamalat* (Islamic rules on transactions).

### 2.2 *History*

According to [eximbankbd.com](http://eximbankbd.com) (n.d) the Export Import Bank of Bangladesh Limited has been established in the year 1999 by Late Mr. Shahjahan Kabir who had the vision to erect a commercial bank that would contribute to the socio-economic development of the country. Mr. Kabir was a great banker who with the aid of highly qualified and successful entrepreneurs turned his dream into reality. One of these entrepreneurs namely Mr. Nazrul Islam Mazumder, a garments industry tycoon, became the chairman after the demise of the founder and is also the chairman of the Bangladesh Association of Banks (BAB) through which he tackled many problems faced by the banking sector of Bangladesh.

The bank became operational on 3<sup>rd</sup> August 1999 under the name Bengal Export Import Bank Limited. Later in 16 November 1999 it was renamed to Export Import Bank of Bangladesh Limited with Mr. Alamgir Kabir as the Advisor and Mr. Mohammad Lakiotullah as the Managing Director respectively.

Mr. Kabir and Lakiotullah had extensive experience in the financial sector of Bangladesh and through their pragmatic decision and management directives in the operational activities; this bank has earned a secured and distinctive position in the banking industry in terms of performance, growth, and excellent management. Under the leadership of Mr. Lakiotullah this bank was converted from a conventional banking system to a Shariah Based Islami Banking System in the year July 2004.

In 2006 the Mr. Kazi Masihur Rahman succeeded Mr. Lakiotullah in the role of an MD. During his time the world renowned banking software named TEMENOS T24 with two modern data centres was launched in the bank along with some alternative delivery channels like ATMs and SMS banking. Later Mr. Md. Fariuddin Ahmed joined as the MD who facilitated in making the bank a fully compliant bank through his extensive banking experience.

Finally, Dr. Mohammed Haider Ali Miah succeeded Mr. Fariduddin Ahmed on July 25, 2012 and has created a new dimension in EXIM history becoming the first ever in-house Managing director and CEO of the Bank. Under his far-sighted leadership, EXIM Bank has not only achieved uppermost level of performance in almost each arena of its activities but also gained confidence to place itself as one of the dynamic banks through delivering transparent and standard banking services to the customers in a compliant manner.

## ***2.3 Product/Service Offerings***

The products and service offerings provided by EXIM Bank are under the following categories (eximbankbd.com, n.d):

### **1. Retail Banking**

- Deposits
  - Savings Account
  - Current Deposit
  - Term Deposits
    - Mudaraba Term Deposit
    - Mudaraba Education Deposit

- Deposit Schemes
  - Mudaraba Super Saving Scheme
  - Mudaraba Monthly Saving Scheme
  - Mudaraba Multiplus Saving Scheme
  - Mudaraba Hajj Deposit Scheme
  - Other Schemes such as Ruhama, Ziadah, etc.

- Investments
- Cards-Visa Islamic Cards, Debit Cards, Prepaid Card, Gift Card, etc
- Internet Banking
- SMS Banking
- Locker Services

## **2. Corporate Banking**

- Investments
- Foreign Exchange & Trade Finance
- Correspondent Banking
- Import Finance
- Export Finance

## **3. SME Banking**

- EXIM Uddyog
- EXIM Abalamban

## **4. Agri Banking- EXIM Kishan**

## **5. Remittance**

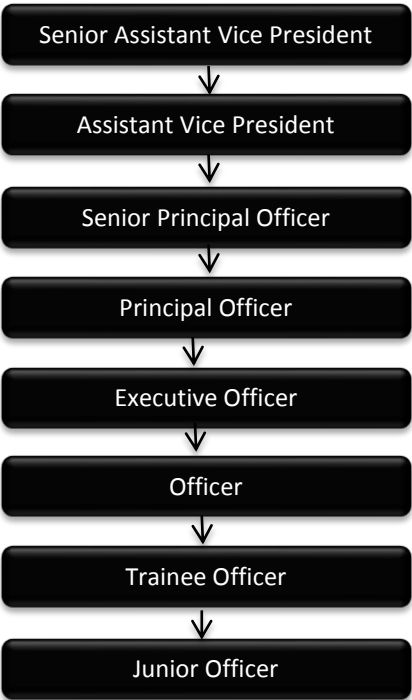
- EXIM Exchange Company (UK) Ltd.
- EXIM Exchange Company (Canada) Ltd.
- EXIM (USA) Inc.
- EXIM Exchange (Australia) Pty

## 2.4 *Operational network or organogram*

Below is the basic organisational structure of EXIM Bank (eximbankbd.com, n.d):



The branch structure of employees in the New Eskaton branch of EXIM Bank is as given below:



## 2.5 *Vision & Mission Statement*

### **Vision:**

The gist of our vision is ‘Together Towards Tomorrow’. Export Import Bank of Bangladesh Limited believes in togetherness with its customers, in its march on the road to growth and progress with service. To achieve the desired goal, there will be pursuit of excellence at all stages with climate of continuous improvement, because, in Exim Bank, we believe, the line of excellence is never ending. Bank’s strategic plans and networking will strengthen its competitive edge over others in rapidly changing competitive environment. Its personalized quality services to the customers with trend of constant improvement will be the cornerstone to achieve our operational success. (eximbankbd.com, n.d)

### **Mission:**

The Bank’s mission gives emphasis to (eximbankbd.com, n.d):

- Provide quality financial services especially in Foreign Trade
- Continue a contemporary technology based professional banking environment
- Maintain corporate & business ethics and transparency at all levels
- Sound Capital Base
- Ensure sustainable growth and establish full value to the honorable stakeholders
- Fulfill its social commitments and
- Above all, to add positive contribution to the national economy



## 3.0 JOB

---

### 3.1 *Description/nature of job*

The internship at EXIM Bank is a non-compensatory 3 week internship period. Here the interns are supposed to start working in the account opening department and then eventually move around to other departments. The basic task of an intern in the bank is to aid the bank employees in the basic day to day tasks they perform in the bank.

### 3.2 *Specific responsibilities of job*

Having worked for over 2 months in the account opening section department of the New Eskaton branch the following were the tasks I performed under this department:

1. Receiving any letters or document that comes to the branch intended for the branch or employees of the branch including any foreign L/C document that arrives. A 'dispatch received' seal has to be placed on receipt of the letters or documents wherever applicable and the time is noted down and a signature is placed.
2. Opening the letters or documents coming under the name of the branch or branch manager and making entries against those letters or documents in a ledger called the 'inward register', placing a number on the documents called the dispatch number and sending the letters or documents along with the ledger to the manager's room at predetermined times.
3. Making ledger entries for any document leaving the office e.g. documents sent to the head office, clients, etc. in a register called 'outward register' and placing a number on the documents called the dispatch number.
4. Making entries into a courier ledger for all the documents that need to be sent through the courier service.

5. Helping in opening savings account, current accounts as well as deposit schemes by dealing with customers and asking them to give the necessary documents, information and taking their signatures on the areas applicable
6. Finding out whether any customer's cheque book has arrived and if it has arrived the finding of the cheque book and cheque book requisition form and the handover to the customer. If anyone beside the account holder tries to take the chequebook an authorisation letter from the account holder is required.
7. Filling out SMS Banking, debit card forms for customers
8. Providing customers with deposit books, forms, etc.
9. Calling customers to request for sending of required documents, etc.
10. Finding forms from the file cabinets
11. Making entries into appropriate files about the new accounts opened and once the entries are done the filing of the forms into appropriate files.

**Other tasks that I performed in other departments were:**

1. Filling out FDR forms
2. Receiving cheques that arrived at the bank
3. Putting the appropriate seals on cheques received from different banks
4. Adding the cheque amount and verifying whether the total amount matches with the amount in the software.
5. Filling the L/C application form for clients

### ***3.3 Different aspects of Job Performance***

#### **Lessons learnt**

The lessons that I have learned working for a short period in EXIM Bank are as follows:

- Being an introvert, this internship has allowed to open up to people, how to get along with colleagues and how to deal with and talk to unknown strangers like customers.

- I have learned how to follow basic office etiquette
- I have learnt basic banking procedures such as opening different accounts, L/C opening etc

### **Limitations at work**

I was unable to learn many components about all banking procedures at EXIM Bank due to the following reasons:

- As an intern I did not have authorized access to the banking software TEMENOS T24 as a result of which I was not able to learn the tasks done using the software. This was particularly problematic for me with regard to departments like investment and foreign exchange where most tasks are performed using the software. As a result there was not much I could learn and do in those departments, forcing me to stay for most of my internship period in the account opening department
- Also I was not given access to enter the Cash department for which I was not able to observe or learn much about how things are done in the Cash department.
- The employees who were as such helpful did not however entrust me with any kind of crucial task for which my knowledge about work is fairly limited to basic tasks.
- The internship period was far too short to gain detailed insight into the tasks done under each department.

### **3.4 *Critical observations and recommendations***

#### **Observations:**

- Bank procedures are simple but very critical i.e a small mistake can cause substantial monetary loss to the bank
- Bank documents are a form of legal documents for which minor alterations need to be signed by the applicable party.

- There are many slabs of processing for every task in the bank. For example for account opening the slabs are as follows: one employee fills in the form, inputs in to the computer and assigns a customer and account number then another employee holding at least the position of a Senior Principal Officer authorizes the customer and account number. Then the managers sign the forms, entries are made into the ledgers and then final filing is done.

### **Recommendations:**

- The internships should start at a specific time every few months for EXIM Bank. This will cause all interns to be at the same level in terms of knowledge and skills acquired.
- A proper orientation should be provided to the interns
- Interns should be entrusted with more responsibility
- Interns should be given more access.

## 4.0 LITERATURE REVIEW

---

### 4.1 *Letter of Credit*

#### **Definition**

Scotia Bank(n.d) describes that in simple terms, a letter of credit is a bank undertaking of payment separate from the sales or other contracts on which it is based. It is a way of reducing the payment risks associated with the movement of goods.

Expressed more fully, it is a written undertaking by a bank (issuing bank) given to the seller (beneficiary) at the request, and in accordance with the buyer's (applicant) instructions to effect payment — that is by making a payment, or by accepting or negotiating bills of exchange (drafts) — up to a stated amount, against stipulated documents and within a prescribed time limit.

#### **Why use a Letter of Credit?**

When the seller has doubts about the credit-worthiness of the buyer and wishes to ensure prompt payment, the seller can insist that the sales contract provides for payment by irrevocable letter of credit. Furthermore, if the bank issuing the letter of credit (issuing bank) is unknown to the seller or if the seller is shipping to a foreign country and is uncertain of the issuing bank's ability to honour its obligation, the seller can, with the approval of the issuing bank, request its own bank — or a bank of international repute to assume the risk of the issuing bank by confirming the letter of credit. (Scotia Bank n.d)

#### **Types of Letter of Credits:**

There are three basic features of letters of credit, each of which has two options. These are described below. Each letter of credit has a combination of each of the three features(Scotia Bank n.d) .

1. **Sight or Deferred:** Letters of credit can permit the beneficiary to be paid immediately upon presentation of specified documents (sight letter of credit), or at a future date as established in the sales contract (term/deferred letter of credit).
2. **Revocable or Irrevocable:** Letters of credit can be revocable. This means that they can be cancelled or amended at any time by the issuing bank without notice to the beneficiary. However, drawings negotiated before notice of cancellation or amendment must be honoured by the issuing bank. An irrevocable letter of credit cannot be cancelled without the consent of the beneficiary.
3. **Unconfirmed or Confirmed:** An unconfirmed letter of credit carries the obligation of the issuing bank to honour all drawings, provided that the terms and conditions of the letter of credit have been complied with. A confirmed letter of credit also carries the obligation of another bank which is normally located in the beneficiary's country, thereby giving the beneficiary the comfort of dealing with a bank known to him.

#### **Components of a shipping document (Scotia Bank n.d):**

1. **Draft:** A draft is a bill of exchange and a legally enforceable instrument which may be regarded as the formal evidence of debt under a letter of credit. Drafts drawn at sight are payable by the drawee on presentation. Term (usance) drafts, after acceptance by the drawee, are payable on their indicated due date.
2. **Commercial Invoice:** The commercial invoice is an itemized account issued by the beneficiary and addressed to the applicant, and must be supplied in the number of copies specified in the letter of credit
3. **Bill of Lading:** A bill of lading is a receipt issued by a carrier for goods to be transported to a named destination, which details the terms and conditions of transit. In the case of goods shipped by sea, it is the document of title which controls the physical custody of the goods.
4. **Air Waybill:** An air waybill is a receipt issued by an air carrier indicating receipt of goods to be transported by air and showing goods consigned to a named party. Being a non-negotiable receipt it is not a document of title.
5. **Certificate of Origin:** A certificate of origin certifies as to the country of origin of the goods described and should comply with any stipulations in the letter of credit as to

originating country and by whom the certificate is to be issued. The certificate should be consistent with and identified with the other shipping documents by shipping marks and numbers, and must be signed.

6. **Packing List:** A packing list is usually requested by the buyer to assist in identifying the contents of each package or container. It must show the shipping marks and number of each package. It is not usually required to be signed.

## 4.2 *Remittance*

(Bankinginfo.com) defines remittance as the transfer of funds to an overseas account. For example, if you need to send money to your child who is studying overseas or help your maid to send money back to her country, you may do so by arranging for a remittance with an authorised remittance agent.

## 4.3 *Financial Performance measurement*

NetMBA (n.d) describes that financial ratios are useful indicators of a firm's performance and financial situation. Most ratios can be calculated from information provided by the financial statements. Financial ratios can be used to analyse trends and to compare the firm's financials to those of other firms. In some cases, ratio analysis can predict future bankruptcy.

Financial ratios can be classified according to the information they provide. The following types of ratios frequently used are:

1. Liquidity Ratios
2. Asset Turnover Ratios
3. Financial leverage Ratios
4. Profitability Ratios
5. Dividend Policy Ratios

## 5.0 METHODOLOGY

---

### 5.1 *Data Collection Method*

This report is based on information from both primary and secondary sources. The data collection method used for collecting primary data was mainly interviews and discussion with the an employee working under the foreign exchange department of the New Eskaton Branch. The interview questions have been attached in the appendix. The secondary sources of data I used for my report were the files of clients who have opened L/Cs in the bank, the application forms and other documents that were accessible to me and the financial reports of EXIM Bank available on the official website of EXIM Bank. Using the data available on the financial reports I calculated the financial ratios for analysing the financial performance of EXIM Bank.

### 5.2 *Sampling Unit*

The sampling unit was the individual. I interviewed the individual employees of New Eskaton branch for collecting information regarding foreign exchange activities performed in this particular branch of EXIM Bank.

### 5.3 *Sample Size*

I collected information about foreign exchange from a single employee called Tanvir Mohammad Jashim working as a principal officer in the foreign exchange department of the New Eskaton branch. The total number of employees working under the foreign exchange department is four.

### 5.4 *Sampling Technique*

The sampling technique was convenience. Tanvir Mohammad Jashim is an employee who has been working under the foreign exchange department of New Eskaton branch for many years so he is well aware of all foreign exchange processes that take place in the organisation.



## 6.0 FOREIGN EXCHANGE DEPARTMENT

---

According to Mr. Jashim mentioned on 4<sup>th</sup> September 2014: In EXIM Bank New Eskaton Branch the roles that the foreign exchange department performs are given below:

1. **Import :** People who wish to bring goods from abroad to Bangladesh can do so with the help of opening an letter of credit (see literature) at this Branch. No export of any form occurs from this particular branch of EXIM Bank.
2. **Remittance:** People staying abroad wanting to send money to people in Bangladesh can do so by inward remittance. The reverse is prohibited normally by the government of Bangladesh unless for student through outward remittance.

### 6.1 *Import*

Those who want to bring in goods to Bangladesh from other countries through import can do so by opening a letter of credit (L/C) in this bank.

Mr. Jashim mentioned on 4<sup>th</sup> September 2014 that without the use of an L/C the exporter may not be sure about the creditability of the importer especially for a new business person so they may ask for full payment before delivery which the importer may not agree to and in addition to this, even if the importer makes all payment before delivery he or she cannot ensure that the exporter will deliver the goods as per specifications upon payment. Therefore, in order to smoothen international trade and mitigate all kinds of risks evolved the system of opening a letter of credit.

The number of letter of credits opened per month varies, sometimes a lot of letter of credits are opened a month while in other months very few are opened. From January till August around 197 letter of credits were issued making an approximate average of 25 L/C per month. In the month of August 16 letter of credits were issued.

## Basic Process of Opening an L/C

Mr. Jashim mentioned on 4<sup>th</sup> September that the party who intends to import any goods from abroad using a letter of credit must perform the following tasks:

1. **Obtain an Import Registration Certificate:** Import Registration Certificate or IRC is a mandatory document to start an import business in Bangladesh. The requirements to open an Import Registration Certificate according to ccie.gov.bd (n.d) are as follows:
  - a. Trade License;
  - b. Membership Certificate from recognized Chamber/Trade Association;
  - c. Tax Identification Number;
  - d. Bank Certificate;
  - e. Memorandum and Articles of Association and Certificate of Incorporation (in case of Limited Company).
  
2. **Open an Al-Wadiah Current Deposit Account:** According to Mr. Jashim all payments of the letter of credit i.e the amount due to the supplier or exporter plus any Bank charges are directly negated from the accounts of the importer. EXIM Bank New Eskaton Branch charges around 0.4-0.5% of the L/C amount as commission for this L/C process. Since the transaction amount involved in an L/C is usually very large the opening of an Al- Wadiah Current deposit account is mandatory.

According to (eximbankbd.com) Al-Wadiah Current Account follows the Principle of Islami Shariah wherein the bank is deemed as a keeper and trustee of funds as Al-Amana (on Trust). This deposit that operates by taking permission from depositors would be taken to use their fund according to Shariah Principle and depositors would not receive any kind of profit. As such the bank is under obligation to return the entire money on demand by the customer. The account is not time barred i.e. Account Holder can withdraw money as many numbers of times as he wishes in a working day.

The Main features of Al- Wadia Current Deposit (eximbankbd.com):

- Halal way or without Riba (interest or usury) transaction

- Unlimited deposit or withdrawal
- No profit will be given
- Cheque book facilities
- ATM Card
- Free online transaction
- No Over Draft will be allowed in the account
- SMS banking service includes balance inquires/Mini-statement by mobile phone

The documents that are required for opening an Al-Wadiah Current Deposit Account are as follows (eximbankbd.com):

- An Al-Wadiah account opening form duly filled & signed by the account holder
- Introducer's Signature
- 2 passport size photographs of every operator duly attested by the introduce
- National ID Card copy, Trade License and TIN Certificate of the operators
- Declaration of Sole proprietorship, partnership whichever is applicable
- Memorandum of association in case of a limited company
- Nominee photograph and national ID card copy.

### **3. L/C application**

Mr. Jashim mentioned on 7<sup>th</sup> July 2014 that once the potential importer has opened the above account, he or she has write an application for opening an L/C addressed to the Manager of the particular Branch involved. Once the application has been written the importer is supposed to give the pro-forma invoice sent by the exporter or supplier and fill a L/C application form. The pro-forma invoice entails details of the items that the importer wants to import including the unit price, quantity and the total monetary value. The pro-forma invoice also contains other details such as the type of L/C, the L/C opening date, the advising bank, the insurance coverage, country of origin etc.

In EXIM Bank only irrevocable L/C (see literature) is opened. The application form for such an L/C as shown in the files of importers on 7<sup>th</sup> July:

- Name & Address of Applicant
- Name & Address of Beneficiary
- The L/C Number and Date
- The description of goods imported
- The Pro-forma Invoice Number & Date
- The L/C type: Deferred or Sight L/C
- The place of origin and destination
- The way the goods are imported e.g. ship, air etc.
- The way credit will be advised e.g. airmail, courier, teletransmission etc.
- The L/C start date and date of expiry
- The documents required
- Type of Insurance done usually a cover note is attached
- Account number of the applicant

#### **4. L/C payment is done**

Mr. Jashim mentioned on 7<sup>th</sup> July 2014 that once the above form is filled the importer can open an L/C. If the importer is a new customer the bank opens an L/C at 100% margin which means that the total payment is taken from the client before the bank continues with the L/C process. However, if a customer has opened an L/C before with the bank the customer can open the L/C at a margin desired by them for e.g. A 25% margin means that 25% of the L/C amount is taken before hand and 75% is given during the negotiation of shipping documents.

I witnessed on 7<sup>th</sup> July 2014 that the amount to be paid whether full or partially is written in a slip called ‘Challan’ and the amount is to be deposited in the bank. Once the payment is done the L/C Application form and application letter is sent to the relationship manager of the branch who if approves an L/C is made.

#### **5. L/C is opened**

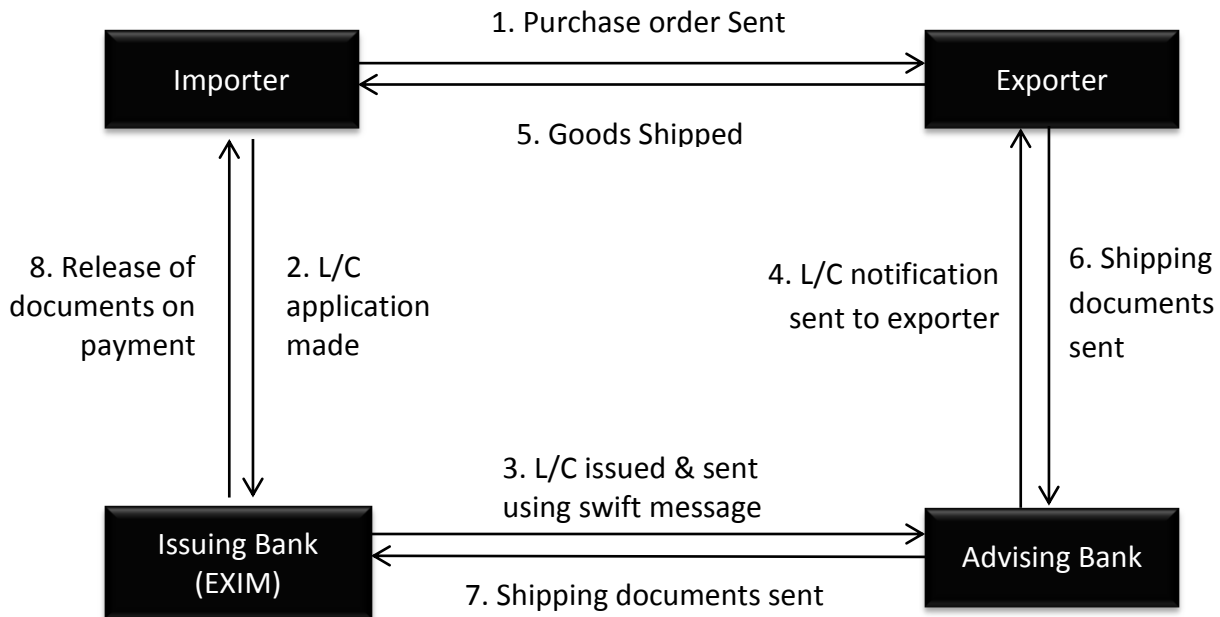
The L/C document as I have seen in the files of ‘Haque Traders’ contains details like below:

- Name of applicant
- Name of beneficiary
- Type of L/C
- L/C Number
- L/C Amount
- Charges
- Country of origin of goods;
- Currency and amount ;
- Date and place of the expiry of the Documentary Credits ;
- Description of goods and quantity ;
- Documents required for negotiation;
- Instruction for negotiating bank;
- Last date of shipment;
- Letter of Credit Authorization (LCA) number, IRC (Import Registration Certificate) number and Harmonized System (HS) code;
- Mode of Carrying –Air/Ship/Truck;
- Name and address of beneficiary ;
- Name and address of the advising bank;
- Name and address of the applicant;
- Name of the issuing Bank and Branch;
- Negotiating bank preferably freely negotiable in any bank;
- Number of Letter of Credit and date of opening ;
- Payment Term-Sight/Usance ;
- Period of Negotiation ;
- Period of presentation ;
- Port of Loading and port of Discharge;
- Reimbursing Bank and payment mode;

- Terms and conditions regarding Transshipment and Partial Shipment;

## L/C Mechanism

Mr. Jashim discussed on 4<sup>th</sup> September 2014 that the basic L/C mechanism that takes place in EXIM Bank New Eskaton branch is as illustrated by the following diagram:



The basic L/C process as illustrated in the above diagram basically consists of the below steps:

1. First the importer sends a purchase order to the exporter following which the exporter or supplier sends a pro-forma invoice
2. The Importer then using the pro-forma invoice must make an L/C application in EXIM Bank as mentioned earlier
3. EXIM Bank then creates the L/C and sends it via swift message to the advising bank or exporter's bank
4. The advising Bank notifies the exporter of the receipt of the L/C.
5. The exporter then ships the goods

6. The exporter sends the shipping documents through advising bank to the issuing Bank or EXIM Bank
7. EXIM Bank then endorses the shipping documents and gives the shipping documents to the party when the remaining L/C amount has been paid
8. Using the shipping documents the importer goes to the port and collects the goods from there

### **Components of a shipping document:**

The documents sent from the exporter to the importer via the advising and issuing bank entails the following (as seen from Haque Trader's file on 7<sup>th</sup> September)

1. Draft/ Bill of exchange
2. Commercial Invoice
3. Bill of Lading
4. Air Waybill
5. Certificate of Origin
6. Packing List

The above is given in several copies, based on the number mentioned in the letter of credit.

## **6.2 Remittance**

Mr. Jashim mentioned on 4<sup>th</sup> September 2014 that EXIM Bank's foreign exchange department facilitates the inflow of remittance or transfer of money into Bangladesh from abroad. He also discussed that according to Bangladeshi government only inward remittance is permitted and outward remittance for people other than students is strictly prohibited by law. Outward remittance is only allowed for sending money to people abroad who have a student profile.

According to Eximbankbd.com(n.d) Export Import Bank of Bangladesh Limited facilitates Remittance Service to the remitters and the beneficiaries to ensure their contribution to the national economy of Bangladesh. In this regard, the bank has established 4 (Four) Exchange

Houses in UK, Canada, USA & Australia which are fully owned subsidiaries of EXIM Bank. Besides, the bank has Drawing/Agency arrangements with some other Exchange Houses and Money Transfer companies around the world. The exchange houses and the money transfer companies are given below:

**EXIM Exchange Houses:**

1. EXIM Exchange Company (UK) Limited.
2. EXIM Exchange Company (Canada) Limited.

**Drawing/Agency Arrangement:**

1. Western Union Money Transfer
2. MoneyGram
3. Xpress Money
4. Wall Street Exchange Centre LLC., Dubai
5. Wall Street Forex London
6. National Exchange Company srl. Italy
7. Zenj Exchange Co. W.L.L. (Turbo Cash) Bahrain
8. Ria Money Transfer



# 7.0 FINANCIAL RATIOS

## 7.1 Profitability Ratios:

Profitability: Measures that indicate how well a firm is performing in terms of its ability to generate profit.

1. **Net Profit Margin:** It is the ratio of the net profit to revenue. This shows how much profit every dollar of sales or revenue is generating. In other words, it shows how much profit, revenue minus the expenses and tax, is generated as a percentage of the total revenue earned. (Islam 2013)

The higher this ratio, the higher the profitability because a high net profit margin indicates that every dollar of revenue is generating high amounts of profit. This means that a greater amount of money will be left after paying for the expenses for use elsewhere.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Revenue}}$$

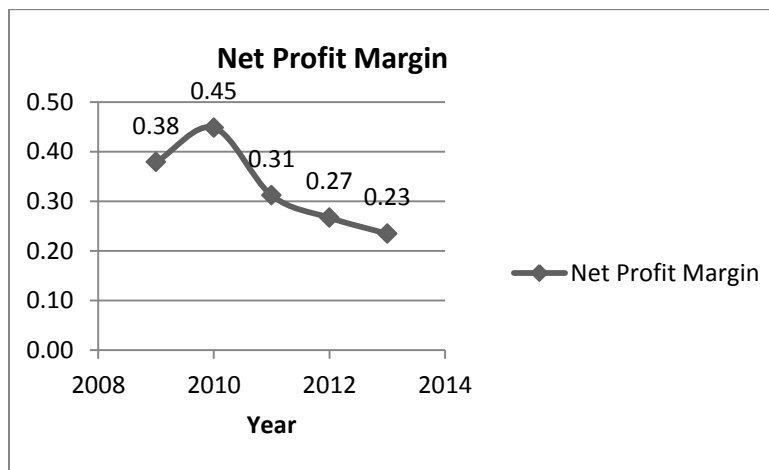


Figure 7-1: Net Profit Margin

Analysis of EXIM Bank’s net profit reveals that initially the net profit increased from 0.38 to 0.45 between the years 2009 to 2010. Following this the net profit margin experienced a

gradual fall between the years 2010 to 2013. The fall in net profit margin between the years 2010 to 2011 was much steeper (by 0.14) compared to the fall in other periods i.e. a fall of 0.04 in both periods 2011-12 and 2012-2013.

The above can be explained by analysis of the changes in operating revenue, expense and net profit over the five year period shown in the graph below:

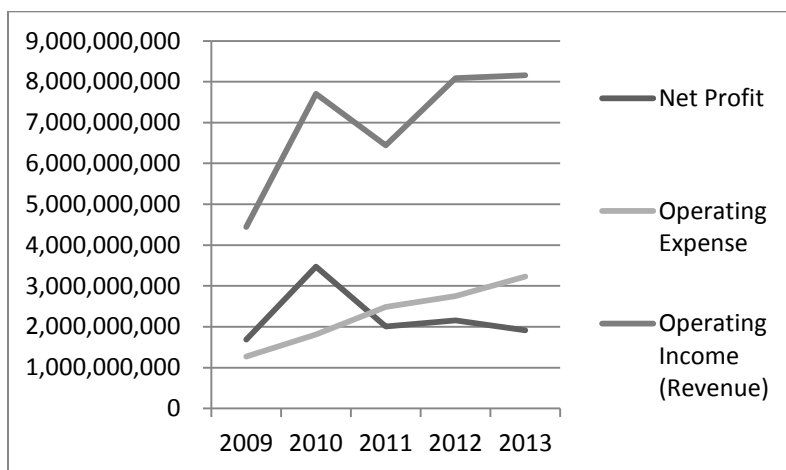


Figure 7-2: Relationship of Net Profit, Operating Revenue & Operating Expense

From the above graph and table it is evident that net profit for EXIM Bank increased steeply during the period 2009 to 2010 probably because the operating income increased much more drastically compared to the increase in operating expense. The increase in net profit was much more compared to the increase in operating revenue which caused the net profit margin to increase during that particular period. For the following period i.e between 2010 to 2011 operating income decreased considerably while operating expense continued to rise. As a result net profit experienced a significant fall. The decline in net profit was steeper in comparison to the decline in operating income, causing net profit margin to fall considerably. Later, during 2012 to 2013 the operating income increased slightly while operating expense increased slightly. This resulted in an increase in net profit. However the increase in net profit was much lesser compared to the increase in operating income due to which the net profit margin decreased even further. Finally during 2012-2013 the operating income increased slightly while operating expense increased by a much greater extend. This resulted in a fall in net profit. Since

net profit decreased while operating revenue increased, the net profit margin decreased even more.

Overall the net profit margin for EXIM Bank increased between the years 2009 to 2010 after which it continually decreased for the rest of the 5 year period i.e. 2010 to 2013. Therefore it indicates that initially there was a high demand for loan (investment in Islamic Banking) and other Islamic banking services at EXIM Bank and it was able to reap substantial profit out of it, following which the demand fell drastically may be due to an increase in the level of competition causing the net profit and hence net profit margin to decrease drastically.

**2. Interest Spread:** It is the ratio of the interest and fees received on loans to the total amount of loans. This ratio shows the total amount of interest income and other fee income earned with respect to the total amount of loans. (Islam 2013)

The greater this ratio, the greater will be the profitability because a high interest spread means a high amount of income in the form of interest and other fees is earned with respect to the amount of loans, implying a higher return on loans.

$$\text{Interest Spread} = \frac{(\text{Interest and Fees on Loans})}{\text{Total Loans}} \times 100$$

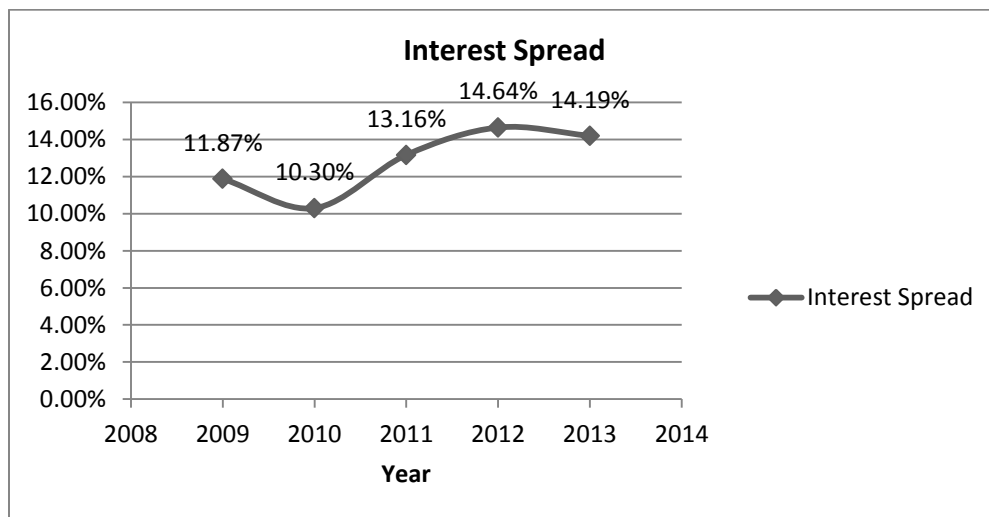


Figure 7-3: Interest Spread Graph

EXIM Bank's interest or profit (since it follows Islamic Banking principles) spread graph for the period 2009 to 2013 shows that between 2009 to 2010 the interest spread decreased slightly i.e by 1.57% following which it increased by 2.86% in the next period i.e 2010 to 2011 and continued to increase gradually till 2012. From 2012 to 2013 interest spread again experienced a slight decline(0.45%). Overall the interest spread curve of EXIM Bank initially decreased then gradually kept on increasing.

Overall the interest spread curve of EXIM Bank demonstrates an initial fall followed by an upward trend. This means that initially EXIM bank was unable to earn a lot of income in comparison to the amount of loans initially but later it was able to earn considerable income on its loans which indicates a higher return on loans.

**3. Net Interest Margin:** It is a measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders, relative to the amount of their total average asset. (Islam 2013)

The greater this ratio, the better the profitability of the bank because a higher interest margin means that more income is generated from loans than needs to be paid to the depositors, borrowings etc. with respect to the total average asset.

$$\text{Net Interest Margin} = \frac{\text{Interest Income} - \text{Interest Expense}}{\text{Total Average Asset}}$$

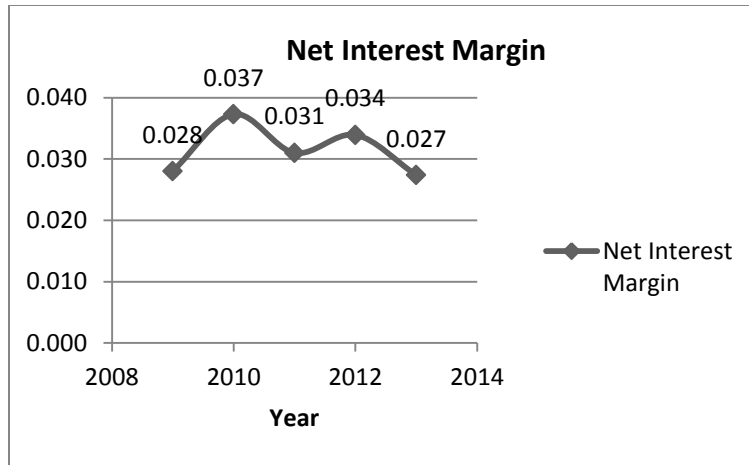


Figure 7-4: Net Interest Margin

EXIM Banks net interest (or profit according to Islamic Sharia Based Banking) margin indicates a more a about constant trend line. During 2009 to 2010 the net interest margin increased slightly by 0.009 after which it fell down by 0.006 in the next period. After that the net interest margin increased by 0.003 and then fell by 0.007 in the periods 2011-2012 and 2012-2013 respectively.

The above trend can be explained by analysing the trend in interest income, expense and the total average asset (loan or investment) given below:

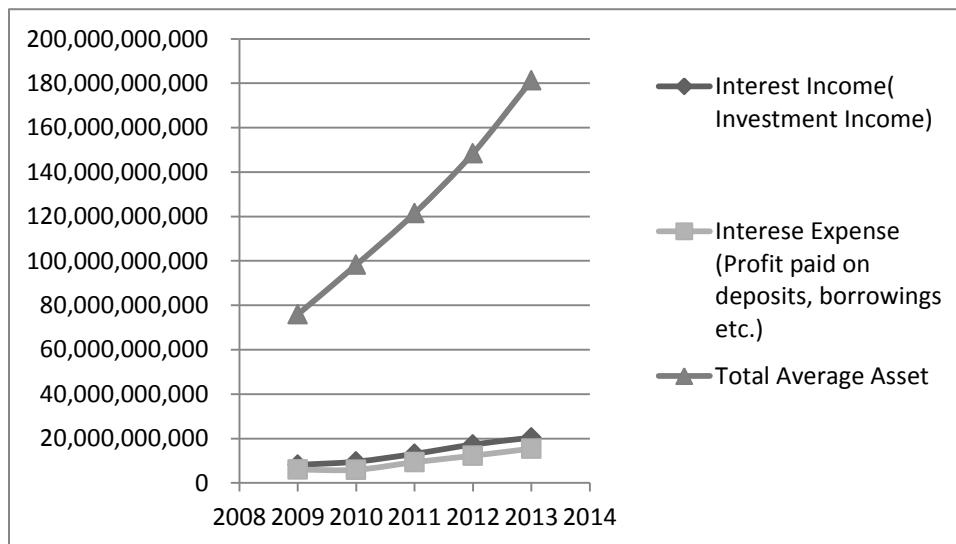


Figure 7-5: Total Average Asset, Interest Income & Expense

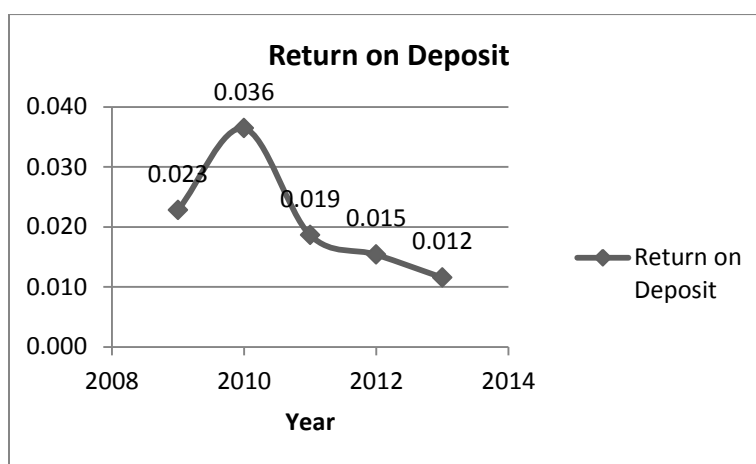
From the above graph it is evident that the interest income, interest expense and the total average asset all increased at a more or less constant rate due to which the net interest margin remained more or less constant at 0.03 units.

Overall the net interest margin of EXIM Bank is relatively constant which indicates that the profitability of the bank remained fairly constant because the amount of income earned from loans, the amount to be paid to depositors and borrowers and the total average asset increased at a more or less constant rate.

**4. Return on Deposit:** It is the ratio of net profit to total deposit. It measures the amount of profit each dollar of deposit generates. (Islam 2013)

The higher this ratio, the greater the profitability because a high return on deposits means that each dollar of deposit taken generates a higher amount of profit.

$$\text{Return on Deposit} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$



**Figure 7-6: Return on Deposit**

The return on deposit graph shows that the return increased by 0.013 from 2009 to 2010 following which it decreased by 0.017 during 2010 to 2011. After this the return gradually fell

down by 0.004 and 0.003 in the periods 2011-2012 and 2012-2013 respectively. Overall the return on deposit experienced a very small downward trend following an initial upward rise.

This pattern indicates that from 2009-2010 a greater amount of profit was generated in 2010 compared to 2009 from the total deposits. Later from 2010 to 2013 there was a consistent decrease in the amount of profit generated by each dollar of deposit

## 7.2 *Liquidity Ratio*

Liquidity shows the ability to convert an asset into cash without a significant price concession. Liquidity ratio shows the liquidity of assets of an organization. Under the liquidity ratio we will discuss three major ratios.

1. **Cash Ratio:** The ratio of a company's total cash and cash equivalents to its current liabilities is known as cash ratio. If the cash ratio is high then it shows that the liquidity of the organization is good but it must be less than 1. If the ratio is 1 or more than 1 then 1 the bank has idle cash which is not good for the bank's profitability. (Islam 2013)

$$\text{Cash Ratio} = \frac{\text{Cash in hand and at other banks}}{\text{Total deposit}}$$

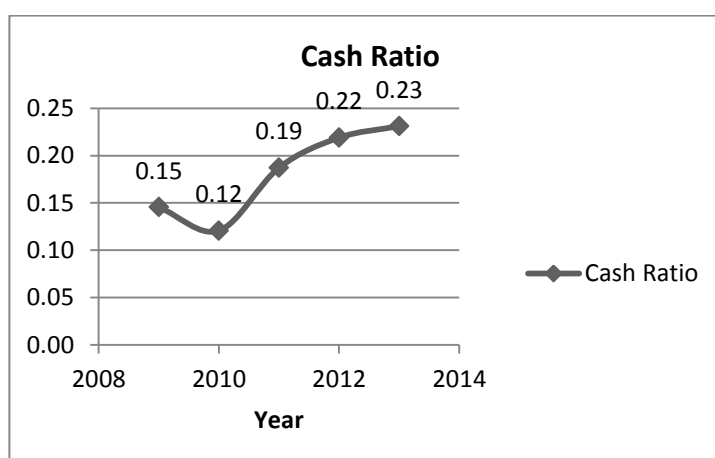


Figure 7-7: Cash Ratio

Analysis of the cash ratio for EXIM Bank for the period 2009-2013 reveals that the cash ratio is well below 1 which indicates that the bank has low liquidity. When looking at the pattern of the cash ratio then the cash ratio decreased during 2009 to 2010 from a value of 0.15 to a value of 0.12. Following this the cash ratio experienced a gradual increase to a value of 0.19, 0.22 and finally 0.23 in the years 2011, 2012 and 2013 respectively.

The above can be explained with the help of the following graph:

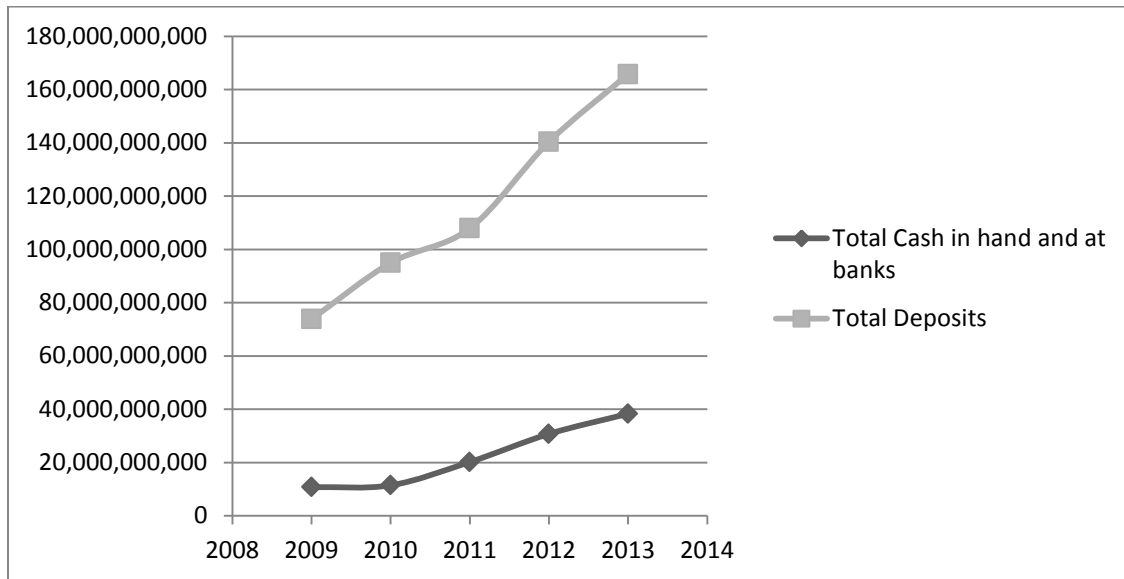


Figure 7-8 Total cash in hand and at banks & Total deposits

Overall the total cash in hand and at banks as well as total deposits are increasing for the period 2009 to 2013. However the increase in total cash in hand and at banks is less than the increase in total deposits for 2009-2010 for which the cash ratio declined in that particular period. Following this the total cash in hand and at banks increased considerably while the total deposits also increased. However the increase in total cash in hand and at banks was much more compared to the increase in total deposits in the years 2010-2013. As a result the cash ratio kept on increasing.



Overall the cash ratio of EXIM Bank is increasing which indicates that the total amount of cash in hand or at other banks is increasing with respect to the total deposits made which indicates that the bank's liquidity is gradually increasing over the years.

2. **Loans to Total Deposit:** It represents the company's total loans to its total deposit. For the liquidity of a bank it is better to have a decreasing trend of this ratio over the year. Low loans to total deposit shows that the bank is giving less loan which means it is keeping more liquid assets. At the same time it cannot be too low which may increase idle cash and it is not good for the profitability of the bank. (Islam 2013)

$$\text{Loans to Total deposit} = \frac{\text{Loans}}{\text{Total deposits}}$$

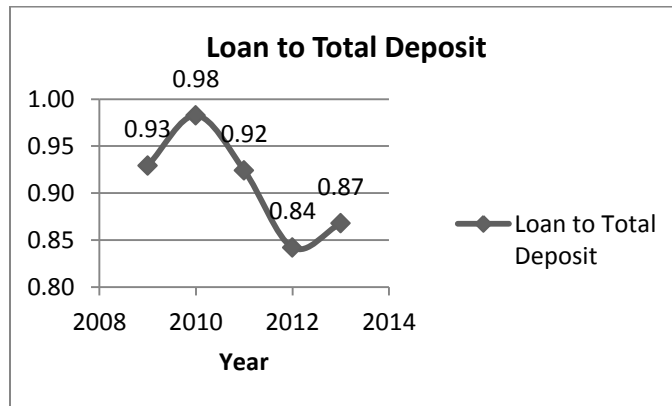
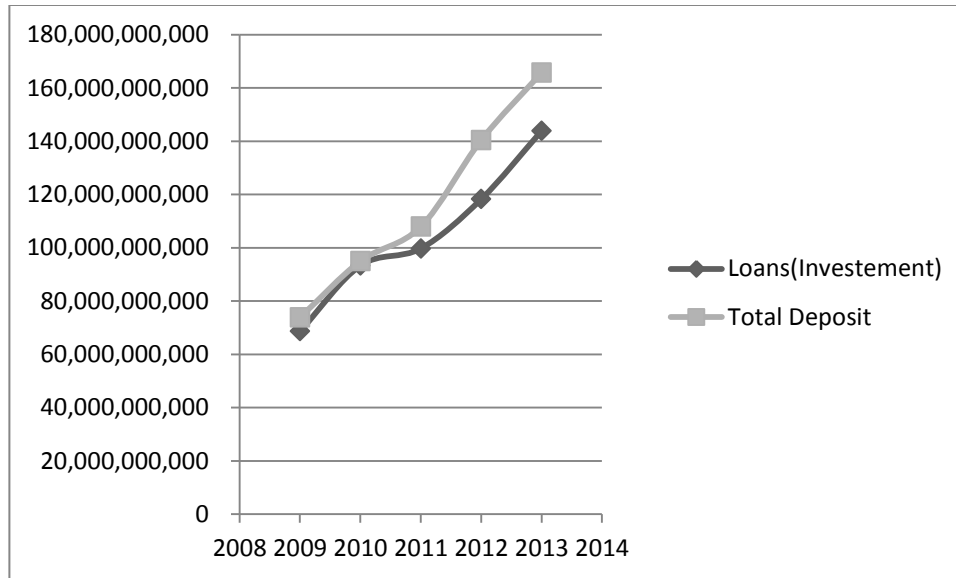


Figure 7-9: Loan to Total Deposit

The loan to total deposit indicates that from 2009 to 2010 the loan to total deposit increased from a value of 0.93 to a value of 0.98. Following this the loan to total deposit ratio fell by 0.06 units during 2010-2011. Later it fell further to a value of 0.84 in 2012. Finally it started rising to a value of 0.87 in 2013.

The above can be explained by analysing the loan and total deposit movement in the years 2009-2013:



**Figure 7-10: Loans & Total Deposit**

Both loans and total deposit indicate a gradual upward trend in the five year period i.e 2009-2013. During 2009-2010 the increase in total loans was much greater than the increase in total deposit. Following this the above graph clearly indicates that the total deposits were increasing much more steeply compared to the total loans, which explains why the loans to total deposits decreased from 2010-2012. However from between 2012-2013 the total deposits were increasing somewhat less steeply compared to the previous years while the loans increased more steeply compared to the previous years. As a result the loans to total deposit ratio slightly increased in that period.

The trend in the loans to total deposit ratio indicates that amid 2009-2010 greater proportions of deposits were given as loans which implies a slight decrease in liquidity. Following this the period 2010-2012 implies that lesser proportion of deposits were given as loans suggesting an increase in liquidity. Later from 2012-2013 the slight increase in the ratio means a slight increase in the proportion of loans given an hence a decrease in liquidity.

- Loans to Total Assets:** It shows the company's total loans to the total assets. It represents how much loans the company is giving regarding the total assets. It is good for the bank to have a low loan to total ratio. But if the decrease is very significant it means compare to the

growth of the bank it is not using its assets to give loan which may have an impact on its profitability. (Islam 2013)

$$\text{Loans to Total asset} = \frac{\text{Loans}}{\text{Total Asset}}$$

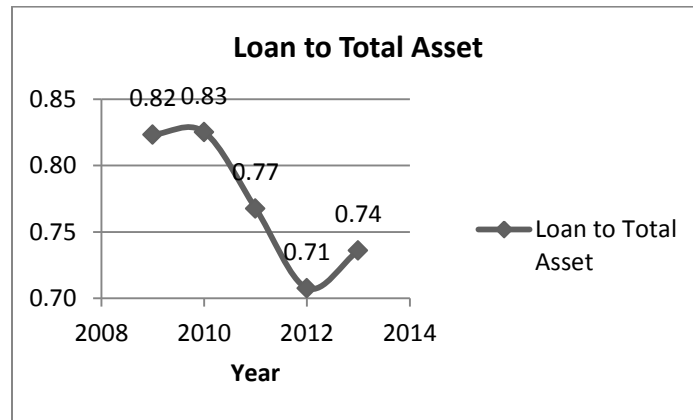


Figure 7-11: Loan to Total Asset

EXIM Bank’s loan to total asset ratio initially shows a 0.01 rise from 2009-2010 following which it declined to a 0.77 then 0.71 in the years 2011 and 2012 respectively. Later the ratio increased by 0.03 to a value of 0.74.

The above pattern can be explained using the following graph:

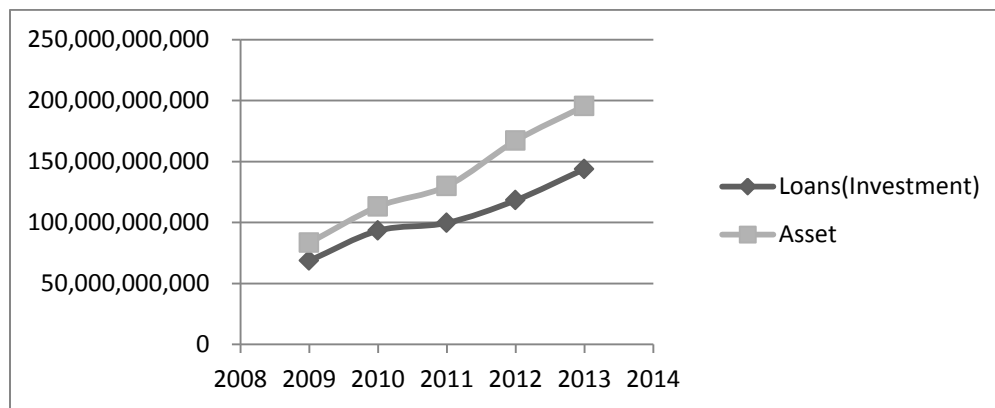


Figure 7-12: Loans & Asset

From 2009-2010 the asset amount as well as loan amount increased by the same amount as a result of which the loan to total asset stayed more or less constant. Following this the loan amount increased less steeply compared to the asset amount for 2010-2012 for which the loan to asset ratio decreased. Following this during 2013-2014 the loan amount increased more sharply than asset, causing the ratio to increase.

Overall the loan to total asset ratio of EXIM Bank oscillates from 0.7 to 0.8 which indicates a higher utilisation of asset but less liquidity. From 2010 to 2012, the decline in this ratio indicates that Bank help more idle cash, increasing liquidity. Later the marginal increase in the ratio meant a higher cash utilisation but lesser liquidity.

### 7.3 *Credit Risk Ratio*

These are the ratios which calculate the risk of loss of the investor money along with the interest rates because of the firm's failure to repay debt. This risk arises when arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated by getting risk premiums from the firm for taking the risk of investing in the company. Credit risk is closely related with the expected probability of getting back the investment, the higher the risks the higher the interest payments.

1. **Equity to Asset ratio:** The percentage of total assets financed through the owner's equity capital. This is the reciprocal of the debt to asset ratio. It is used to help determine how much shareholders would receive when the company liquidates and it represents the amount of assets on which shareholders have a residual claim. (Islam 2013)

$$\text{Equity to Asset} = \frac{\text{Total Equity}}{\text{Total Asset}}$$

The greater this ratio the better as it will imply that greater amounts of assets are being financed through equity.

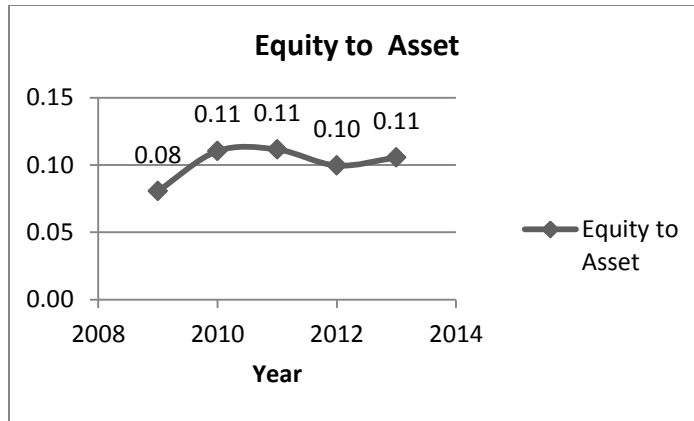


Figure 7-13: Equity to Asset

The equity to asset ratio of EXIM bank increased from 0.08 to 0.11 from 2009 to 2010. Following this the ratio remained more or less constant at a value of 0.10 to 0.11 during 2010 to 2013. This indicates that the amount of assets being financed through equity increased from 2009-2010 following which there was no significant change for the years 2010-2013 implying that the credit risk initially decreased and then remained stagnant at that level.

2. **Equity to net loans ratio:** This is the ratio of the total equity to the net loan. It shows how much of net loans are financed by the equity the bank possesses. (Islam 2013)

$$\text{Equity to Net Loans} = \frac{\text{Total Equity}}{\text{Net Loans}}$$

The higher this ratio, the lower the credit risk or the less chance the bank will default.

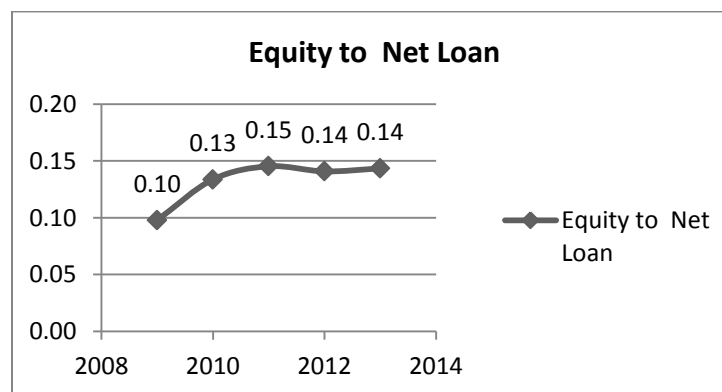


Figure 7-14: Equity to Net Loan

The equity to net loan ratio increased gradually from 0.10 to 0.13 and then to 0.15 in the years 2009, 2010 and 2011 respectively. Then the ratio decreased slightly by 0.01 in the year 2012 and remained at that level ever since. The initial increase in the ratio implies that greater amounts of loans were financed by equity in the years 2009 to 2011, meaning a lesser credit risk and hence a lower chance of default by the bank. After that credit risk increased marginally and remained at that level.

## 7.4 Asset Activity Ratio

1. **Fixed asset turnover ratio:** This is a financial ratio that is calculated by the net sales to fixed assets, which measures the firm's ability to generate net sales from fixed asset investments net of depreciation. The higher this ratio is the more effective it would be in using the investment in fixed assets to generate revenues. (Islam 2013)

$$\text{Net Fixed Asset Turnover} = \frac{\text{Revenue}}{\text{Net Fixed Asset}}$$

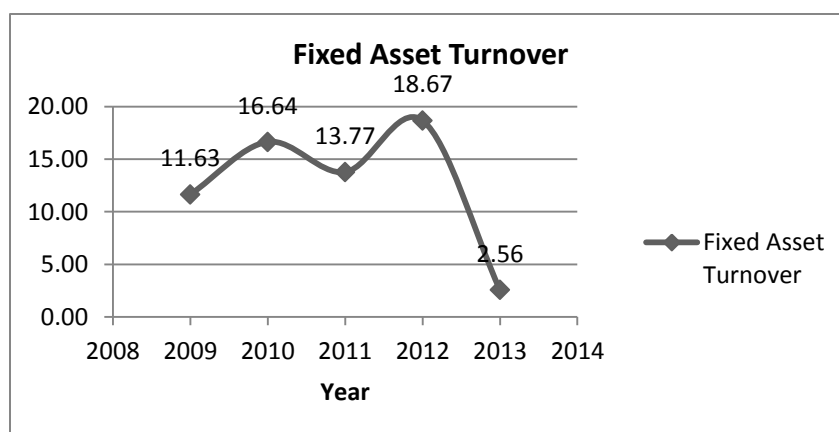
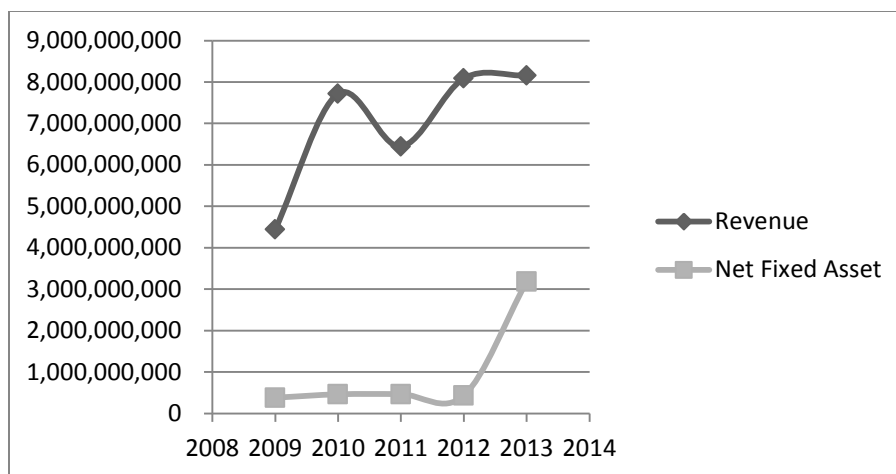


Figure 7-15: Fixed Asset Turnover

The above graph shows an overall fluctuating fixed asset turnover for EXIM Bank. From 2009-2010 the fixed asset turnover increased slightly from a value of 11.63 to a value of 16.64 following which it decreased by 2.87 units to a value of 13.77 in 2011. Later in the following year it rose to a value of 18.67. Finally in 2013 it fell drastically to a value of 2.56.

The above can be explained by looking at the pattern of revenue and net fixed asset:



**Figure 7-16: Revenue & Net Fixed Asset**

As we can see in the above graph the revenue increased from 2009-2010, then it decreased from 2010-2011 and then again increased in 2011-2012 while the net fixed asset remained more or less constant. This explains why the net fixed asset turnover increased, then decreased and then again increased for 2008-2012. Following this in 2012-2013 the revenue did not experience any significant change while the net fixed asset increased, causing the drastic decline in net fixed asset turnover ratio in that period.

Overall the net fixed asset ratio for EXIM Bank is fluctuating in nature which indicates that the bank's ability to utilize its fixed assets to generate revenue varied for the five year period. The most significant change happened between 2012-2013 where the ratio fell drastically, indicating a major decline in the Bank's efficiency in utilizing its fixed assets to generate revenue.

2. **Net asset turnover ratio:** Also known as the Asset Turnover Ratio it measures the amount of sales generated for every dollar's worth of assets. It is calculated by dividing sales in dollars by assets in dollars. This ratio is more useful for growth companies to check if in fact they are growing revenue in proportion to assets also known as the Asset Turnover Ratio. (Islam 2013)

$$\text{Net Asset Turnover} = \frac{\text{Revenue}}{\text{Net Asset}}$$

The higher the ratio, the higher will be the asset activity. A high asset turnover implies that the bank is better able to utilize its net assets to generate revenue so it is best for the company to have a high fixed asset turnover.

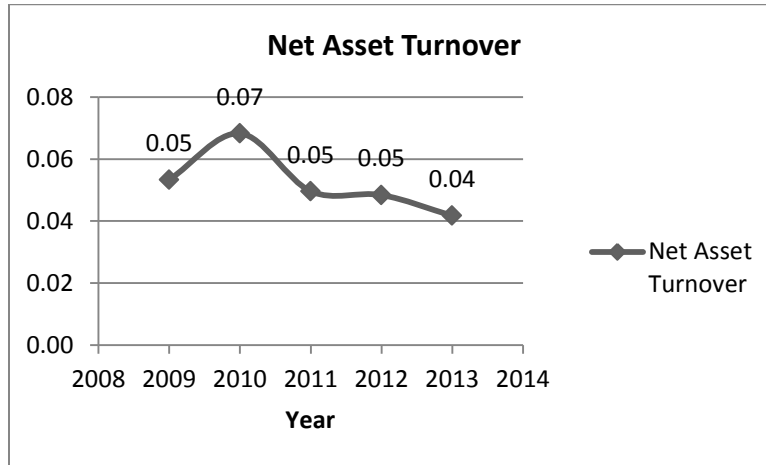


Figure 7-17: Net Asset Turnover

The net asset turnover of EXIM Bank indicates that from 2009-2010 the net asset turnover slightly increased by 0.02 units from a value of 0.05 to 0.07 and then later it fell back to the original level in 2011. Following this the ratio did not experience any significant change from 2011-2013. This pattern indicates that initially EXIM Bank's ability to use its assets to generate revenue slightly increased from 2009-2010 and then again decreased to the original level in 2011 and later the ability remained more or less constant for 2011-2013.



## 8.0 FINDINGS

---

### 8.1 *Foreign Exchange*

1. Only Import & Remittance occurs at New Eskaton Branch
2. Letter of credit is issued to increase the creditability of the importer as the bank is acting as the guarantor of payment
3. Varied number of L/C is opened per month in New Eskaton Branch. So far till August 197 L/C have been opened making an average of 25 L/Cs per month
4. Every importer needs to have an IRC
5. For opening an L/C at EXIM Bank one needs to do the following:
  - a. Open an Al-Wadiah CD account
  - b. Give an L/C application letter, give a proforma invoice and fill a L/C application form
  - c. Pay the L/C amount in full or partial , depending on client
  - d. Open L/C
6. The basic L/C process as illustrated in the above diagram basically consists of the below steps:
  - a. First the importer sends a purchase order to the exporter following which the exporter or supplier sends a pro-forma invoice
  - b. The Importer then using the pro-forma invoice must make an L/C application in EXIM Bank as mentioned earlier
  - c. EXIM Bank then creates the L/C and sends it via swift message to the advising bank or exporter's bank
  - d. The advising Bank notifies the exporter of the receipt of the L/C.
  - e. The exporter then ships the goods
  - f. The exporter sends the shipping documents through advising bank to the issuing Bank or EXIM Bank

- g. EXIM Bank then endorses the shipping documents and gives the shipping documents to the party when the remaining L/C amount has been paid
  - h. Using the shipping documents the importer goes to the port and collects the goods from there
7. Only Inward remittance is permitted in Bangladesh, outward remittance is prohibited unless for student profile holders
  8. EXIM Bank has a 4 Exchange houses in UK, Canada, USA & Australia and many drawing/agency arrangements to facilitate remittance transfer.

## 8.2 *Financial Performance*

1. Net Profit increased slightly from 2009-2010 after which it consistently fell in the other years.
2. Overall the interest spread curve of EXIM Bank demonstrates an initial fall followed by an upward trend.
3. Net interest margin of EXIM Bank is relatively constant at 0.3
4. Overall the return on deposit experienced a very small downward trend following an initial upward rise.
5. Overall the cash ratio of EXIM Bank is increasing
6. Fluctuating trend in the loans to total deposit ratio with values between 0.8-0.9
7. Fluctuating trend in the loans to total asset ratio with values between 0.7 to 0.8
8. The equity to asset ratio of EXIM bank increased from 0.08 to 0.11 from 2009 to 2010. Following this the ratio remained more or less constant at a value of 0.10 to 0.11 during 2010 to 2013.
9. The equity to net loan ratio increased gradually from 0.10 to 0.13 and then to 0.15 in the years 2009, 2010 and 2011 respectively. Then the ratio decreased slightly by 0.01 in the year 2012 and remained at that level ever since.
10. Overall the net fixed asset ratio for EXIM Bank is fluctuating in nature. The most significant change happened from 2012-2013 where the ratio fell drastically.
11. The net asset turnover of EXIM Bank oscillated around a value of  $0.05 \pm 0.02$ .

## 9.0 CONCLUSION

---

In conclusion the New Eskaton Branch of EXIM Bank aids only import and remittance under the foreign exchange department. The import can be done through the issuance of a letter of credit which enhances the creditability of the buyer or importer. There are a number of steps that need to be performed in order to open an L/C in opening an L/C and the basic L/C mechanism is a function of eight steps. For facilitating inward remittance EXIM bank has four exchange houses and a number of drawing/agency arrangements

Net Profit shows a consistent downward trend while interest spread shows an upward trend from 2010-2013. Net Interest Margin remained more or less around 0.03. Return on Deposit showed a fall from 2010-2013. Overall these profitability ratio shows that net profit has not increased much over the years in comparison to the revenue generated or deposits made and the interest income earned has increased over the years but this increase has been nullified by the increase in interest expense. Therefore, the profitability of EXIM Bank has decreased.

Cash Ratio has been increasing. Both loan to total asset and loan to total deposit ratio has indicated an overall fluctuating trend with values between 0.7-0.8 and 0.8-0.9 respectively. This shows that high amounts of loans were given with respect to both assets and deposits but since cash ratio has increased the liquidity of the bank has somewhat increased overall.

The equity to asset ratio of EXIM bank increased from 0.08 to 0.11 from 2009 to 2010 after which there was no significant change. The equity to net loan ratio increased gradually from 0.10 to 0.15 from 2009-2011 and then did not change significantly. Since both ratios initially increased and remained at that level the credit risk of the bank has decreased as high ratios indicate that more and more assets and loans are financed by equity.

Net fixed asset ratio for EXIM Bank is fluctuating in nature. The most significant change happened from 2012-2013 where the ratio fell drastically while the net asset turnover of EXIM Bank oscillated around a value of  $0.05 \pm 0.02$ . This shows that the banks efficiency in utilising its fixed asset has fluctuated but the efficiency in using total assets to generate revenue has remained unchanged.

## 10.0 RECOMMENDATION

---

The profitability ratio analysis of EXIM Bank has indicated that the overall profitability of the bank has decreased so the bank should focus on improving its profitability. It should more specifically focus on improving its net profit and interest income in that way causing net profit margin, return on deposit and net interest margin to increase and hence increase the overall profitability of the bank.

The net asset turnover of EXIM Bank is very low which indicates that the banks efficiency in utilising its assets to generate revenue is very low. Therefore the bank should try and improve this ratio by putting its assets to more revenue generation.

## 11.0 APPENDIX

---

### 11.1 *Interview Questions & Answers*

**1. What happens in foreign exchange department in EXIM Bank?**

*For the New Eskaton Branch only import and remittance occurs.*

**2. What is the basic import process?**

*Those who want to bring in goods to Bangladesh from other countries through import can do so by opening a letter of credit in this bank.*

**3. Why do people open letter of credits?**

*Without the use of an L/C the exporter may not be sure about the creditability of the importer especially for a new business person so they may ask for full payment before delivery which the importer may not agree to and in addition to this, even if the importer makes all payment before delivery he or she cannot ensure that the importer will deliver the goods as per specifications upon payment. Therefore, in order to smoothen international trade and mitigate all kinds of risks evolved the system of opening a letter of credit.*

**4. How many letters of credits do you open per month?**

*The number of letter of credits opened per month varies. Sometimes a lot of letter of credits are opened a month while in other months very few are opened. From January till August around 197 L/Cs were opened. In the month of August 16 letter of credits were issued.*

## **5. What is the basic L/C opening process?**

- a. Those who want to import by opening an L/C must first have an import registration certificate*
- b. They have to open an CD account from which the L/C amount and bank charges will be subtracted from. The bank charges are around 0.4-0.5% on the L/C amount*
- c. Then a letter for opening an L/C in the name of the branch manager is written. The importer presents the pro-forma invoice of materials the exporter is sending and fills an revocable L/C application form*
- d. The payment for L/C is done by writing the amount to be paid initially in a slip called 'Challan'. For first time customer, the customer has to pay the full amount beforehand .i.e. 100% margin but if the customer is old, he or she can have a whatever margin they like e.g. 25% margin means that the 25% of the L/C amount has to be paid beforehand and 75% has to be paid when the party takes the shipping document*
- e. If the manager approves an L/C is opened.*

## **6. What is the basic L/C mechanism?**

*The basic L/C process consists of the following steps:*

- a. First the importer sends a purchase order to the exporter following which the exporter or supplier sends a pro-forma invoice*
- b. The Importer then using the pro-forma invoice must make an L/C application in EXIM Bank as mentioned earlier*
- c. EXIM Bank then creates the L/C and sends it via swift message to the advising bank or exporter's bank*
- d. The advising Bank notifies the exporter of the receipt of the L/C.*
- e. The exporter then ships the goods*
- f. The exporter sends the shipping documents through advising bank to the issuing Bank or EXIM Bank*

- g. EXIM Bank then endorses the shipping documents and gives the shipping documents to the party when the remaining L/C amount has been paid*
- h. Using the shipping documents the importer goes to the port and collects the goods from there*

**7. What does foreign exchange do under remittance?**

*EXIM Bank's foreign exchange department facilitates the inflow of remittance or transfer of money into Bangladesh from abroad. According to Bangladeshi government only inward remittance is permitted and outward remittance for people other than students is strictly prohibited by law. Outward remittance is only allowed for sending money to people abroad who have a student profile.*

## 11.2 Calculations

	2009	2010	2011	2012	2013
<b>Profitability Ratios</b>					
<b>o Net Profit Margin</b>					
Net Profit	1,682,990,615	3,458,015,132	2,009,372,842	2,157,631,285	1,913,390,101
Revenue	4,443,746,741	7,717,302,633	6,444,113,523	8,085,695,679	8,155,829,783
NPM= NP/R	0.38	0.45	0.31	0.27	0.23
<b>o Interest Spread</b>					
Interest and Fees on Loans	8,147,113,948	9,606,185,398	13,122,774,352	17,307,827,684	20,417,497,250
Total Loans(Investments)	68,609,907,470	93,296,648,855	99,699,627,656	118,219,992,997	143,847,380,143
IS= Interest+fees/total *100	11.87%	10.30%	13.16%	14.64%	14.19%
<b>o Net Interest Margin</b>					
Interest Income( Investment Income)	8,147,113,948	9,606,185,898	13,122,774,352	17,307,827,684	20,417,497,250
Interese Expense (Profit paid on deposits, borrowings etc.)	-6,020,054,097	-5,942,862,461	-9,357,767,130	-12,271,789,204	-15,458,877,855
<b>Interest Income - Interest Expense</b>	2,127,059,851	3,663,323,437	3,765,007,222	5,036,038,480	4,958,619,395
Last year's total asset	68,446,464,000	83,329,339,048	113,070,981,888	129,874,424,163	167,056,626,119
Current year's total asset	83,329,339,048	113,070,981,888	129,874,424,163	167,056,626,119	195,452,516,240
<b>Total Average Asset</b>	75,887,901,524	98,200,160,468	121,472,703,026	148,465,525,141	181,254,571,180
Net Interest Margin (II-IE/TAA)	0.03	0.04	0.03	0.03	0.03
<b>o Return on Deposit</b>					
Net Profit	1,682,990,615	3,458,015,132	2,009,372,842	2,157,631,285	1,913,390,101
Total Deposit	73,835,461,825	94,949,400,069	107,881,205,901	140,369,657,157	165,733,245,253
ROE= NP/TD	0.02	0.04	0.02	0.02	0.01



<b>Liquidity Ratio</b>					
<b>o Cash Ratio</b>					
In hand (including foreign currencies)	501,538,364	731,845,420	939,991,945	1,256,309,598	1,563,645,229
Balance with Bangladesh Bank and its agent bank(s) (including foreign currencies)	8,714,624,948	9,346,669,826	13,964,278,341	20,542,822,468	24,866,509,519
Balance with other banks and financial institutions:-					
In Bangladesh	123,249,512	539,356,997	3,882,017,395	6,186,227,238	8,793,193,247
Outside Bangladesh	1,406,619,922	842,791,498	1,400,339,005	2,746,578,779	3,084,739,598
<b>Total Cash in hand and at banks</b>	<b>10,746,032,746</b>	<b>11,460,663,741</b>	<b>20,186,626,686</b>	<b>30,731,938,083</b>	<b>38,308,087,593</b>
<b>Total Deposits</b>	<b>73,835,461,825</b>	<b>94,949,400,069</b>	<b>107,881,205,901</b>	<b>140,369,657,157</b>	<b>165,733,245,253</b>
Cash Ratio=Cash in hand and at banks/Total Deposit	0.15	0.12	0.19	0.22	0.23
Cash in hand/at Banks	9,216,163,312	10,078,545,246	14,904,270,286	26,122,819,117	22,106,467,697
Total Deposit	73,835,461,825	94,949,400,069	107,881,205,901	140,369,657,157	165,733,245,253
CR=Cash/TD	0.12	0.11	0.14	0.19	0.13
<b>o Loan to Total Deposit</b>					
Loans(Investment)	68,609,907,470	93,296,648,855	99,699,627,656	118,219,992,997	143,847,380,143
Total Deposit	73,835,461,825	94,949,400,069	107,881,205,901	140,369,657,157	165,733,245,253
LTTD= L/TD	0.93	0.98	0.92	0.84	0.87
<b>o Loan to Total Asset</b>					
Loans(Investment)	68,609,907,470	93,296,648,855	99,699,627,656	118,219,992,997	143,847,380,143
Asset	83,329,339,048	113,070,981,888	129,874,424,163	167,056,626,119	195,452,516,240
LTTA= L/TA	0.82	0.83	0.77	0.71	0.74

<b>Credit Risk Ratio</b>					
<b>o Equity to Asset</b>					
Total Equity	6,717,211,671	12,474,852,005	14,484,224,847	16,641,856,132	20,624,363,759
Total Asset	83,329,339,048	113,070,981,888	129,874,424,163	167,056,626,119	195,452,516,240
CRR= TE/TA	0.08	0.11	0.11	0.10	0.11
<b>o Equity to Net Loan</b>					
Total Equity	6,717,211,671	12,474,852,005	14,484,224,847	16,641,856,132	20,624,363,759
Net Loan	68,609,907,470	93,296,648,855	99,699,627,656	118,219,992,997	143,847,380,143
ETNL = TE/NL	0.10	0.13	0.15	0.14	0.14
<b>Assets Activity Ratio</b>					
<b>o Fixed Asset Turnover</b>					
Revenue	4,443,746,741	7,717,302,633	6,444,113,523	8,085,695,679	8,155,829,783
Net Fixed Asset	381982985	463743339	467981225	433,091,621	3,183,437,491
FAT=R/NFA	11.63	16.64	13.77	18.67	2.56
<b>o Net Asset Turnover</b>					
Revenue	4,443,746,741	7,717,302,633	6,444,113,523	8,085,695,679	8,155,829,783
Net Asset	83,329,339,048	113,070,981,888	129,874,424,163	167,056,626,119	195,452,516,240
NAT=R/NA	0.05	0.07	0.05	0.05	0.04

## 12.0 BIBLIOGRAPHY

---

### 12.1 References

Office of the Chief Controller of Imports & Exports (n.d) Procedure of IRC & ERC[WWW] Office of the Chief Controller of Imports & Exports. Available from [http://www.ccie.gov.bd/index.php?cmd=about\\_ccie&id=10](http://www.ccie.gov.bd/index.php?cmd=about_ccie&id=10) [Accessed on 04/09/2014]

Bankinginfo.com(n.d) Remittance of Money [WWW] Bankinginfo.com(n.d). Available from [http://www.bankinginfo.com.my/04\\_help\\_and\\_advice/0402\\_helpful\\_guides/remittance\\_of\\_money.php?intPrefLangID=1](http://www.bankinginfo.com.my/04_help_and_advice/0402_helpful_guides/remittance_of_money.php?intPrefLangID=1)[Accessed 11/09/2014]

Scotia Bank(n.d) , *Documentary Letters of Credit : A Practical Guide* by Scotia Bank International Trade Finance Services. Available from [instruction2.mtsac.edu/...Information/Letter\\_Of\\_Credit\\_Guide](http://instruction2.mtsac.edu/...Information/Letter_Of_Credit_Guide). [Accessed 11/09/2014]

University of North Carolina Wilmington(n.d) *INTERNET LAW - ISLAMIC BANKING*. University of North Carolina Wilmington. Available from [www.csb.uncw.edu/people/.../Islamic%20Banking%20Law.IBLS.doc](http://www.csb.uncw.edu/people/.../Islamic%20Banking%20Law.IBLS.doc) [Accessed on 11/09/2014]

Eximbankbd.com(n.d) Al- Wadia Current Deposit. Eximbankbd.com(n.d). Available [http://www.eximbankbd.com/deposit/Current\\_Deposit](http://www.eximbankbd.com/deposit/Current_Deposit) [Accessed on 04/09/2014]

Islam. N et al(2013). *Financial Analysis of the annual reports 2008-2012*.BRAC University

NetMBA (n.d) *Financial Ratios*. NetMBA. Available from: <http://www.netmba.com/finance/financial/ratios> [Accessed on 13/09/2014]