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## “Report on Foreign Exchange (Letter of Credit) of Mercantile Bank Limited”



Inspiring Excellence

**Internship Report on Foreign Exchange (Letter of Credit) of  
Mercantile Bank Limited**

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**Submission Date: 24<sup>th</sup> August 2017**

# Letter of Transmittal

24 August 2017

Dr. Md. Mamun Habib

Associate Professor

BRAC Business School

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Subject: Submission of the Internship Report

Dear Sir,

I am here by submitting my report on "Foreign Exchange of Mercantile Bank Limited". While preparing this report, I have worked as an intern at Mercantile Bank Limited under the supervision of Zahida Begum, First Assistant Vice Precedent, Foreign Exchange Division, Mercantile Bank Limited.

I feel most honored to be associated with an experienced, well-organized and specialized team in one of the most reputed banks of Bangladesh. Tried my best to make this report as informative, practical, reliable and relevant as possible. To prepare this report, few books, journals, articles from the internet were reviewed by me and conducted few interviews. Therefore, strongly believe that this report will satisfy your requirements and expectations.

Sincerely yours

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Mehedi Hasan

ID: 13104121

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# Acknowledgement

For making a study report, a sincere supervision, and guidance of expert and experienced professionals are required. Sincere co-operation, valuable suggestions, inspirations, and references from my respected teachers and the Executives of Mercantile Bank Ltd was received by me. Want to express my thanks and deepest gratitude to Mercantile Bank Limited Staff for giving me the opportunity, appointment and lastly for certification for the internship program which is completed by me. Also want to acknowledge the guidance of the Manager and all Officers and staffs of Mercantile Bank Limited who spared their valuable time for me. Will never be able to forget their kind and friendly behavior.

Especially thankful to my friend and fellow internship students who are continuing internship program besides me who helped me to complete this report's been a great experience to work as an intern in an organization like Mercantile Bank Limited. To prepare this particular paper, had to go through all type of accounts which gave me a good idea about that. Full support was given from the all staffs of the Mercantile Bank Limited Mirpur Branch.

Last of all, my deepest gratitude goes to Almighty Allah for giving me courage and ability to complete this task.

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# Executive Summery

This is a project that contains the working experiences of different responsibilities in Mercantile Bank Limited (MBL). My research was aimed to identify the main factors that affect Mercantile Bank Limited. Oobjectives and goals, structure, Functions, L/C of foreign exchange Mercantile Bank Limited was analyzed by me.

Being one of the best financial institutions Mercantile Bank Limited enters in the business field with an objective to progressively become the top bank. This report covers a thorough analysis about foreign exchange and credit section of Mercantile Bank Limited. First part of the reports is about the organization. On the other hand, second part about main part of the report includes the detail analysis.

We know that, Banks are financial institutions those offer the widest range of financial services - especially credit, savings, and payment services and perform the widest range of financial functions of any business firm in the economy. In other words, Banks are financial service firm, producing and selling professional management of the public's funds as well as performing many other roles in the economy.

The principal reason Banks are chartered is to make loans to their customers. Loans known as sources of funds are asset items in a Bank's Report of Condition, which are made to generate income for its stockholders, pay interest to its depositor, and compensate the Bank's employees for their labor and skill. Most of the Bank's largest asset item is loans generally accounts for half to almost three quarters of the total value of all Banks' assets.

MBL has decided to implement 'go slow strategy' first up. It offers different sorts of accounts which have distinctive properties. Customers open the different type of accounts that fit with their needs. The transaction flow differs from account type to type depending on many relevant matters it papers shows overall Procedures of Mercantile Bank Limited.

# Chapter One

## **1.1 Mercantile Bank Limited at a glance:**

Mercantile Bank Limited is merged in Bangladesh as a Public Limited Company. Mercantile Bank Limited was limited liability under the Bank Companies Act, 1991 on May 20, 1999. MBL has 91 branches spread all over the country. The commercial operation was start on June 02, 1999. The Bank began its public issue of shares on in 2003 and its shares are listed with Dhaka Stock Exchange and Chittagong Stock Exchange. MBL is a highly capitalized new generation Bank with an Authorized Capital and contain paid-up Capital of Tk. 8000.00 million and Tk. 4968.90 million. With assets of TK. 116,655,283,665 and more than 1668 employees the bank start its diversified activities in retail banking, corporate banking and international trade. Mercantile Bank Limited is the result of some creative thinker entrepreneurs, who wanted to contribute to the economy by providing various banking needs. Then it spread to all sectors of people living home and abroad. MBL undertakes all kinds of banking transactions to support the development of trade in the country. (Annual Report, 2016)

MBL's services are also available for the entrepreneurs, who want to set up new ventures. The bank especially emphasis on Export, Import, Trade Finance, SME Finance, Retail Credit and Finance to women Entrepreneurs.

To deliver clientele services in respect of International Trade it has also established wide banking relationship with local and foreign banks. It is covering major trade at home and abroad. MBL introduce itself as a new commercial bank to provide efficient banking services and contribute socio-economic development of the country. Day by day it has expanded its number of branches and variety of services. Increasing trend of the bank's profitability over the last 18 years is also materialized. Mercantile Bank Limited has ability to set up itself as a leading third generation private commercial bank.

The main activities of the Bank are to provide all kinds of commercial banking services including deposits, providing loans, discounting bills, foreign exchange business, treasury function, card business and mobile banking. MBL is increasing its ATM network and connecting with other banks with a view to building its card service more attractive and convenient to all. The MBL is committed to deliver superior shareholders value.

Foreign Exchange Department of this bank is one of the important departments. In my word, it is the backbone of the bank. MBL is succeeded to coverage the whole country. It has 120 ATM booths and twenty CDMs (Cash Deposits Machine) that is covering important locations of Bangladesh. Mercantile Exchange House (UK) Limited, another fully owned company of MBL is Facilitating of remittance with two branches in Birmingham and London.

<b>Name of the Bank</b>	<b>Mercantile Bank Limited</b>
<b>Status</b>	Public Limited Company
<b>Date of Incorporation</b>	May20, 1999
<b>Date of Commencement</b>	June 02, 1999.
<b>Subscription for Shares</b>	October 21-22, 2003
<b>Listed in Dhaka Stock Exchange</b>	February 16, 2004
<b>Listed in Citation Stock Exchange</b>	February 26, 2004
<b>Head Office</b>	61, Dilkusha Commercial Area, Dhaka- 1000
<b>Phone</b>	+880-2-9559333, 9553892
<b>E-mail</b>	mbl@bol-online.com
<b>Website</b>	www.mblbd.com
<b>Chairman</b>	A.K.M. Shaheed Reza
<b>Managing Director</b>	Kazi Masihur Rahman
<b>Number of Employees</b>	1668
<b>Number of Branches</b>	91

## 1.2 Mission

Mission of MBL is to be the most caring, focused for equitable growth based on diversified deployment of resources and still would continue healthy and gainfully profitable bank.



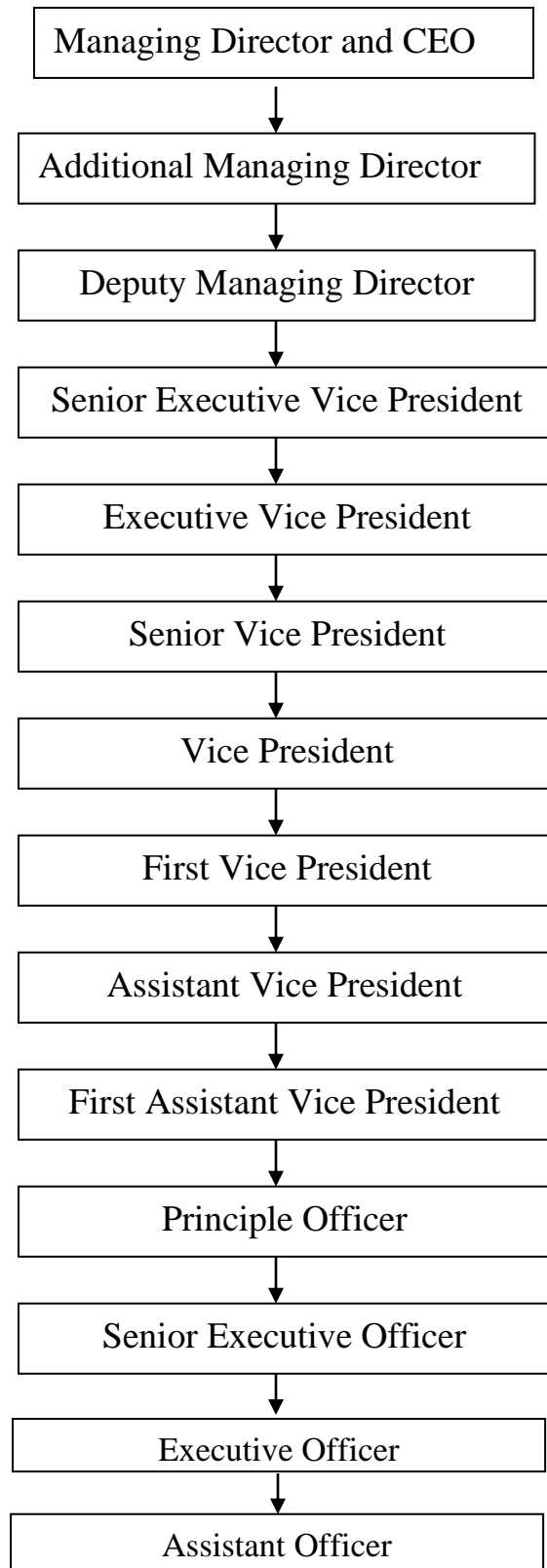
### 1.3 Vision

“Would make finest corporate citizen” is the main vision of MBL. MBL dreams is to become the “Bank of Choice” of the general public that includes both the consumer and the corporate clients as well. It has created a scope of young professionals that is helped for boosting productivity in the bank.

### 1.4 Objectives & Goals of Mercantile Bank Limited:

- To keep the highest quality to services by upgrading banking technology prudence in management and also by applying high standard of business ethics through its established reputation.
- To ensure its involvement to national economy by increasing its profitability through specialized and well-organized growth strategy for its customer and also by creating corporate culture in international banking arena.
- The objective of MBL is to earn profit, keep the social commitment and to ensure its co-operation to the people of all class equally.
- MBL is always pre-occupied to encourage the inventors for purchasing its share by creating the opportunity of long-term investment and increasing the value of share through prosperity as developed day by day.
- MBL is playing a vital role in Socio-economic development of Bangladesh by way of linkage with rest of the world by developing worldwide network in domestic and international operations.
- Financial objectives are to achieve 20% return on shareholders' equity or more, on average.

## 1.5 Corporate Structure of MBL:



## **1.6 Functions of Mercantile Bank Limited:**

The functions of commercial Banks are now wide and varied. However, the functions of Commercial Banks may broadly be classified under the following two categories-

- A. Primary Functions; and
- B. Secondary Functions.

### **A. Primary Functions:**

The primary functions of Mercantile Bank Limited are same as other Commercial Banks. These functions include-

- Accepts deposits;
- Lends money;
- Creates credit;
- Creates medium of exchange.

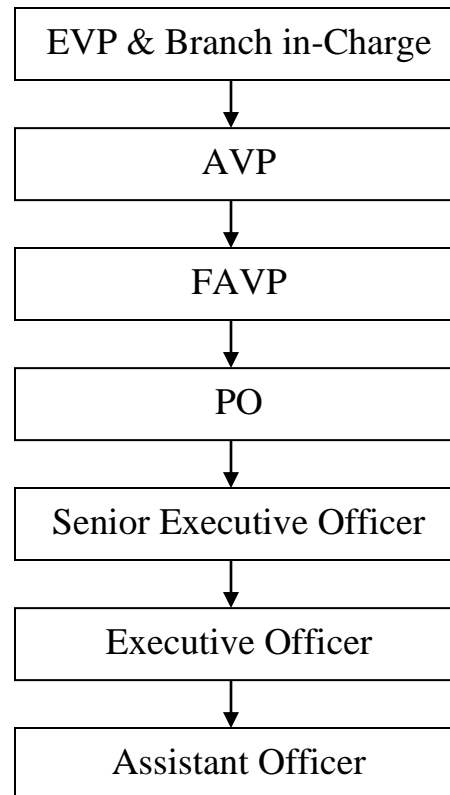
### **B. Secondary Functions:**

Modern commercial Banks like MBL, besides performing the functions, cover a wide range of financial and on-financial services to meet the growing needs of the time. Some of these services are available only to the customers while others are available to the public in general.

The subsidiary services provided by a modern banker may be classified into following three groups-

- Agency Services; and
- Generally Utility Services
- Foreign Exchange Business

## 1.7 Corporate structure of MBL, Mirpur Branch:



## 1.8 SOWT Analysis of MBL:

SOWT analysis is used to measure views of a single issue from different patterns. From historical data and practical observation, I found the following Strength opportunity, weakness and threat under SOWT analysis of Mercantile Bank Limited:

### Strength:

- Not engaged in unfair business practice.
- Well-known reputed bank in the market.
- Concentrated market.
- Officers are highly educated and experienced.

- Deposit is larger than advance.
- Attractive credit and deposit schemes than competitive markets.
- Well-furnished and Air-conditioned Bank.
- Strictly complies of government banking rules, regulations and acts.

**Weakness:**

- Small market shares in Banking-business.
- Short time experience in the banking sector.
- Growth is slower than other competitive banks.
- Training programs to officers are not so effective and adequate.
- Lack of advance technology utilization in all aspects.

**Opportunities:**

- Can provide more attractive and deposit facilities and credit facilities.
- Take incentives to provide high quality service.
- Can increase the advertising of the Bank to highlight latest services of MBL.
- Can adopt high technology based inter-branch networking system.

**Threat:**

- The number competitors in banking sectors are growing.
- Governments increasing rules and regulations are not so inspiring.
- Competitive performance is in high positive flow.
- Competitors are using more advance technological system.
- Government tendency of imposing tax and VAT is becoming stricter.

## 1.9 Departments of Mercantile Bank Limited

General Banking	Credit Department
<ul style="list-style-type: none"> <li>➤ Account opening and KYC procedures</li> <li>➤ Issuance of DD/TT/PO/FDR</li> <li>➤ Interbank Transaction, OBC/IBC</li> <li>➤ Account section</li> <li>➤ Clearing Section</li> <li>➤ IT Section</li> </ul>	<ul style="list-style-type: none"> <li>➤ Credit Proposals Processing Procedures</li> <li>➤ Documentation and Loan Disbursement Procedures</li> <li>➤ Overview on all returns</li> </ul>
Foreign Exchange Department	
<p><b>Cash L/C</b></p> <ul style="list-style-type: none"> <li>▪ Opening of L/C</li> <li>▪ Lodgment of Import Bill</li> <li>▪ Payment against Import Bill</li> <li>▪ B/E Matching</li> <li>▪ IMP Reporting</li> </ul>	<p><b>BTB L/C</b></p> <ul style="list-style-type: none"> <li>▪ Export L/C Checking</li> <li>▪ Opening of BTB L/C (Local/ Foreign/ EDF/ EPZ)</li> <li>▪ Lodgment and confirmation of maturity date</li> <li>▪ Allowing of PC</li> <li>▪ Payment against realization of Export Proceeds/ Forced Loan</li> <li>▪ B/E Matching</li> <li>▪ Reporting</li> </ul>
<p><b>Export</b></p> <ul style="list-style-type: none"> <li>➤ Scrutinizing/ Negotiation/ Send on Collection</li> <li>➤ Follow-up</li> <li>➤ Realization</li> <li>➤ Reporting</li> </ul>	

## 1.10 Product line and services

<b>Business Banking</b>	<b>Deposit Accounts</b>
Term Loan Overdraft Demand Loan Time Loan Letter of Credit Loan against Trust Receipt Loan Syndication & Structured Finance Trade Finance Letter of Guarantee	Current Deposit Account Saving Deposit Account Fixed Deposit Account Double Benefit Deposit Scheme Mashik Sanchay Prakalpa Family maintenance Deposit Quarterly Benefit Deposit Scheme 1.5 times Benefit Deposit Scheme Advance Benefit Deposit Scheme Special Savings Scheme School Banking Educational Planning Deposit Scheme Super Benefit Deposit Scheme
<b>Consumer Finance</b>	<b>Capital Market Division</b>
Consumers Credit Scheme Doctors Credit Scheme Education Loan	Brokerage Operation
<b>Small &amp; Medium Enterprise (SME)</b>	<b>MBL cards</b>
Chaka Anany Chalti Muldhan Single Payment Loan	VISA Dual Hajj Card
	<b>VISA Dual Prepaid Card</b>
	Credit Card Debit Card

<b>Rural Development Scheme</b>	<b>Service Products</b>
Lease Financing	ATM Services
Any Purpose Loan	Remittance Service
Car Loan	Locker Service
Home Loan	Online Banking
House Furnishing Loan	Internet banking
Cottage Loan	SMS Banking
Overseas Employment Loan	SWIFT
E T P / Bio-Gas / Solar Energy Loan	
Krishi / Polli Loan	

### **1.11 Duties and Responsibilities**

- Helped the customers to open account mainly the Savings Account.
- In order to open accounts, use to fill up different parts of the forms.
- Helped to sort the vouchers in order of branches and accounts.
- After collecting the LC use to give a serial number on the LC after giving SWIFT, LEAN and Advising seal.
- After giving the serial numbers, use to give data entry on the “LC Receiving Register” and put the LC’s in the self
- Also use to give data entry in the “IDBP Register”
- After giving the entry on IDBP register, also use to prepare the Forwarding letter for the LC for the company’s
- Use to make the paper folders to keep the office copy of the documents.
- Use to take signatures from the officers for the authorization.
- Also use to glue stamps of taka one hundred and taka ten on the LC documents.
- Also use to give cancelation using the seal so that those stamps can’t be used in future.



- Use to give purchase entries of the LC and also Adjust them when the work of a particular LC is officially done and send them to the storeroom.
- Also went to some company to Audie their present condition to check if our bank give clearance of their LC or not.
- And sometimes use to go to several company's and garments to open accounts for the stuffs.
- Communicated with different department employees
- Queried different documents.

## Chapter Two

### **2.1 Introduction:**

In today's world only academic education does not make a student perfect to become competitive with the outside world. Internship is highly needed to gain idea, knowledge and experience. From this internship program students get the opportunity to learn facing the real business world. This report is an internship report prepared as a requirement for the completion of BBA Program (Major in Finance and Marketing) of BRAC University. The primary goal of internship is to provide the job exposure to the student and an opportunity to implement theoretical knowledge in real life situation. The program covers a period of 12 weeks of organizational attachment. Mercantile Bank Limited is one of the finest place to learn the business dealings. This organization has created a positive image to the customer's mind by providing better service. This bank has introduced some modern banking scheme that has got high market demand. As it maintains the pace with the competitive business world, its activities, culture, philosophy and style leads an intern student to be the best at any field of working life. Foreign exchange division is the place where interns can learn a lot to enrich their knowledge about modern banking.

### **2.2 Background of study:**

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

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

To introduce skilled Banker, only theoretical knowledge in the field of banking studies is not sufficient. An academic course of the study has a great value when it has practical experience in real life situation. So, it was needful to have practical experience along with theoretical knowledge to make it more tactful.

### **2.3 Purpose of the study:**

This report on Mercantile Bank is prepared for some distinguished objective, which is as follows:

- To fulfill academic requirement;
- To gather knowledge about banking company's operations in practical field.
- To gather practical knowledge and real-life experience in official environment.
- To apply theoretical knowledge in the practical field.
- To help the students in taking up professional courses in the B.B.A program.
- To have exposure to the functions of foreign exchange section.
- To understand procedures of foreign exchange management of commercial banks in Bangladesh.
- To observe the working environment in commercial banks.
- To study existing banker customer relationship.
- To identify a link between practical operational aspects of the Bank to complementary the theoretical lessons
- To get an overview of the private Banking in our country.

### **2.4 Timeline:**

The duration of the study was a very short span of time. It was three months long internship program (May 15<sup>th</sup> 2017 to August 14<sup>th</sup> 2017). It was very much hard to complete a report as well as assigned tasks by the Bank. So, the report had to complete in this time which was challenging.

## 2.5 Limitations of the Study:

The major limitations of this study are given as follows

- There were some restrictions to have access to the information confidential by concern authority.
- The report is only based on Mirpur branch.
- The time limit of three months internship is sufficient to understand the total operational process of the bank.
- Sufficient records, publications were not available as per my requirement.
- This report doesn't provide adequate historical information.
- Limitation of time was one of the most important factors that shortened the present study. Due to time constraints, many aspects could not be discussed in the present study.
- Lack of comprehension of the respondents was the major problem that created many confusions regarding verification of conceptual questions.
- Confidentiality of data was another important barrier that was faced during the conduct of this study. Every organization has their own secrecy that cannot be revealed in public.
- Working Pressure was another reason that acts as an obstacle while gathering data.
- Had more dependence on the primary sources, so there might be some level of inaccuracy with those collected information.
- Insufficient books, publications, Facts and figures narrowed the scope of accurate analysis.
- MBL does not have rich and wealthy collection of various types of banking related books and Journals.

## 2.6 Methodology of the Study

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

### **A. Selection of the topic:**

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

### **B. Identifying data sources:**

Essential data sources both primary and secondary are identified which will be needed to complete and work out the study. To meet up the need of data primary data are used and study also requires interviewing the official and staffs were necessary. The report also required secondary data.

This report is mainly prepared by the secondary sources of information and some few primary sources of information like:

#### **Primary data**

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

#### **Secondary data**

- Relevant books Newspaper, Journals etc.
- Annual report of MBL
- Credit rating report of MBL by CRISL (Credit Rating Information and Services Limited)
- Periodicals published by Bangladesh Bank
- Monthly reports and published documents
- Office circular and other published papers, documents and reports
- Various brochures

- Daily summary sheet
- Various type of statement
- Various register books
- Various printed form

### **C. Collection of data:**

Primary data has been collected by observing and discussing with the Bank official.

### **D. Classification, Analysis, Interpretations and Presentation of data:**

Some graphical tools are used in this report for analyzing the collected data and to classify those to interpret them clearly.

## **2.7 Letter of Credit:**

A letter of credit is basically a document issued by a bank guaranteeing a client's ability to pay for goods or services. A bank or finance company issues a letter of credit on behalf of an importer or buyer, authorizing the exporter or seller to obtain payment within a specified timeframe once the terms and conditions outlined in the letter of credit are met. LC is a conditional commitment to pay certain amount after a certain period and some contains are fulfilled. It is useful when the importer or buyer is not well known and when exchange restrictions exist or are possible. Proper letters of credit have the following basic components:

- **Applicant:** The party applying for the letter of credit, usually the importer in a grain transaction.
- **The Issuing Bank:** The bank that issues the letter of credit and assumes the obligation to make payment to the beneficiary, usually the exporter.
- **Beneficiary:** The party in whose favor the letter of credit is issued, usually the exporter in a grain transaction.
- **Amount:** The sum of money, usually expressed as a maximum amount, of the credit defined in a specific currency.

- **Terms:** The requirements, including documents that must be met for the collection of the credit.
- **Expiry:** The final date for the beneficiary to present against the credit.

## 2.8 Letters of Credit Parties Involved:

We've provided you with a comprehensive list of the parties involved in a letter of credit transaction. This page helps you understand the possible players in your scenario.

- **Advising Bank:** Denotes the bank giving notification of the terms and conditions of a letter of credit to the beneficiary (seller). The advising bank also takes reasonable care to check the apparent authenticity of the letter of credit, which it advises.
- **Applicant:** The party who applies to the opening (issuing) bank for the issuance of a letter of credit.
- **Beneficiary:** The party in whose favor the letter of credit has been established. The beneficiary is the party who demands payment under the letter of credit.
- **Confirming Bank:** A bank, that at the request of the issuing bank, assures that drawings under the credit will be honored (provided the terms and conditions of the credit have been met).
- **Drawee Bank:** The bank on which the drafts specified in the credit are drawn and from which payment is expected.
- **Issuing Bank (Opening Bank):** The bank, which issues the letter of credit on behalf of the applicant.
- **Negotiating Bank:** Bank, other than the issuing bank, which elects to "negotiate" (advance funds or give value to the beneficiary) against presentation of complying documents.

- **Paying Bank:** The bank authorized in the letter of credit by the issuing bank to honor sight or deferred payments under the terms specified in the credit. (If this bank is the advising bank, it has no obligation to honor documents; however, if this is a confirming bank, it is obligated to pay against complying documents.)
- **Reimbursing Bank:** The bank authorized by the issuing bank to reimburse the drawee bank or other banks submitting claims under the terms of the credit.
- **Transferring Bank:** A bank authorized by the issuing bank as specified in the credit that can transfer the issuing bank's documentary credit from one beneficiary to another at the request of the first beneficiary.

## 2.9 Import Section of MBL:

As an authorized dealer, the major import items financed by MBL, Mirpur branch are capital machinery, Hot Roll Steel, electronic equipment, rice, wheat, seeds, Palm Olein, cement clinkers, dyes, chemicals, raw cotton, garments accessories, fabrics, cotton etc. To import, a person should be competent to be an 'importer'. According to Import and Export (Control) Act, 1950, the officer of Chief Controller of Import and Export provides the registration (IRC) to the importer. After obtaining this, the person has to secure a letter of credit authorization (LCA) from Bangladesh Bank. And then a person becomes a qualified importer. He requests or instructs the opening bank to open an L/C.

## 2.10 Import procedures:

### 1. Registration with CCI&E (Chief Controller of Imports and Exports)

- a. For engaging in international trade, every trader must be first registered with the Chief Controller or Import and Export.



- b. By paying specified registration fees and submitting necessary papers to the CCI&E. the trader will get IRC (*Import Registration Certificate*). After obtaining IRC, the person is eligible to import.

**2. Purchase Contract between importers and exporter:**

- a. Now the importer has to contact with the seller outside the country to obtain the Performa invoice/indent, which describes goods.
- b. Indent is got through indenters a local agent of the sellers.
- c. After the importer accept the preformed invoice, he makes a purchase contract with the exporter declaring the terms and conditions of the import.
- d. Import procedure differs with different means of payment. In most cases import payment is made by the documentary letter of credit (L/C) in our country.

**3. Collection of LCA form:**

Then the importer collects and Letter of Credit Authorization (LCA) from MBL Mirpur Branch.

**4. Opening a Letter of Credit (L/C)**

Bank provides guarantee to importer and exporter through Letter of Credit. Thus, the contract between importer and exporter is given a legal shape by the banker by its 'Letter of Credit'. The process of opening L/C regarding to import through MBL, Mirpur branch are as following:

**A. Interview of probable L/C opener:**

At first in case of import L/C opening opener must give an oral interview to the responsible officers of MBL. If the officers are satisfied with openers motive of import, type of import goods, quality of imported goods and marketability of goods than they will give approval to opener to further steps.

**B. Application For L/C limit:**

Before opening L/C, importer applies for L/C limit. To have an import L/C limit, an importer submits an application to the Department of MBL furnishing the following information:

- I. Nature of business.
- II. Required amount of limit.
- III. Payment terms and conditions.
- IV. Goods to be imported.
- V. Offered security.
- VI. Repayment schedule.
- VII. Full particulars of bank account maintained with MBL Uttara Branch.

**C. The L/C Application:**

After getting the importer applies to the bank to open a letter of credit on behalf of him with required papers. Documentary Credit Application Form:

- I. Tax Identification Number Certificate.
- II. VAT Registration Certificate.
- III. Membership Certificate of recognized Trade Association as per IPO.
- IV. Proforma Invoice: It states description of the goods including quantity, unit price etc.
- V. L/C Form: MBL provides a printed form for opening of L/C (MF-fx 13) to the importer. This form is known as Credit Application form. A special adhesive stamp is affixed on the form. While opening, the stamp is cancelled. Usually the importer expresses his desire to open the L/C quoting the amount of margin in percentage.
- VI. L/C authorization form (LCAF) duly signed by the importer.
- VII. The insurance cover note: The name of issuing company and the insurance number are to be mentioned on it.
- VIII. IMP form duly signed by the importer.

**IX.** Forwarding for Pre-Shipment Inspection (PSI): Importer sends forwarding letter to exporter for Pre-Shipment Inspection. But all types of goods do not require PSI.

**5. Time limit for opening L/C:**

L/C (s) shall be open within 180 days from the date of issuance of LCAF or from the date of registration of LCAF with Bangladesh Bank.

**6. Terms of L/C:**

Full description of the goods along with quantity and unit price to be incorporated in the L/C and shall take all precautions to quote the correct H.S. Codes of the goods. Prices to be quoted on CER or FOB basis according to the P/Invoice or Indent. No import shall be made on CIF basis without prior approval from the Ministry of Commerce.

All L/Cs should provide for payment to be made against full sets of on board (shipped) transport documents drawn and/or endorsed to cover by the credit to a destination in Bangladesh.

All L/Cs must specify submission of signed invoices, certificates of origin & pre-shipment Inspection Certificate. L/Cs shall also incorporate any other documents, which are mandatory specified for those commodities in the IPO/Public Notices/Bangladesh Bank Circulars.

It is not permissible to open import L/Cs in favor of beneficiaries or to use shipping carriers of the countries from which import into Bangladesh are banned by the competent authority.

**7. Shipment Validity & Expiry:**

All L/Cs must specify shipment validity as per terms of the P/Invoice or indent or L/C application. However, shipment validity under any circumstances shall not exceed 9 (nine) months from the date of issuance of LCAF or registration LCAF with Bangladesh

Bank excepting capital machinery and spare parts shipments of which shall be made within 17 (seventeen) months. All L/Cs must stipulate an expiry date and a place for presentation of documents for payment/acceptance.

#### **8. Transmission of L/C to Beneficiary through Advising Bank:**

In this step, the transmission of L/C is done through tested telex or fax to advise the L/C by MBL to the advising bank. The advising bank verifies the authenticity of the L/C. MBL has corresponding relationship or arrangement throughout the world by which the L/C is advised. Actually, the advising bank does not take and liability if otherwise not requested.

#### **9. Presentation of the Documents:**

- The seller being satisfied with the terms and the conditions of the credit makes shipment of the goods as per L/C terms.
- After making the shipment of the goods in favor of the importer the exporter submits the documents to the negotiating bank.
- After receiving all the documents, the negotiating bank then checks the documents against the credit. If the documents are found in order, the bank will pay, accept or negotiate to MBL.
- MBL, Mirpur Branch & bank received seal to be affixed on the forwarding schedule.
- MBL, Mirpur Branch crossed the bill of exchange & transport documents immediately to protect loss or fraudulent.

MBL checks the documents. The usual documents are,

- I.** Bill of exchange.
- II.** Invoice.
- III.** Bill of lading or Airway bills
- IV.** Certificate of origin.
- V.** Packing list.
- VI.** Weight list.

- VII. Shipping advice.
- VIII. Non-negotiable copy of bill of lading.
- IX. Pre-shipment inspection report.
- X. Shipment certificate.

**10. Lodgment of Documents:**

If the documents are found in order or the discrepancies in the document if any, are subsequently accepted by the applicant, the branch will record the particulars of the documents in the PAD Register (MB fx-05)

**11. Retirement of Documents:**

MBL advise Importer about the date of lodgment of documents with full particulars of shipment to retire the documents against payment or to dispose the import documents as per prearrangement, if any. Subsequent reminders (MF fx-05) are also to be issued every week till retirement of the bill. Such bills will be considered and be reported as overdue if the importer fails to retire the documents within 21 days of arrival of the relative import consignments at the port of destination.

**12. Cancellation of L/Cs:**

An irrevocable L/C cannot be cancelled without the agreement of the beneficiary and the confirming bank, if any.

The MBL, Mirpur branch at the request of the importer may approach the L/C advising bank for cancellation of the L/C and such cancellation will only be effective upon consent of the beneficiary advised to the branch through the L/C advising bank. However, the MBL, Mirpur branch may cancel the L/C without the consent of the beneficiary. Advising bank and confirming bank, if any, if the L/C expires and the MBL, Mirpur branch receives no shipping documents within 15 days of expiry of the L/C. The branch should send a message to the concerned bank advising such cancellation and closure of L/C file due to expiry of the same. The MBL then cancels the Reimbursement Authorization, which has been provided to the Reimbursement Bank while opening the

L/C. The branch will reverse L/C contra liabilities, refund margin and recover charges from the L/C applicant as per schedule of charges.

## **2.11 Back to Back Letter of Credit (BTB):**

When exporter falls short of raw materials in that case, exporter gives lien of export L/C to bank as security and opens an L/C against it for importing raw materials. This L/C is called Back to Back L/C. In back to back L/C, MBL gives facility to open BTB L/C up to highest 80% of lined export L/C.

### **Documents Required for Opening a Back-to-back L/C:**

In MBL, Mirpur Branch, following papers/ documents are required for opening a back-to-back L/C-

- Master L/C
- Valid Import Registration Certificate (IRC) and Export Registration Certificate (ERC)
- L/C Application and LCAF duly filled in and signed
- Proforma Invoice or Indent
- Insurance Cover Note with money receipt
- IMP Form duly signed

In addition to the above documents, the followings are also required to export oriented garment industries while requesting for opening a back-to-back L/C –

- Textile Permission
- Valid Bonded Warehouse License
- Quota Allocation Letter issued by the Export Promotion Bureau (EPB) in favor of the applicant for quota items
- In case the factory premises are a rented one, Letter of Disclaimer duly executed by the owner of the house/premises to be submitted.

A checklist to open back-to-back L/C is as follows –

- i) Applicant is registered with CCI&E and has bonded warehouse license;

- ii) The master L/C has adequate validity period and has no defective clause;
- iii) L/C value shall not exceed the admissible percentage of net FOB value of relative Master L/C;
- iv) Usage Period will be up to 180 days.

### **Payment of Back-to-Back L/C:**

Client gives the payment of the BTB L/C after receiving the payment from the importers. But in some cases, client sells the bills to the MBL. But if there is discrepancy, the MBL sends it for collection. In case of BTB L/C, MBL gives the payment to the beneficiary after receiving the payment from the L/C of the finished product (i.e. exporter). Bank gives the payment from DFCA (Deposit Foreign Currency Account) where Dollar is deposited in national rate.

In MBL for BTB L/C, opener has to pay interest at LIBOR rate (London Inter Bank Offering Rate), which is 4% to 7%. A schedule named PI (Payment Instruction); Forwarding Schedule is prepared while making the payment to MBL's foreign corresponding banks. PI is prepared when the payment of L/C is made and it contains the followings:

- i) Reference number of the beneficiary's bank and date.
- ii) Beneficiary's name.
- iii) Bill value.
- iv) Payment order number and date.

## **2.12 CSR (Corporate Social Responsibility)**

MBL believes that Corporate Social Responsibility (CSR) is integral part of the long-term business and sustainable growth. It plays an important role by promoting values both locally and internationally. This Bank integrates all social, environmental and socioeconomically issues in the time of its decision making. In line with its slogan- "Banglar Bank" MBL is fully committed

to banking business in economically, environmentally and socially. MBL is committed to conduct its business activities in economically, environmentally and socially sustainable manner. To create a long-term good relationship with the customers, shareholders and other stakeholders of the bank. To perform CSR, the bank has formed a foundation namely “Mercantile Bank Foundation” which plays its role mainly by extending social beneficial services. Every year the bank donates 1% of its operating profit to the foundation for continuing CSR activities.

- MBL contributes a big amount in the areas of disaster relief, health, education and social welfare.
- It also provides fund for state-of-art research, also for innovative projects in the area of Bengali Literature & language, social insertion and disability.
- MBL gives award to 8 eminent personalities in every year as recognition of their outstanding contribution in 8 different fields and for motivation others.

<b>Sectors</b>	<b>(BDT in Millions)</b>
Education	7.19
Health	13.15
Disaster Management	11.87
Sports	7.88
Art & Culture	14.42
Others	11.40
<b>Total</b>	<b>65.91</b>

### **Education**

Education is the prerequisite to all development of any country. Keeping this in mind, MBL bank performs some CSR activities in education sector and discloses relevant information in annual report. That include scholarship program for brilliant poor students, donation to educational institution. MBL performed well in CSR activities and disclosed relevant information in their annual report.



## **Health**

Health is one of the prime and main parameter to achieve the development goal. Health conditions are increasing day by day for rapid growth of population. For that reason MBL performs some CSR activities in health sector. They included free eye camps, donation for treatment to the individual, donation to hospital etc. Mercantile bank scored 5 and placed in third position among the sixteen banks.

## **Environment**

Environment pollution become a large problem in our country. For this reason, few banks have come forward to protect the environment and they all performed some CSR activities in the environment sector. These activities included any tobacco related business, provide finance for innovative green products etc. The CSR activities of sixteen banks in environmental issues. MBL has performed well where most of the banks were not performed any CSR activities in this sector.

## **Culture and Heritage**

To hold our culture and heritage some banks have taken initiatives and performed some CSR activities but most of the banks have not performed at all in this area. Some activities include donation to Muktijuddah Jadughar, donation to cultural institution, donation to Ekushey book fair etc.

## **Social Welfare**

As a third world country of Bangladesh has a lot of problems. Government find themselves as helpless at the time of solving such problems. MBL Banks as social entities of this country are considered as a part of the society and then they are expected to contribute more meaningfully towards the betterment of the society. MBL Bank is seen to perform more CSR activities in this area. MBL performed well.

## Sports

Financial support is mandatory to improve the performances of sports of the country and to perform better at international level. Keeping this in mind, Government of Bangladesh has taken initiatives attach to a particular event of sports. MBL is in the second position. Many of the banks didn't not perform any CSR in this sector.



Source: [http://www.mblbd.com/home/csr\\_policy](http://www.mblbd.com/home/csr_policy)

## 2.13 Findings of the study:

The collected data were scrutinized very well and pointed out also shown as findings. Recommendations are also made for the improvement of the current situation.

After working in the MBL, Mirpur Branch, I have collected and gathered the data, analyzed and with my limited experience, found some noticeable points that is going to mention. Regarding those also generated some information that I would like to share in my Recommendation section.

- The delegation of authority or action in foreign exchange department is not well defined from top level so the officers under this department willingly fix their own course of action, which sometimes creates indiscipline and confusions in operating procedures of this department.
- Foreign exchange department has sensitive issues as it has to provide different information through Bangladesh Bank to Bangladesh government. So MBL, Mirpur branch as ADs strictly follows the regulations mentioned by Bangladesh Bank and related regulations acts. But sometimes it views that the officers of this different are giving priority to those matters that have to be informed in Bangladesh Bank and other internal procedures are followed by regulations but not so strictly.
- The procedures to open documentary credit are full of hard & fast rules and regulations (as per Bangladesh Bank). But compare to other Bank MBL is not as flexible as they are doing to open documentary credit or attract customers.
- In case of different stage of performance of documentary credit MBL, Mirpur branch sometimes faces some critical aspects such delay or lack of commitment in performing because of lack of appropriate coordination, which mostly creates dissatisfaction among the clients of this department.

- In some cases, MBL recording process is done on shortcut method i.e. for some internal transactions limited vouchers is passed. Such as no vouchers is passed for amendment in foreign exchange department of MBL.
- The total process of recording and keeping documents of foreign exchange department is not so highly integrated or combined through high chain networking systems.
- The information of foreign exchange department of MBL shows positive trend of export, import and remittance but it's relatively slower than other competitive commercial banks. As MBL's large portion of income comes from this department but incentive to increase this trend is not adequate.
- Foreign exchange department has highly adhered with procedures; rules and regulations provided by Bangladeshi government so officers of this department must have adequate knowledge about this regulations and acts. But MBL doesn't provide adequate training to this department.
- In this department, there are lacks of motivating mid & lower level officers. Lower level officers compare to the upper & mid-level officers is not happy regarding their promotion.
- In MBL's Mirpur branch administrative control is not so much concrete as to be, the delegation of authority and division of works is not appropriately arranged and controlled.
- The Money they reserve Mirpur branch for the customer for instant pay is not always sufficient especially when we are talking about the festival period (Eid-ul-Fitar, Eid-ul-Adha)

## 2.14 Conclusion:

Bank is the most common type financial intermediary in today's globalized world. Banks play important constructive role in the economy. Banking sector of Bangladesh is quite positively contributing to its economy. In today's globalized world it's impossible to stay without transacting among two countries i.e. foreign trade and banks are the only safe way of doing transacting international transactions. The different nationalized and privatized banks are providing services. Among them foreign exchange services are important for globalized transactions. As a commercial bank of Bangladesh Mercantile Bank Limited is providing different services along with foreign exchange services. MBL is trying to establish a stable position in competitive market and providing positive contribution to economy through different services as well as foreign exchange services. MBL foreign exchange department facilities not only induce export-import and private transactions but also help to encourage economic development of Bangladesh. The new mode of planned advance facilities that will be enforced in future by Mercantile Bank Limited for improving service quality. So, hoping that as Mercantile Bank Limited has great chance of being one of the leading banks of Bangladesh by enforcing its available opportunities and will highly contribute to the economic development of Bangladesh in future.

## 2.15 Suggestions:

- High administrative control should be exercised in MBL Mirpur branch and proper delegation of authority should be established to every officer of every department and they should be confined with their own responsibility and duty, which will bring fluency in operation.
- As authorized dealers MBL Mirpur branch must follow of rules regulation regarding to foreign exchange and currency transactions in all aspects. It should time to time provide all necessary information to officers of foreign exchange department for adequate knowledge about applying rules and regulations in every related transaction.
- The process opening documentary credit and steps followed by MBL to settlement of documentary credit should be liberalized as much as possible. If process is liberalized according to regulations it will be attract customers.
- The procedures followed by MBL for open documentary credit up to settlement is lengthy and some cases are not as per committed. So, the whole procedures should be integrated to provide more efficiency hat will increases satisfaction of the customers.
- The recording procedures and documents keeping process of in this department must be improved through sequential effort system and for all type recoding of this department should be computerized to get this improvement.
- Foreign exchange department of MBL Mirpur branch should provide adequate computerized network facilities because the network they are using now is very slow so repairing this problem will ultimately provide supports to all officers of this department and as well as improve quality of customer service by increasing swiftness of activity.

- MBL should provide different facilities and incentives to customers who are related with foreign exchange transactions and also increase quality of services that will attract the customers and that's will increase foreign exchange transactions of MBL.
- MBL is taking students as intern unplanned so they should fix this problem by making a rule of how many interns can join the bank for a specific period of time.
- MBL need to analyze the demand of their customers and reserve money on that demand so that they will not face money shortage problems
- They should raise the allowance of the interns and provide them lunch which will help to spread their reputation.

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