

INTERNSHIP REPORT

ON

Foreign exchange operation of Mercantile Bank Ltd

Mohakhali Branch



Prepared For

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Sub: Submission of Internship Report.

Dear Sir,

It is my enormous gratification to submit the report on “Foreign exchange operations of Mercantile Bank Ltd, Mohakhali Branch” as a part of my Internship program. I have closely observed different departments operations of Mercantile Bank Ltd, Mohakhali Branch in my internship period.

I tried to reflect the practical operational aspects of the Bank, which is corresponding to the theoretical lessons. I am very much glad that you have given me the opportunity to prepare this report for you & hope that this report will meet the standards of your judgment.

Sincerely yours,

.....

Farhana Ferdous Elham

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Acknowledgement

I am pleased to get this opportunity to give special thanks to the persons whose ideas; views and supports have provided fluency to prepare this report and also enriched this report. I am grateful to all officials and staffs of Mercantile Bank Limited, Mohakhali Branch – as they for their huge cooperation. And also grateful to the persons whose books, working papers, journals and related materials give me continuous support to write this report.

I am greatly appreciated and inspired by **Professor Dr. Rahim. Talukder**, Advisor, Centre for Entrepreneurship Development, BRAC Business School to write this internship report on foreign exchange department of Mercantile Bank Limited, Mohakhali Branch. I would like to thank **Mr. Abdul Halim** Vice President and Head of Mercantile Bank Limited, Mohakhali Branch, Dhaka for giving me the opportunity to work in his branch. My special thanks go to **Ms. Ferdousi Latif**, Assistant Executive Vice President of Mercantile Bank Limited, Mohakhali Branch.

At all I am greatly thanking to the persons whose enrich books, journals and working papers on international financial management have provided a guideline to me in preparing this report. Moreover, I am very much grateful to all officials of Mercantile Bank Limited. This report would not be possible without the cooperation of all officials of MBL. So my heartiest appreciation goes to those officials. Finally, I would like to thank all others whose strong support makes us able to complete this report.

Executive summary

In recent economy banks plays a vital role to entrust international trade, it's quite impossible to commit international without help of banks and it also properly works to evade away risk international traders. Banks operates most effectively to settle any transactions within different countries either trade purposes or personal purposes. This report tries to identify banks role foreign exchange management through evaluating foreign exchange operations of MBL, Mohakhali Branch. The report provides a general view on Mercantile Bank Limited, theoretical aspects related to international trade and foreign exchange transactions. This study also tries to clarify the operating procedures of foreign exchange department of MBL as a commercial bank and also tries to identify some aspects of further improvement in operations.

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Introduction:

Bank is defined as a financial institution that collects deposits from various individual and organizations and provides loans to those who need it. But modern banks do not mean only the means of collecting and disbursing money to various entities. Rather it provides various services to various entities which facilitate their business operations. A foreign exchange operation of banks is one of those services that not only facilitates the business of businessmen but also contributes to the development of the economy as a whole. Foreign exchange is defined as the mechanisms by which the currency of one country is converted into the currency of another country. Foreign exchange is the means and methods by which rights to wealth in a country's currency are converted into rights to wealth in another country's currency. Foreign exchange department of banks plays significant roles through providing different services for the customers.

Background of the Mercantile Bank Limited (MBL):

Mercantile Bank Limited is a scheduled private commercial Bank established on May 20, 1999 under the Bank Company Act, 1991 and incorporated as a Public Limited Company under Companies Act, 1994. The Bank started commercial Banking operations from June 02, 1999. From then within a short time MBL established itself in a strong position in the economy of the country. It has earned significant reputation in the country's Banking sector as Bank and created a wide image in the eye of the people. The dream of creating MBL, which is 'A Bank of 21st century', has become successful because of the initiative of some persons who are the sponsors of MBL. There are 30 sponsors in Mercantile Bank Limited and all of them are highly regarded for their entrepreneurial competence.¹

Origin of the study:

This report is originated as the course requirement of the MBA program, BRAC Business School. I was sent by the department of Finance to take real life exposure of the activities of banking financial institutions.

¹ www.mblbd.com/home

Background of the Study:

Mercantile Bank Limited (MBL) is one of the rising Banks in Bangladesh. This Bank has already 122 branches located in different places and also going to establish more branches. This report is generally structured interested in two extensive parts. The first part is a general idea of the organization. The second parts give attention to on the assigned topic “Foreign Exchange Operations of Mercantile Bank Limited.”

Objective of the study:

The purpose of the study is to come across into the perception of foreign exchange, the awareness and prevention measures taken by Bangladesh bank, and the implementation of these programs in MBL.

- Primary objective:

The primary objective of preparing this report is to represent the Mercantile Bank Limited and to have a clear conception about all of the fundamental parts of the internship program.

- Secondary objective:

- To fulfill academic requirement;
- To gather knowledge about banking companies operations in practical field.
- To gather practical knowledge and real life experience in official environment.
- To apply theoretical knowledge in the practical field.
- To have exposure to the functions of foreign exchange section.
- To understand procedures of foreign exchange management of commercial banks in Bangladesh.

Scope of the study:

As I was sent to Mercantile Bank Limited, Mohakhali Branch, the scope of the study is only limited to this branch. The report covers its overall foreign exchange function. The report covers import, export and remittance activities about MBL.

Internship at Mercantile Bank Limited:

My Three months at the Mercantile Bank Limited as an internee had been the most pleasant time of my life. Doing my internship at one of the leading private commercial banks in Bangladesh, I believe I have accumulated an experience matchless to any other.

I was assigned to the project of “Foreign exchange operations of Mercantile Bank Ltd.” as my project report. I am very happy to work in such an assignment. Though as a student of human resource management it was a new situation to me.

Limitations of the study:

- Short Time Period:

The first obstruct is time itself. Due to the time limit, the scope and dimension of the study has been curtailed. I got a short time period to prepare the report.

- Data Insufficiency:

It was very difficult to collect data, because the branch of Mercantile Bank Limited is very large. But the data is very essential to prepare the report. All of the employees of this branch are very busy. For the time limitation they could not able to supply my topic related data.

Methodology of the study:

- The primary sources are:
 - Face to face conversation with the officers
 - Practical desk work
 - Relevant files study as provided by the concerned officers.
- The Secondary sources are:
 - Annual reports of MBL.
 - Foreign exchange of MBL.
 - Periodic reports of MBL.
 - Annual Reports of Bangladesh Bank (BB).
 - Publications of Bangladesh Bank (BB).
 - Publications of BIBM.

Overview of Mercantile Bank Limited

Mercantile Bank Limited provides various commercial banking services in Bangladesh. The company's retail banking products and services include various deposits, such as current deposit, savings bank, special noticed deposit, family maintenance, and fixed deposit accounts, as well as various scheme and school banking deposits; loans comprising education, car, home, house furnishing, cottage, overseas employment, ETP/bio-gas/solar energy, and Krishi/Polli loans; various credit schemes; lease financing services; credit and debit cards; and online, mobile, and SMS banking, as well as locker services. It also offers small and medium enterprise (SME) financing services comprising term, continuous, short term seasonal, and women entrepreneur's loans, as well as trade financing services. In addition, the company provides corporate banking products consisting of short term, long term, real estate, import/trade, export, and structured finance; loan syndication; and work order financing/construction business financing services. Further, it offers foreign trade services; Non-Resident Bangladeshis banking; treasury products; stock dealing and brokering service, including buying and selling securities, as well as margin loans, depository participant, and research and custodian services; and money remittance services. As of January 2018, the company had approximately 119 branches, which included 5 SME/Krishi branches; 149 automated teller machine booths; and 20 cash deposit machines. Mercantile Bank Limited was founded in 1999 and is headquartered in Dhaka, Bangladesh. Mercantile Bank Limited is a subsidiary of Mercantile Bank Holdings Ltd.²

Vision:

Would make finest corporate citizen³

Mission:

Will become most caring, focused for equitable growth based on diversified deployment of resources and nevertheless would remain healthy and gainfully profitable bank⁴

Objectives:

- Strategic Objectives:
 - To achieve positive Economic Value Added (EVA) each year.
 - To be market leader in product innovation.
 - To be one of the top three financial institutions in Bangladesh in terms of cost efficiency.
 - To be one of the top five financial institutions in Bangladesh in terms of market share in all significant market segments we serve.⁵

² <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=20356673>

³ <http://www.mblbd.com/home/mission>

⁴ <http://www.mblbd.com/home/mission>

⁵ <http://www.mblbd.com/home/mission>

Ownership Structure:

Directors and Management of MBL

The organizational structure and corporate governance of MBL strongly reflect its determination to establish, uphold and gain a stronger footing as an organization, which is customer oriented and transparent in its management.

The Board of Directors consists of eminent personalities from commerce and industry of the country. Mr. Md. Abul Jalil, was Founder and Board of Directors, is a businessman besides being an eminent personality of the country.

The Bank is manned and managed by highly qualified and efficient professionals like now Mr. A.K.M Shaheed Reza, the Chairman of the Board of Directors, is a businessman besides being an eminent personality of the country.⁶

Corporate Structure of MBL

- Managing Director and CEO
- Additional Managing Director
- Deputy Managing Director
- Senior Executive Vice President
- Executive Vice President
- Senior Vice President
- Vice President
- First Vice President
- Assistant Vice President
- First Assistant Vice President
- Principal Officer
- Senior Executive Officer
- Executive Officer
- Assistant Officer

⁶ <http://www.mblbd.com/home/bod>

An Overview of Mohakhali branch:

The Mohakhali branch of Mercantile Bank Limited is located in the Motijheel commercial area. The total manpower of this branch is 45. As it is one of the busiest branch, the customer appearance in the bank is very high.

In the Mercantile Bank Limited, Mohakhali branch, the people are mostly courteous, friendly in nature and eager to help despite the tremendous workload.

Department of Mohakhali branch:

- General Banking Division
- Credit Division
- Foreign Exchange Division

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:

- **Primary Functions:**

The primary functions of MBL are same as other Commercial Banks. These functions include:

Accept Deposit.

Lends Money.

Create Credit.

Creates medium of exchange.

- **Secondary Functions:**

Modern Commercial Banks like MBL, besides performing the primary 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 the following three groups:

Agency Service.

Generally Utility Services.

Foreign Exchange Business.

Introduction to Foreign Exchange

Foreign exchange refers to the process by which the currency of one country is converted into the currency of another country.⁷ Foreign exchange is the means and methods by which rights to wealth in a country's currency are converted into rights to wealth in another country's currency. In banks when we talk of foreign exchange, we refer to the general mechanism by which a bank converts currency of one country into that of another.⁸ Foreign Trade gives rise to foreign exchange. Modern banks facilitate trade and commerce by rendering valuable services to the business community. Apart from providing appropriate mechanism for making payments arising out of trade transactions, the banks gear the machinery of commerce, specially in case of international commerce, by acting as a useful link between the buyer and the seller, who are often too far away from and too unfamiliar with each other.



⁷ <https://www.investopedia.com/terms/f/foreign-exchange.asp>

⁸ Banking and Finance : Theory, Law and Practice by Gomez Clifford

Functions of Foreign exchange department:

Subsequent are the tasks that Foreign exchange department carry out to smooth the progress of the transaction of foreign exchange:

- Facilitating import and export trades
- Providing funded and non-funded credit facility.
- Providing non-commercial remittance.
- Maintaining foreign currency accounts.
- Selling foreign currency bond.
- Preparing and submitting statements relating to foreign currency.

Types of Foreign Trades:

There are mainly three types of transactions which lead to foreign exchange. These are:

Import

Import trade in Bangladesh is controlled under the Import and Export control Act 1950. Authorized Dealer Banks will import the goods into Bangladesh following the import policy, public notice, F.E. circular and other instructions from competent authorities from time to time.

⁹The import functions of the branch as far I have understood are discussed below:

Legal Requirements:

Import of products into in Bangladesh is related by the Import Policy Order (IPO) announced by the Ministry of Commerce and/or Notifications/Public Notices issued by the Ministry of Commerce.

Ahead of toward the inside into an import transaction country's legal and economic outline to be considered. These include:

- Restrictive governmental policies
- Exchange regulations
- Tariffs and transaction
- Reporting to the controlling authorities

It is significant to have a broad-spectrum understanding of some of the basic legal and economic terminology internationally, within which such trade takes place. Following ICC Publications framework of such terminology & rules governing international trade.

- UCPDC, ICC PUB-500

⁹ http://bdlaws.minlaw.gov.bd/print_sections_all.php?id=236

- URR, ICC PUB-525
- URC, ICC PUB-522
- Inco terms 2000 ICC PUB-460 (Revised)

Import procedure followed by MBL:

Mercantile Bank Limited, Mohakhali branch, import division operates their activities with the authorized importers who are mostly in contract with capital machinery, hot roll steel, electronic equipment, rice, wheat, seeds, polyolefin, cement clinkers, dyes, chemicals, raw cotton, garments accessories, fabrics, cotton etc. Firstly the importer is given the Import Registration Certificate (IRC) from the officer of Chief Controller of Import and Export under the Import and Export (Control) Act, 1950 of Bangladesh. After getting the certificates, the importer needs to collect the letter of credit authorization (LCA) from Bangladesh Bank for a permissible business deal through opening an LC at Mercantile Bank Limited.

The whole course of action that the bank follows for an import purchase is pointed up at this juncture as per sequence.

- **Registration with CCI&E**

At first the dealer required to be registered with Chief Controller of Import and Export (CCI&E) in order to obtain Import Registration Certificate (IRC) to be appropriate for performing international trade. There the person put forwards the trade license, membership certificate of trade association, TIN, banks certificate and memorandum & articles of association. Then he may advance to next step.

- **Purchase Contract between importers and exporter**

At this segment the importer make the get in touch with the seller outside the country to get hold of the Performa Invoice, which contains the complete description of imported goods. The indent is got through indenters a home agent of the sellers.

- **Collection of Letter of Credit Authorization**

Then the importer accumulates the Letter of Credit Authorization (LCA) from Mercantile Bank Limited, Mohakhali branch. This form is the application of authorization for opening a LC from the branch of the bank.

- **Opening a Letter of Credit**

Subsequent to receiving the LCAF form the importer, the bank provides the facility of guarantee for the import of goods and the payments to both the importer and the exporter through issuing the Letter of Credit (LC). To avail this service, Mercantile Bank Limited, Mohakhali branch, put in some requirement of documents and actions regarding the import.

- **Meeting with probable LC opener**

At first in case of import L/C opening, the opener fixes a prescribed meeting to the responsible officers from the foreign exchange department of MBL. This meeting is basically an by word of mouth presentation which includes the openers reason of import, type of import goods, quality of imported goods and marketability of goods. If the officers are satisfied with information provided by importer, they will give authorization to opener to further steps.

- **Application for LC limit**

The importer then applies to fix the LC limit by putting forward required credentials. This is a formal request generally formed in USD value and proposes to the department of MBL furnishing the following information;

- Temperament of business
- Required sum of limit.
- Payment terms and conditions.
- Detail description of goods to be imported
- Offered security
- Settlement schedule
- Full particulars of bank account maintained with Mercantile Bank Limited

- **The LC Application**

After receiving the request from the importer, the bank takes fundamental come within reach of toward opening a letter of credit on behalf of importer. At this time, MBL asks for some mandatory documents with the form;

- Copy of valid Import Registration Certificate (commercial/industrial)
- Copy of Tax Identification Number Certificate (TIN)
- Copy of VAT Registration Certificate.
- Forwarding for Pre-Shipment Inspection (PSI)

The IRC, TIN certificate, VAT registration certificate and membership certificate should be approved and be acknowledged by the respective authority for the importer to attend international trade. Besides these the importer required to validate his proforma invoice which is the initial contract document sent from the exporter mentioning the absolute information about the goods to-be imported. The LC application form, which is also known as credit application form, is needed to have a special adhesive stamp worth of BDT 150.00 affixed on it. The insurance cover note comprises the name of issuing company and the insurance number. At the last of this stage, importer sends forwarding letter to exporter for Pre-Shipment Inspection. But not all types of goods require PSI.

- **Time limit for opening LC**

The time duration of the LC is pre-fixed and mentioned in the LC opening form. This LC expiry period can be different from one practice to another according to the terms and policies set by the foreign exchange authority of Mercantile Bank, Mohakhali branch. It also refers the information given in contract between the importer and exporter.

- **Shipment Validity & Expiry**

The date of shipment validity and expiry of goods means the consignment has to be shipped out from exporter's point on or before last date of shipment of letter of credit. So the bill of lading should be on or before the date of shipment mentioned in MBL LC as per Shipment Date. But there is another condition of the bank saying "On Board" shipment date mentioned in the LCs, which means the date of on board bill of lading should be on or before the date of on board date. Like the time limit for opening LC, this shipment validity period can also vary for different LCs.

- **Amendments**

The amendments are attached with the LC terms and conditions. There are some changeable factors reserved for the future validity of the documents. A change or addition to a legal document in which the LC terms and conditions can be relaxed but at MBL the acceptance of any financial value would be 5% or less which is applicable every party involved in any particular LC process.

- **Transmission of LC to Beneficiary through Advising Bank**

When the importer gets the agreement of letter of credit with Mercantile Bank Limited, he is to send the LC documents along with the other entails to the exporter. This transmission must to involve advising or negotiating bank.

- **Presentation of the Documents**

The exporter gets all the documents and after being satisfied with the terms and conditions of the credit, makes shipment of the goods as per LC offered. Completing the shipment of the goods in favor of the importer, the exporter submits the documents to the negotiating bank to checks the documents against the credit. After having the documents as its order, the bank will consider to pay, accept or negotiate to MBL, Mohakhali branch. Then the Bank itself and also Mohakhali branch received seal to be affixed on the forwarding schedule. Lastly the branch crosses the bill of exchange & transport documents immediately to protects loss or fraudulent.

- **Endorsement of Non-Negotiable Copy Documents**

Importer can take delivery of goods only after showing customs clearing documents provided from the bank. Exporters send all the relevant documents to Mercantile Bank Limited after the shipment. They also send the duplicate copy of the documents to the importers. But sometimes bank does not receive the documents in due time. In that case, the importers present the duplicate copy to the bank and disburse the payable bills. MBL approves the duplicate documents and through the permitted duplicates importers clear the goods from the customs. These duplicate copies are called the Non-negotiable copy.

➤ **Import Financing By MBL**

- ❖ Payment against Document (PAD) Mercantile Bank Limited, Mohakhali branch initiates payment against document (PAD) procedure after getting all documents from both the parties as evidence of import goods. This is a very general system of disbursement of LC process. Documents required for PAD is pointed out below:

- Original (Non-negotiable) bill of Lading
- Commercial Invoice
- Certificate of Insurance
- Certificate of Origin
- Bill of exchange
- Pre-shipment Inspection Certificate

- Packing List
- Clean Report of Findings (CRF)

❖ **Loan against Trust Receipt (LTR)**

Unlike the PAD procedure, MBL performs the later automate as a foreign exchange instrument under providing advance against the Trust Receipt from the customers. The Trust Receipt is a document that creates the Bankers lien on the goods and practically amounts to hypothecation of the proceeds of sale in discharge of the lien. This is only facilitate to first class tested parties when the documents covering an import shipment or other goods pledged to the Bank as security are given without payment. For this concern the branch asks for prior authorization from the head office.

❖ **Loan against Imported Merchandise (LIM)**

MBL offers advance (Loan) against the security of commodities imported through the Bank may be allowed either on promise or hypothecation of goods. In that case the bank has provisional possession earlier on the imported goods or the account balance or any of the assets of the importer. Bank shall also obtain a letter of undertaking and protection from the parties involved in the trade, before the clearance of the goods from the port through LIM account. Cash in advance: Importer pays full, partial or progressive payment by a foreign DD, MT or TT. After receiving payment, exporter will send the goods and the transport receipt to the importer. Importer will take delivery of the goods from the transport company.

Export

Mercantile Bank Limited provides the export LC facility to the Bangladeshi exporters from the very beginning of the foundation of the bank. After the establishment of the Mohakhali branch, there is large number of individual and corporation exporters have taken the service not only because of MBL management structure but also the most convenient location which is actually at the center of capital. The exporters most of the readymade garments (both knitted and woven), jute, jute-made products, frozen shrimps, tea are the main product that exporters have to export from Bangladesh to on the outside country. Among these, the garments sector along have the highest contribution on our whole GDP. Mostly the RMG exporters come to obtain Mercantile Bank LC services are focused on USA and European Community (EC) markets. About 40% of the total export-LC is made by the ready mage garments exporter from Mercantile Bank Limited, Mohakhali branch.

➤ **Export LC types**

- **Export LC**

The letter of credit uses for any export of goods from Bangladesh to abroad for the individual and commercial exporter, is entitled as the export LCs. The exporters have to gain some requirements to attend the international trade and then he asks for the registration for export. The exporter first collects the orders from foreign buyers and prepares the prearranged materials in to ordered products. The bank, MBL, plays the role of advising or the negotiating bank here. As a result, all contracts of payments are discussed by MBL with the issuing bank on behave of both parties.

- **Back-to-Back LC**

In the field of international trade, it is somehow impossible to produce all along under some factory-roof. Moreover the developing countries like Bangladesh, it is harder as most of the time we are facing toward foreign countries for the raw materials of the production. After receiving order from the importer, very regularly exporters face troubles of scarcity of raw material because some raw materials are not available in the country. In that case, exporter offers a lien of export LC to bank as security and opens a LC against it for importing raw materials. This specific LC is called Back To Back LC.

- **Export Procedures**

MBL has export operations including exciting as well as lively exports to deliver the fully export oriented and also surplus products to other countries and thereby earns foreign currency. Payment for goods exported from Bangladesh must to receive through an authorized dealer in freely convertible foreign currency or in Bangladeshi Taka from a Nonresident AC. Besides there are a number of other formalities for exporting goods form this country. These formalities or procedures are enumerated as follows;

- **Export Registration Certificate (ERC)**

According to Import and Export (Control) Act, 1950; no exporter is permitted to attend export oriented business of any commodity permissible for export from Bangladesh unless he is

registered with Chief Controller of Imports and Exports (CCI & E) and holds valid Export Registration Certificate (ERC).¹⁰ To be recorded into CCI&E, the exporter required to submit following documents;

- Nationality and Assets Certificate inspected by authority Memorandum and Article of Association and
- Certificate of Incorporation in case of Limited Company
- Bank Certificate
- Income Tax Certificate
- Company's Trade License

- **Obtaining EXP Form**

The second step is to get an EXP form of MBL with the submission of valid ERC, trade license and other necessary certificates from concerned government authority. In that case, the bank verifies the documents and then issues an EXP form against the exporter.

- **Securing the Order**

After getting ERC clearance, the exporter may proceed to secure the export order. He can do this by contracting the buyers directly through correspondence or can take help from license officer, local agents, export promoting organizations, chamber of commerce and many more national and international sources.

- **Signing the Contract**

Then the exporter needs to get the written documents of the contract with importer for sending overseas items from Bangladesh detailing commodity, quantity, price, shipment, insurance and marks, inspection and arbitration etc.

- **Receiving Letter of Credit**

The letter of credit is the documents of exporting terms & conditions and payments of products for the exporter. So after signing the contract of trade, the exporter asks for the letter of credit for the settlement the expression and position of the products and payments.

- **Procuring the Materials**

¹⁰ http://bdlaws.minlaw.gov.bd/pdf_part.php?id=236

Now, it is required to obtain the required materials to be collected. As early as possible the materials are charged into the machines, there is a better chance to accomplish production target and manufacture the contracted merchandise.

- **Approval and Disposal of EXP Form**

The EXP form is required to endorse by the bank authority before the customs or portal officers make any steps. Without the banks authentication, the exporter cannot proceed toward the shipment of exportable goods. Besides, exporter must announce all exports goods on the EXP issued by the authorized dealers. The export form is compulsory to prepare four in number of copies. They have different names and also need to submit to different authority.

- Original copy: At first exporter reports the first copy of EXP to Bangladesh Bank after shipment of the goods.
- Duplicate copy: Negotiating bank reports the Duplicate to Bangladesh Bank in or after negotiation date but not later than 14 days from the date of shipment.
- Triplicate copy: On realization of export proceeds the same bank to the same authority reports Triplicate.
- Quadruplicate copy: Finally, the negotiating bank as their office copy retains Quadruplicate.

- **Shipment of goods**

Once the product is ready and the documents are submitted in right order, the exporter can make the shipment of the importable goods by preplanned vehicles and according to the LC contract terms and conditions.

- **Documents submission**

Last but not the least, the business person needs to prepare and submit the following documents to Mercantile Bank Limited, Motijheel branch for negotiation and obtain payments;

- Bill of Exchange or Draft
- ERC form
- Bill of Lading

- Invoice (Proforma & Commercial)
- Insurance Policy Certificate
- Certificate of origin
- Inspection Certificate
- Consular Invoice
- Packing List
- Quality Control Certificate
- G.S.P. certificate
- Photo-sanitary Certificate

- **Export Financing by MBL**

In order to get full economic support from the bank, there is some export funding criteria arranged for the exporters. Mainly those financing services are needed in four specific phases in an export function. The phases are described in this section. Considering the shipment schedule, here MBL divide the export financing into two categories;

- **Pre-shipment credit**

As the name suggests, pre-shipment credit is the financing services provides for all the export related activities to the exporter prior to make the actual shipment of the exportable products. The reason of this service is to make the raw materials and other production allied assets into working capital for the right time delivery of the goods. This funding is very constructive for the exporters to manage monetary gain of procuring and processing of raw materials,

Packaging and transport, insurance fees and also freight charges. Before allocating the credit to the exporters, the foreign exchange division of Mercantile Bank Limited takes into consideration about the exporters credit worthiness, previous export performance, jointly with all other necessary information required for sanctioning the credit in accordance with the existing rules and regulations. Verifying all the needed information the bank offers diverse credit scheme against lien on the irrevocable, confirmed and unrestricted export letter of credit in form of the followings

- **Export cash credit (Hypothecation)**

This is the financing procedure in which credit is legitimate against hypothecation of the raw materials or finished goods intended for export. As this funding service is limited only for the first class exporters, the bank does not get security asset against the credit except the charge documents and lien on exporters LC contract. In that case bank depends on the exporter in

furnishing collateral security. Against the hypothecation documents, the bank charges a fee but does not have the ownership or possession of the assets of the exporters.

- **Export cash Credit (promise)**

Under this agreement, the exporter can borrow cash amount from bank as pledge of goods that is to be congregated in the warehouse under the MBL's control by signing the letter of pledge and other necessary documents. It creates the bank's full authority over the surrendered goods and similarly the bank holds the right of physical possession of the assets. If the party fails to make the payments of the dues, Mercantile Bank Limited reserves the authority to sell the pledged merchandise for recovery of the advance.

- **Export Cash Credit against Trust Receipt**

When the credit service is offered against a document titled Trust Receipt, it is called export cash credit against trust receipt. Unlike the previous export financing, this service offers the full authority and control over the goods to the exporter himself. Only he requires preparing and signing a special stamped export trust confession in favor of the bank declaring that the goods purchased for the purpose to manufacture of the exportable goods are financed by the

Bank against the trust receipt. After that he could get the credit for completing the export process such as goods processing, packaging and so on. The difference between export cash credit and this service is the bank does not seize the goods in its custody but provides the credit amount. Mercantile Bank obtains collateralized assets for the security of this investment. To get this facility, the exporter needs to gain the first class position in MBL exporters record.

- **Packing Credit**

Packing Credit is a short-term advance granted by MBL to an exporter for assisting him to buy, process, manufacture, and pack and ship the goods. This type of credit is sanctioned for the transitional period starting from dispatch of goods till the negotiation of the export documents. The maximum limit of providing this pre-shipment credit is 10% of total export value which is required to be adjusted fully once within a period of 3 to 6 months only for a first class exporter of MBL.

- **Back to Back Letter of Credit (BTB)**

Back-to-back letter of credit is a specialized and most common foreign trade instrument at the field of export business in Bangladesh. This LC facilitated the exporter to commit a lien of export LC as a security and open a new LC against it for the purpose to import raw materials. The core point behind this LC document is to reduce the difficulty of shortage of raw materials in time of production of overseas goods. Sometimes necessary production equipments and unprocessed input ingredients are not available in our country and so we are completely dependable on others. Consequently the exporter frequently experiences the shortage of financing those components when he needs to import those. The bank gives the opportunity to lien the export LC as a defense and opens a new LC against the master LC for importing the raw materials. That new LC is named as Back-to-back LC and MBL keeps no margin for this. However sometimes there is provision from the government and the authority to import any specific item or a certain portion of the whole export LC amount. In that case MBL opens the certified amount as a new LC. Garments sector is the largest sector that exports the lion share of the country's export. Bangladesh exports most of its readymade garments products to U.S.A and European Community (EC) countries. Bangladesh exports about 40% of its readymade garments products to U.S.A.

Most of the exporters who export through MBL are readymade garments exporters. They open export L/Cs here to export their goods, which they open against the import L/Cs opened by their foreign importers. Export L/C operation is just reverse of the import L/C operation. For exporting goods by the local exporter, bank may act as advising banks and collecting bank (negotiable bank) for the exporter.

Remittance

Convertibility of Taka in current account transactions symbolized a turning point in the country's exchange arrangement and exchange rate system. Now the operation of foreign currency accounts have been more liberalized. Funds from this A/Cs are freely remittable to any country according to the needs of A/c holders.¹¹

¹¹ <https://www.bb.org.bd/aboutus/regulationguideline/foreignexchange/convertk.php>



Remittance flow of Bangladesh and its contribution of MBL:

MBL is involved with both the form transactions of inward and outward remittance processing service. MBL started its remittance business in Bangladesh since December, 1996. MBL tries their level best to increase the flow of remittance through banking channel

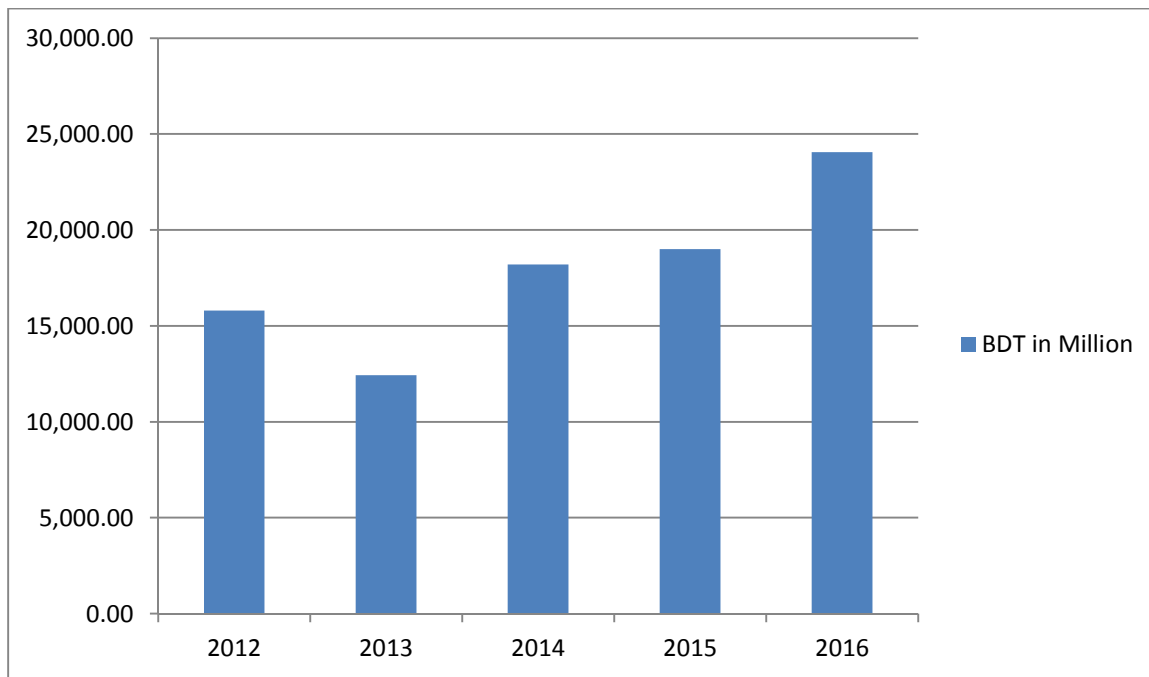


Figure shows that only in 2013 remittance inflow was lower in MBL exception to that it is increasing day by day.¹²

- FC Account:

¹² MBL Annual Report 2016

- **Resident Foreign Currency Deposit (RFCD) Account:**

Persons ordinarily resident in Bangladesh may maintain foreign currency accounts with foreign currency brought in at the time of their return in Bangladesh from visits abroad. These accounts are termed as RFCD accounts.

- **Non-resident Foreign Currency Deposit (NFCD) Account:**

Nonresident Foreign Currency accounts may now be maintained as long as the account holder desire. Amount brought in by non-resident Bangladeshi can be deposited in FC account any time after to Bangladesh.

- **Who can Open FC Accounts:**

The Branch with Authorized Dealership License may, without prior approval of Bangladesh Bank, open foreign currency A/Cs in their books in the name of:

- Bangladeshi nationals residing abroad
- Foreign nationals residing abroad or in Bangladesh
- Foreign firms and companies registered abroad and operating in Bangladesh or abroad
- Foreign missions/Embassies/UN organizations and their expatriate employees
- Diplomatic bonded warehouses (duty free shops)
- Local and Joint venture contracting firms employed to execute projects financed by foreign donors/international donor agencies.
- Bangladeshi nationals working as employees/consultants in international bodies in Bangladesh and drawing pay and allowances/consultancy fees/honorarium in foreign currency.
- Merchandise and service exporters
- Bangladeshi Nationals who are normally resident in Bangladesh may open foreign currency accounts with foreign exchange brought in at the time of their return to Bangladesh from visits abroad.
- Industrial enterprises in EPZ.

- **For Bangladeshi Wage Earners:**

- Photocopy of first 7 (seven) pages of valid passport and visa page/arrival page.
- Photocopy of employment contract/appointment letter/work permit.
- Two copies of passport size photograph of each account holder and nominee duly attested.

- For Foreign National/Company/Firm:

- Two copies of photograph of account holder for individual and operators of other account holder.
- Copies of relevant pages of passport for individual and operators of other account holder.
- Copy of service contract/appointment letter/work permit, if any for individual.
- Copies of registration in Bangladesh with Board of Investment / Bangladesh Bank for Foreign Joint Venture Firm.
- Copies of the Memorandum and Articles of Association/Laws/Bye Laws, etc. or Joint Venture Agreement for Joint Venture Company.

- Mode of Operation:

- Foreign currency accounts opened in the name of Bangladesh nationals working abroad or self employed abroad can now be maintained as long as the account holder desires.
- Such accounts may also be opened by the eligible persons within six months of their return to Bangladesh.

- Deposits:

- Credit to a foreign currency account may be made against inward remittance of foreign exchange in any form or transfer from another FC account or Non-Resident Taka Accounts of bankers abroad.
- ADs may also raise credits to such accounts with the proceeds of convertible foreign exchange viz. currency note, travelers' cheques, drafts, etc. brought into Bangladesh by the account holders while on temporary visit to Bangladesh, provided such foreign exchange in excess of US\$ 5000 or its equivalent has been duly declared by them to the customs at the time of their arrival.
- Portion of repatriated export proceeds of Merchandise/service exporters are allowed to credit to the exporters retention quota account.
- Foreign exchange earned through business done or services rendered in Bangladesh cannot be put into F.C account.

- **Withdrawals:**

- Payments may be made freely abroad from these FC accounts to the extent of balance lying therein.
- Local disbursements may also be made freely in Taka from such foreign currency accounts.
- Funds lying in FC Accounts can be utilized for import of goods and commodities as per instructions issued by the CCI&E and Bangladesh Bank.
- No payment in foreign exchange may be made to or on behalf of any resident in Bangladesh.
- FC accounts except foreign diplomats or privileged persons who have specific authority from Bangladesh Bank to accept such payment.

- **Interests:**

Ads may pay interest at prevailing Euro Currency Deposit rate if balance in the account is not less than US\$ 1000 or Pound Sterling 500 and are maintained for a minimum period of one month. Foreign nationals/companies/firms registered and/or incorporated abroad and A-type industries of EPZ may also open F.C account in the form of Term Deposit (NFCD).

- **Types of Remittance:**

Foreign remittance section of MBL, Mohakhali Branch is an integral part of Foreign Exchange Department. And this section of Foreign Exchange Department deals with incoming and outgoing foreign currencies. Therefore on the basis of its function, foreign remittance is divided into two types. These are:

• **Outward Foreign Remittance**

Remittances issued by MBL, Mohakhali Branch to foreign correspondents to fulfill its customers' needs are considered to be the Outward Foreign Remittances. The term "Outward Remittance" include not only remittance i.e. sale of foreign currency by TT, MT, Drafts, Travelers cheques but also payment against imports into Bangladesh & Local currency credited to Non-Resident Taka Accounts of Foreign banks or convertible Taka account. It comprises the followings:

- **Foreign demand draft (FDD) issued:**

People have to send money to abroad for various purposes. MBL issues most of the FDD for the purpose of payment of the application fees to the foreign universities. For the issuance of FDD,

FORM T/M has to be filled-in duly. This form is filled up under the Foreign Exchange Regulation Act, 1947. This form contains:

- The purpose of travel,
- Name of the country where the applicant will go,
- Name of the air or shipping company,
- Passport number,
- Date and place of issue of the passport are given.

This form has to be duly signed by the applicant. In case of application fee, the applicant has to mention the name of the university in whose favor the FDD is issued. MBL charges TK. 400 for each FDD.

- Endorsement of cash:

Cash foreign currency can also be remitted through the cash endorsement in the passport. In case of endorsing cash in the passport, the requirements are similar to those of Traveler's Cheque. But according to the foreign exchange Regulation Act, 1947 an individual cannot take more than \$5000.00 in cash in a year. That's why; the concerned officer checks the last voyage of the purchaser. If he/she made any voyage and if he/she purchase dollar at that time, then the officer will deduct the amount and will give the rest to the purchaser.¹³

- Forms used for Outward Remittance:

Two forms are used for Outward Remittance of Foreign Currency, such as –

- IMP Form: All outward remittances on account of imports are done by form IMP.
- T.M. Form: For all other outward remittances from TM is used.

For the following private purposes, outward remittances are permitted¹⁴:

- Family remittance facility.
- Remittance of Membership Fees/Registration Fees etc.
- Education.
- Remittance of Consular Fees.

¹³ Foreign Trade and Economic Controls in Development

¹⁴ Bangladesh Bank, 1996, Guidelines for Foreign Exchange Transactions

- Remittance of Evaluation Fees.
- Travel.
- Health & Medical.
- Official/Semi-Official Visit by the officials of Government/Autonomous Bodies.
- Seminars and workshops.
- Foreign Nationals.
- Remittance for Hajj.
- Other Private Remittances.
 - **Official & Business Travel:**
 - For the following official and business purposes, outward remittance is permitted:
 - Official Visit.
 - Business Travel quota for New Exporters.
 - Business Travel Quota for Importers and Non-exporting producers.
 - Exporters' Retention Quota.
 - **Commercial Remittance:**
 - For the following commercial purposes, outward remittances are permitted:
 - Opening of branches or subsidiary companies abroad.
 - Remittance by shipping companies, Airlines & Courier Service.
 - Remittance of Royalty and Technical Fees.
 - Remittance on account of Training & Consultancy.
 - Remittance of Profits of Foreign Firms/Branches.
 - Remittance of Dividend.
 - Subscriptions to Foreign Media Services.
 - Costs/Fees for Reuters Monitors.
 - Advertisement of Bangladeshi Products in mass media abroad.
 - Bank Charges.
 - Sundries.
- Inward Foreign Remittance

Normally, Inward Foreign Remittance comprises of all incoming foreign currencies. Remittances issued by the correspondent banks situated in the foreign countries and thereby drawn on MBL, Mohakhali Branch are considered to be its Inward Foreign Remittances. Followings are the Inward Foreign Remittances of MBL, Mohakhali Branch.

- Direct Credit on account
- Pay Cash
- Spot Cash¹⁵

¹⁵ www.info@sitpro.org.uk

Form C: Inward remittances equivalent to US\$5000 and higher than are done by Form “C”.¹⁶

SWOT analysis:

The comparison of strengths weaknesses, opportunities, and threats is normally referred to as a SWOT analysis. The central purpose of the SWOT analysis is to identify strategies that align, fit, or match a company’s resources and capabilities to the demands of the environment in which the company operates. To put it another way, the purpose of the strategic alternatives generated by a SWOT analysis should be to build on company strengths in order to exploit opportunities and counter threats and to correct company weakens.¹⁷

- **Strengths:**
 - MBL has already established a favorable reputation in the banking industry of the country. It is one of the leading private commercial banks in Bangladesh. The bank has already shown a tremendous growth in the profits and deposits sector.
 - MBL has provided its banking service with a top leadership and management position. The Board of Directors is the skilled person in business world. The top management officials have all worked in reputed banks and their years of banking experience, skill, and expertise will continue to contribute towards further expansion of the bank.
 - MBL has already achieved a high growth rate accompanied by an impressive profit growth rate in 2016. The number of deposits and the loans and advances are also increasing rapidly.
 - MBL has an interactive corporate culture. The working environment is very friendly, interactive and informal. And, there are no hidden barriers or boundaries while communicate between the superior and the employees. This corporate culture provides as a great motivation factor among the employees.
 - MBL has the reputation of being the provider of good quality services to its potential customers.

- **Weakness:**

¹⁶ Global Foreign Exchange Trading: Status and Issues

¹⁷ Strategic Management: Theory & Cases: An Integrated Approach By Charles W. L. Hill, Gareth R. Jones, Melissa A. Schilling

- This bank has not any long-term strategies of whether it wants to focus on retail banking or become a corporate bank. The path of the future should be determined now with a strong feasible strategic plan.
 - Service quality of this bank is good but not high as per customers expectation.
 - Some of the job in MBL has no growth or advancement path. So lack of motivation exists in persons filling those positions. This is a weakness of MBL that it is having a group of unsatisfied employees.
 - In terms of promotional sector, MBL has to more emphasize on that. They have to follow aggressive marketing campaign.
- **Opportunity:**
 - In order to reduce the business risk, MBL has to expand their business portfolio. The management can consider options of starting merchant banking or diversify into leasing and insurance sector.
 - The activity in the secondary financial market has direct impact on the primary financial market. Banks operate in the primary financial market. Investment in the Secondary market governs the national economic activity. Activity in the national economy controls the business of the bank.
 - Opportunity in retail banking lies in the fact that the country's increased population is gradually learning to adopt consumer finance. The bulk of our population is middle class. Different types of retail lending products have great appeal to this class. So a wide variety of retail lending products has a very large and easily pregnable market.
 - A large number of private banks coming into the market in the recent time. In this competitive environment MBL must expand its product line to enhance its sustainable competitive advantage. In that product line, they can introduce lots of the ATM to compete with the local and the foreign bank.
 - In addition of those things, MBL can introduce special corporate scheme for the corporate customer. At the same time, they can emphasize more on various social activities because it has these opportunities.
 - **Threats:**
 - The default risks of all terms of loan have to be minimizing in order to sustain in the financial market. Because default risk leads the organization towards to bankrupt. Mercantile Bank has to remain vigilant about this problem so that proactive strategies are taken to minimize this problem if not elimination.
 - The low compensation package of the employees from mid level to lower level position threatens the employee motivation. As a result, good quality employees leave the organization and it effects the organization as a whole.

- In recent years, the numbers of private bank is increasing. These banks always pose a threat for others by coming up with new product line, innovative technology, quality services, etc. thus the level of competition rises and create threat for Mercantile bank Ltd.
- Compared to their private banks of Bangladesh, the compensation of MBL is not so attractive. This poses a threat on the employees of switching to other banks from MBL.
- Daily basis interest on deposit offered by HSBC.

Findings:

- The MBL follows the traditional banking system. The entire banking procedure is not fully computerized.
- The working environment of MBL is very interactive, informal and attractive. People working here are cooperative to the highest possible extent, according to me.
- The Foreign Exchange Department is very much Strong. Clauses they use in dealing with the foreign Bank in term of L/C opening and amendment of L/C, are very much expedient to the foreign Bank. It is giving a competitive advantage to the MBL. For this, businessmen like to deal their business with the MBL.
- The operations of international trade are as per local and international laws, rules, customs and practices.
- The top executives and officers are very helpful to the clients. Some of our businessmen do not know the exact procedures of international trade. The officers of MBL help them to properly execute their business.
- Financing in the international trade is very crucial for the economy as well as it is risky. Sometimes the government imposes restriction to import and export some products. As a result the rate of opening L/C become reduces.
- MBL provide little assistance in relation with foreign exchange to the small entrepreneur comparing to large business houses. Small entrepreneur has to keep higher margin, sometimes 100%, regarding opening a L/C.
- The presence of modern data processing and communication equipments is inadequate in MBL. This cause a considerable degree of inefficiency in the bank's performance, especially in the foreign exchange department.
- Internal Control System (ICS) of MBL is not up to the standard (as per BAS).
- Anti money laundering procedures of the bank is very effective.
- The marketing strategy adopted by the bank is effective but not efficient. The appearance of the bank in the printing media and electronic media has become a matter of fortune.

- The specialization of the personnel on a particular task is not ensured. It has been found that executives are transferred from one department to another department frequently, from branch to another in every three years without ensuring that they are acquainted with the task.
- The expansion process of the bank has little match with the modern pace of globalization. Despite being stoned in 1999, the bank has only 41 branches now. Even it does not have branch in many commercially and industrially important places.

Recommendation:

As started toward the beginning of the recommendations, there is need for advance research for an enhanced understanding of the quality dimensions of foreign exchange division and the influential factors of its customer satisfaction. This report is only showing the factors on which the customer has satisfied and which needs to be improved upon. Thus, the managers and concerned parties can take this study for a guideline of improvement of the quality of export-import business service. The bank should make the process easier for the customer so that they got encouraged to experience and also obtained it with minimum effort. Beside, the bank should ensure the availability of their service from both the personnel and automated system based. Similarly not only the accessibility but also the quick responsive and solving the problem is vital to encompass customer's fulfillment. Specific actions could make this improvement as the more efficient the service is the more satisfied the customer will be.

To comprise the improvement, the coordination among different departments should be more effective and is to ensure for maintaining proper synchronization of the operation of the branch. Therefore the high administration control should be exercised to Mohakhali Branch and proper delegation of authority should be established for every officers of every department to confine their own responsibility and duty, which will bring fluency in operation. Next, the course that MBL tagged to open documentary credit and settlement of endorsement should be liberalized as much as possible. It requires customer need based researches to obtain the facility to provide best services. Development of the process according to regulations will also attract more clientele.

Then MBL, Mohakhali Branch is to be concerned on operation-required equipments. The branch is not properly equipped with logistics and other modern communication facilities compared to the alternate commercial bank's branch situated in same location. As a result, it requires more

time and resources to get the conclusion of any complicated errands and to respond with other areas of the organization.

Also, the business recording and documents securing procedure of the department must be improved through sequential effort system. It happened frequently that the huge volume of files that kept in various locker is not all time possible for officers to keep in proper format and to search-out those in time of necessity. Therefore they should use a systematic computerized procedure to get this improvement for all sort of recoding essential. It may require once a great investment but will save valuable resource and get more trade.¹⁸

Finally, it should be mentioned that today's banking industry is much focused at on-line orientated business. Counting with MBL's webpage and online business facility are not in progress of customer satisfaction. The webpage required to be updated on regular basis. And for the improvement of online service facility, MBL should have customer focused research to know the demands and needs of customer about the service. Moreover the bank should take concern on aggressive advertising and promotional activities so that the new and innovative banking services can get broad geographic coverage inside the country and beyond. However the MBL authority should try to get positive word of mouth, as the service receiver companies do consider on other companies remarks rather than advertisement on media.

¹⁸ Foreign Banks in Bangladesh: Performance & Limitations, Dhaka University Journal of Business Studies

Conclusion:

Banking industry in Bangladesh is now on the right track. The banks are contributing much more than the previous years for the growth and development of the country. Credit for such contribution by the industry goes to the Bangladesh Bank. Banking industry is much more organized because of strong vigilance and supervision of Bangladesh Bank. In the industry, Mercantile Bank is one of the pioneers in many criteria. MBL is committed towards the excellence in the service with efficiency, accuracy and proficiency. Like most of the commercial banks, foreign exchange department is one of the most important departments of MBL. Perhaps, it is the most important department of the Bank. This department is driving the bank from the front. Through the import, export and foreign remittance operations, this department is making a great contribution to the bank and the economy as a whole. If it is said that this department of the bank is running according to all of the ideal principles of modern foreign exchange business mentioned in the book, it will be exaggerated. Despite problems and weaknesses, it is driving the bank from the front. With an easy to understand operating guidelines, transparent operating procedure and a team of highly knowledgeable and proficient personnel, this department is expanding and excelling itself day by day.

To the gateway to practical professional life an experience at MBL as an internee was a privilege for me. MBL does offer a real practical orientation to the new comers with typical corporate culture. Rather, it offers people like us an environment where the appetite for learning just gets intense. This three months internship orientation with MBL undoubtedly will help me a lot to understand and cope with any typical corporate culture.

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