

Report On  
**Analysis of L/C procedures of Mercantile Bank Limited**

By

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

**BRAC Business School**  
**BRAC University**  
**January, 2020**

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# Declaration

It is hereby declared that

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

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# Letter of Transmittal

Mr. Saif Hossain

Assistant Professor,

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66 Mohakhali, Dhaka-1212

Subject: Submission of my internship report – “Analysis of L/C procedures of Mercantile Bank Limited.

Dear Sir,

I am very happy to inform you that I have prepared this report as the requirement for the BUS400 course and I have followed your instructions and guidelines while writing. I really enjoyed writing this report as this expanded my boundary of knowledge and understanding of the topic. I have made use of both primary and secondary sources of data.

I have tried my best to write the report with sincerity, by proper use of data and insights of my supervisor. I hope you will find this report interesting and evaluate my internship program accordingly.

Lastly, I would like to thank you profoundly for your guidance during my University life.

Sincerely yours,

---

Faiyaz Muhtasim Ahmed

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BRAC Business School

BRAC University

Date: January 9th, 2020

## **Executive Summary**

Foreign Trade Operations are one of most profitable operations of Mercantile Bank Limited. I was assigned to Foreign Trade Division in MBL's Gulshan Branch. There I have witnessed the L/C Operations of the bank and decided to write this comprehensive report on the topic. In this report, I have discussed foundations of L/C, L/C operations of MBL, discussed the parties involved, identified core categories of L/C, discussed nature of import L/Cs, described key jargons used in L/C operations.

**Keywords:** Letter of Credit; Foreign Trade; Forex; Import; Export

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## **List of Acronyms**

L/C	Letter of Credit
MBL	Mercantile Bank Limited
NPL	Non-Performing Loan
BDT	Bangladesh Taka
USD	United States Dollar
SCBL	Standard Chartered Bank Limited
DCCI	Dhaka Chamber of Commerce and Industry
IMF	International Monetary Fund
DSE	Dhaka Stock Exchange
CSE	Chittagong Stock Exchange
B2B	Back to Back L/C
SPA	Special Trading Arrangement
EPZ	Export Processing Zone
EDF	Export Development Fund
IRC	Import Registration Certificate
TIN	Tax Identification Number
BIN	Business Identification Number
NOC	No Objection Certificate
SWIFT	Society for Worldwide Interbank Financial Telecommunication
ISBP	International Standard Banking Practice
RMG	Readymade Garments



## **Glossary**

Letter of Credit	A letter issued by a bank to another bank (especially one in a different country) to serve as a guarantee for payments made to a specified person under specified conditions.
Bank	A financial establishment that uses money deposited by customers for investment, pays it out when required, makes loans at interest, and exchanges currency.
Foreign Exchange	An institution or system for dealing in the currencies of other countries.
Money Laundering	The concealment of the origins of illegally obtained money, typically by means of transfers involving foreign banks or legitimate businesses.
Credit Worthiness	The extent to which a person or company is considered suitable to receive financial credit, often based on their reliability in paying money back in the past.

# **Chapter 1**

## **Introduction**

### **1.1 Origin of the Report**

One of the leading private Universities of Bangladesh, BRAC University requires the students to undergo internship programs once all of their credits are completed. The students then work under organizations gaining practical knowledge by applying all the education they received as a student. The Internship Program for Business students is part of their program structure – as the report written on their internship carries 4 credits.

Soon after completing all my credits with double major in Finance and Marketing, I joined Mercantile Bank Limited (Gulshan Branch) as an intern. During the three months long period of my Internship, I have worked under General Banking and Foreign Exchange department. I have closely witnessed the functions of the bank and gained a lot of insight on how banking is done. As I have worked with Foreign Exchange Department, I saw how L/C plays an important role in exports and imports of a country.

There are very few reports out there that clearly depict how the L/C instrument is used and why it is such an important Off-balance sheet activity of a bank. This report thus gives a detailed picture of L/C. This report could be of good use to any business student with Finance major who wants to have a clear idea about Standby Letters of Credit, or, any scholar or analyst doing research on the matter.

## **1.2 Objectives**

This is a comprehensive report written exclusively on Letter of Credit operations. I have discussed how Mercantile Bank Limited handles their L/C operations, the challenges they face. The main objectives of this report are -

- To discuss essence of Import L/Cs in MBL.
- To depict the process of issuing an L/C.
- To discuss the bank's role in import and export processing using L/C.
- To discuss challenges and risks involved in L/C operations faced by MBL.

## **1.3 Methodology**

To complete this report, all the required data were collected from both Primary and Secondary sources -

1. Primary Source:

- Personal interviews with senior officers and employees.
- Personal observation during my internship.

2. Secondary Source:

- Newspaper articles.
- Text books.
- Annual reports.
- Previous relevant reports.

## **1.4 Limitations of the Study**

This report was written from my personal observation while working as an intern in Mercantile Bank Limited, Gulshan Branch. As many information was not disclosed to me for obvious security purposes, I have decided to make this report qualitative. I have tried to write a thorough descriptive report on Letter of Credit. Also, the time I had received to write this

report was very insignificant. Finally, this report was written to depict MBL's foreign trade operations only.

## **1.5 Banking Industry in Bangladesh**

### **Current Scenario of the Industry**

The banking industry in Bangladesh is in a difficult situation (The Daily Star, 2019). According to the article, the four main areas for economic prosperity of Bangladesh – revenue mobilization, banking sector, capital market and balance of payments – are going through a tough time due to factors such as lack of corporate governance and absence of required policy measures.

According to the Global Competitiveness Report 2019, Bangladesh has scored 38.3 out of 100 in “Soundness of Banks”, making Bangladesh the lowest ranking among all the South Asian countries (Hossain Ovi, 2019). According to the report, Bangladesh has ranked 130<sup>th</sup> out of 141 countries. Our neighboring country India scored 60.4 and ranked 89<sup>th</sup>, even Pakistan, Sri Lanka and Nepal ranked 93<sup>rd</sup>, 94<sup>th</sup> and 106<sup>th</sup> – way ahead of Bangladesh. This report has cited several reasons for the low scores and the vulnerability – Increasing NPL, weak financial auditing, inefficient management system and customers' increasing distrust in banks.

According to Bangladesh Bank reports, the total amount of default loans amounted to BDT 1.12425 Trillion - as of June 2019 (Zamir Uddin, 2019). This article took opinions of several experts including former governor of central bank Salehuddin Ahmed, executive director of Policy Research Institute, Ahsan H Mansur, president of the Association of Bankers Bangladesh, Syed Mahbubur Rahman – all of them agree on the point that the huge amount of rescheduled loans is a very bad sign for Bangladesh's economy. The non-performing loans increased by 15.51 billion till June 2019. The President of Dhaka Chamber of Commerce and Industry (DCCI) Osama Taseerhas complained that non-performing loans are affecting the entire economy of the country (Muntasir, 2019). He pointed out reasons such as weak corporate governance, inefficient loan disbursement and concentration on large borrowers for this crisis.

An International Monetary Fund (IMF) team led by Daisaku Kihara has pointed out that, despite strong growth rate of Bangladesh's economy, the banking sector is facing

vulnerability (Hasan, 2019). After a 12 day long visit, IMF suggested the same recommendations as experts from Bangladesh did, pointing out – Strengthening the banking sector supervision and avoiding regulatory forbearance was the most important suggestion IMF made. Kihara also suggested doing proper assessments of banking sector assets and limited use of rescheduling and restructuring of loans.

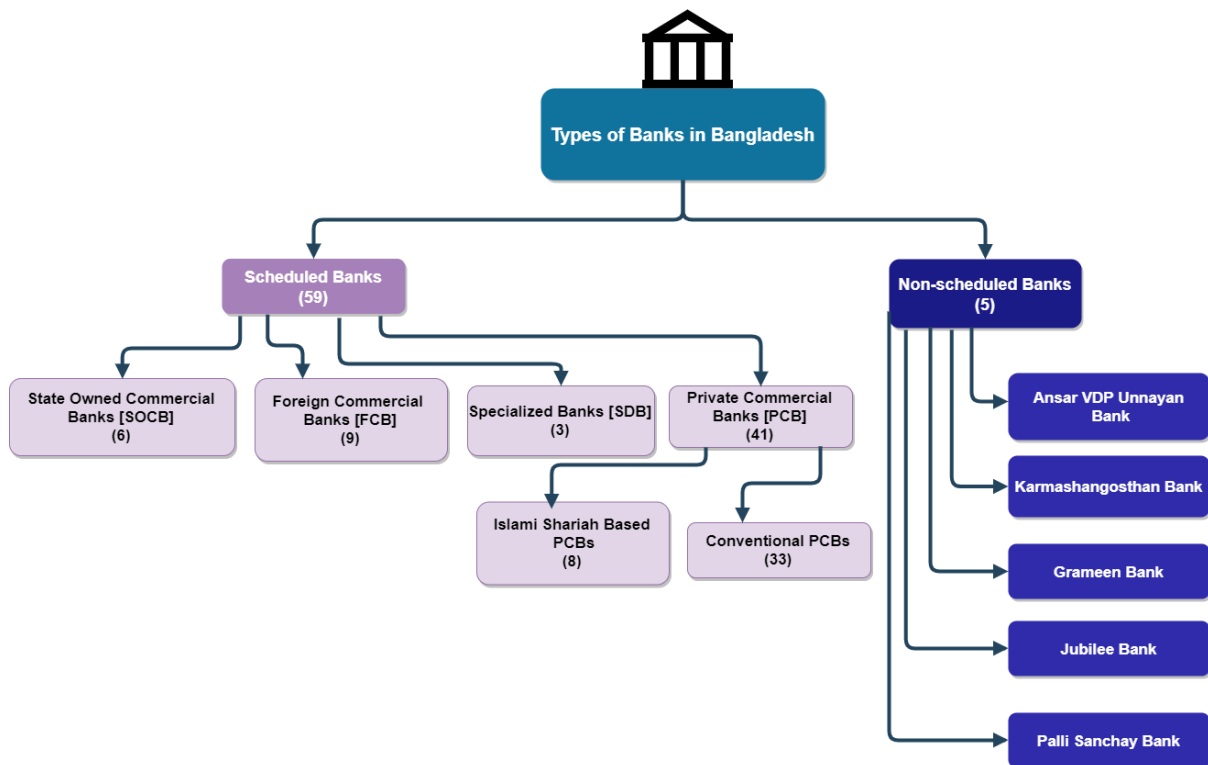
## **Banking Structure of the Country**

A bank is a licensed financial institution that collects deposits from surplus units and lends funds to deficit units. A surplus unit is referred to people who have excess amount of funds. When surplus units decide to deposit their excess funds in a bank, the bank collects that fund for a predetermined maturity period and provides the depositor interest against the fund. On the other hand, a deficit unit is referred to people who are in need of funds. When a deficit unit needs funds the bank lends the funds to them at a higher interest rate than the deposit interest rate. The bank earns through the difference between the lending rate and deposit rate which is called Net Interest Rate Spread. For the bank, the deposited funds are liability and the lent funds are assets.

When Bangladesh gained independence from Pakistan, the banking structure of the newborn country consisted of two branch offices of the former State Bank of Pakistan, seventeen large commercial banks and fourteen smaller commercial banks. The Dhaka branch of the State Bank of Pakistan was delegated as central bank of the country and the name was changed to Bangladesh Bank (Heitzman & Worden, 1988). The structure of banks in Bangladesh can be categorized into two types -

**i) Scheduled Banks:** Are the banks which get license to operate under Bank Company Act, 1991. There are 59 scheduled banks in Bangladesh which operate under full supervision and control of Bangladesh Bank.

**ii) Non-scheduled Banks:** These are the banks which were established to serve special purposes and they operate under acts made to fulfill those objectives. There are 5 non-scheduled banks in Bangladesh.



*Figure 1: Types of Banks.* Created from information taken from *Bangladesh Bank* website. Online.

## 1.6 Brief Company Overview

### Mercantile Bank Limited

**Vision:** Would make the finest corporate citizens.

**Mission:** Will become the most caring, focused for equitable growth based on diversified deployment of resources and nevertheless remain healthy and gainfully profitable bank.

**Background Information:** Mercantile Bank Limited was established as a public Company on May 20th, 1999. They started their operations from the 2nd of June from the same year with the vision of being the finest corporate citizen. The bank was listed in DSE (February 16, 2004) and CSE (February 26, 2004). The dream of MBL is to contribute directly to the national economy by fulfilling various banking needs of people living in Bangladesh and foreign soil. Today, MBL has 138 branches & 162 ATMs in 51 districts, 2,305 employees, and BDT 291 billion worth of assets.

# Chapter 2

## Letter of Credit

### 2.1 Foundations of L/C

A Letter of Credit is a **contingent obligation** of the issuer of the letter. (Rose & Hudgins, 2004). It is a **financial guarantee** provided against the risk of default. The risk of a default loan arises naturally while doing business. In trade business, it is unrealistic that payments are made as soon as goods or services are received by a party. In most cases, goods and services are sold on credit and the selling party receives payment after the delivery of goods. Because of this reason, a huge risk arises. **Default loan** is the term used when a borrower fails to pay the lender back and thus the lender has to bear financial loss. The risk of default is even higher if the borrower is from another country. When a seller receives order for goods from a foreign country, he has no guarantee that once he ships the goods, the buyer will pay him back. A similar kind of problem arises for the buyer also. If he receives the goods which may be less in quantity or faulty in quality, then the reluctance of making payment to the seller comes in. These problems create obstacles to both national and international trade businesses around the world.

To solve the risk of default, the uses of Letters of Credit or L/Cs have become very popular around the world. An L/C is a financial guarantee provided by a bank to enhance the credit standing of the borrower so that the lender does not have to worry about a default loan. An L/C insures the timely repayment of the borrowed amount along with interest even if the borrower goes bankrupt. In case the borrower goes bankrupt, the issuing bank promises the lender to repay the borrowed amount. Usually, the issuing bank of the L/C has some kind of affiliation with the lending party's bank or has a good credit rating. Because of the L/Cs, a borrower is able to get the amount of loan necessary at a lower cost and flexible conditions.

## 2.2 L/C Operations of Mercantile Bank Limited

Letters of Credit are one of the most profitable operations of the Foreign Exchange division. The Foreign Exchange operations were worth approximately BDT 390,640,400,000 in 2018 (Mercantile Bank Limited, 2018). Among this, 91% was through Export and Import processing, otherwise, through L/C operations. Mercantile Bank Limited (MBL) earned BDT 1,202,440,274 from dealings with foreign currencies and BDT 390,434,436 from L/C commissions in 2018 (Mercantile Bank Limited, 2018). L/C plays an important role in the import and export business of Bangladesh.

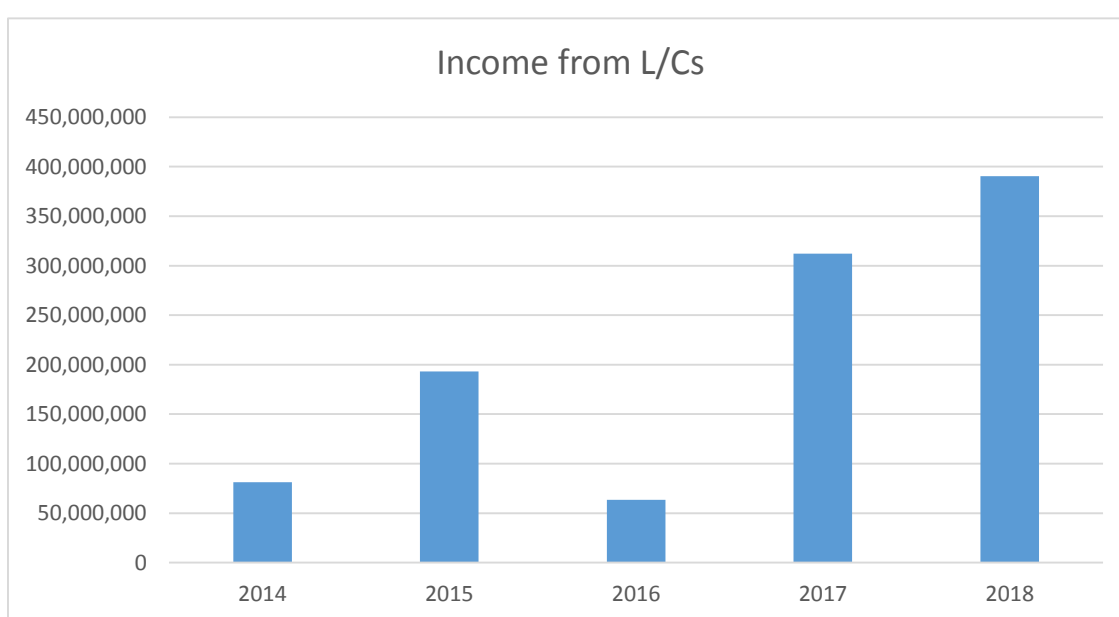


Figure 2: MBL's income from L/C commissions. Figure created from information provided in MBL's Annual Reports (2014-2018)

MBL handled BDT 196,389.70 million worth of import business in 2018, compared to BDT 190,753.60 in 2017 (Mercantile Bank Limited, 2017). Letters of Credit assisted the import business of important sectors such as machinery, garments & accessories, wheat, sugar, CDSO, vegetable oil, cement clinkers, hot roll steel, raw cotton, ships-breaking industries etc.

MBL handled a total of BDT 158,307.70 million worth of export business in 2018, compared to BDT 134,752.90 million in 2017 (Mercantile Bank Limited, 2017). The export financing was majorly focused on the garments industry, which is the driving force of Bangladesh's economy. It is also the biggest source of foreign exchange and employment



provider of the country. Other worth mentioning items of export were - jute & jute goods, leather, handicrafts, tea, frozen food & fish products.

## 2.3 Further Analysis of L/C

### 2.3.1 Parties Involved

L/Cs can be quite complex. It is a chain of significant events involving multiple parties following specific protocols which help to make the transactions more secure, reduce chances of confusion and error, minimize risk of default and finally ensure the profitability of the bank. The parties involved with L/Cs are -

- I. **Applicant:** Applicant is the party who applies for the issuance of the L/C. He can issue the L/C against Import or Export. In other words, an applicant is the buyer of the L/C. If he is an importer, he will pay the seller through the issuing bank after he receives the goods. If he is an exporter, he will receive payment of his exported goods through the issuing bank. The issuing bank in both cases, charges the applicant for the service and usually the commissions and charges are debited from the applicant's bank account when the issuing bank completes the process. This will be further discussed later.
- II. **Beneficiary:** Beneficiary is the party against whom the Applicant opens the L/C. A beneficiary may be an importer or exporter both. If the Applicant of the L/C is an importer of goods, then the beneficiary is the party that is selling the goods. If the Applicant is an exporter, then the beneficiary will be the receiver of the exported goods.
- III. **Issuing Bank:** The Applicant applies for the issuance of the L/C from this bank. To open an L/C from any bank, there are some necessary requirements that need to be fulfilled. If the conditions are met, the bank proceeds to issue the L/C.
- IV. **Advising Bank:** This is the bank of the beneficiary. The issuing bank proceeds to communicate with the advising bank. Any kind of monetary transaction, documents sharing are done between the Issuing bank and the Advising bank. This makes the procedures of L/C more secure.
- V. **Confirming Bank:** The purpose of the confirming bank is to guarantee the credibility of the issuing bank of the L/C. Meaning if the issuing bank somehow fails to pay the beneficiary's bank, the confirming bank takes responsibility and makes the payment.

### 2.3.2 Core Categories of L/C

There are some characteristics that distinguish L/Cs into some types -

- I. **Sight L/C:** Here the party has to make payment as soon as the L/C documents arrive.
- II. **Usance L/C:** Here the payment has to be made within the mentioned tenor days in the L/C. The tenor days vary from 30-150 days or even more than that.
- III. **Back to Back L/C:** Back to Back L/C is used when an exporter wants to export some goods, and to manufacture those goods, he needs to import the raw materials from another party. For this purpose of import, he opens an L/C with his bank. So, a Back to Back (B2B) L/C is an import L/C issued against an export. For developing countries like Bangladesh, B2B L/Cs are quite beneficial for exporters since quality raw materials like mechanical parts, threads need to be imported from other countries or other local firms.

### 2.3.3 Nature of Import L/Cs

On the basis of L/C properties, there are about 26 different Nature of Import L/Cs in Mercantile Bank Limited.

1. **Cash L/C (Sight):** This is type of L/Cs are Sight and the payment method is completed on cash. When an importer wants to import goods from another party, he opens the Sight Cash L/C, and upon the goods arriving, he pays MBL with cash and collects the documents to release the goods. MBL then pays the Exporter's bank.
2. **Cash L/C (Usance):** The nature of this L/C is the same as Cash L/C (Sight), where the importer imports goods through the L/C but the payment method is Usance. Meaning the payment has to be made after the mentioned days in the documents. Usually the payment has to be made within 30-150 days.
3. **Inland Back to Back L/C (Sight):** This type of L/C is issued when the issuer needs to import raw materials from a firm within the country. The payment method is sight. The payment is made when the exporter manufactures and exports the goods and receives payment.
4. **Inland Back to Back L/C (Usance):** Same as Inland B2B L/C except the payment method is Usance.

- 5. Foreign Back to Back L/C (Sight):** When an exporter needs to import the raw materials from a foreign country, he issues a Foreign B2B Sight L/C against his export. The payment method is sight.
- 6. Foreign Back to Back L/C (Usance):** Same as Foreign B2B L/C but the payment method is Usance.
- 7. L/C Under Aid/Loan:** Any kinds of foreign aid or loan come through this type of L/C. An L/C is issued against the aid or loan to guarantee the contributor of repayment of loaned amount or the fulfillment of the purpose of the aid.
- 8. L/C Under Special Trading Arrangement (STA):** When two parties have any special trading arrangement involving special conditions, the payment method between them is fulfilled through this type of L/C.
- 9. Import from EPZ (Cash L/C; Sight):** EPZ is Export Processing Zone which was created by the Bangladesh Government to encourage export investments. The EPZ zones receive some special privileges from the government ("Tariff for Utilities", 2019). Import from EPZ Cash Sight L/Cs is issued when a firm imports from any of the EPZ included firms. The payment for this L/C is made with cash and it is sight.
- 10. Import from EPZ (Cash L/C; Usance):** Same as the previous one, except the payment method is in Usance.
- 11. Import from EPZ (Back to Back L/C; Sight):** Here, an exporter wants to import raw materials for his exports and he does this from an EPZ. So an import back to back L/C is issued against the export and the payment has to be made on sight.
- 12. Import from EPZ (Back to Back L/C: Usance):** Import back to back L/C issued to import raw materials from EPZ and the payment has to be made using Usance method.
- 13. Local Contract (DP & DA):** This is not exactly an L/C but a contract between two parties. The bank only acts as a medium of exchanging funds, however, no liability is taken by the bank - no promise is made to pay one of the parties if the other one defaults. Two independent parties form some kind of contract between them and the payment is completed through the bank.
- 14. Foreign Contract (DP & DA):** Same as the Local Contract except one of the parties is foreign and a contract is formed between two parties. The bank takes no liability.
- 15. Import by EPZ Company from EPZ Company (Sight):** These types of L/Cs are issued when an EPZ Company issues an L/C to import goods from another EPZ Company. The payment is made on sight.

- 16. Import by EPZ Company from EPZ Company (Usance):** EPZ Company imports goods from EPZ Company by issuing L/C and the payment is made on Usance.
- 17. Import by EPZ Company from outside EPZ within Country (Sight):** This type of L/C is issued when an EPZ Company imports goods from a local Company that is not in EPZ. The payment is made on sight.
- 18. Import by EPZ Company from outside EPZ within Country (Usance):** EPZ Company imports goods from local non-EPZ Company and the payment is made on Usance.
- 19. Import by EPZ Company from outside Country (Sight):** When an EPZ Company wants to import goods from outside Bangladesh this sight L/C is issued.
- 20. Import by EPZ Company from outside Country (Usance):** EPZ Company issues import Usance L/C to import goods from foreign countries.
- 21. Import by Deemed Export Manufacturing Units under EDF Facility:** The National Board of Revenue (NBR) provides a warehousing facility exclusively for export oriented industries. This facility is called Bonded Warehousing ("Bangladesh Customs, National Board of Revenue (NBR)", 2019). These warehouses store only raw materials or packaging materials that are to be exported only. All the materials stored here are imported without paying any duty or taxes. The exporters get certain cash incentives from Bangladesh Bank for this type of exports.
- 22. Foreign Back to Back L/C by EPZ (Sight):** This sight L/C is issued when an EPZ Company wants to issue a back to back import L/C against his export.
- 23. Foreign Back to Back L/C by EPZ (Usance):** Usance L/C issued when EPZ Company wants to issue B2B L/C against his export.
- 24. Import from Bangladesh by EPZ Companies under Back to Back L/C (Sight):** This sight B2B L/C is issued against an EPZ Company's export when he imports the raw materials from a local Bangladeshi Company.
- 25. Import from Bangladesh by EPZ Companies under Back to Back L/C (Usance):** Usance B2B L/C issued against an EPZ Company's export when he imports raw materials within the country.
- 26. Others (L/C):** All the other local L/Cs are categorized as others.

## 2.4 Process of Issuing an L/C

As discussed earlier, an L/C is a financial guarantee. To issue a new L/C, MBL requires the applicant of specific criteria. First of all, the applicant must have a bank account with MBL. He must provide his own plus office address. He then must have an IRC (Import Registration Certificate), must provide his TIN (Tax Identification Number), BIN (Business Identification Number), membership certificate of his belonging industry, and finally if he has an account with any other bank, he has to provide MBL with an NOC (No Objection Certificate). The security aspect of this process is handled by the Credit Department in MBL Gulshan Branch.

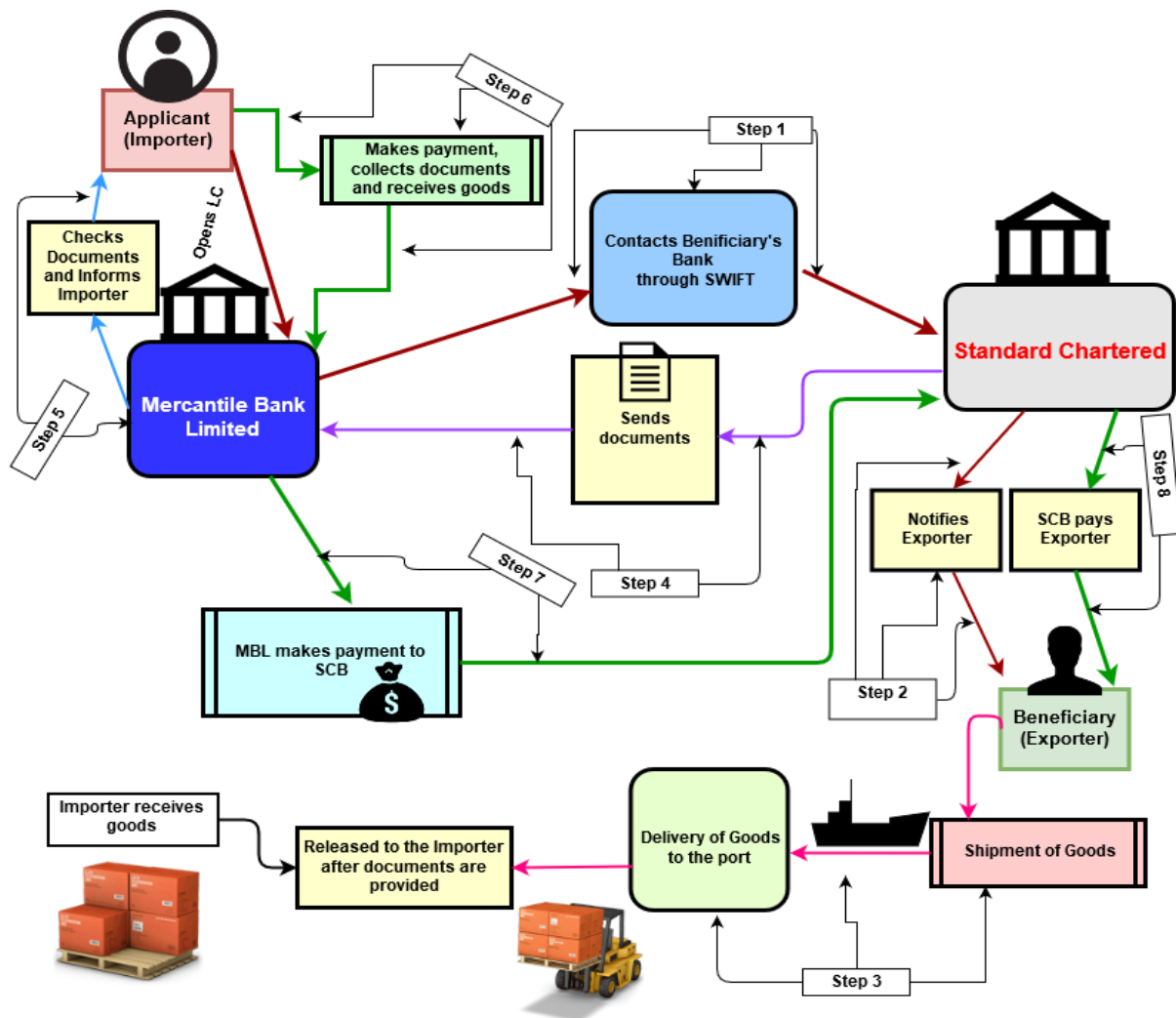


Figure 3: The L/C process diagram. This diagram was created by me by observing the operations closely and taking feedback from employees.

The credit-worthiness of the involved parties are analyzed. Usually, to issue an L/C for the first time, the applicant has to open the L/C at 100% margin, meaning he has to pay the full L/C amount upon arrival of the goods.

Let's suppose an importer wants to import goods from another country. He opens an L/C with MBL and the beneficiary's bank is Standard Chartered Bank Limited (SCBL). The process has been illustrated above in the figure and the steps are described below -

**Step 1:** The involved banks need to keep logs of the process through SWIFT Messaging. SWIFT is Society for Worldwide Interbank Financial Telecommunication, which is a reliable, secure and efficient messaging service for its user community (SWIFT, 2019). MBL contacts the beneficiary's bank SCBL through SWIFT messaging after finishing the paperwork and meeting all the conditions.

**Step 2:** Upon receiving the message, SCBL then proceeds to inform the exporter that the L/C has been issued. After receiving the confirmation from the Advising Bank, the exporter may start the production of the goods or, if it was already produced, he may proceed to preparing and packing the goods.

- **Amendments:** Amendment is a widely used term while dealing with imports and exports. As the name suggests, an Amendment is changes that are made in the import itself. Sometimes, the shipment may be delayed, or, the order may have needed to be modified by the importer – asking for more quantity, any specific customization. After the Amendments are complete, the exporter then proceeds to prepare the goods for shipment.

**Step 3:** After the goods are shipped, the exporter then needs to submit some necessary documents to the Advising Bank. They are – Bill of entry: this is the document that certifies the goods entered specific port or destination on a given; Bill of Lading: this is the document that certifies the goods were shipped through a cargo ship or aircraft on a given date; Insurance Policy: if any insurance of the goods exist the documents need to be submitted; Packing List: a detailed list of all the packaged goods; Truck Receipt; and Commercial Invoice.

**Step 4:** After the shipment of the goods, SCBL will send the L/C documents to MBL. This document contains beneficiary's draft, beneficiary's signed commercial invoice, beneficiary's signed detailed packing list, a full set of any transportation bills if used and documents showing freight collect in Bangladesh, document certifying the country of origin, delivery Challan duly signed by the authorized signatory of the importer, beneficiary's certificate to the effect that goods supplied are strictly as per proforma invoice and conditions.

**Step 5:** The document is checked by employees of Foreign Exchange department and it has to fulfill three criteria - L/C terms, UCP 600 (Uniform Customs & Practice for Documentary Credits), and ISBP (International Standard Banking Practice). The documents are examined thoroughly to see if all the necessary documents have been submitted or not. This document is valuable because it has to be shown to the port to release the imported goods. So if the documents do not fulfill all required criteria, MBL does not post ACCEPTANCE of the documents through SWIFT. Instead of posting acceptance, MBL posts Discrepancies (the conditions that were not met) through SWIFT and the beneficiary's bank then has to meet the conditions. If everything suffices, MBL posts acceptance. When the Acceptance is posted, the payment will be due. The deadline for payment will depend on whether it is Sight or Usance L/C.

**Step 6:** After posting the Acceptance, the applicant/importer has to make payment to MBL. MBL charges the applicant of SWIFT charge (BDT 2900), documentation charge (USD 50-100), Stamp charge (BDT 300), VAT (This varies), other charges including L/C commissions. The fees are debited from the applicant's bank account and after getting payment the document is handed over to the importer which he uses to release the imported goods from the port.

**Step 7:** After receiving payment from the applicant, MBL then pays the beneficiary's bank.

**Step 8:** The exporter receives payment from his bank SCBL.

## 2.5 Challenges and Risks

Dealing with L/C operations is not a simple task. There are several challenges that arise and the employees of the Foreign Trade Division have to deal with them on a regular basis. On this part, I'll discuss such challenges that I have witnessed during my 3 month long internship period.

**Back to Back L/Cs:** As I talked about in the previous part, a B2B L/C is an Import L/C issued against an Export. In the scenario of Bangladesh, B2B L/Cs are quite assisting to the overall exports of the country. Since many of the raw materials required to manufacture quality export products are unavailable in Bangladesh, exporters need to import them from foreign countries. To understand the problem, we have to go a little deeper into the process.

Let's say, a foreign Company orders a bulk of RMG products from a Bangladeshi Company. The foreign Company then has to issue an Import L/C from his bank. On the other hand, the Bangladeshi RMG exporter nominates MBL as his bank. Meaning, MBL here is the Beneficiary Bank. To complete the export, the exporter now needs to manufacture the RMG products, and for that, he issued an Import B2B L/C through MBL to import the raw materials needed.

After the raw materials are imported, the exporter is expected to manufacture the goods and complete the export. However, the complication arises when he does not. B2B L/Cs are liabilities for MBL. The imported goods payment method is usually Usance. MBL promises to make payment to the B2B L/C's beneficiary banks after receiving payment from the export against which the B2B was issued. So, the imported raw materials through B2B L/Cs increase MBL's liabilities as long as the payments are not made.

Export oriented firms sometimes overestimate the capacity of their manufacturing capability and receive more orders from clients than they can fulfill. This often results in failure to comply with the client's requirements. If the exporter fails to ship the products in time, MBL faces financial trouble - as MBL plans to make payment to the B2B parties upon receiving payment from the export. There are times when exporter fails to comply unintentionally, and there are times when it happens due to their ill will. Sometimes they import raw materials through B2B with no intention of ever completing the export. This creates a big problem for the bank.



**Foreign Exchange Risk:** There is always the risk of the Foreign Trades Division losing money through the fluctuations of BDT value against foreign currencies. For example, let's say MBL is overseeing an L/C for one of its parties. The party is importing USD 2,000 worth of products. MBL promised the exporters bank to pay after the delivery of goods. When MBL made this promise through SWIFT Messaging, BDT against USD was 82.67:1. However, by the time the goods are delivered, USD grew stronger against BDT, amending the ratio to 86.67. Now, MBL has to pay more than they accounted for. The foreign exchange risk is a common issue while dealing with foreign trade.

**Money Laundering:** In Bangladesh, enormous amount of money has been laundered for years only through imports (Suman, 2019). Laundering money through import business is quite trouble-free for launderers and hard to catch for authority. For example, the importer may be very close to the exporter and the laundering is always the coordination between several parties. The importer will report that he is importing high quality product and paying huge amounts of money for it while in reality, he is importing terrible products intentionally to send off money outside the country. The opposite can also happen - he may report that he is importing low quality products to avoid taxes and customs fees and import premium quality products. This undervaluing and overvaluing of imports create huge problems such as the government not getting supposed tax and customs fee, creation of black money, unreported income, devaluation of national currency, rising inflation. It is quite challenging for banks to make sure parties are not overvaluing or undervaluing their imports, since banks deal with documents only not direct inspection of imported goods.

## **Chapter 3**

### **Findings & Interpretations**

In this report, we have discussed many terms that are used in import and export L/C process. I believe anyone who is interested to study on how the foreign trade operations work, will find this report useful to understand and learn of key terms. I have labeled and discussed the following terms in this report –

- I have named the parties that are involved in L/C operations.
- I have identified the Core Categories of L/Cs – Sight, Usance, and Back To Back L/Cs.
- I have thoroughly discussed the 26 different natures of import L/Cs.
- I have discussed the requirements of issuing an L/C.
- I have provided an illustrated diagram of L/C procedures, with detailed description of each steps.
- Discussed jargons commonly used in the foreign trade operations.
- Finally, I have discussed some challenges and risks that arises while dealing with L/Cs.

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