

222

3.09

**PROJECT
ON**

**FOREIGN EXCHANGE DEPARTMENT
OF
STANDARD BANK LIMITED**

Subject Code: BUS 498

Scanned Done



Date of Submission: 18th August 2010

EAST WEST UNIVERSITY

FOREIGN EXCHANGE DEPARTMENT

Submitted to

Dr. Tanbir Ahmed Chowdhury
Professor
Department of Business Administration
East West University

Submitted by

Saleh Akram Chowdhury
ID: 2006-2-10-227
Department of Business Administration
East West University

Dated:
18th August 2010

East West University

18th August 2010

Dr. Tanbir Ahmed Chowdhury

Professor

Department of Business Administration

East West University

Subject: Letter of Transmittal

Dear Sir,

It is great pleasure for me to submit herewith the Project, which you assigned me to prepare as per our BBA program in Finance.

This project is a study of Standard Bank Foreign Exchange Branch's overall foreign exchange and credit division activities. I tried my best to perform and represent the various aspects of the foreign exchange activities of the Bank and make a financial analysis from 2005 to 2009 with different table and figure. I should thank you Sir, for your excellent and patient guidance towards the completion of this Project. I greatly enjoyed preparing this project for you.

With deep regards

Saleh Akram Chowdhury

ID: 2006-2-10-227

ACKNOWLEDGEMENT

Department of Business Administration, East West University adopted a policy of submitting Project by the students under the supervision of honorable teachers as an integral part of the BBA Program. This Project is prepared under the supervision of honorable teacher Professor Dr Tanbir Ahmed Chowdhury. I express my gratitude to for his advice and direction during the preparation of this Project.

I am thankful to honorable teacher Assistant Professor Masrufa Ayesha Nusrat who thought us at classes how to prepare a good report. I would like to thank DSE Librarian whose support, suggestions were instrumental in preparing this Project. I also express my deep appreciation to Mrs. Ruma Akter, Assistant Officer, Mrs. Jannat Ara Officer, Standard Bank Ltd. Foreign Exchange Branch for extending their whole-hearted cooperation to me. I also express my deep appreciation all the staff and members of the Branch who take time off from their work to share their experience with me. The Project has certainly been benefited from their comments.

EXECUTIVE SUMMARY

Building strong relationship with all the stakeholders, particularly the customer is crucial for **STANDARD BANK LIMITED (SBL)**'s growth and prosperity. Technology and competition have made it vital for us to forge stronger bonds with the customers to meet their needs at their convenience. SBL put emphasis on meeting this continuous challenge of managing relationship significant achievements over the past year-both financial and strategic are solid indication of its strength and potential.

SBL is very fortunate to have a strong senior management team. They are committed to the continued implementation of our sound strategic programs. It focuses on creating a culture that places importance on integrity, caring and excellence. SBL value closes relationships with each other. At the same time it brings the decision making authority close to the customers to give them the best service available. Banking is a service-oriented business and they have drawn excellent people for the purpose.

SBL will continue to reinforce the efforts to meet the needs and expectations of its customers. SBL are setting goals and challenges for its employees to respond to customer needs; SBL want to differentiate itself from its competitors' through flexible and personalized services. SBL don't want to be the biggest-just the best. Looking forward to the coming year **STANDARD BANK** is certain that it can meet the challenges by leveraging its strength and banking expertise as well as its product breadth, technological capabilities and strong customer base.

CONTENTS

		PAGES
LETTER OF TRANSMITTAL		I
ACKNOWLEDGEMENT		II
EXECUTIVE SUMMARY		III
CONTENTS		IV
CHAPTER 1	INTRODUCTION	1
1.01	Origin of the report	2
1.02	Objective of the study	2
1.03	Methodology of the study	3
1.04	Limitation of the report	4
CHAPTER 2	ORGANIZATIONAL PROFILE	5
2.01	Introduction	6
2.02	Historical Background	6
2.03	Management & Internal Organization	7
2.04	Use of proceeds	7
2.05	SBL at a glance	8
Table-01	Five years activities at a glance	8

Figure-01	Capital & Reserve	12
2.06	Capital	12
Table-02	Deposit	13
Table-03	Loan & Advance	14
Table-04	Investment	15
Figure-02	Deposit, Advance and Investment	15
Table-05	Export Business	16
Table-06	Import Business	16
Figure-03	Export and Import Business	17
Figure-04	SBL Profile	18
2.07	Foreign exchange branch at a glance	19
Table-07	No. of employees	20
Chapter 3	Foreign Exchange Department	22
3.01	Introduction	23
3.02	Import Procedure	24
3.03	Registration with CCI & E	24

3.04	Purchase Contract between Importer and Exporter	24
3.05	Collection of LCA Form	24
3.06	Opening a Letter of Credit (L/C)	25
3.07	Parties of L/C	25
3.08	Application for L/C Limit	26
3.09	The L/C Application	26
3.10	Scrutiny of L/C Application	27
3.11	Transmission of L/C to Beneficiary through Advising Bank	28
3.12	Amendment of the Letter of Credit	28
3.13	Presentation of the Document	28
3.14	Examination of Shipping Documents	29
3.15	Lodgment of Document	30
3.16	Retirement of Documents	30
3.17	Export	31
3.18	Formalities of Export	31
3.19	Disposal of Export Form	33
3.20	Mode of Payment of Export Bill Under L/C	35

3.21	Advising L/C	36
3.22	Text Key Arrangement	36
3.23	Back to Back L/C	36
3.24	Features of Back to Back L/C	36
3.25	Checklist of Open Back to Back L/C	37
3.26	Papers Require Opening Back to Back L/C	37
3.27	Steps to issue Back to Back L/C	37
3.28	Payments under Back to Back L/C	38
3.29	A Simple Mechanism of Back to Back L/C	38
CHAPTER 4	CREDIT DIVISION	39
4.01	Introduction	40
4.02	Advance Banking	40
4.03	Credit Principles	40
4.04	Types of Loans & Advances	42
4.05	Selection of Borrower	44
4.06	Credit Approval Procedure	45

4.07	Securities	47
4.08	Mode of Charging Securities	47
4.09	Documentation	48
4.10	Credit Disbursement	50
4.11	Credit Monitoring, Follow up	51
4.12	Loan Classification	51
4.13	Loan Classification Procedure	52
4.14	Legal Framework for Loan Recovery	52
CHAPTER 5	CONCLUSION AND RECOMMENDATION	53
5.01	Conclusion	54
5.02	Recommendation	55
	Bibliography	57

Chapter 01

Introduction

1.01 Origin of the Report

This Project is entitled “Foreign Exchange Department of Standard Bank Ltd.” has been started at the Last of the June 2009 under the instruction of our honorable supervisor & instructor Professor Dr. Tanbir Ahmed Chowdhury for the partial fulfillment of the requirement of BBA Program.

1.02 Objectives of the report

Main objective of the report is to analyze the financial position about last five years and overall workings of Foreign exchange department. Moreover, the study also embodied the following specific objectives:

- To study the existing operations/activities of deposit, loan and investment of SBL
- To study the existing operations/activities of foreign exchange department.
- To study the existing operations/activities of credit division of foreign exchange branch.
- To study existing financial activities of the Bank.

1.03 Methodology of the Study

The methodological section of the study is designed as data collection:

Methods of Data Collection

The report was fully exploratory in nature. Data have been collected from both primary and secondary sources.

Primary sources of data

- Face to face conversation with the bank officers & staffs.
- Informal conversation with the clients

Secondary sources of data

- Different manuals of Standard Bank Limited
- Different circulars of Standard Bank Limited
- Annual report of Standard Bank Limited,
(2005, 2006, 2007, 2008, 2009)
- Prospectus of Standard Bank Limited.

1.04 Limitation of the Project

The present study was not out of limitations. Some constraints are appended bellow:

- ❖ The main constraint of the study is inadequate access to information, which has hampered the scope of analysis required for the study.
- ❖ Every organization has their own secrecy that is not revealed to others. While collecting data i.e. interviewing the employees, they did not disclose much information for the sake of the confidentiality of the organization.
- ❖ Since the bank personals were very busy, they could provide me very little time.
- ❖ Another problem is that creates a lot of confusions regarding verification of data. In some cases more than one person were interviewed to clarify each concept as many of the bankers failed to provide clear-cut idea about the job they perform.
- ❖ There was problem to get different financial data from 2007 to 2009. There was no softcopy, that's why I had to type a lot of things.

Chapter -2
Organizational Profile

ORGANIZATIONAL PROFILE

2.01 Introduction

Standard Bank Limited is one of the largest private-sector commercial bank in Bangladesh, with years of experience. Adaptation of modern technology both in terms of equipment and banking practice ensures efficient service to clients. Standard is a bank that serves both clients and country.

2.02 Historical Background

Standard Bank Limited (SBL) was incorporated as a Private Limited Company on May11, 1999 under the Companies Act, 1994 and the Bank achieved satisfactory progress from its commercial operations on June 03, 1999. SBL has introduced several new products on credit and deposit schemes. It also goes for Corporate and Retail Banking etc. The Bank also participated in fund Syndication with other Banks. Through all these myriad activities SBL has created a positive impact in the Market. The Authorized capital of the Standard Bank Limited was Tk. 1250 million and Paid up capital was tk 911 million as on December 31st 2005. The authorized capital of the bank has been enhanced to Tk.8800 million and the paid up capital amounted to Tk.2644 million as on December 31st 2009. The total shareholders equity and reserve stood at Tk.4222 million including sponsors capital of Tk.1053 million as on December 31st, 2009

2.03. Management and Internal Organization

The board of directors being at the highest level of organizational structure plays an important role on the policy formulation. The board of directors is not directly concerned with the day to operation of bank, at least in written. The board establishes the objectives and policies of the bank. The board has the authority to declare dividend, approve the Balance Sheet, etc. Chairman keeps board of directors informed, on the progress of the bank and implements the policies established.

2.04 Use of Proceeds

The Company offers its shares to the public in terms of provisions of Banking License dated 20-05-1999 by the Bangladesh Bank and Memorandum and Articles of Association of the Bank. Sponsors has earlier fully subscribed and paid for their 910,800,000 shares amounting to Tk. 100.00 million as reflected in the accounts as on 31st December, 2005. The proceeds of the present issue of 26440887 ordinary shares of Tk. 100 each amounting to Tk. 2644088700 would be utilized in the normal lending and investment business of the Bank.

2.05 STANDARD BANK LTD AT GLANCE

Table 01: Five years activities at a glance Year Ended 31st December 2009 (in million taka except EPS, Employees, and Branches)

Particulars	2005	2006	2007	2008	2009
Authorized Capital	1250	3000	3000	3000	8800
Paid- up capital	911	1093	1967	2203	2644
Total Shareholders Equity	1412	1764	2767	3426	4222
Deposit	12062	14221	19214	29305	42556
Borrowing	180	-	-	-	-
Other Liabilities	806	875	969	1480	2224
Liquied Asset	3574	3680	4715	6291	9686
Bonus Share	20%	20%	12%	20%	20%
Loan and Advances	10184	12634	17311	27190	38056
Investments	1272	1623	2014	3218	5340
Fixed Asset	55	72	94	115	179
Other Asset	629	475	829	614	1081
Total Assest	14442	16861	22949	34210	49001
Import Business	16145	18270	26155	35689	40411
Export Business	7569	15169	17788	25072	29177
Non interest income	354	501	645	938	1112
Non interest expenses	232	323	356	443	664
Interest income	1248	1705	2153	3227	4434
Interest Expenses	753	1150	1745	2253	3351
Return on Equity (%)	24.91	22.16	15.32	21.32	20.06
Return on Asset (%)	2.16	2.40	1.74	1.95	1.84
Cost of Deposit (%)	9.49	8.89	9.67	9.29	9.33
EPS(taka)	28.58	26.83	17.67	24.83	28.90
Number of Employees	449	556	610	734	821
Number of Branches	22	26	29	32	41
Profit After Tax	313	352	347	660	767

2.05.1 Vision of SBL

To become a leading banking institution and to play a pivotal role in the development of the country.

2.05.2 Mission of SBL

Standard Bank Limited aims to become setting a new standard in banking in Bangladesh by prudence, flair and quality of operations in their banking sector. The bank has a mission to achieve the organizational goals. The mission is-

The bank is committed to satisfying diverse needs of its customers through an array of products at a competitive price by using appropriate technology and providing timely service so that a sustainable growth, reasonable return and contribution to the development of the country can be ensured with a motivated and professional work force.

2.05.3 Objectives of the Bank

The motto of the Standard Bank Limited is to explore a new horizon of innovative modern banking. One of the main objectives of the bank is to be a provider of high quality products and services. The bank also caters to the needs of its corporate clients and provides a comprehensive range of financial services to national and multinational companies. With growing technological revolution in the bank in the not-so-distant future, the Bank is contemplating to introduce ATM service and Credit/Card service to its esteemed clients within the shortest possible time.

It renders all types of personal and business banking services to the customers of all strata of the society within the framework of the Bank Companies Act 1991 and rules and regulations lay down by Bangladesh Bank from time to

time. Diversification of products and services and innovation of new products suited to the needs of the customers in keeping with relevant rules and laws have culminated in it being viewed as a niche Bank in the market.

➤ **Subsidiaries and Affiliates:**

The Company does not have any subsidiary and does not propose to have any in the foreseeable future. However, the bank intends to keep an open mind to take advantage of any business expansion possibilities where creation of any subsidiary may be warranted.

➤ **Business Operations:**

The product range of Standard Bank Limited consists of loans of various types for generating interest income and also for offering banking services of various types to ensure generating fees and commissions for it.

2.05.4 Strategies

- ✓ To raise capital up to Tk. 5500 million by December 2010.
- ✓ To increase direct contact with the clients in order to cultivate a closer relationship between the bank and its clients.
- ✓ To strive for clients satisfaction through quality control and delivery of timely services.
- ✓ To identify clients' credit and other banking needs and monitor their perception towards employee's performance in meeting those requirements.

- ✓ To review and update policies, procedures and practices to enhance the ability to extend better service to clients.
- ✓ To train and develop all employees and provide them adequate resources so that clients' needs can be reasonably addressed.
- ✓ To promote organizational effectiveness by openly communicating company's plans, policies, practices and procedures to employees in a timely fashion.
- ✓ To cultivate a working environment that fosters positive motivation for improved performance.
- ✓ To diversify portfolio both in the retail and wholesale market.

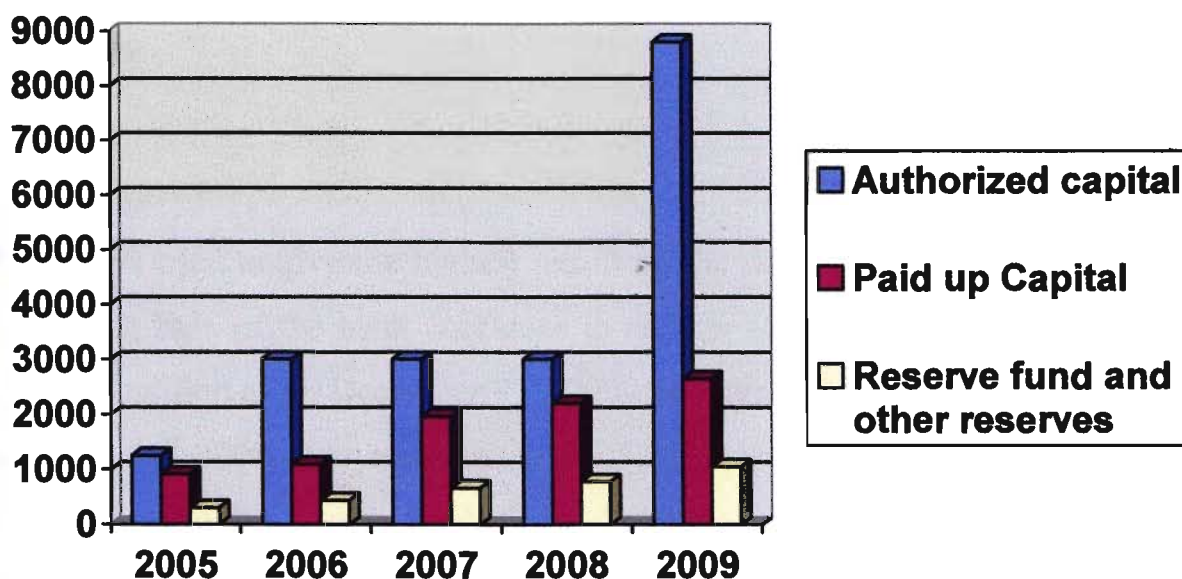
2.05.5 Features of SBL

There are so many reasons behind the better performance of SBL than any other established banks:

- ❖ Highly qualified and efficient professionals manage the bank.
- ❖ SBL has established a core research and planning division comprising skilled person from the very inception of the bank.
- ❖ Banking operations of all branches of SBL has been computerized to provide the frequently customer service.
- ❖ SBL has become a member of the SWIFT system to expedite foreign exchange transaction.
- ❖ SBL provides attractive interest rate the other financial bank.
- ❖ The bank provides loans to the clients at lower interest rate with easy and flexible condition than others do.

- ❖ Profit earning is not the only aim of SBL. The bank is responsible to maintain the social duties.
- ❖ The bank frequently arranges customers meeting to achieve their valuable suggestions.
- ❖ Letter of Credit (L/C) commission and other charges are very lower than the others.

Figure 01: Status of Share Capital and Reserve fund of Standard Bank Limited in million taka.



2.06 Capital

Authorized capital of the Bank was Tk 8800 million. The paid-up capital of the Bank stood at Tk2644 million in 2009. The statutory reserve enhanced by Tk.257 million in 2009 and stood at Tk. 1034 million. The total equity of the shareholders of the Bank at the end of the 2009 stood at Tk. 4222 million. They have a plan to enhance both the authorized capital and paid up capital of the Bank adequately in the current year.

Table: 02 Amount of Deposit from 2005 to 2009 in million taka

Year	Deposit	Growth%
2005	12062	-
2006	14221	17.90%
2007	19214	35.11%
2008	29305	52.52%
2009	42556	45.22%

Average Growth: 37.69%

2.06.1 Deposit

SBL always tried to give the highest return on the deposits from the customer. The deposit base of the bank continues to register steady growth and stood at Tk. 42556 million as on December 31st, 2009 as against Tk. 29305 million as on December 31st 2008. It is an increase of 45.22% where the average growth is 37.69%, the bank has by this time achieved a stable and sizable deposit base and has managed its deposit actively for the purpose of both liquidity and profitability. The increase in deposit was possible due to superior customer service delivery at the branch level.

Table: 03 Amount of Loan and Advances from 2005 to 2009 (in million taka.)

Year	Loan and Advances	Growth%
2005	10184	-
2006	12634	24.06%
2007	17311	37.02%
2008	27190	57.07%
2009	38056	39.96%

Average Growth: 39.53%

2.06.2 Loans and Advance

The total loans and advances of the Bank stood at Tk. 38056 million (including bill purchased and discounted) as on December 31st, 2009 compared to Tk. 27190 million as of December 31st, 2008 showing an increase of 40% where the Average Growth is 39.53%

Table: 04 Amount of Investment from 2005 to 2009 (in million taka.)

Year	Investment	Growth
2005	1272	-
2006	1623	27.59%
2007	2014	24.09%
2008	3218	59.78%
2009	5340	65.94%

Average Growth: 44.35%

2.06.3 Investment

The investment has always an inverse relationship with capital adequacy ratio although it contributes to the desired bottom figure. The size of the investment portfolio in the year 2009 rose at Tk.5340 million including government Treasury bill and the other security bonds against Tk. 3218 million are showing an increase of 65.94% where average growth is 44.35%.

Figure 02: Status of Deposit, Advance and Investment for STANDARD BANK LIMITED (Million Taka)

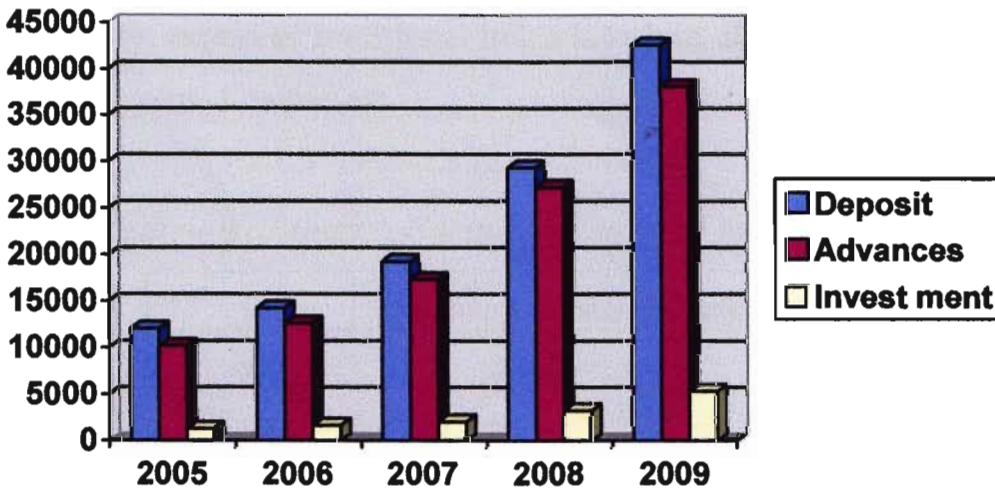


Table: 05 Amount of Export Business from 2005 to 2009 (in million taka)

Year	Export Business	Growth%
2005	7569	-
2006	15169	100.41%
2007	17788	17.27%
2008	25072	40.95%
2009	29177	16.37%

Average Growth: 43.75%

2.06.4 Export Business

Export business handled by the Bank during the year 2009 amounted to Tk. 29177 million as against Tk.25072 million of the preceding year registering an increase of 16.37% where the average growth is 43.75%. The Bank has given emphasis on export of traditional items like Jute, Raw Jute, Jute goods, Ready-made Garments, Leather etc.

Table: 06 Amount of Import Business from 2005 to 2009 (in million taka)

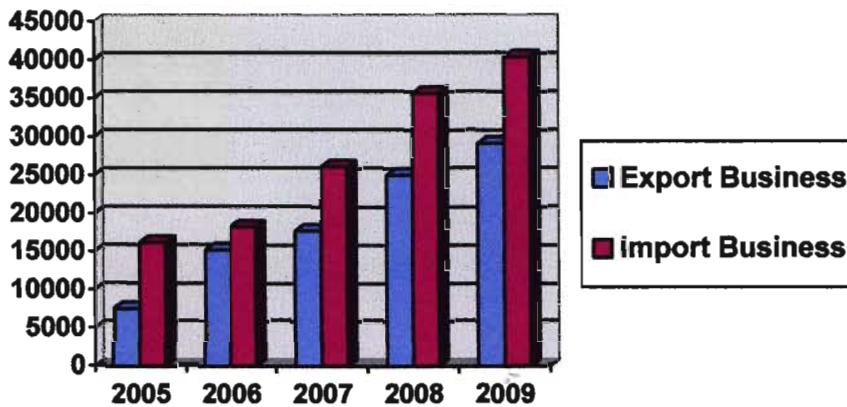
Year	Import Business	Growth%
2005	16145	-
2006	18270	13.16%
2007	26155	43.16%
2008	35689	36.45%
2009	40411	13.23%

Average Growth: 26.5%

2.06.5 Import Business

The total quantum of import business handled by the Bank in 2009 stood at Tk.40411million as compared to the volume of Tk.35689 million in 2008 registering an increase of 13.23% where average growth is 26.5%.

Figure 03: Status of Export Business and IMPORT BUSINESS for STANDARD BANK LIMITED in million taka



2.06.6 Modernization and Development of the Branches

The bank has endowed the branches with modern and sophisticated equipments and brought all the branches under computer network using the Bank's own software in day to day banking for rendering prompt and skilled services to the clients.

2.06.7 Auditors of the Bank

The Audit Firms M/s. Howladar & Co. has done audit and Inspection of the Books of Accounts of the Bank for the accounting year ended 31st December 2009 Jointly

Figure 04: Standard Bank Profile

STANDARD BANK PROFILE

Major Private Standard Bank Competitors

- ❖ Islamic Bank
- ❖ Prime Bank
- ❖ Jamuna Bank
- ❖ Basic bank
- ❖ Premier Bank
- ❖ National Bank Limited
- ❖ Brac Bank

Banking Department

- General Banking
- Credit Department
- Foreign Exchange

Operational Areas

- 18 Branches in Dhaka
- 9 Branches in Chittagong
- 1 Branch in Sylhet
- 1 Branch in Khulna
- 1 Branch in Tekerhat
- 1 Branch in Rajshahi
- 1 Branch in Rangpur, Bogura, Bramonbaria etc

Image And Reputation of Standard Bank

- Familiarity
- Loyalty
- Banking Experience
- Error free records
- Secrecy of money matters
- Prompts services
- Co-operative to answer queries
- Convenience of location
- Highly skilled and competent

Standard Bank Philosophy

Setting a new standard in Banking

Number of Employees

Total number is 821

Standard Bank In Bangladesh

Standard Bank Limited is one of the leading private sector commercial bank in Bangladesh since

Core Values

- Responsiveness to their need
- Flexible in their approach
- Professional in their manner
- Always striving for excellence of

Location of STANDARD Bank Head Office

122-124,
Metropolitan Chamber Building,
3rd Floor.
Motijheel C/A,
Dhaka-1000
Bangladesh.

Working Hours

From Sunday to Thursday 10.00am to 6.00pm

2.07 Foreign Exchange Branch at a Glance

The branch is situated in the first floor of of Jibon Bima Bhabon Dhaka. Total space of the branch is approximately 3806 square feet. The branch is located at the center of the Motijheel Commercial area. Thus the branch has the potential to attract large number business organization as well as small and medium size customers.

2.07.1 Manpower of the Branch

The branch is operated through 14 employees who are dynamic, sincere, goal oriented and highly motivated. The branch also has 2 peons and two guards as well. The following table shows the no. of employees and their designation:

Table-07:

Summary of Number of Employees and their Designation in Branch

Designation	No. of Employees
Vice President & Office In-Charge	01
Assistant Vice President	01
Senior Executive Officer	01
Executive Officer	02
Senior Officer	03
Senior Cash Control	01
Officer	03
Assistant Officer	03
Junior Officer (cash)	01
Peon	02
Guard	02
Total	20

2.07.2 Advance

For attaining the overall profit for the Bank and for the branch as well advance considered as one of the prime technique. Bank wants to give advance as much as possible for attaining the target profit.

2.07.3 Foreign Exchange Business (Import-Export)

Foreign exchange business is the most contributing sector, which generates more than 80% of the Branch profits. Total business achieved up to December 31, 2009 in the import business amounting to Tk.40411 million. Total business achieved up to December 31, 2009 in the export business amounting to Tk.29177 million.

2.07.4 Loan against Trust Receipt

Outstanding balance on loan against trust receipt as on December 31st, 2009 amounted to Tk.7529 million

2.07.5 Payment against Document

Outstanding balance on payment against document as on December 31st, 2009 amounted to Tk.3114 million.

Chapter 3
Foreign Exchange
Department

FOREIGN EXCHANGE DEPARTMENT

3.01 Introduction

One of the largest businesses carried out by the commercial bank is foreign trading. The trade among various countries falls for close link between the parties dealing in trade. The situation calls for expertise in the field of foreign operations. The bank, which provides such operation, is referred to as rendering international banking operation. Mainly transactions with overseas countries in respect of import, export and foreign remittance come under the preview of foreign exchange department. International trade demands a flow of goods from seller to buyer and of payment from buyer to seller. In this case the bank plays a vital role to bridge between the buyer and seller.

Foreign exchange department of Standard Bank is one of the most important departments of all departments. This department handles various types of activities by three separate sections:

- a) Import section
- b) Export section.
- c) Foreign remittance section.

Import

Imports are foreign goods and services purchased by consumers, firms and Governments in Bangladesh. To import, a person should be competent to be an importer. According to Import and Export Control Act, 1950, the Office of Chief Controller of Import and Export provides the registration (IRC) to the importer.

3.02 Import Procedures

3.03 Registration with CCI&E

- a) For engaging in international trade, every trader must be first registered with the Chief Controller of Import and Export.
- b) By paying specified registration fees and submitting necessary papers to
- c) The CCI&E, the trader will get IRC (Import Registration Certificate). After obtaining IRC, the person is eligible to import.

3.04 Purchase Contract between importer and exporter

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

3.05 Collection of LCA form

The importer collects a Letter of Credit Authorization (LCA) form SBL Principal Branch.

3.06 Opening a Letter of Credit (L/C)

In international environment, buyers and sellers are often unknown to each other. So seller always seek guarantee for the payment for his goods exported. Here is the role of bank. Bank gives export guarantee that it will pay for the goods on behalf of the buyer. This guarantee is called Letter of Credit. Thus the contract between importer and exporter is given a legal shape by the banker by its Letter of Credit'.

3.07 Parties of L/C

- a) **Importer** - Seller who applies for opening an L/C.
- b) **Issuing Bank** - It-is the bank which opens/issues a L/C on behalf of the importer.
- c) **Confirming Bank** - It is the bank, which adds its confirmation to the credit and it, is done at the request of issuing bank. Confirming bank may or may not be advising bank.
- d) **Advising / Notifying Bank** - is the bank through which the L/C is advised to the exporters. This bank is actually situated in exporter's country. It may also assume the role of confirming and / or negotiating bank depending upon the condition of the credit.
- e) **Negotiating Bank** - is the bank, which negotiates the bill and pays the amount of the beneficiary. The advising bank and the negotiating bank may or may not be the same. Sometimes it can also be confirming bank.
- f) **Paying / Accepting Bank** - is the bank on which the bill will be drawn (As per condition of the credit). Usually it is the issuing bank.
- g) **Reimbursing bank** - is the bank, which would reimburse the negotiating bank after getting payment - instructions from issuing bank.

3.08 Application for L/C limit

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

- a) Full particulars of bank account maintained with SBL.
- b) Nature of business
- c) Required amount of limit
- d) Payment terms and conditions
- e) Goods to be imported
- f) Offered security
- g) Repayment schedule

A credit Officer scrutinizes this application and accordingly prepares a proposal (CLP) and forwards it to the Head Office Credit Committee (HOCC) through the regional office of Branch. The Committee, if satisfied, sanctions the limit and returns back to the branch. Thus the importer is entitled for the limit.

3.09 The L/C Application

After getting the L/C limit importer applies to the branch to open a letter of credit on behalf of the party and submits the following papers.

a) Documentary Credit Application Form:

SBL provides a printed form for opening of L/C to the importer. This form is known as Credit Application form. Usually the importer expresses his desire to open the L/C quoting the amount of margin in percentage.

b) Proforma Invoice: It states description of the goods including quantity, unit price etc.

c) The insurance cover note: The name of issuing company and the insurance number is to be mentioned on it.

d) The Letter of credit authorization (LCA) form: LCA form should be duly attested.

e) The Form-IMP.

f) Tax Information Certificate

g) Forwarding for Pre-Shipment Inspection (PSI):

Importer sends forwarding letter to exporter for Pre-Shipment Inspection.

But all types of goods do not require PSI.

3.10 Scrutiny of L/C Application

The SBL Official scrutinizes the application in the following manner, -

a) The terms and conditions of the L/C must be complied with UCPDC 500 and Exchange Control & Import Trade Regulation.

b) Eligibility of the goods to be imported.

c) The L/C must not be opened in favor of the importer.

d) Radioactivity report in case of food item.

e) Survey report or certificate in case of old machinery

f) Carrying vessel is not of Israel or of Serbia- Montenegro

g) Certificate declaring that the item is hi operation not more than 5 years in case of car.

3.11 Transmission of L/C to Beneficiary through Advising Bank

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

3.12 Amendment of the Letter of Credit

When the parties involved in a L/C, especially the seller want to change the terms and conditions due to some obvious and genuine reasons the credit should be amended. SBL transmits the amendment by tested telex or through swift to the advising bank. According to Articles 5 of UCPDC500. Amendments must be complete and precise.

3.13 Presentation of the Documents

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

The branch requires the following documents to be presented with the bank and checks them duly. **The usual documents are,-**

- ▶ Invoice
- ▶ Bill of lading
- ▶ Certificate of origin
- ▶ Packing list
- ▶ Weight list
- ▶ Shipping advice
- ▶ Non-negotiable copy of bill of lading
- ▶ Bill of exchange
- ▶ Pre-shipment inspection report
- ▶ Shipment certificates

3.14 Examination of Shipping Documents

One of the basic principles of documentary credit is that all parties deal with document and not with goods (Articles 6 of UCPDC-500). That is why the documents should be scrutinized properly. If any discrepancy in the documents is found, that is to be informed to the party. A checklist may be followed for examining the documents. Then the following things can happen. These are indicated in the following:

a. Discrepancy found but the importer accepts - then the bank will

Lodge the documents.

b. Discrepancy found and importer not agreed to accept - Issuing bank would intimate negotiating bank for revised document or return the documents to the negotiating bank for necessary action. Here issuing bank is not bound to pay because the documents send by exporter is not in accordance with the terms of L/C.

c. Documents are OK but importer is not willing to retire the documents -In this case bank is obligated to pay the price of exported goods. Since importer did not pay for bill of exchange, this payment by bank is one kind of credit to the importer and this credit in banking is known as FORCED PAD.

d. Everything is O.K. but importer fails to clear goods from the port and request bank to clear - In this case banks clear the goods and takes delivery of the same by paying customs duty and sales tax etc. So, this expenditure is debited to the importer's account and in banking it is called LIM.

3.15 Lodgment of Documents

Lodgment means retirement of funds. Usually payment is made within seven days after the documents have been received. If the payment is become deferred, the negotiating bank may claim interest for making delay.

3.16 Retirement of Documents

The importer approaches with a letter for retirement of the document against full payment with up to date interest and charges payable. Bank prepares cost memo in printed form on account of the concerned party giving details head of charges payable. Then the documents are delivered to the importer. The importer releases the importers goods from the port authority with the help of the clearing and forwarding agents. C&F agent clears the goods from the port and hands over the goods to the importer. After completion of all official requirements C&F agent submits the bill of entry to the banks. The Bill of Entry is wanted from the party for maintaining the evidence as the goods have been arrived.

3.17 Export

Bangladesh exports a large quantity of goods and services to foreign households. Readymade textile garments (both knitted and woven), Jute, Jute-made products, frozen shrimps, tea are the main goods that Bangladeshi exporters exports to foreign countries. 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 SBL Foreign exchange Branch are readymade garment exporters. They open export L/Cs here to export their goods, which they open against the import L/Cs opened by their foreign importers.

3.18 Formalities for Export L/C

There are a number of formalities, which an exporter has to fulfill before and after shipment of goods. These formalities or procedures are enumerated as follows, -

a) Obtaining Export Registration Certificate ERC: No exporter is allowed to export 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). After applying to the CCI&E in the prescribed form along with the necessary papers, concerned offices of the Chief Controller of Imports and Exports issues ERC. Once registered, exporters are to make renewal of ERC every year.

b) Securing the order: After getting ERC, the exporter may proceed to secure the export order. He can do this by contracting the buyers directly through correspondence.

c) Obtaining EXP: After having the registration, the exporter applies to SBL with the trade license, ERC and the Certificate from the concerned Government Organization to get EXP. If the bank is satisfied, an EXP is issued to the exporter.

d) Signing of the contract: After communicating with buyer the exporter has to get contracted for exporting exportable items from Bangladesh detailing commodity, quantity, price, shipment, insurance and mark, inspection, arbitration etc.

e) Receiving the Letter of Credit: After getting contract for sale, exporter should ask the buyer for Letter of Credit clearly stating terms and conditions of export and payment.

f) Procuring the materials: After making the deal and on having the L/C opened in his favor, the next step for the exporter is to set about the task of procuring or manufacturing the contracted merchandise.

g) Endorsement on EXP: Before the exporter with the customs or postal authorities lodges the export forms, they should get all the copies endorsed by SBL. Before shipment, exporter submits EXP. form with commercial invoice. Then SBL officer checks it properly, if satisfied, certifies the EXP. Without it exporter cannot make shipment. The customer must declare all export goods on the EXP issued by the authorized dealers

3.19 Disposal of Export Forms

Original: customs authority reports first copy of EXP to Bangladesh Bank after shipment of the goods.

Duplicate: 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: on realization of export proceeds the same bank to the same authority reports Triplicate.

Quadruplicate: Finally, the negotiating bank as their office copy retains Quadruplicate

h) Shipment of goods: Exporter makes shipment according to the terms and condition of L/C.

i) Presentation of export documents for negotiation: After shipment, exporter submits the following documents to SBL for negotiation.

- ☀ Bill of Exchange or Draft;
- ☀ Bill of Lading
- ☀ Invoice
- ☀ Insurance Policy/Certificate
- ☀ Certificate of origin
- ☀ Inspection Certificate
- ☀ Consular Invoice
- ☀ Packing List
- ☀ Quality Control Certificate
- ☀ G.S.P. certificate
- ☀ Photo

j) Examination of Document: Banks deal with documents only, not with commodity. As the negotiating bank is giving the value before repatriation of the export proceeds it is advisable to scrutinize and examine each and every document with great care whether any discrepancy(s) is observed in the documents. The bankers are to ascertain that the documents are strictly as per the terms of L/C Before negotiation of the export bill. Bank officers assigned for examining the export documents may use a checklist for their convenience.

k) Negotiation of export documents: Negotiation stands for payment of value to the exporter against the documents stipulated in the L\C. If documents are in order, SBL purchases (negotiates) the same on the basis of banker- customer relationship. This is known as Foreign Documentary Bill Purchase (FDBP).If the bank is not satisfied with the documents submitted to SBL gives the exporter reasonable time to remove the discrepancies or sends the documents to L/C opening bank for collection. This is known as Foreign Documentary Bill for Collection (FDBC).

D) Settlement of Local Bills:

The settlement of local bills is done in the following ways, -

- The customer submits the L/C to SBL along with the documents to negotiate
- SBL official scrutinizes the documents to ensure the conformity with the terms and conditions.
- The documents are then forwarded to the L/C opening bank.
- The L/C issuing banks gives the acceptance and forwards an acceptance letter.
- Payment is given to the customer on either by collection basis or by purchasing the document.

3.20 Mode of Payment of Export Bill under L/C

As per UCP 500, 1993 revision there are four types of credit. These are as follows:

- a. Sight payment
- b. Deferred payment
- c. By acceptance
- d. Negotiation

a. Sight Payment Credit:

In a Sight Payment Credit, the bank pays the stipulated sum immediately against the exporter's presentation of the documents.

b. Deferred payment Credit:

In deferred payment, the bank agrees to pay on a specified future date or event, after presentation of the export documents.

c. Acceptance credit:

In acceptance credit, the exporter presents a bill of exchange payable to him and drawn at the agreed tenor (that is, on a specified future date or event) on the bank that is to accept it. The bank signs its acceptance on the bill and returns it to the exporter. The exporter can then represent it for payment on maturity. Alternatively he can discount, it in order to obtain immediate payment.

d. Negotiation Credit:

In Negotiation credit, the exporter has to present a bill of exchange payable to him in addition to other documents that the bank negotiates.

3.21 Advising L/C

When export L/C is transmitted to the bank for advising, the bank sends an Advising Letter to the beneficiary depicting that L/C has been issued.

3.22 Test key Arrangement

Test key arrangement is a secret code maintained by the banks for the authentication for their telex messages. It is a systematic procedure by which a test number is given and the person to whom this number is given can easily authenticate the same test number by maintaining that same procedure. SBL has test key arrangements with so many banks for the authentication of L/C messages and for making payments.

3.23 Back-to-back L/C

A Back-to-Back mechanism involves two separate L/Cs. One is master Export L/C and another is Back-to-Back L/C. On the strength of Master Export L/C bank issues Back-to-Back L/C. Back-to-Back L/C is commonly known as Buying L/C. On the contrary, Master Export L/C is known as Selling L/C.

3.24 Features of Back-to-Back L/C

- Is an Import L/C to procure goods /raw materials for further processing.
- Is opened based on Export L/C.
- It is a kind of Export Finance.
- Export L/C is at Sight but back to Back L/C is at Usance.
- No margin is required to open Back to back L/C

3.25 Checklist to Open Back-to-Back L/C

- ▶ Application is registered with CCI&E and has bonded warehouse license.
- ▶ The master L/C has adequate validity period and has not defective clause.
- ▶ L/C value shall not exceed the admissible percentage of net FOB value of relative Master L/C.
- ▶ Usance period will be up to 180 days.

3.26 Papers Required Opening Back-to-Back L/C

- ◆ Import registration certificate & export registration certificate
- ◆ L/C application and LCA form
- ◆ Proforma invoice or indent
- ◆ Insurance policy
- ◆ IMP form
- ◆ Bonded warehouse license
- ◆ Quota allocation letter from export processing Bureau (EPB)

3.27 Steps to Issue Back-to-Back L/C

- Obtain all required papers
- Check the credit limit.
- Prepare offering sheet if regular credit line is available.
- Mark lien on the master L/C.
- Issue the L/C.

3.28 Payments under back-to-back L/C

- ☀ Payment at maturity out of exports proceeds.
- ☀ In case of export failure or non-realization/short realization of export proceeds, forced loan i.e. has to be created in order to settle the Back-to-Back L/C payment.

3.29 A simple mechanism of back-to-back L/C

- ☀ Buyer USA Ltd. instructs his bank to issue the Export L/C in favor of Bangladeshi Garments Ltd.
- ☀ An USA bank issues the L/C and forwards the same to Bangladeshi Garments through a Bangladeshi bank.
- ☀ Bangladeshi Garments Ltd. submits his Export L/C with a request to his bank, say SBL for lien of the Export L/C and to issue Back-to-Back L/C in favor of Taiwan Textile Ltd.
- ☀ SBL issue Back-to-Back L/C and forwards the same to Taiwan Textile Ltd. through a Taiwanese bank.

Chapter 4

CREDIT DIVISION

CREDIT DIVISION FOREIGN EXCHANGE BRANCH

4.01 Introduction

The primary function of commercial banks is the extension of credit to borrowers. Bank credit is a catalyst for bringing about economic development. Without adequate finance there can be no growth or maintenance of stable output. Bank lending is important to the economy, for it makes possible the financing of commercial and industrial activities of a nation. At the same time, a bank will, therefore, distribute its funds among various assets in a manner as to derive sufficient income. But as liquidity and profitability are conflicting considerations, Standard Bank Limited, as a private sector commercial bank, while employing the funds pays due regard to both profitability and liquidity.

4.02 Advance Banking

Advance banking is one of the significant schemes of Standard Bank Limited. It contributes a huge portion of income in the Standard Bank total revenue, provides different types of loan to its borrowers as a lender. The bank operates advance facilities through different branches. Certain terms and condition are followed when the loan is sanctioned to the borrowers. But the entire loan sanction procedure is controlled and monitored by the Regional office and finally through Head Office.

4.03 Credit Principles

In order to secure a balance between liquidity, profitability and security. The Foreign exchange Branch of Standard Bank Limited follows the following principles of sound lending,-

4.03.1 Liquidity

It means that while lending, adequate care is taken so that the branch does not fall in liquidity crisis. That's why; the branch chooses such securities which possess sufficient liquidity.

4.03.2 Safety

The branch exercises the lending function only when it's safe and that the risk factor is adequately mitigated and covered. Safety depends upon,

- a) The security offered by the borrower,-
- b) The repaying capacity and willingness of the debtor to repay the loan with interest.

4.03.3 Diversity

In order to minimize risk, the branch invests its funds in different types of securities of different industries situated in different locations of the country.

4.03.4 Yield

From the commercial point of view, the branch considers sufficient yield or return while financing a project.

4.03.5 Productive purpose

The branch exercises its lending function only on productive purpose.

4.03.6 Organizational as well as National or Social Interest

The branch does not undertake any project or finance in such concern, which will go against the interest of the bank. The branch also considers national

aspect of any project while financing. They take utmost care so that the project cannot be detrimental to the society as well as to the nation.

4.04 Types of Loans and Advances

Standard Bank Limited was regarded as a problem bank a few years back. Still the bank as well as the branch possesses a large amount of classified loans. Thus the credit division of the branch is under intense scrutiny. The different type of loans and advances that SBL offers are as follows,

4.04.1 Secured Overdraft (SOD): It is a continuous advance facility. By this agreement the banker allows his customer to overdraft his current account up to his credit limits sanctioned by the bank. The interest is charged on the amount, which he withdraws, not on the sanctioned amount, SBL sanctions SOD against different security. Based on different types of security, we can divide the following category of the facility:

- a. SOD (General):** Advances allowed to the individuals/firms against financial obligations i.e. lien of F.D.R or Defense Savings Certificate, ICB Unit Certificate etc.
- b. SOD (Others):** Advances allowed against assignment of work order for execution of contractual works falls under this head. The advance is generally allowed for specific purposes. It is not a continuous loan.
- c. SOD (Export):** Advance allowed to purchasing foreign currency for payment against L/Cs (Back To Back) where the exporter can not materialize before the date of import payment

4.04.2 LTR (Loan against Trust Receipts)

Advance allowed for retirement of shipping documents and release of goods imported through L/C falls under this head. The goods are handed over to the importer under trust with the arrangement that sale proceeds should be deposited to liquidate the advances within a given period. This is post import finance by SBL.

4.04.3 Inland Bills Purchased (IBP)

Payment made against documents representing sell of goods to local export oriented industries which are deemed as exports and which are denominated in Local currency. Foreign currency falls under this head too. The bill of exchange is held as the primary security. The client submits the usance bill and the bank discounts it. This temporary liability is adjustable from the proceeds of the bills.

4.04.4 Loan against Other Securities (LAOS)

Loan against Other Securities is a 100% secured advance, which requires no sanction from the Head Office. Marking lien on FDR, ICB Unit Certificate etc, bank sanctions it.

4.04.5 Term Loan

SBL considers the loans, which are sanctioned for more than one year as term loan. Under this facility, an enterprise is financed from the starting to its finishing, i.e. from installation to its production. SBL offers this facility only to big industries.

4.05 Selection of Borrower

In lending, the most important step is the selection of the borrower. Due to the asymmetric information and moral hazard, banks have to suffer a lot due to the classified loans and advances, which weakens the financial soundness of the bank. If the selection of borrower is correct, that is, the borrower is of good character, capital and capacity or of reliability, resourceful and responsible; the bank can easily get the return from the lending. Consequently, monitoring is made much easier for the banker. From this point of view, SBL follows the following procedures, -

4.05.1 Studying past track record

After getting an application for a loan, an SBL Official studies the past track record of the applicant. Generally the study includes, -

- a) Account balances and the past transactions.
- b) Credit report from other banks.
- c) Information of the Industry by studying market feasibility.
- d) Financial statements (balance sheet, cash flow statement, and income statement). If the borrower is a sole- proprietor, then the single entry accounting treatment is converted to double entry system.
- c) Report from Credit Information Bureau of Bangladesh Bank if the amount is more than TK.10 lac.

4.05.2 Borrower Analysis

Borrower analysis is done from the angle of 3-C

- ✚ Character
- ✚ Capital
- ✚ Capacity

Or from the angle of 3-R, which is as follows: -

- ✚ Reliability
- ✚ Resourcefulness
- ✚ Responsibility.

It follows that the bank forms a rational judgment about the integrity of the borrower, which should be undoubted. The human skill, conceptual skill, operational skill is qualitatively analyzed.

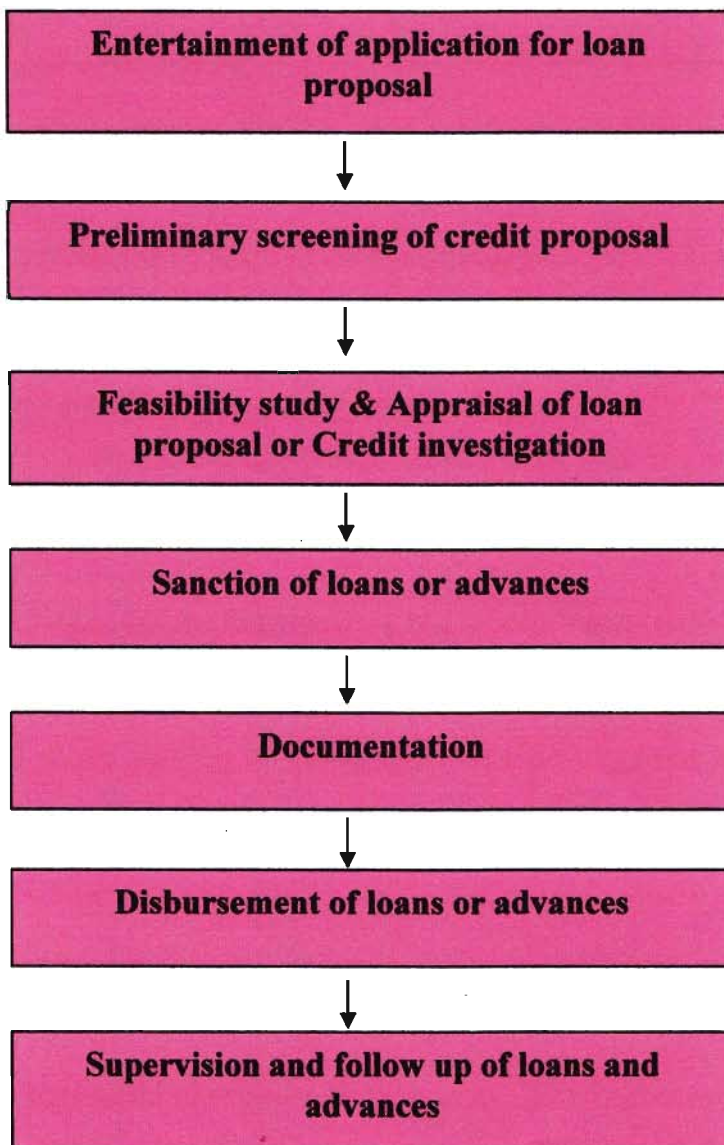
4.06 Credit Approval Procedure

After receiving the application from the client, SBL official prepares a Credit Line Proposal (CLP) and forwards the same to the Head Office through Regional Office to place before Head Office Credit Committee for approval. It includes, -

- ❖ Request for credit limit of customer.
- ❖ Project profile/ profile of business.
- ❖ Copy of trade license duly attested.
- ❖ Copy of TIN certificate.
- ❖ Certificate copy of Memorandum & Articles of Association, certificate of incorporation, certificate of commencement of business, Resolution of the Board, Partnership Deed, (Where applicable)
- ❖ 3 years Balance sheet and profit & loss account.
- ❖ Personal net worth statement of the owner/ directors/ partners etc.
- ❖ Valuation certificate of the collateral security in Bank's form with photograph of the security.
- ❖ CIB Inquiry form duly filled in (for proposal of above 10lac)
- ❖ Credit report from another bank (if possible).
- ❖ Stock report duly verified (where applicable)

- ❖ Indent/ Proforma invoice/ Quotation.
- ❖ Price verification report
- ❖ Statement of accounts
- ❖ Declaration of the name of the sister concern and their liability.
- ❖ In case of L/C detailed performance of L/C during last year.

Therefore, the steps in lending can be sum up as follows, -



4.07 Securities

To make the loan secured, charging sufficient security on the credit facilities is very important. The banker cannot afford to take the risk of non-recovery of the money lent. SBL charges the following two types of security, -

a) Primary security: These are the security taken by the ownership of the items for which bank provides the facility.

b) Collateral security: Collateral securities refer to the securities deposited by the third party to secure the advance for the borrower in narrow sense. In wider sense, it denotes any type of security on which the bank has personal right of action on the debtor in respect of the advance.

4.08 Mode of Charging Securities

There are different modes of charging security is exercised by the bank:

4.08.1 Pledge: is the bailment of the goods as security for payment of a debt or performance of a promise. A pledge may be in respect of goods including stocks and share as well as documents of title to goods such as railway receipt, bills of lading, dock warrants etc. duly endorsed in bank's favor.

4.08.2 Hypothecation: In case of hypothecation, the possession and the ownership of the goods both rest the borrower. The borrower to the banker creates an equitable charge on the security. The borrower does this by executing a document known as Agreement of Hypothecation in favor of the lending bank.

4.08.3 Lien: is the right of the banker to retain the goods of the borrower until the loan is repaid. The bankers' lien is general lien. A banker can retain all securities in his possession till all claims against the concern person are satisfied.

4.08.4 Mortgage: According to section (58) of the Transfer of Property Act, 1882 mortgage is the "transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, existing or fixture debt or the performance of an engagement which may give rise to a pecuniary liability". In this case the mortgagor does not transfer the ownership of the specific immovable property to the mortgagee only transfers some of his rights as an owner. The banker exercises the equitable mortgage.

4.09 Documentation

Documentation can be described as the process or technique of obtaining the relevant documents. In spite of the fact that banker lends credit to a borrower after inquiring about the character, capacity and capital of the borrower, he must obtain proper documents executed from the borrower to protect him against willful defaults. Moreover, when money is lent against some security of some assets, the document must be executed in order to give the banker a legal and binding charge against those assets. Documents contain the precise terms of granting loans and they serve as important evidence in the law courts if the circumstances so desire. That's why all approval procedure and proper documentation shall be completed prior to the disbursement of the facilities. Charge documents as required by the different types of advances are mentioned below:

4.09.1 Loan

- ▶ DP Note signed on revenue stamp
- ▶ Letter of arrangement.
- ▶ Letter of disbursement.
- ▶ Letter of partnership (partnership firm) or Board of resolution (limited companies).
- ▶ Letter of pledge.
- ▶ Letter of hypothecation.
- ▶ Letter of lien and ownership / share transfer form (in case of advance against share).
- ▶ Letter of lien for packing credit.
- ▶ Letter of lien (in case of advance against F D R)
- ▶ Letter of lien and transfer authority.
- ▶ Legal documents for mortgage of property (As drafted by legal adviser)
- ▶ Copy of sanction letter mentioning details of terms and condition duly acknowledge by the borrower
- ▶ Trust receipt.

4.09.2 Overdraft

- ☀ DP Note.
- ☀ Letter of partnership.
- ☀ Letter of arrangement.
- ☀ Letter of continuity.
- ☀ Letter of lien.
- ☀ Letter of lien and ownership /share transfer form (in case of advance against share).
- ☀ Letter of lien and transfer authority.
- ☀ Legal documents for mortgage of property.

4.09.3 Cash Credit

- D P Note.
- Letter of partnership. (In case of partnership firm) or Board of resolution
in case of limited company)
- Letter of arrangement, ct Letter of continuity
- Letter of hypothecation
- Legal documents for mortgage of property
- Letter of pledge or Agreement of pledge. [In case of cash credit (pledge)]

4.09.4 Bills purchased

- ✱ DP Note.
- ✱ Letter of partnership.(in case of partnership firm) or Board of resolution (in case of limited company)
- ✱ Letter of arrangement.
- ✱ Letter of acceptance, where it calls for acceptance by the drawee.
&
- ✱ Letter of hypothecation of bill.

4.10 Credit disbursement

Having completely and accurately prepares the necessary loan documents, and after proper authorization and sanction from the head office the loan officer ready to disburse the loan to the borrower's loan account After disbursement, the loan needs to be monitored to ensure whether the terms and conditions of the loan fulfilled by both bank and client or not.

4.11 Credit Monitoring, Follow-up and Supervision

Credit monitoring implies that the checking of the pattern of use of the disbursed fund to ensure whether it is used for the right purpose or not. It includes a reporting system and communication arrangement between the borrower and the lending institution and within department, appraisal, disbursement, recoveries, follow-up etc.

SBL Officer checks on the following points-

- a) The borrower's behavior of turnover
- b) The information regarding the profitability, liquidity, cash flow situation and trend in sales in maintaining various ratios.

The review and classification of credit facilities starts at Credit Department of the Branch with the Branch Manager and finally with Head Office Credit Division.

4.12 Loan Classification

Loan classification is a process by which the risk or loss potential associated with the loan accounts of a bank on a particular date is identified and quantified to measure accurately the level of reserves to be maintained by the bank to provide for the probable loss on account those risky loan. All types of loans of a bank are fall into following four scales:

- a) **Unclassified:** Repayment is regular.
- b) **Substandard:** Repayment is stopped or irregular but has reasonable prospect of improvement.
- c) **Doubtful debt:** Unlikely to be repaid but special collection efforts may result in partial recovery.
- d) **Bad / Loss:** Very little chance of recovery.

4.13 Loan Classification procedure

The classification procedure is done as per the Central Bank's instructions in BCD circular No.34 of 1989, BCD circular NO. 20 of 1994. The loans are classified on the basis of following criteria: -

- a) Overdue
- b) Required payment
- c) Limit Overdrawn
- d) Legal action
- e) Qualitative judgment

4.14 Legal Framework for Loan Recovery

After being classified, if the borrower is disable to adjust the loan then the bank can take the following legal actions by filing suit, -

- a) Filing certificate cases under Public Demand Recovery Act-1913.
- b) Filing money suit cases under Artha Rin Adalat-1990.
- c) Filing Bankruptcy cases under Bankruptcy Act-1997.
- d) Filing cases under Negotiable Instrument Act-1881 section 138 to 141 for insufficient fund. (In case of term loan)

Chapter 5
CONCLUSION AND
RECOMMENDATION

CONCLUSION AND RECOMMENDATION

5.01 Conclusion

Success in the banking business largely depends on effective lending and Advance foreign exchange facilities. Less the amount of loan losses, the more the income will be from Credit operations. Beside this successful foreign exchange activities can provide more profit to the Bank and also create a positive image of the country in the international trade.

Though there are some drawback X in the foreign exchange department and credit department, modern banking technology and employee's sincerity may lead to increase profit.

Finally it can be argued that though the results achieved so far are not satisfactory, Credit Financing is a modern scientific technique for enhancing Standard Bank's strength and there lies the opportunities to make it more effective in the future for the Bank's own benefit.

5.02 Recommendations

It is clear that the Standard Bank Limited Foreign Exchange Branch has ensured both productive utilization of loans and their recovery in due time, thus helping to improve the overall status of the Bank. The branch success has been made possible due to dynamic leadership of the Branch Management, proper guidelines, good counsel and devotion and sincerity of all categories of officers and the employees of the Branch. The branch learns through a process of trial and error. A large number of ideas about its loans, operations, recovery etc. are generated from the innovative and dynamic members of the branch. The branch tries out these ideas and attempts to improve upon the results. However the branch may have scope to improve in a few areas. For example:

- 01.** The number of exporter and importer who operate through this bank is not enough to achieve the goal. So SBL should offer more facilities to attract them to be their client.
- 02.** In addition with the present services they should include more services. It is badly needed to provide more services to the customer in order to compete in the market.
- 03.** Banking is a service-oriented marketing. Its business profit depends on its service quality. That's why the authority should always be aware about their service quality.
- 04.** Foreign exchange department should be fully computerized that the exchange process would be convenient for both the bankers and the clients

- 06.** The loan sanction process should be easier that the clients can feel convenient to take loan from the bank.
- 07.** Now a day's world is going very fast. Today most of the competing banks are offering online service system. So in order to compete in the world market the branch should adopt online banking system in every branch.
- 08.** The Branch should diversify its banking services and add new features in its services so that it can attract customers from all groups of people. Financial Engineers of SBL should be innovative in developing new banking services, which will attract customers and reduce costs. It can provide bridge loan, or can engage in lease financing. It can also underwrite shares of newly incorporated public companies.
- 09.** One of the business strategies is promotion. Successful business depends how they can promote their products or services to the customers. In this connection to improve the business status the branch should introduce more promotional programs.
- 10.** The loan sanction procedure of the branch should be relaxed. Head office and the regional office should not try to dictate every aspect of the credit sanctioning process, which is creating problem for the branch.

BIBLIOGRAPHY

Annual Report of Standard Bank Limited (2005-2009)

Several Booklets from the Bank

Several Newsletters from the Bank

Bank Web site www.standardbankbd.com

Credit Operational Manual of Standard Bank Limited

DSE Library

Different Circulars from the Bank.

Prospectus of the bank.

THANK YOU