

INTERNSHIP REPORT  
OF

**PERFORMANCE ANALYSIS OF BANK ASIA LIMITED**

(BUS – 499)



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**Subject: *Submission of Internship Report on Performance Analysis of Bank Asia Limited.***

Dear Sir:

With due respect, it is my pleasure to submit you my Internship Report on **Performance Analysis of Bank Asia Limited**, that you assigned me as partial fulfillment of my BBA degree requirement. In preparing the report I collected and analyzed all the relevant information. I have tried my best to analyze the information as comprehensively as possible and if you need any further information, please feel free to call me.

Thanking You

Sincerely Yours

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## EXECUTIVE SUMMARY,

The Internship report on ***Performance Analysis of Bank Asia Limited***. The objective of this report is to have a practical experience and knowledge on the banking activities of a Branch of Bank Asia Limited.

Bank Asia Limited is one of the reputed third generations Private Commercial Bank in Bangladesh whose mission is to bring a high quality service to the customers as well as to participate in the growth and expansion of our national economy. Working at the branch I found Bank Asia has given the prime importance to the borrowers and depositors group that are reflected in the growth of deposits, loans or advances. During my internship period in Scotia Branch, I was assigned to work in the three major departments of the Branch namely General Banking, Foreign Trade and Credit. So I tried to learn as much as I could and also made an effort to focus it through my report. The General Banking is concerned with the Customer Service, Cash and Accounts Section. Cash and Customer Service directly deal with customer needs and requirements. Foreign Trade includes the Export, Import and Foreign Remittance related activities. The Credit Department's activities are providing different types of credit facilities, evaluating credit proposal, disbursing, monitoring and documentation of credits. It can be mentioned that this report does not cover all the tasks of different departments in depth rather it is an effort to identify and be familiar with the banking activities in general.



# **Introduction**

## **1.1 ORIGIN OF THE STUDY:**

This report has been prepared after three month's Internship in the Bank Asia Scotia Branch (Kawran Bazar,Dhaka). I going to describe the various day activities that I have observed in the various departments of the branch.

## **1.2 METHODOLOGY OF THE STUDY :**

The information, required to prepare the report, has been collected from primary as well as secondary sources.

Primary information regarding the Bank Asia Limited has been obtained through face to face conversation with some of the officials of the branch and by own observation .Annual reports ,bank's records, leaflets , corporate newsletters ,branch manuals, bank's website ,various publications of the bank are the sources for collecting the secondary information.

## **1.3 LIMITATIONS OF THE STUDY:**

Although I have obtained whole hearted co-operation from all employees of Scotia Branch, in some departments such as customer service and cash, they were extremely busy .So, they were not able to give much time as there should be. Besides, total duration of the job rotation program was not sufficient to give me complete understanding of the functioning of the various departments I was rotated through.



## 1.4 COMPANY BACKGROUND

BANK ASIA LIMITED is a scheduled Bank under private sector established under the ambit of bank company Act, 1991 and incorporated as a public Limited company under companies Act, 1994 on September 28, 1999 .The Bank started commercial banking started operations effective from november27, 1999.During this short span of time the bank had been successful to position it self as a progressive and dynamic financial institution in the country. The Bank had been widely acclaimed by the business community, from small entrepreneur to large traders and industrial conglomerates, including the top rated corporate borrowers for for-ward looking business outlook and innovative financing solutions. Thus within this short period of time has been able to create an image for itself and has earned significant reputation in the country's banking sector. Presently it has twenty seven branches in operation.

Bank Asia limited is one of the few banks permitted by the Bangladesh Bank in the late 90s,the other banks permitted earlier are Mercantile Bank Limited, Standard Bank Limited ,One Bank Limited ,EXIM Bank Limited ,Premier Bank Limited, Mutual Bank Limited ,First Security ,and Shahjalal Bank Limited .This bank known as third generation banks and are fortune to remain immune from the bad loan culture .However ,the performance of these banks are not the same, the Bank Asia Limited remained as one of the top performers among them.

The company philosophy-"**for A Better Tomorrow**" has been preciously the essence of the legend of banks success.

Bank Asia Limited has been licensed by the Government of Bangladesh as a scheduled Bank in the private sector in pursuance of the policy of liberalization of banking and financial services and facilities in Bangladesh. In view of the above, the Bank within a period of less than 7 years of its operations achieved a remarkable success and met up capital adequacy requirement of Bangladesh Bank.



## **1.5 The mission of BANK ASIA :**

- To assist in bringing high quality services to the customers and to participate in the growth and expansion of the national economy.
- To set high standards of integrity and bring total satisfaction to the clients, shareholders and employs.
- To become the most sought after bank in the country, rendering technology driven innovative services by the dedicated team of professionals.



## General Banking





## **2.00 CUSTOMER SERVICE AND REMITTANCE:**

One of the building blocks of competitive advantage of an organization is its customer responsiveness. To achieve superior customer responsiveness an organization must be able to do better job than competitors of identifying and satisfying the needs of its customer. Customer will place more value on its products, creating a differentiation –based competitive advantage. In this respect, the department of customer service is very important as a way creating greater customer responsiveness.

Customer service is the department in which the first interaction between the customer and the bank takes place. Since the first impression is the long lasting impression, the quality, customization and response time of this department is very important. Different types of activities are conducted here .The main activities are:

- Meeting customer inquiry
- Opening new accounts
- Issuing pay-order demand –draft ,TT etc
- Others

### **2.1 Meeting customer inquiry:**

This is primary service of customer service department. Any person can come to this department and make inquiry any bank related matters. these persons can be either existing customer or potential customers .They can make different types of inquires such as inquires about their account balances, changes in interest rates, bank's new services –offerings and so on.



## **2.2 Openings New Accounts:**

The relationship between the bank and its customer starts with opening an account. There are different types of accounts considering different customer types and requirements.

- Savings account
- Current accounts
- Short term deposit (STD) account
- Fixed deposit Receive (FRD) account
- Deposit Pension Scheme (DPS) Plus
- Monthly Benefit( MB) Plus
- Double Benefit Plus (DB+)
- TRIPLE Benefit Plus (TRIPLE+)
- Bank Asia Shanchay Plus (BASP):

## **2.3 Savings Account:**

Savings deposit accounts are suitable for savers who want to save for meeting the future social, economic, educational, and religious needs. These, deposit accounts are for people who do not want to withdrawal frequently or who do not want to keep money foxed and long period. It is a midway between current deposits and fixed deposits.

So savings accounts are intended for individual savers and not suitable for business concern that requires frequent withdrawals.

Savings accounts are interests bearings deposits accounts .The drowning are restricted in respect of both the amount of withdrawal and the frequency there of during a week. But no restriction is imposed in case of money.

## **2.4 Current Accounts:**

A current account is running and active account which may be operated upon any number of times during a working day. The depositor can freely deposit/withdraw money as many times as he feels necessary in a working day. Account can be drawn upon by cheque, without any prior notice and without obtaining permission. The current deposits functionally are deposit having highest amount of liquidity. The bank, therefore, do not pay any interest on current deposits. On the other hand, bank impose service charge for such types of accounts .From this point of view, current accounts yield negative return to account holders.



The current deposits holders enjoy certain privileges compared to a savings deposits account holder. These facilities are as follows:

- Overdraft facilities are given to current deposit account holders only.
- The loans and advances are normally sectioned by the banks through current accounts. These are not given in cash but are credited to the current accounts.

A current account may be opened by an individual, firm, company, club or an association after meeting all the formalities.

## **2.5 Short Term Deposit:**

There are people and organization that want both liquidity and return on their deposit. They want to keep funds in a bank so that it can be withdrawn without any restriction. But they want to earn some interest meanwhile. For them neither current account is suitable, nor savings and fixed deposits. The rate of interest on such types of deposits is lower because the bank holds the fund for a short period only.

## **2.6 Fixed deposit Receive (FRD) Account:**

There are people who have surplus funds which will not be required by them in near future. Such people to keep funds in a bank for a specific and long period to earn more interest. The duration of this account varies. For different duration interest paid is also different. As the duration increases, rate of interest also increases. Fixed deposit are kept with the bank for a amount of time and the depositor gets a certain amount of interest from it. After the period is over, the depositor can cash the deposit and take the whole amount or may again open another FRD. Fixed deposit is important funds for the bank. These add to the stability and growth of the banks deposit structure.

Particulars	Fixed Deposit Receipt (FDR)				
	1 Month	2 Month	3 Month	6 Month	1Year
Interest Rates	8.50%	9%	12.50%	12.75%	13.00%

## **2.7 Deposit Pension Scheme (DPS) Plus:**

DPS plus is a product of tenure 3,5,10 years. The monthly scheme starts from lowest Taka Five hundred to highest Taka Five thousand and at the end of maturity it provides an attractive good amount. If anyone draws the amount before maturity the rates will be as equal to savings deposits. Customer should deposit the installment within the 7<sup>th</sup> of each month. Penalty is charged for late payment.



Monthly Instalment	Tk 500	Tk 1000	Tk 3000	Tk 5000
Tenure	<i>Amount at Maturity</i>			
3 Years	21,000	42,000	1,26,000	2,10,000
5 Years	37,500	75,000	2,25,000	3,75,000
10 Years	92,500	1,85,000	5,55,000	9,25,000

### 2.8 Monthly Benefit( MB) Plus:

MB is a 3 years 5-year term scheme that lets anyone earn monthly benefit of Tk 975/- and Tk. 1,000/- respectively for deposit of Tk 100,000 or its multiple. Following are the Deposit and Monthly Matrix-

Deposit Amount	Monthly Interest Payable	
	3 years	5 years
Tk 1,00,000	Tk 975/-	Tk 1,000/-

### 2.9 Double Benefit Plus (DB+):

DB+ is a six year scheme where ones deposit doubles in six year. Minimum initial deposit for the scheme is Tk 1,00,000/- or its multiple and maximum deposit will be Tk-25,00,000/- under single name and Tk.40,00,000/- under joint name.

It may be mentioned that premature liquidation before six (6) months will not attract any interest.

Time Limit	Deposit Amount	Amount Payable on Maturity
6 years	BDT 1,00,000	BDT 2,00,000

### 2.10 TRIPLE Benefit Plus (TRIPLE+):

TRIPLE+ is an 9 years 6 months deposit scheme which will be three times of deposit money after maturity. Deposit amount will be Tk.1,00,000/-- or it's multiple, and maximum will be Tk. 25,00,000/- under single name and Tk. 40,00,000/- under joint name.

Time Limit	Deposit Amount	Amount Payable on Maturity
9 ½ years	BDT 1,00,000	BDT 3,00,000



### 2.11 Bank Asia Shanchay Plus (BASP):

BASP increase the investment with Bank Asia's 3 years deposit scheme having attractive returns with easy encashable feature. Deposit Tk.50,000/-, 1,00,000/- and 5,00,000/-. The customer can avoid premature encashment losses and get attractive interest as stipulated below.

Tenure	Rate of Interest	Amount		
		Tk.50,000.00	Tk.1,00,000.00	Tk. 5,00,000.00
6 month	12%	53,000.00	1,06,000.00	5,30,000.00
12 month	12.50%	56,250.00	1,12,500.00	5,62,500.00
18 month	13%	59,750.00	1,19,500.00	5,97,500.00
24 month	13.25%	63,250.00	1,26,500.00	6,32,500.00
30 month	13.60%	67,000.00	1,34,000.00	6,70,000.00
36 month	14%	71,000.00	1,42,000.00	7,10,000.00

Now-a-days under the strict monitoring of Bangladesh Bank, there are several criteria that a client must fulfill as he/she /an organization wishes to open an account. The basic criteria are discussed below:



## 2.12 Check Lists for Opening Accounts

<b>Individual</b>	-Two copies recent passport size photographs- -Passport's Photocopy/ certificate of ward commissioner or chairman of union parishad/ Driving License -Photograph of nominee attested by accountholder
<b>Limited Company</b>	-Application supported with a copy of Board Resolution regarding opening and operation of the account. (The resolution should contain the specimen signature of the authorized signatories and their attested photographs). -Memorandum & Articles of Association duly attested by the RJSC -Certificate of Incorporation -Certificate of Commencement -List of Directors certified by RJSC
<b>Partnership</b>	-Partnership Deed, Valid Trade License
<b>Club/Societies</b>	-Application along with a copy of resolution regarding opening and operation of the account -Bye-Laws/rules & regulations certified by co-operative officer -List of office bearer, certificate of registration
<b>Private School/ College/ Madrasa</b>	-Application along with a copy of resolution regarding opening and operation of the account -List of members of governing body/managing committee -Approval from Education Ministry for establishment of School/ College/ Madrasa
<b>Trustee Board</b>	-Application along with a copy of Resolution regarding opening and operation of the account -Certified copy of the deed of the trust - Names and address of the members of the trustee Board
<b>Executor/ Administrator</b>	-Certified copy of the Will called Probate or the competent court's letter in original regarding appointment as the Executor or the Administrator, as the case may be
<b>Liquidators</b>	-Copy of the competent court's order regarding appointment of the concerned liquidator(s)
<b>Power of Attorney Holder</b>	-Original/certified copy of the registered power of attorney
<b>Local Authorities/City Corporation &amp; District Council</b>	Application along with a copy of the resolution regarding opening and operation of the account duly certified by the Chief Executive Officer of such authorities, corporation or council

Being fulfilled the above requirements: a new account is opened through the software "Stelar". An ID is created for the account holder (in case of individuals account or Organization's), or one ID each for each of a joint account. One person /Organization/can have only one ID using which he/ it can have several accounts.



## 2.13 Issuing Pay-Order ,Demand –Draft ,TT etc:

The customer Service & Remittance desk Issues Pay Orders (PO), Demand drafts (DD) & Telegraphic Transfers (TT) to remit fund within the country.

**DD:** Demand draft s is used to send money within and outside of the clearing house area. that means somebody can send money within Dhaka city as well as outside of Dhaka City with DDs .A DD is drawn on another Bank of Branch & the payment is also made by it .Somebody willing to issue a DD fills up the DD application form and deposits money in the cash desk with he cash deposit slip (In case of cash payment, equivalent to the DD amount and service charge) .For account holders, debit vouchers are used to debit the account.

**PO:** A PO is also used to remit fund like a DD. The main difference is that unlike DD the issuing bank branch itself pays the amount of a pay order .At the same time PO is used to send the money within the clearing area only. The basic process of issuing a PO is same like issuing a DD.

**TT:** In a TT ,the sender can remit the fund almost instantly .As the payment is made instantly ,it does not require presting the instruments the time of payment. The receipt process in case of issuing a TT is almost same as issuing a DD or PO. In issuing a TT, for security purpose ,Test key numbers are used .In test key ,many information regarding that TT ( Date , recipient ,sender ,branch etc) are coded and sent to the other bank branch that is making the payment .That branch decodes then Number and ensures that it has received.

### **Others:**

Besides these above mentioned tasks, the customer service department provides some other important services to the customer. These services are discussed billow:



### **2.14 Issuing New Cheque Book:**

When all the pages of a cheque book are finished, the customer needs a new book. The customer service 7 Remittance desk provides a new book to the customer. Upon receiving the new book requisition slip duly signed by the customer, a new book is issued. The number of pages of the new book may be different depending on the new book are signed by the authorized signatory of the bank.

### **2.15 Issuing Deposits Slip:**

A Deposit slip is needed to deposit money in an account. The customer service department provides a deposit slip to the customer.

### **2.16 Providing Account Statement:**

Time to time, account holders may need to know the status of their accounts as well as the transactions through those accounts. In such case, an account holder asks at the customer service desk to provide him/her an account statement. The personnel at the desk print the account statement from the Stealer with the account number.

### **2.17 Providing Bank Solvency certificate:**

A client who is doing transactions satisfactorily with the bank may need a Bank Solvency certificate for various purposes and asks for it at the customer services desk. The certificate is given stating that the person has been doing transaction at a satisfactory level and has a good deposit. At the same time, a statement of the account is also attached with the certificate.





### **3.00 Clearing:**

Clearing house is an arrangement for the banks to mutually settle their over each other arising out of deposit transfer from one bank to another by their respective customers. In the clearing house, all scheduled banks have their accounts. They mutually settle their claims by simply 'debit and credit' without physically transferring those funds. This is a convenient system in the sense that it does not involve traveling and cash handling by customers. simply by depositing those into the accounts, the customers get those collected by their banks.

### **3.01 Procedures:**

- 1) An account holder of Bank Asia Ltd. come with cheque of another bank. he fills a deposit slip with the cheque's amount and places them to the teller section.
- 2) The cash officer verifies the cheque and deposit slip and put clearing seal of them and send them to the clearing section.
- 3) The clearing officer enters the name and figures of the cheque into "nikash" (A software provided by the Bangladesh Bank) and copy it into a floppy disk. A print out list of the cheques is made. Then the list along with the cheques are placed to the sub manager for signing. Then the floppy is entered into another computer and the data are loaded into the 'Software' and a list of these cheques is created. then the cheques are sent to the clearing house.
- 4) In the next morning the list generated by 'Stealer' with deposit slips and debit voucher is verified by the sub manager. Debit voucher is created on the Principal Branch general A/C. In the afternoon, the representatives of the bank come from the clearing house with and dishonored cheques. Then the accounts are actually credited by 'Stealer'.



## **4.00 CASH :**

Any service providing organization has two parts: front –end and back –end. Front –end parts deals directly with the customers and the back-end part carets the base on which the front- end tasks are performed, for the effective operation of the organization, both the front-end and back-end parts have to be operated effectively .therefore, both the part s are important .the cash or teller section is a front –end part which deals with the customers of the bank directly. Since, the quality of service is very important for a service providing organization, cash section n of the bank should provide high quality service to the customers.

Different types of tasks are conducted in the cash section, such as:

- Cash withdrawal
- Cash deposit
- Cheque deposit
- Transfer of funds from one account to another
- Receiving grameen phone,banglalink ,ranks tel Bills
- Receiving cash deposit for PO/DD/TT

These tasks are described below:

### **4.01 Cash withdrawal:**

The cash section receives cheques from the clients for cash withdrawal.

After reciving the cheques,the teller has to carefully verify the validity of the cheque .in order to do that four corners of the cheque are checked;

1. Bank & branch name
2. date
3. signature of the account holder
4. Amount of money written in words and in figure.



Besides these four corners, the teller should also notice whether the payment is made to the right person mentioned in the cheque. If the person presenting the cheque is not the account holder, the teller may verify the person if felt necessary ( In such case authorized person of the bank may verify the person presenting the cheque). The person presenting the cheque has to make two signature on the back of the cheque. One for placing the cheque and the other for receiving. the money .

Different seals are used for cash withdrawal. At first, the first seal is given for signature confirmation after matching the signature on the cheque with the signature given at the time of account opening which is kept in the Stellar software, Second seal is for payment ( cash paid) and the last seal is for posting ( POSTED) with signature of the teller and transaction number. Then the teller puts a big sign to cancel the cheque.

#### **4.02 Some Important points to be noticed while receiving a cheque:**

- Each cheque has its own date. A cheque cannot be placed before that date.
- A cheque is for six months from the date written on the cheque.
- A cheque where the payment must be made to any particular person ( Not to Pay in cash or to bearer) is an order cheque. With an order cheque, only the person designated can draw the amount.
- Specially crossed cheques may contain instructions like depositing the cheque to any particular bank or branch. The teller must not accept any cheque /DD of other banks that has special cross instructing it to deposited in any other bank.
- If the account payee only seal is on the cheque, cash withdrawal is not possible .In that case, fund can be transferred to another account only.



#### **4.03 Cash Deposit:**

A customer can come to the bank to deposit cash . In order to deposit cash , he or she has to fill a deposit slip with the amount he or she wants to deposit. He also has to write the date, denomination of the amount and put a signature. The teller puts the "Cash Received" seal on the slip after receiving the money. Then authorized officer sign on the slip and carbon copy of the slip is given to the depositor, Then the teller credits the depositors account by the amount deposited in the "Stelar" software.

#### **4.04 Cheque Deposit:**

A customer can come with cheque of the other bank. The bank collects the proceeds for its customer. If the cheque is issued by or drawn on any bank within Dhaka city then a clearing seal is given. On the other hand, if the cheque is issued by or drawn on any bank outside Dhaka city then a collection seal is given. These cheques must be account payee only otherwise the teller should not accept them. First the cheque is crossed with the bank seal. The issuing bank name, branch name, cheque no. and date is written on the deposit slip. It is then sent for clearing or collection depending on the issuing bank branch.

#### **4.05 Transfer of Funds:**

A client who has more than one account in the same branch or different branches, can transfer funds between these accounts. In order to do that the client has to fill and place a cheque with a deposit slip. Then the teller checks whether the client has sufficient fund to transfer by "Stelar" and if there is sufficient fund, the amount is transferred. A client can transfer maximum Tk.50,000/- in this way.

#### **4.06 Receiving Cash For Pay Order , Demand Draft etc:**

Bank gets a commission for issuing pay order, demand draft etc. This commission plus the amount transferred through PO, DD are received in the cash section.



#### **4.07 Determining Daily Cash Position:**

It is a regular task of this department. The daily cash position covers the day's opening balance, total transactions (received and paid) in local and foreign currency as well as the closing balance.

#### **4.08 Maintaining Late Register:**

When a client deposits or withdraws money after closing the cash, this transaction cannot be posted on that very day. But the cash department may sometimes have to handle such transactions. In a case like that, the transaction is recorded in the late register. Later, they are recorded as transactions made in the next working day.



## **5.00 Accounts:**

The Accounts section of the Bank plays an important role for keeping records of all its transactions and monitoring of the same to ensure accuracy and accountability. Activities of this section may be summarized as below:

### **5.01 Statement Preparation:**

Accounts section prepares statement daily, weekly, monthly, quarterly, semi-annually and annually. All types of asset, liability, income and expenses are the components of this statement. This section also prepares statement for the Bangladesh Bank's Statistical purpose.

### **5.02 Inward & Outward Bills for Collection**

Cheques of different branches of Bank Asia are presented to the cash counter. These cheques are sent to the respective banks for collection with OBC slip attached with them. This section performs these tasks and gives necessary entries in computers.

### **5.03 Checking of all posted vouchers**

This is one of the major tasks of this section to check every transaction posted in a day. This is performed by checking the Stellar output with the respective voucher. It checks and rectifies those transactions. It prepares a trial balance summary and details with those data.

### **5.04 Control Expenses**

Generally establishment related expenditure is controlled by the accounts section. The payments are made for house rent, office security and stationary expenses.

### **5.05 General Accounts Reconciliation**

Each day a good number of inter branch transactions take place in the form of pay order, demand draft, IBCA etc. For this purpose general account reconciliation is maintained by Account section.





## CREDIT





## 6.00 CREDIT :

Credit can be termed as the gainful employment of deposits received. In banking, a bank received various types of that it has to employ somewhere for further benefit. That is why a bank lends that fund to people or organization under certain terms and conditions for repayment with an additional amount or benefits. As we know that a bank lends money that it has borrowed, we can assume that creation or credits is a very important task of a bank and a major source of its income. In the following section we will focus on the process and steps in creation and extension of credit.

Bank Asia offers Credit facilities in 3 categories. They are:

- Corporate credit
- Consumer/ Retail credit
- Small And Medium Enterprise ( SME) credit.

Bank Asia extended both Funded and Non- funded credit facilities. Among all the funded and non-funded facilities Bank Asia does not provide all but those which are commensurate with the Bank's policy and strategy. The various funded and non- funded credit facilities that Bank Asia provides to its borrowers are:

### 6.01. FUNDED FACILITIES :

The funded credit facilities are those which involve direct cash. In other words any type of credit facility which involves direct outflow of Bank's fund on account of borrower is termed as funded credit facility. The following funded credit facilities are provided by Bank Asia Ltd.

#### i) Cash Credit:

Cash credit is a Continuous loan facility usually provided for working capital fund requirements purpose of the customer. Credit is generally given to traders, industrialists for meeting up their working capital requirements. Cash credit can be given on Hypothecation or pledge of goods but Bank Asia only practices Cash credit on Hypothecation.



### **ii) Overdraft:**

Overdraft facility is also a continuous loan arrangement on a customer's current account permitting his/her to overdraw upto a certain approved limit for an agreed period. Here the withdrawals of deposit can be made any number of times at the convenience of the borrower, provided that the total overdrawn amount does not exceed the agreed limit. Customer can return any amount of any time within the prefixed time of the facility. Turn over of an over draft facility is the most important phenomenon on which renewal of the facility depends. Over draft facility is given to the businessmen for financing working capital requirement and high net worth individual to overcome temporary liquidity crisis.

### **iii) Secured Overdraft :**

This is a type of Over draft facility given to the borrowers keeping sufficient collateral from the customer in most liquid form. This facility provides specific right to client to over draw within a prefixed limit for a certain period of time.

Secured Overdraft is normally granted against the security of tangible asset such as Lien of Fixed Deposit(FDR), Bonds and Shanchaypatra. But currently Secured Overdraft is given only against Fixed Deposit(FDR) because Bangladesh Bank has recently prohibited Secured Overdraft against Bond, and Shanchaypatra. Interest charged on the secured overdraft is calculate on the basis of the security liened.

### **iv) Term Loan:**

Term Loan are given to finance of capital assets. Loan agreements often contain restrictive covenant and loan is repayable in accordance to amortization schedule. Collateral is must for term loan.

Under Term Loan there are three categories:

- Short Term Loan having maturity less than one year falls under this category.
- Midterm Loan- this loan facility is extended for loans having maturity more than one year but less than three years.
- Long Term Loan tenure is more than three years.

### **v) Personal Credit :**

Bank Asia Ltd also offers personal credit facility to its customers for buying household appliance. No securities are kept for such type of credit facility but a guarantee



From third party is required who ought to be a prominent person or government service holder. Anyone with continuous employment for reasonable length of time in an organization is entitled to enjoy this facility. A quotation needs to be submitted on the office pad from where the goods to be purchased.

Limit of personal credit range Tk 50,000 to 50,00,000 and interest tare is 17% which is subjected to change.

**vi) Loan Against Trust Receipt (LTR):**

Loan against trust receipt given on good faith on the importer. This is a loan facility up to a satisfactory limit to the traders/ customers by Bank Asia against security of the value of the imported good. Customer holds the goods or their sales proceeds in trust for the bank for certain period of time till the loan allowed against such trust receipt is fully paid. The duration of LTR ranges from thirty (30) days to three hundred and sixty(360) days.

**6.02 NON-FUNDED FACILITIES:**

Non- funded facilities are also known as continent facilities are those where bank's fund is non required directly. A non-funded facility can be turned to a funded facility as per situation creates. Bank receives commission facilities are provided by Bank Asia Ltd.

**i) Letter of Credit (L/C):**

A Letter of Credit can be defined as a credit contract whereby the buyer's bank is committed ( on behalf of the buyer) to place an agreed amount of money at the seller's disposal under some agreed upon condition. Since the agreed upon condition include among other things the presentation of some specified documents, the letter of credit is called Documentary Letter of Credit. The Uniform Customs and Practices for Documentary (UCPDC) published by International Chamber of Commerce ( ICC 1993) Revision, Publication No. 500 defines Documentary Credit:

Any arrangement however named or described, where by a bank ( the "issuing bank), acting at the request and on the instruction of the customer ( the "applicant) or on its own behalf,

1. Is to make a payment or to the order of third party ( the Beneficiary) or it is to accept and pay such bills of exchange ( Drafts) drawn by the Beneficiary.
2. Authorized another bank to effect such payment or to accept and pay such bills of exchange ( Drafts).



3. Authorizes another bank to negotiate, against stipulated document (s) provided that the terms and conditions are complied with.

Bank Asia provides only irrevocable letter of credit (L/C) facility.

#### ii) **Guarantee:**

Bank Asia offers guarantee for its reliable and valuable customer as per requirement. This is also a credit facility in contingent liabilities.

#### iii) **Loan Syndication:**

A bank can lend up to 15% of its paid-up capital without any approval of Bangladesh Bank. If the loan amount exceeds 50% of the paid-up capital then bank goes for syndicated loan. Lend bank makes the arrangement and head Office makes the facility agreement by the banker's lawyer. All terms and conditions such a security sharing, mode of creating charges, mode of repayment, covenants of the loan are written on the facility agreement.

It can be a Corporate credit or a consumer credit , even an employee house building loan or a car loan. Whichever the credit is there are several common steps to follow for granting and recovery of a credit when a borrower makes the first approach for a credit ( or the bank itself may go to the borrower with the offer of a credit if the borrower seems attractive to the bank).

### **6.03 STEPS IN CREDIT GRANTING:**

The following are major steps that take place while approval and the repayment of a certain credit provided to a client.

#### **Credit Analysis:**

In the very first line we said that credit is to gainfully employ deposits received by a bank. The very important phrase, " gainfully employ" means securing the certain benefits from the credit approved. To secure the benefit, the credit analyst has to analyze a credit proposal from various perspectives which are discussed below:

- **Identification of the purpose of the credit:** First the analyst has to determine what the credit is for- which field the borrower is willing to put the money in, what is the tenure, what is the timing of cash inflow of the investment in which amount and what can be the repayment source and method.



- **Structure of the borrower ( Knowing exactly to whom we are lending):** We have to know what is the legal entity of the client – is it an individual, a partnership business or a subsidiary of a holding company.

Careful attention has to be given if the client company is a subsidiary of a group that makes complicated transactions with the other companies in the group- that may transfer the fund to sister companies. At the same time, the bank should look to grant loan in favor of the subsidiary rather than to the holding company.

The bank must also know who are the key decision –makers of the borrowing company, which can provide the necessary information.

- **Business Analysis:** The analyst must gather enough idea of the borrower's business and the environment in which it is going to play to identify future sources of repayment.

First of all. The analyst has to know the macro environment of the business, what is the overall industry condition of the business along with the rules and regulations set by the policy makers.

The second concern is the firm itself that the bank is going to finance. What type of product and service is the borrower going to offer with what kind of demand. At the same, the analyst must consider the competitive situation of the firm along with the core competencies of the borrower.

- **Financial Analysis:** This is a very important stage where the analyst has to determine/ quantify how worthy the borrower is for the credit. The worth is measured in numeric terms with the help of various ratios. Those are as follows:

#### **6.04 Income Statement Analysis/ Profitability:**

A credit analyst may start with the profitability as it is the most critical single element in a firm's financial condition as it is directly positively related with asset and negatively related with debt and interest.





### **6.05 Balance Sheet Analysis:**

The first thing to analyze in the liability structure is the borrower's leverage ( i.e. the amount of debts. And liabilities relative to net worth). At the same time, the analyst must consider how well the firm's earnings cover the principal repayment obligations of debt. High leverage indicated high risk but may be acceptable if the firm is earning enough to cover its debts.

On the other hand, the quality of the assets of the borrowers has also to be analyzed. The focus should be on the market value and liquidity of the assets. This is important because these assets may be the last refuge for the bank to recover the loan by selling them what we can call the security. It common we can divide securities into two broad categories. Those are:

**Primary Security:** The security directly related with the purpose of the credit ( example: Goods imported through an L/C).

**Secondary Security :** Any security not directly related with the purpose of the credit.(Example: A sole proprietors land mortgage for loan sanctioned for development of his grocery shop).

### **6.06 Cash Flow Analysis:**

Cash flow is an important source of repayment. Cash flow can be constructed directly or indirectly. In the direct method, all cash inflows and outflows from operating activities are recorded. In the indirect method, cash flow is generated by adjusting non-cash inflow and out flow with the net income.

### **6.07 Perspective:**

Not only the ration from income statement, balance sheets and the cash flow has to be calculated and analyzed, those has to be compared from different perspectives. First, the borrower's tend over the time period has to be compared- that means comparison of current performance with previous performance.

While the past and previous performance of the borrower has to be compared, the recent performance has to be also compared with the industry benchmarks.

### **6.08 Accounting:**

The accounting method followed by the borrower may mislead the analyst because of following any particular method. The analyst must keep an eye on which accounting method has been followed by the borrower while preparing the financial statements. At the same time the analyst must also look for the off- balance sheet items that have not been disclosed.



After calculating all the above factors, the credit department of the branch prepares a credit proposal to be sent to the loan granting authority through the Zonal Head.

Typically, the proposal contains the following topics:

- Background of Organization/ borrower
- Applicant's Name
- Address( Office/Factory)
- Name of Business
- Constitution ( formation)
- Date of Establishment
- Capital Structure ( Authorized Capital, Paid Up Capital, Retained Earning)
- Bank Checking ( CIB report result)
- Particulars of Directors
- Brief description of the management
- Sister concerns
- Relationship officers for the client
- Account Turnover
- Business Performing with the bank and bank's earning from the business
- Business performance with other banks
- Liabilities with the bank
- Liabilities with other banks, group liabilities, if applicable
- Major information from the financials and comment on them
- Estimate of requirement of the borrower
- Particulars of the proposed facility
- Projected earnings for the bank by providing the facility
- Branch's visit report, if applicable
- Documentation status
- Comments and recommendation.

#### **6.09 Credit Assessment:**

A thorough credit and risk assessment is conducted prior to the granting of loans. The result of this assessment is presented in a Credit Application that originates from the Relationship Manager (RM) or Account Officer are familiar with the Lending Guidelines and conduct due diligence on new borrowers, principals or guarantors. Bank Asia Limited has established Know Your Customer



(KYC) and Money Laundering Guidelines which has been adhered to at all times. The assessment includes the following:

- Amount & types of loan proposed
- Purpose of loan
- Loan structure (Tenor, Covenant, Repayment schedule, Interest)
- Security arrangement
- Borrower analysis
- Industry analysis
- Supplier/ Buyer analysis
- Historical Financial analysis
- Projected Financial performance
- Account conduct
- Adherence to lending guidelines
- Mitigating factors
- Loan structure
- Security
- Name lending

#### **6.10 Risk Grading:**

Bank Asia Limited has adopted a credit risk grading system. The system defines the risk profile of the borrowers' to ensure that account management, structure and pricing are commensurate with the risk involved. All facilities are assigned a risk grade. Borrowers risk grade are clearly stated on Credit Applications. There are eight risks grading which are used for rating risk of the credit application:

- Superior-Low Risk
- Good- Satisfactory Risk
- Acceptance- Fair Risk
- Marginal- Watch Risk
- Special Mention
- Substandard
- Doubtful & Bad-Non Performing
- Loss- Non-Performing



### 6.11 Approval Authority

Bank Asia's organization structure has three levels- Branch, Zonal Head and Corporate Office. The credit proposal moves through various management approval levels according to the amount of risk. There are four approval levels:

- Branch Manager
- Zonal Head of Dhaka & Chittagong
- Credit Committee at Corporate Office
- Board of Directors of the Bank

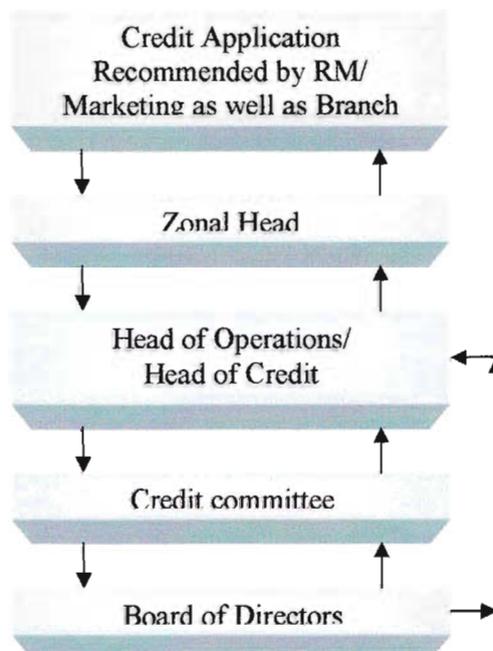
The president and Managing Director has delegated the authority to sanction and approve loans duly authenticated by the President and Managing Director, to Zonal Heads in order to facilitate promotion of business in their jurisdiction. While exercising their powers, they must ensure that:

- Bank's credit policies as well as lending criteria are satisfied
- Credit norms, credit restrictions and other requirements are complied with
- The amount to be sanctioned is within discretionary power
- Total exposure under different types of facilities is considered while applying discretionary power
- Proper due diligence

### 6.12 Disbursement

Proper documentation and approval are necessary prior to the disbursement of loan facilities. Security documents are prepared in accordance with approval terms are legally enforceable.

The following diagram illustrates the approval process





Standard loan facility documentation that has been reviewed by legal counsel is used in all cases. Disbursements under loan facilities are only made when all security documentation is in place. CIB report reflects or includes the name of all lenders with facility, limit and outstanding. All formalities regarding large loans and loans to directors are guided by Bangladesh Bank circulars and related section of Banking Companies Act.

### 6.13 Credit Monitoring

To minimize credit losses monitoring procedure and systems are in place that provides an early indication of the deteriorating financial health of a borrower. At a minimum, systems are in place to report the following exceptions to relevant executives to relevant in CRM and RM team.

- Past due principal or interest payment, past due trade bills, account excesses and breach of loan covenants.
- Loan terms and conditions are monitored financial statement are received on a regular basis, and any covenants breaches or exceptions are referred to CRM and the RM team for timely follow up.
- Timely corrective action is taken to address findings of any internal, external or regular inspection or audit.
- All borrower relationship or loan facilities are reviewed and approved through the submission of a credit Application at least annually.

Early alert account is one that has risk or potential weakness of material nature requiring monitoring, supervision, or close attention by management.

### 6.14 Provisioning:

The bank has to maintain provisions against its classified loans (continuous, demand, term loans)-

- |                             |      |
|-----------------------------|------|
| ▪ Standard                  | 1%   |
| ▪ Special Mentioned Account | 5%   |
| ▪ Substandard               | 20%  |
| ▪ Doubtful                  | 50%  |
| ▪ Bad                       | 100% |

After deducting the value of eligible security and interest, provision had to be maintained at the above mentioned rate against outstanding classified loans. A general provision has to be maintained against unclassified loans also at a rate of 1%.



### **6.15 Credit Recovery**

The recovery unit directly manages accounts with sustained deterioration. This unit determine recovery strategy options to maximize recovery including placing customers into receivership or liquidation as appropriate, ensure adequate and timely loan loss provisions and regular review of grade 6 or worse accounts.

Recovery unit ensures that the following is carried out when an account is classified as Substandard or worse:

- Facilities are withdrawn or repayment is demanded as appropriate. Any drawing or advance is restricted.
- CIB reporting is updated according to Bangladesh bank guidelines.
- Loan loss provisions are taken based on Force Sale Value (FSV)
- Loans are only rescheduled in conjunction with Large Loan rescheduling guidelines of Bangladesh Bank.
- Prompt legal action is taken if the borrower is uncooperative.



## Foreign Remittance





## **7.00 Remittance:**

This function of the banker obviates the individual's difficulty and the hazards in transportation of physical cash from one place to another. Against deposit of the requisite funds and the payment of the remittance charges the banker undertakes to make the equivalent amount available at a particular place to a named person or his order within or outside the country as per instruction of the remitter. The remittances are affected through the following forms:

### **7.01 Foreign Remittance:**

The foreign Trade Department of Scotia Branch provides a variety of Foreign Remittance Facility. To enjoy the facility the person should have an account with the bank. Following are the three major types that are provided:

- Issuance of Foreign Demand Draft
- Issuance of Travelers Cheques
- Endorsement of Passport



#### **i) Demand Draft**

A Demand Draft is an unconditional order of the banker's one office to another to pay to the names person or order the amount mentioned therein on demand. The remitter of funds can purchase a banker's draft making the amount payable to anyone including himself. The purchaser of the draft is charged a commission for rendering the service. The purchaser sends the draft to the payee at the destination of the payee for the purpose of encashment at the drawee branch of the bank. The purchaser of a bank draft is not a party to the instrument. By issuing a bank draft the banker takes upon himself a commitment in favor of the third party (payee) to pay a certain sum of money. Once the draft has been delivered to the payee or his agent the purchaser is not entitled to ask the issuing bank to stop payment of the draft to the payee.

#### **ii) Payment Order**

A payment order is written unconditional order to pay a certain sum of money, to a specified person or to his order. In other words, it can be said as the Banker's cheque. It is payable at the bank branch from where it is issued. In whose favor, the pay order is issued is called the payee (i.e. beneficiary). It is used to transfer money from one person to another, where the payment through cheque is not acceptable to someone.



### **iii) Telegraphic Transfer**

Sometimes the remitter of the funds requires the money to be available to the payee immediately. In that case the banker is requested by him to remit the funds telegraphically. Such a remittance is effected by the banker through a code telegram attested by secret cheque signal, on receipt of which the paying office pay the amount to the payee in cash through a telegraphic payment order or credit his account, as the case may be.

### **iv) Mail Transfer**

Where the remitter desires the banker to remit the funds to the payee instead of purchasing a draft himself, the banker does it through a Mail Transfer Advice. The transfer is so called as the advice is dispatched to the paying office by ordinary mail. The payee must have an account with the paying office as the amount remitted in such a manner, is meant for credit to the payee's account and not for cash payment.



## Foreign Trade





## **8.00 Foreign Trade Department**

The foreign trade of a country refers to its imports and exports of merchandise from and to other countries under contract for sale. No country is in apposition to produce everything in quantities large enough to provide its people a reasonable high standard of living. Foreign trade enables a country to have much larger flow and much more diversified form of wealth than are possible without it. So this foreign trade happens with the foreign countries through foreign exchange. In banks the Foreign Exchange refers to the general mechanism by which a bank converts a currency of one country into that of another. Foreign Trade gives rise to the foreign exchange.

### **8.01 Scotia- An Authorized Dealer Branch:**

The bank deals in foreign exchange when it is authorized by the Bangladesh Bank under section 3 of Foreign Exchange Regulation Act 1947 and it is then known as Authorized Dealer. The Scotia Branch is an Authorized Dealer that has been operating the foreign exchange business efficiently for a long time. The activities of Foreign exchange Department of Scotia Branch can be categorized into three main areas:

- Import
- Export
- Foreign Remittance

### **8.02 Documentary Credit: An Important Aspect of Import & Export:**

One of the important functions of commercial bank is to finance export and import trade. As buyers and sellers do not each other and know each other's local rules and regulations. Thus buyers want to be assured of goods and sellers to be assured of payments. Commercial banks therefore assure these things to happen simultaneously by opening letter of credit guaranteeing payment to seller and goods to buyer. By opening a letter of credit on behalf of a buyer in favor of a seller, commercial banks undertake to make payments to a seller subject to submission of documents drawn in strict compliance with letter of credit terms giving title to goods to buyer. The letter of credit thus, constitutes one of the most important methods of financing foreign trade.

Article-2 of the Uniform Customs & Practice for Documentary Credits (Publication 500) - UCPDC of International Chamber of Commerce defines the documentary credit as under:

Any arrangement however, named or described, whereby a bank (the issuing bank), acting at the request and on the instruction of customer (the applicant) or on its own behalf,



→ Is to make payment to or to the order of a third party (the beneficiary) or is to accept any pay bills of exchange (drafts) drawn by the beneficiary.

→ Authorizes another bank to effect such payment or to accept and pay such bills of exchange (Drafts)

→ Authorizes another bank to negotiate, against stipulated documents, provided that the terms and conditions of the credit are complied with.

### 8.03 Major Controlling Bodies of Foreign Trade Bangladesh :

- Bangladesh Bank Guidelines for foreign Exchange
- UCPDC (Uniform Customs & Practice for Documentary Credits)
- Foreign Exchange Regulation Act
- CCI & E (Chief Controller of Imports & Exports)
- Time to time circulars by Bangladesh Bank

### 8.04 Types of Letter of Credit:

Generally there are two major types of credit-

i) **Revocable Credit**- A revocable credit is one which can be amended or cancelled by the issuing banker at any time without prior notice to seller but before the authorized draft is presented for acceptance or payment. A revocable credit is never confirmed.

ii) **Irrevocable Credit**- An irrevocable letter of credit contains an absolute undertaking on the part of the issuing bank to accept and pay the bills drawn upon it so long as the terms and conditions stipulated in the letter of credit are fulfilled. An irrevocable letter of credit is a confirmed credit by the opening bank.

### 8.05 Parties to a Letter of Credit :

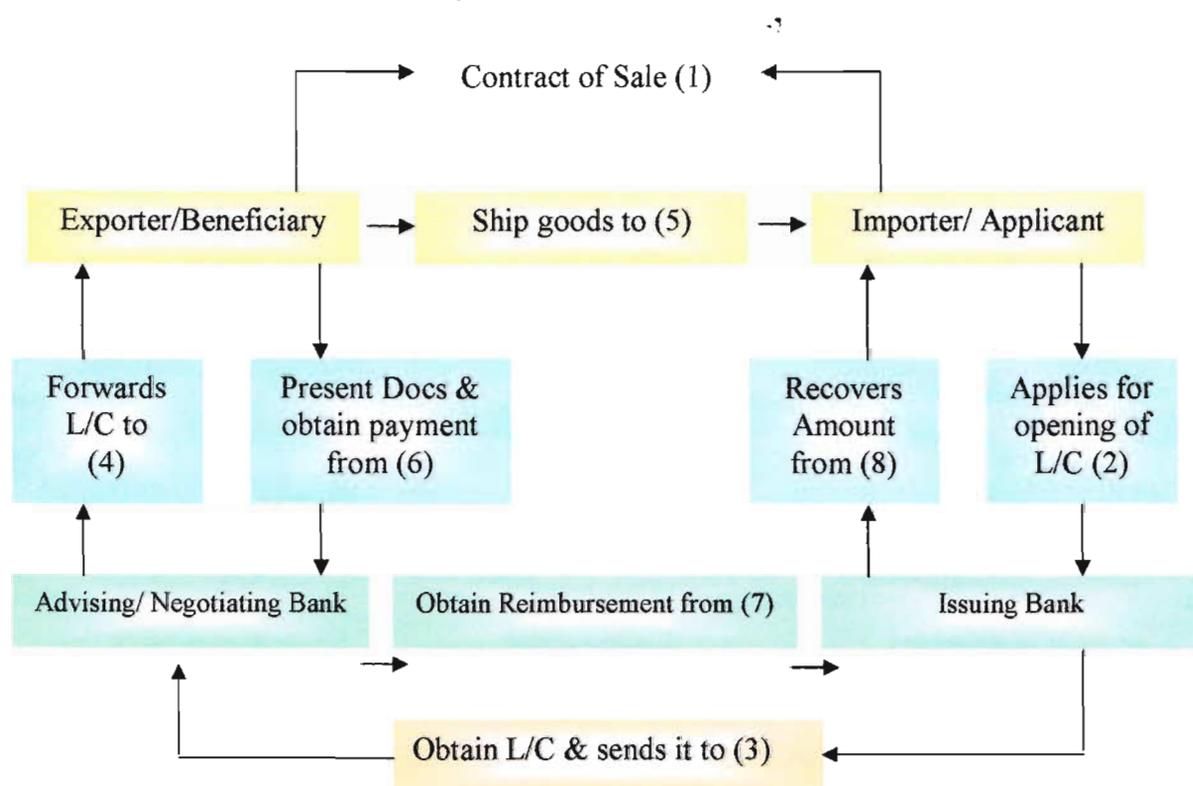
- Applicant/Buyer/Importer
- Beneficiary/Seller/Importer
- Issuing Bank
- Advising Bank
- Confirming Bank
- Negotiating Bank
- Reimbursing Bank





## 8.06 Mechanism of Letter of Credit :

The following diagram brings out clearly the operation of letter of credit



## 8.07 Applicant/Buyer/Importer:

The buyer or importer is he who initiates the credit. He applies to the bank for issue of a documentary credit. The applicant is liable to indemnify the bank against all obligations and responsibilities imposed by foreign laws and usage.

## 8.08 Beneficiary/Seller/Exporter:

The seller or the exporter is the beneficiary of the credit. The letter of credit is opened in his favor and is addressed to him. The beneficiary has the obligation to make export as per the contract and produce the documents as required by the credit.

## 8.09 Issuing Bank:

The issuing bank or opening bank is the importer's or buyer's bank and issues a letter of credit normally pursuant to the terms of sales contract as set out in the application for credit by the importer. As soon as the opening bank issues a letter of credit, it expresses its undertaking to pay the bills as and when they are drawn by the beneficiary provided the documents appear on their face to be in accordance with the terms and condition of the credit. The issuing bank should



nominate the bank which is authorized to pay or to accept drafts or to accept drafts or to negotiate, unless the credit allows negotiation by any bank.

### **8.10 Advising Bank:**

The advising bank or notifying bank is that bank through which the letter of credit is advised to the exporter without engagement on the part of the advising bank, but the bank shall take reasonable care to check the apparent authenticity of the credit which it advises. It may negotiate documents under the credit, if it so desires in which case it becomes the negotiating bank. The beneficiary cannot compel the advising bank to negotiate documents.

### **8.11 Confirming Bank:**

Often the beneficiary of the credit stipulates that the credit must be confirmed by a bank in his own country, so that he is assured of payment as soon as the documents are presented to it at his own center. When a bank in the exporter's country adds its confirmation to the credit, it gives an additional undertaking to the beneficiary, in addition to that of the issuing bank, to negotiate documents under the credit. The bank confirming the credit is known as the "confirming bank" and its credit known as confirmed credit.

### **8.12 Negotiating Bank**

The bank that honors the documents presented as per letter of credit is called a "negotiating bank". They are authorized to claim and get reimbursement of the amount paid by them on negotiation of documents. When no paying bank is designated in the letter of credit, the beneficiary may go to any bank and request negotiation of draft drawn under the credit. If the bank agrees to do it, it becomes what is known as the negotiating bank. The negotiating bank, the moment it negotiates the documents, becomes a paying banker who, against the documents tendered, will make payment to the beneficiary.

### **8.13 Reimbursing Bank**

The issuing bank may indicate in the credit the name of bank, from whom the paying/negotiating bank can obtain reimbursement. The documents are sent to the issuing bank, the negotiating/paying bank simultaneously make a claim with the reimbursing bank for the payment effected. Normally the reimbursing bank would be the bank with which the issuing bank maintains an account. A copy of the letter of credit would also be sent to the reimbursing bank so that it may know the arrangement.



## 8.14 Procedures of Import

- **Contract for Sale:**

The transaction originates when the exporter and the importer enter into a contract of sale. The contract covers all important particulars like the descriptions, value and quantity of goods, the due date for shipment, method of payment etc.

- **Application for issuing a letter of Credit:**

The importer would apply on bank's standard form to his bank for issuing a letter of credit. In addition to recording the full details of the proposed credit, the application also serves an arrangement between the bank and the buyer. The credit application must be clear and precise and generally includes the following items:

- Full name and address of supplier, manufacturer or beneficiary
- Opener's name and address
- The total amount of credit asked for and whether the credit is a specific credit or a revolving letter of credit and amount of currency
- The type of credit; whether revocable or irrevocable
- The terms of sale, whether the contract is on C & F, CIF or FOB basis
- The risk to be covered under the policy and the amount of insurance
- Brief description of goods including quality, quantity and unit price
- The term of payment; whether on DA (Documents against acceptance) or PAD (Payment Against Documents)
- Place of shipment, destination and latest date of shipment
- Specific documents like invoice, bill of lading, marine insurance policy, certificate of origin, packing list etc.
- The details of mode of shipment and the documents which are to accompany the bill of exchange, Airway Bill or Air Consignment Note.
- The date up to which the credit will remain valid and the date the documents should be presented for negotiation
- Methods of advice credit, whether it should be sent by mail, telecommunicated or electronically conveyed

→ Import Registration Certificate (IRC) or import license

→ Indent or Proforma Invoice

→ Insurance Cover Note

→ IMP Forms and other documents or papers

→ Account with the issuing bank



### 8.15 Bank Activities Regarding the Issuing L/C

i) On receipt of credit application along with the importer's requisite papers the bank takes into consideration of the following points:

- The amount of proposed credit which should not exceed the total limit sanctioned for opening a letter of credit
- The financial standing, reputation of the customer
- The nature of commodity to be imported
- The exchange and import trade controls are supplementary and complementary to each other
- The marine insurance for transaction is adequate

ii) Then the bank, after completing the above formalities proceeds for opening the credit. Usually bank opens the credit through the SWIFT (Society for Worldwide Inter-bank Financial telecommunication) message and sends it the advising bank containing the relevant information.

Send Message



Usually the bank keeps 10% margin of total L/C value depending on the banker customer relationship.

### Accounting Double Entry in Stellar

Accounting Entry		Accounting Entry	
Client Account	DR	Sundry deposit margin on L/C	CR
		Foreign Corresponding Charges	CR
		Income A/C commission on L/C	CR
		Income A/C (Stamp)	CR
		Income A/C SWIFT	CR
		Handling Charges	CR

**BOTH DR & CR SIDE HAS TO BE EQUAL BY AMOUNT OF CURRENCY**



After that L/C number and the above entries are given to the L/C register.

### iii) **Advising a letter of Credit**

The letter of credit duly signed by two authorized officers whose specimen signatures already recorded with advising bank must be addressed to the beneficiary. It is situated in the exporting country and may be the branch of the opening bank. The advising bank has to verify the signatures of the officers of the opening bank and ensure that the terms and conditions of the credit are not in violation of regulation relating to export. While advising the advising bank does not undertake any liability.

### ***Accounting Procedure in STELAR***

As soon as a letter of credit is opened bank accepts a liability and following vouchers are passed in the books of the opening bank.

Accounting Entry		Accounting Entry	
Customer's Liability on L/C	DR	Banker's Liability on L/C	CR

**BOTH DR & CR SIDE HAS TO BE EQUAL BY AMOUNT OF CURRENCY**

The rate applied for opening the credit is the bills selling rate prevalent on the date of opening of the letter of credit.

### iv) **Add Confirmation**

At times beneficiary of letter credit does not accept letter of credit (issued by issuing bank) as he is not assured of the credit worthiness of issuing bank. The beneficiary therefore insists that such letter of credit be further confirmed by a bank in seller's country. The advising bank can do so if there is prior arrangement between advising and issuing bank. When the advising bank in the seller's country adds its confirmation to the credit and advises the letter of credit to the beneficiary (seller), the correspondent bank becomes both confirming as well as advising banker and bank becomes both confirming as well as advising banker and steps into the shoes of the issuing banker by undertaking obligations which are identical to those of issuing banker. The obligations are to effect payment to the beneficiary if documents conform to letter to credit terms.

### v) **Amendment/ modification of Letter of Credit**

In case of revocable credit it can be amended or cancelled by the issuing bank at any moment and without prior notice to the beneficiary. But in case of irrevocable credit it can neither be amended



nor cancelled without the agreement of the issuing bank, the confirming bank (if any) and the beneficiary.

#### vi) Shipment of Consignment & Lodgment of Documents

After satisfying with terms and conditions the seller proceeds to make shipment of required goods to buyer. The exporter will ship goods and obtain full set of bill of lading etc. from the carrier company and submit the same to the negotiating bank along with other documents that are called for in the credit. The shipping documents usually obtained are:

- Bill of Lading/ Airway Bill/ Truck receipt
- Bill of Exchange
- Commercial invoice
- Certificate of Origin
- Packing List
- Weight Certificate
- Consular Invoice
- A copy of declaration of shipment made to the insurance company
- Pre-shipment Inspection Certificate from internationally reputed surveyor
- Analysis certificate where specification of commodity is given



After receiving all documents the negotiating bank checks the documents i.e. insurance policy, invoice etc. against credit. If the documents meet the required conditions of credit the bank will pay or accepts the documents or negotiate the drafts according to the terms of credit and forward the original documents by airmail to the issuing bank with duplicate copy by subsequent airmail.

#### vii) Settlement

If the documents are found as per credit requirement, settlement in fulfilling the commitment of issuing bank in regard to effecting payment may be done under three separate arrangements-

- **Settlement by Payment:** Documentary bills can be either DP (Documents against payment) or DA (Documents against acceptance). Under DP the seller presents the



documents to the paying or negotiating bank and the bank then scrutinize the documents and then it make payments to the beneficiary by debiting the issuing bank's account with it or claim reimbursement from the designated bank as instructed by the issuing bank in the reimbursement clause of letter of credit.

The issuing bank on receipt of the documents, duly negotiated by the foreign bank, will carefully check the documents in accordance with the terms and conditions of credit. On being satisfied the issuing bank will lodge bill by responding the debit advice initiated by negotiating bank in PAD (Payment against document) by converting foreign currency representing the bill amount and foreign correspondents charges into Taka by applying the BC rate on the date of lodgment.

After lodgment the issuing bank will ask the importer to retire the bill, if it is a sight bill, by sending cost memo indicating amounts payable by him under different heads. As soon as the import bill is retired against payment the entire deal against the credit stands closed. Bank then reports this transaction on usual form to Bangladesh Bank.

Accounting Entry		Accounting Entry	
Bank's Liability on L/C	DR	Customer's Liability on L/C	CR
<b>BOTH DR &amp; CR SIDE HAS TO BE EQUAL BY AMOUNT OF CURRENCY</b>			

- **Settlement by Acceptance:** All documents under acceptance are usance bills. Documents against Acceptance bills are released to the drawee on mere acceptance of the claim. The drawee is deemed to have accepted the claim when he signs his name across the bill. In usance or time bill there is maturity period which is called *Tenor*. The seller submits the documents evidencing the shipment to the accepting bank accompanied by a draft drawn on the bank at the specific tenor. Accepting bank is the bank nominated in the letter of credit to accept usance bills drawn under the credit. When the accepting bank is other than the issuing bank, the accepting bank sends the documents to the issuing bank stating that it has accepted the draft. At maturity reimbursement is obtained in the pre agreed manner, subject to satisfying the credit requirements of the documents.
- **Settlement by Negotiation:** If there is discrepancy in the documents, the bank should immediately advise the importer to seek his acceptance of the documents despite the discrepancy.



The bank may be prepared to negotiate documents and the amount for the documents negotiated is held under reserve. This means that the bank puts the fund at the seller's disposal against an acceptable letter of indemnity whereby the exporter agrees to reimburse the negotiating bank with the amount and other charges in case documents are rejected by the importer.

### 8.16 Import Finance

There are two types of Import Finance

- i) Loan Against Trust Receipt (LTR)
- ii) Loan Against Import Merchandise (LIM)

A brief description of which is provided below-

#### i) Loan Against Trust Receipt (LTR)

If the importer needs a funded facility, he may ask for a credit facility from the bank, Letter of Trust Receipt is a document duly stamped and signed in bank's prescribed format specifying that he is holding the imported goods on behalf of the bank until the goods are sold or used for the express purpose for which they were released to him. In getting such facility the importer is to offer sufficient tangible securities acceptable to the bank equivalent to the loan amount. The need for trust receipt also arises in the case of L/C calling for usance bills.

Accounting Entry		Accounting Entry	
LTR Account	DR	PAD Account	CR
		Interest Account	CR

**BOTH DR & CR SIDE HAS TO BE EQUAL BY AMOUNT OF CURRENCY**

#### ii) Loan Against Import Merchandise (LIM)

Importer may require a credit facility that is provided by bank if necessary by clearing and storing of goods at his risk. Thus bank extend credit facility to the importer for retirement and clearance of the consignment of goods. In that case, bank charges further margin from the importer to cover the custom duty, sales tax or vat etc.

In both cases whether the importer requests the banks for clearance of goods or fails for retirement of documents on payment, the liabilities under PAD is converted to "Loan Against Imported Merchandise (LIM)" account and the overdue interest from the accompanying Bill of



Exchange or negotiating date to the date of transfer to LIM account is charged and incorporated to LIM.

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Accounting Entry		Accounting Entry	
LIM Account	DR	PAD Account	CR
		Interest / Commission Account	CR

**BOTH DR & CR SIDE HAS TO BE EQUAL BY AMOUNT OF CURRENCY**

### 8.17 IMP Form

For the reporting to the Bangladesh Bank, Bank Asia fills in the prescribed IMP form and sends it to Bangladesh Bank describing all the information regarding the letter of credit.

### 8.18 Procedures of Export

Export plays an important role in regulating the flow of foreign currency into the country. The export is normally executed against letters of credit opened by overseas buyers.



### 8.19 Requirements for Export

→Registration- Any firm or party desirous of undertaking export trade are required to obtain Export Registration Certificate (ERC) from CCI & E (Chief Controller of Imports & Exports), Government of Bangladesh. For getting ERC followings are submitted along with the application for ERC-

→Nationality Certificate

→Trade License from Multiple Authorities

→Bank Certificate

→Income tax certificate

→Registered partnership deed incase of partnership

→Memorandum & Articles of Association & Certificate of Incorporation for Limited Company

### 8.20 Steps of an Export

i) **Export Order**- On receipt of registration the exporter will proceed to contract the buyers directly through correspondence or business visit to different foreign countries

ii) **Contract**- When sale is agreed a contract between buyer and seller is executed specifying the detail terms about sale, such as full description of quantity of merchandise, value of commodity quoting its FOB, CFR, CIF etc with provision for payment at sight, DP or CAD or usance terms, whether inspection before shipment is necessary if so who will bear the cost etc.

iii) **Export Letter of Credit**- The export is normally executed against letters of credit opened by foreign buyers. The following terms of L/C are examined to avoid future complicity-

- The terms and conditions of L/C are definite, clear and explicit
- The L/C should be an irrevocable one and be confirmed by the advising bank
- The L/C is transferable
- The L/C should provide sufficient time for shipment and a reasonable time for negotiation

iv) **Shipment**- On conclusion of the contract securing the sales order the exporter should sent goods to importer on time. There are various terms of delivery at international level CIF, FOB, CFR etc. Export form Bangladesh mostly takes place by sea. The goods to be shipped should be packed in suitable container with packing list inside describing the weight, quantity etc. The steps



of shipment are complex and so exporter may require Clearing and Forwarding (C & F) agent for a smooth delivery with the following documents-

- ERC
- Commercial Invoice
- Packing List
- Copy of sale Contract/ Export/ L/C

To export goods, sea, air or other modes can be used. The exporter is to collect the Airway bill, Bill of Lading, Truck Receipt which is drawn only to the order of an authorized dealer designated for this purpose by the respective exporter and deliver to the AD.

The AD then to whose order the relative Railway Receipt, Bill of Lading etc are drawn shall endorse the same to the order of their foreign correspondents.

### 8.21 Preparation of Export Documents

As soon as the Bill of Lading, Airway Bill or Truck Receipt is received the exporter would prepare the relevant documents and submit the same for early repatriation of export proceeds. The following documents are normally required for negotiation-

- **Bill of Exchange-** This is sent by the exporter in two or three sets and includes the amount of L/C, date, sight or usance etc.
- **Commercial Invoice-** A statement prepared by shipper containing full details of goods shipped. It gives description and price of merchandise, quantity, quality, packing details, name and address of buyer and seller, name of vessels, date of shipment, number of bill of lading etc.
- **Bill of Lading-** The document evidencing the carriage of goods by sea is the Bill of Lading and is issued by the shipping company or its agent and contains brief description of goods accepted for transport. It is used usually two or three sets. It also includes general description of the goods, marks numbers gross and net weight. Exp numbers should be correctly mentioned in the Bill of Lading.
- **Airway Bill-** The document evidencing the contract of carriage of goods by air is known as Airway Bill.
- **Packing List-** A packing list is prepared by the exporter serves to indicate the exact nature, quantity and quality of the contents of each package in a shipment. Clearance of goods through customs is also facilitated by packing list.
- **Certificate of Origin-** It is a document certifying the country of origin of the goods that is it describes where the goods originally produced or manufactured.



- **Other Certificate-** Some other certificate such as Weight Certificate, inspection certificate by supplier or an independent inspection agency, Certificate of Analysis may be required in the chemical and drugs etc.

## 8.22 Export Financing

In order to assist the exporters to make shipment of goods to the foreign buyers they need finance in the following stages-

- Pre-shipment Finance
- Post-shipment Finance

A brief description of which is given below;

### i) Pre-shipment Finance

Pre-shipment finance as its name itself suggests, covers the credits extended by banks to exporters prior to the shipment of goods. Such credit is granted to the exporter for procurement and processing of raw materials manufacturer of finished products, packing and transporting goods meant for export.

The exporter may borrow money or avail facilities during pre-shipment stage in the following ways-

- Packing Credit
- Credit Against Red Clause Letter of Credit
- Back-to-Back Credit

A brief description of these types of credit facilities is provided below;

#### a) Packing Credit

Under this measurement, a credit limit is sanctioned to the exporter against the security of Railway Receipt/ Steamer Receipt/ Truck Receipt evidencing transportation of goods to the port in addition to the usual charge documents and export L/C. Usually collateral security is obtained against the facility. It is usually extended within 180 days. The packing credit facility may be extended in the form of-

- Hypothecation/ Export Cash Credit- In this case, a credit is sanctioned to the exporter depending upon his credit requirements against the security of hypothecation of raw-materials and or finished good meant for export. The bank usually insists the exporter to provide collateral security.
- Pledge- Under this arrangement a cash credit limit is sanctioned against security of pledge of exportable goods or raw materials. Sometimes collateral security is also obtained.



- **Export Trust Receipt-** Under this arrangement a cash credit limit is sanctioned against Trust Receipt. In this case raw materials and finished goods remain in the custody of the exporter. This facility is allowed only to the first class clients of the bank and collateral security is generally obtained against facility.

#### **b) Credit Against Red Clause Letter of Credit**

A Red Clause letter of credit is a letter of credit (Export) which contains a clause written or typed in red ink by which the opening Bank authorizes the advising bank/ negotiating bank to allow advances to the beneficiary of the L/C for procurement of exportable goods. The advance in this case is made at the risk of the opening bank and is restricted to the amount authorized under the red clause

#### **c) Back to Back Letter of Credit**

In this case bank finances an export trade normally by opening an L/C on behalf of the exporter/ export house or agency who has receive an export L/C from the overseas buyers. Since the L/C is opened on the strength of, and backed by the Export L/C, it is technically called Back-to-Back credit for procurement of exportable goods. Since this type of finance involved high risk the Banks generally obtain collateral security from the exporter concerned.

### **ii) Post Shipment Finance**

Post shipment finance refers to the credit facility extended to the exporters by commercial banks after shipments of the goods against export documents. Banks in our country generally extend post shipment credit to the exporter through-

#### **a) Negotiation of Documents under L/C**

Under this arrangement, following the shipment of goods the exporter submits the concerned documents to the negotiating bank for negotiation. The documents should be negotiated strictly in accordance with the terms and conditions within the period stipulated in the L/C.

#### **b) Purchase Discount of DP/DA Bills**

In such cases bank purchases or discounts the DP (Documents against payments) and DA (Documents against Acceptance) bills at a rate published by bank. While doing so, the bank scrutinize all the export documents separately and minutely and clear instructions are to be obtained from the drawer in regard to all important issues related to negotiations of the bills. An indemnity from the exporter may be obtained. Bank Asia generally does it through FDBP of overseas export & LDBP for local export.



### **c) Advance against Bills for Collection**

If an exporter fails to get documents negotiated by the bank, he has to take resort to alternative course of obtaining advance from the banks against the security of export bills surrendered for collection. In such cases banks must take indemnity of the exporter.

### **8.23 Export Proceed Realization**

Usually it takes 21 days to payment the export precedes if there is no discrepancy. The issuing bank credits the Nostro account through its head office account. The branch then debit Head Office General Account for the export proceeds realization and credit the party account deducting all kinds of charges.

### **8.24 EXP Form**

All export must be declared on EXP form. These forms will be supplied by Authorized Dealer for use of the Exporter. The Authorized dealer should, before certifying any export form, ensure that the export is registered with CCI & E under the Registration (Importers & Exporters) order 1952. The registration number should be quoted on the relative EXP forms.



## **Problems of Bank Asia.**

- One of the major problems Bank Asia Limited is facing is its small market share in deposit. This is because of its limited branch network. Therefore, BAL should expand its branch network not only in urban areas but also in metropolitan areas of the different zone of the country.
- BAL should also be aware of its gradual recession of liquidity position. However, though its liquidity position has been squeezed but BAL follows front- end investment strategy that does not provide high return.
- It is evident from the analysis that BAL follows a high concentration of deposits. In this regards, it is suggested that the bank should establish a back up fund for meeting upcoming large deposit due.
- The world today is a world of Information Technology that gave rise to the concept of on-line and any branch banking. Though BAL follows the online banking, but there is a limitation in the amount that can be transacted. This deprives the customers to enjoy the true benefits of the real time online banking services/ This limitation should be eliminated to enable the customers enjoy the benefits of real time online banking services



## **Recommendation**

### ▪ **Formulation of MMP- Model Marketing Plan**

The management of BAL should work for the creation of conceptual framework covering the core elements of a developed “ Model Marketing Plan-(MMP)” of Bank Asia Limited. This would help them to face the competition and the changes in the banking industry into the new millennium for a sustainable growth of business/ profitability of the bank. To accomplish the task of formulation of “MMP” focus should be made on the following issue.

- a) Business philosophy that identifies current and future opportunities, defines magnitude and quantum, determines target markets and cluster and decides on products, services and programs to secure entry to markets for economic and financial gains were made. The aim of planned marketing efforts is to understand customers and to ensure that offered products and services adapt to targeted customer's needs perfectly. The marketing plan to be designed to perform tasks of stimulating demands for bank's products and services to influence the level timing and composition of demand help customers consummated their business objectives.
- b) Ideas of satisfying the customer's needs by means of products and the entire cluster of action as associated with creation/ delivering and finally consuming the products and services.
- c) Process to be employed to interpret markets, customers needs and transformation: defining mission/ objectives and goals, portfolio plans and new business plans. The plans were structured in 3 (three) operational levels: corporate level, business level and product level. The marketing mission was converted into specific objectives for each level targeted at: profitability, market-share, positioning, risk- diversification and innovation. The objectives to be made quantifiable, realistic and consistent towards useful implementation of the marketing action plan. The portfolio plan involved in reviewing of the current portfolio of businesses and deciding on new businesses and potential thrust sectors.
- d) Selection of target markets including dividing the markets into major market segments sharing common properties, evaluation, selecting and targeting segments and deciding on ways of positioning in each market.
- e) Identification of market opportunities through analysis of subjective issues, concepts, strategies and techniques of penetration to create market along with efforts to integrate action based on collected data to fit into real banking solution having operational linkage with the marketing plan “ Model Marketing Plan-(MMP)” of Bank Asia Limited.



f) Natural inducement of the target groups to Bank Asia Limited is that customers must perceive greater degree of satisfaction from the offered services. The qualitative improvement and development of cutting- edge products precipitate in higher degree of customers satisfaction and Bank Asia Limited to plan for improvement of services, adding flair to the products like introduction of ATM/ On-line banking/ Credit Card/ Debit Card/ Introduction of relationship Manager and Customer- friendly deposit schemes.

▪ **Improvement of Quality of Services:**

Service industry has no point of perfection- rather has a target of continuous improvement. Like in many other emerging market economies, commercial banks in the Bangladesh economy are to face n increasing competition for their business in the coming days. Having a reputation of providing good customer service must not be a point of satisfaction for the bank. The business would no longer remain easy as they had been earlier.

▪ **Branch Expansion:**

Both the first generation and second generation banks already have a vast network within the country. At the same time, the third generation banks also are not sitting idle to spread the network. Therefore, for expanding the network geographically, the bank should open up new branches in strategically important places. I would suggest that the bank can open branches in Kakrail, New Elephant Road, New Eskaton of Dhaka city, Narayanganj, Jessor, Barisal and Dinajpur. Some of its rivals already entered in some of these regions and some are on the way, so the bank should expand in these regions without making any delay. Before entering into a new market the bank should do extensive market survey.

▪ **Reduction of Expenditure:**

Each branch of Bank Asia limited, with gorgeous interior and exterior looks, starts with a huge burden of setup cost. This ultimately results in regular heavy overhead cost that the branch has to bear. The bank may consider ways to minimize such costs to prove its efficiency in controlling such cost.



## Conclusion

This report is the result of three months internship program in the Scotia Branch of Bank Asia Ltd. During internship period my rotation of each department was on an average fifteen to twenty days. This period is certainly not enough for understanding the various functions of the bank in depth. This report tries to identify the major tasks of different section of the branch namely General Banking, Foreign Trade and Credit. The major finding of this report is to provide a broad and general overview of banking activities. It has been observed that through the activities of different departments how Bank Asia Limited is providing and maintaining pleasant working environment for delivery of better quality services to maintain edge over the competitors. At the same time it has been also found that Bank Asia Limited is participating in the growth of our national economy with high quality, information technology driven innovative services to its clients by its own dedicated team of professionals.



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