

Foreign Exchange Operations of The City Bank Limited: An Evaluation

INTERNSHIP REPORT

ON

Foreign Exchange Operations of The City Bank Limited: An Evaluation

PREPARED FOR

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August 31, 2014

Mohammad Shibli Shahriar

Assistant Professor

Faculty of Business & Economics

Daffodil International University

Subject: Submission of the Internship Report.

Dear Sir:

It has been a great pleasure to submit my internship report titled “**Foreign Exchange operations of The City Bank Limited: An Evaluation**” in partial fulfillment of the requirements for the Degree of Masters of Business Administration.

I have invested my every effort to represent the Banking functions performed by The City Bank as well as the performance evaluation of Foreign Exchange activities. I have aimed this report at the academic purpose only. I will be grateful and pleased as well having any suggestions, directions or recommendations for further improvement of the report.

I hope my report will satisfy you and I would also like to thank you once again for your kind assistance in this regard.

Sincerely Yours

.....
Sheikh Shamcur Rahman
ID # 131-14-969
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Department of Business Administration
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Daffodil International University

CERTIFICATE OF APPROVAL

This is to certify that, **Sheikh Shamcur Rahman, ID NO: 131-14-969**, a Student of MBA Program, Department of Business Administration, Faculty of Business & Economics, Daffodil International University, has prepared this Internship Report titled **“Foreign Exchange operations of The City Bank Limited”** under my supervision. I do hereby approve the style and contents of this internship report. This is for the partial fulfillment of his Masters of Business Administration (MBA) degree in Daffodil International University.

To the best of my knowledge he did not copy any materials documents from any other sources. It seems to me the report is an original in nature.

.....
Mohammad Shibli Shahriar

Assistant Professor

Faculty of Business & Economics

Daffodil International University

ACKNOWLEDGEMENT

First of all I would like to express my hearty gratefulness to “**Almighty Allah**” for his great immense and gratefulness, the creator and merciful who has given me the strength, wisdom and endurance to complete this report successful in time.

It had been a great pleasure to prepare the report on Foreign Exchange Operations of The City Bank Ltd. I would like to thank my honorable teacher and supervisor **Mohammad Shibli Shahriar**, Assistant Professor, Faculty of Business & Economics, Daffodil International University. My heartfelt gratitude goes to him for giving me the opportunity to prepare this report.

I would like to thank all the people who are related to helps me to prepare this report. I got most of the information from my observation experiences.

I am grateful to the authors, researchers and article writers whose books and journals helped me successfully complete this report.

Finally I would like to offer my thanks to all who shared the all activities and prepare this report successfully. It would be impossible to prepare this report without their help.

EXECUTIVE SUMMARY

Now a day, Banks are playing vital role in the economy of the country. The development of countries depends on banking activities. Commercial banks are providing loans to their customers by taking deposits from depositors. These loans build on industrialization's, that's why clients may save their extra money as savings. These savings generate investment. The countries GDP are increased through these investments. Commercial banks also play on important role in Export & Import sections of the countries through opening of Different letter of credit.

City Bank is one of the oldest private Commercial Banks operating in Bangladesh. It is a top bank among the oldest five Commercial Banks in the country which started their operations in 1983. The Bank started its journey on 27th March 1983 through opening its first branch at B. B. Avenue Branch in the capital, Dhaka city. It was the visionary entrepreneurship of around 13 local businessmen who braved the immense uncertainties and risks with courage and zeal that made the establishment & forward march of the bank possible. Those sponsor directors commenced the journey with only Taka 3.4 crore worth of Capital, which now is a respectable Taka 330.77 crore as capital & reserve.

The bank currently has 92 online branches and 1 SME service centers and 11 SME/Agri branch spread across the length & breadth of the country that include a full-fledged Islami Banking branch. Besides these traditional delivery points, the bank is also very active in the alternative delivery area. It currently has 213 ATMs of its own; and ATM sharing arrangement with partner banks that has more than 1150 ATMs in place; SMS Banking; Interest Banking and so on. It already started its Customer Call Center operation.

In the first chapter of the report I would like to discuss about introduction of the report, its objectives, scope, and methodology of the report where I discuss about different sources of data collection, sampling procedure and method of data analysis and finally limitations of the report in a schedule time line.

In Second chapter I would like to show the overview of The City Bank Limited. Here I would like to discuss about its Background of the City Bank Ltd., mission statement, vision statement and its objectives of City Bank Ltd.

In the third Chapter I would like to mention Foreign Exchange Business, where I generate my practical knowledge and gather a vast experience from The City Bank. In this chapter I would like to disuse about foreign exchange business.

In the fourth chapter show the foreign exchange performance evaluation of The City Bank Limited.

In the chapter five I mention SWOT analysis of The City Bank Limited, where I discuss about different types of strength, different weakness, possible opportunities and threats in my personal view of knowledge.

Finally, findings included a lot of problems that are related to operation of Customer Satisfaction, Legal Constrain and Customer Desire, Bangladesh Banks rules and regulations, customer services, customer behavior. Then I make a conclusion and finally I would like to discuss about my personal views of opportunities to solve the problems.

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1.1 INTRODUCTION

City Bank is one of the oldest private Commercial Banks operating in Bangladesh. It is a top bank among the oldest five Commercial Banks in the country which started their operations in 1983. The Bank started its journey on 27th March 1983 through opening its first branch at B. B. Avenue Branch in the capital, Dhaka city. It was the visionary entrepreneurship of around 13 local businessmen who braved the immense uncertainties and risks with courage and zeal that made the establishment & forward march of the bank possible. Those sponsor directors commenced the journey with only Taka 3.4 crore worth of Capital, which now is a respectable Taka 330.77 crore as capital & reserve.

City Bank is among the very few local banks which do not follow the traditional, decentralized, geographically managed, branch based business or profit model. Instead the bank manages its business and operation vertically from the head office through 5 distinct Units namely

- Business Unit
- Branch Banking
- Risk Unit
- Operations Unit
- Support

Under a real-time online banking platform, these 5 distinct Units are supported at the back by a robust service delivery or operations setup and also a smart IT Backbone. Such centralized business segment based business & operating model ensure specialized treatment and services to the bank's different customer segments.

The bank currently has 92 online branches and 1 SME service centers and 11 SME/Agri branch spread across the length & breadth of the country that include a full-fledged Islami Banking branch. Besides these traditional delivery points, the bank is also very active in the alternative delivery area. It currently has 213 ATMs of its own; and ATM sharing arrangement with partner banks that has more than 1150 ATMs in place; SMS Banking; Interest Banking and so on. It already started its Customer Call Center operation.

City Bank is the first bank in Bangladesh to have issued Dual Currency Credit Card. The bank is a principal member of VISA international and it issues both Local Currency (Taka) & Foreign Currency (US Dollar) card limits in a single plastic. VISA Debit Card is another popular product which the bank is pushing hard in order to ease out the queues at the branch

created by its astounding base of some 400,000 retail customers. The launch of VISA Prepaid Card for the travel sector is currently underway.

City Bank has launched American Express Credit Card and American Express Gold Credit card in November 2009. City Bank is the local caretaker of the brand and is responsible for all operations supporting the issuing of the new credit cards, including billing and accounting, customer service, credit management and charge authorizations, as well as marketing the cards in Bangladesh. Both cards are international cards and accepted by the millions of merchants operating on the American Express global merchant network in over 200 countries and territories including Bangladesh. City Bank also introduced exclusive privileges for the card members under the American Express Selects program in Bangladesh. This will entitled any American Express card members to enjoy fantastic savings on retail and dining at some of the finest establishment in Bangladesh. It also provides incredible privileges all over the globe with more than 13,000 offers at over 10,000 merchants in 75 countries.

City Bank prides itself in offering a very personalized and friendly customer service. It has in place a customized service excellence model called CRP that focuses on ensuring happy customers through setting benchmarks for the bank's employees' attitude, behavior, readiness level, accuracy and timelines of service quality.

City Bank is one of the largest corporate banks in the country with a current business model that heavily encourages and supports the growth of the bank in Retail and SME Banking. The bank is very much on its way to opening many independent SME centers across the country within a short time. The bank is also very active in the workers' foreign remittance business. It has strong tie-ups with major exchange companies in the Middle East, Europe, Far East & USA, from where thousands of individual remittances come to the country every month for disbursements through the bank's large network of 99 online branches and SME service centers.

The current senior management leaders of the bank consist of mostly people form the multinational banks with superior management skills and knowledge in their respective "specialized" areas. The newly launched logo and the pay-off line of the bank are just one initial step towards reaching that point.

1.2 BACKGROUND OF THE STUDY

Internship is an important part for a MBA course. It helps to know about the professional world. An intern works as an employee. So he or she can gather knowledge about the sector in which they worked. For completing my Internship I have selected banking sector, because I am interested on this sector. I make a report on it.

My selected bank is The City Bank limited and I have prepared a report on the "Foreign Exchange sector" and I have briefly described it in the discussion part.

Already The bank is reached one of the leading positions in the banking sectors. It is worldwide bank, so foreigners are easily known and they are interested to transect through this bank. Foreign Exchange market is known as the market in which currencies are traded. The forex market is the largest, most liquid market in the world with an average traded value that exceeds \$1.9 trillion per day and includes all of the currencies in the world. The volume of this market is increasing continuously. There is no central marketplace for currency exchange; trade is conducted over the counter (OTC). The international forex market is open 24 hours a day, five days a week, and these currencies are traded worldwide among the major financial centers of London, New York, Tokyo, Zürich, Frankfurt, Hong Kong, Singapore, Paris and Sydney The forex is the largest market in the world in terms of the total cash value traded, and any person, firm or country may participate in this market.

So I have tried to represent their performance and problems and prospects on the Foreign Exchange.

1.3 SCOPE OF THE STUDY

The report will express about Foreign Exchange Activities of The City Bank Limited. I have got the opportunity to learn about Foreign Exchange Mechanisms that will help to know practical knowledge. The City Bank Ltd is one of the leading Banks in Bangladesh. The scope of the study is quiet wide as this report has covered the Foreign Exchange operation. This report has been prepared through extensive discussion with company employees and annual report. While preparing this report, we had a great opportunity to have depth knowledge in all the Foreign Exchange division activities practiced by the The City Bank Ltd. It also includes the organizational structure and policy of The City Bank Ltd.

1.4 OBJECTIVE OF THE STUDY

Main Objective:

The main objective of the study is to evaluate Foreign Exchange Activities of The City Bank Limited.

Specific Objectives:

The specific objectives are as follows:

- ✦ To identify foreign exchange activities of The City Bank.
- ✦ To evaluate Foreign Exchange performance of The City Bank.
- ✦ To identify Export & Import growth rate of The City Bank
- ✦ To identify Foreign Remittance position of The City Bank.
- ✦ To identify problems (if any) and make recommendations for overcoming those problems.

1.5 METHODOLOGY

The study is an exploratory in nature. Both primary and secondary sources of data have been used in the study. To collect primary data interview method has been used with an unstructured questionnaire. The interview was as more of a discussion method. And other source of data is secondary source of data.

Primary sources of data:

- ✦ Practical experiences.
- ✦ Face to face conversation with bank officials and Customers.
- ✦ Personal Observation.

Secondary sources of data:

- ✦ Annual report of The City Bank limited.
- ✦ Brochures of The City Bank limited.
- ✦ Banks Web site.
- ✦ Organizational charts.
- ✦ Journals and relevant books.

1.6 LIMITATIONS OF THE STUDY

In spite of related peoples willingness we could not avail the full concentration as we supposed to have. The officers are extremely busy with their assigned jobs. And even we had to perform the internship while doing the job. On the way of my study, we have faced the following problems that may be termed as the limitations/shortcoming of the study. The main limitations encountered in producing this report are:

- ✦ The time limitation was the major problem in this study.
- ✦ Difficulty in assessing data of its internal operations.
- ✦ Unavailability of some preceding and latest data.
- ✦ Lack of availability of data.
- ✦ Assessment was limited to most of the corner and thus it was not possible to Observe all issues related with job performance.

2.1 AN OVERVIEW OF THE CITY BANK LIMITED

City Bank is one of the oldest private Commercial Banks operating in Bangladesh. It is a top bank among the oldest five Commercial Banks in the country which started their operations in 1983. The Bank started its journey on 27th March 1983 through opening its first branch at B. B. Avenue Branch in the capital, Dhaka city. It was the visionary entrepreneurship of around 13 local businessmen who braved the immense uncertainties and risks with courage and zeal that made the establishment & forward march of the bank possible. Those sponsor directors commenced the journey with only Taka 3.4 crore worth of Capital, which now is a respectable Taka 330.77 crore as capital & reserve.

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The current senior management leaders of the bank consist of mostly people from the multinational banks with superior management skills and knowledge in their respective "specialized" areas. The newly launched logo and the pay-off line of the bank are just one initial step towards reaching that point.

2.2 VISION, MISSION & VALUES OF THE CITY BANK LIMITED

Vision

The Financial Supermarket with a Winning Culture Offering Enjoyable Experiences

Mission

- ✦ Offer wide array of products and services that differentiate and excite all customer segments
- ✦ Be the “Employer of choice” by offering an environment where people excel and leaders are created
- ✦ Continuously challenge processes and platforms to enhance effectiveness and efficiency
- ✦ Promote innovation and automation with a view to guaranteeing and enhancing excellence in service
- ✦ Ensure respect for community, good governance and compliance in everything we do

Values

- ✦ Result Driven
- ✦ Accountable & Transparent
- ✦ Courageous & Respectful
- ✦ Engaged & Inspired
- ✦ Focused on Customer Delight

2.3 OBJECTIVES OF THE CITY BANK

Bangladesh is now an integral part of global market. As such there is an urgent requirement for Bangladesh to place the traditional Banking practices in harness with the global trades of a free market economy by following international Banking customs, practices and standards. Today clients of a Bank in Bangladesh are exposed as well as international markets. They have to stay update with their practice and standards to meet the demands of achieving harmony in the high standards of a free economy. Hence, by getting into both corporate and retail Banking and rapid innovation and networking the Bank believes that it can accomplish its goals.

The City Bank fully appreciates the importance and implication of the rapidly emerging competition in the Banking and finance sector of Bangladesh. It intends financing its customer Suited to his or her place in the market. In this regards The City Bank emphasizes in its employment the software aspects of human resource capability. It also emphasizes competence among its Banking professional to cater to varied customer requirements to the modern time.

The core objectives are:-

- ✦ To carry on, Transact, undertake and conduct the business of Banking in all its branches and to transact and do all matters and things incidental there to in Bangladesh and abroad.
- ✦ To receive, borrow or raise money on deposits, loan or otherwise, upon such terms as the Company may approve and to give guarantees and indemnities in respect of all debts and contracts.
- ✦ To establish welfare oriented Banking systems.
- ✦ To play a vital role in human development and employment generation.
- ✦ To invest money in such manner as may from time to time be thought proper.

2.4 AWARD AND ACHIEVEMENT OF THE CITY BANK

From energy to infrastructure to SME & Consumer financing, City Bank has been at the forefront of many pioneering initiatives that have helped making its individuals smiling and also helped build today's Bangladesh. For 31 years, we've enabled clients to realize their ambitions using our expertise to provide innovative and dependable solutions. We are proud of our many awards and accolades that inspire us to continuously lead the way and shape the future of banking in Bangladesh and abroad.

Best Bank in Bangladesh



Best Internet Bank in Bangladesh



Strongest Bank in Bangladesh



Global Marketing Award



Best Online Banking Initiative of the Year - Bangladesh



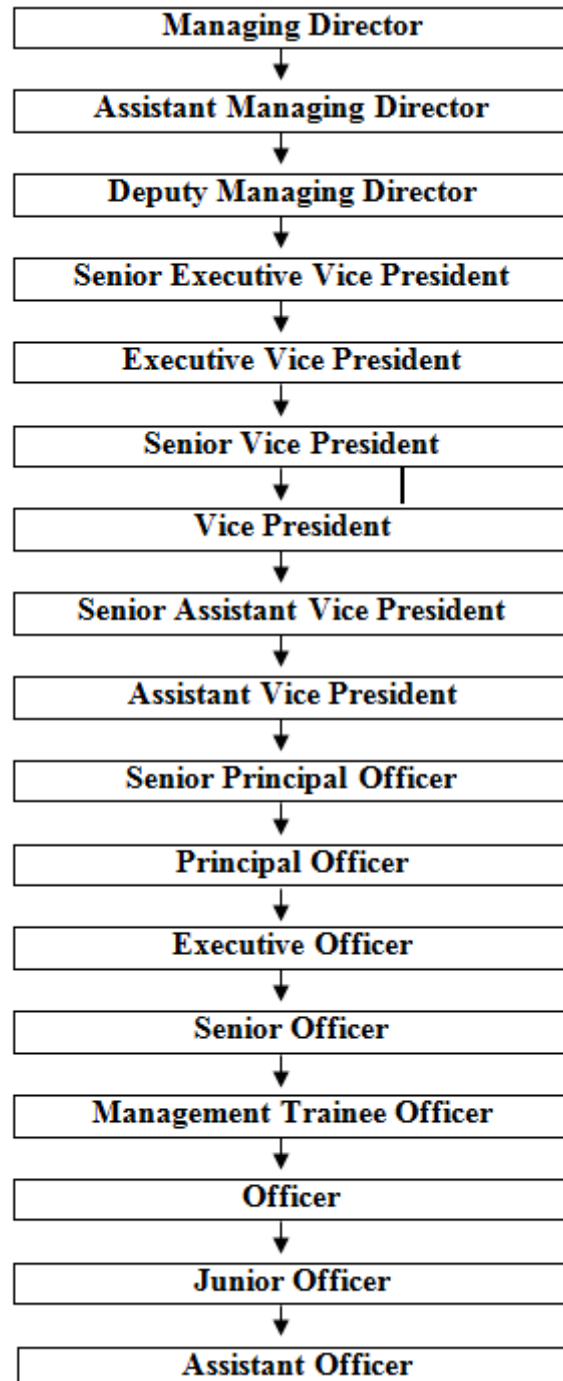
Best Corridor Collaboration



Domestic Retail Bank of the Year - Bangladesh



2.5 ORGANOGRAM OF THE CITY BANK LIMITED



2.6 PRODUCTS & SERVICES OF THE CITY BANK LIMITED

2.6.1 CITY BANK RETAIL BANKING

One of the most remarkable success stories of last 50 years' banking industry globally has been the conceptualization and innovative execution of banking with individual customers, their friends & families. The industry has termed it as Retail Banking or Personal Banking or Consumer Banking; and it has now - at a very rapid pace – become the major revenue line for most of the top banks in the world.

City Bank, too, recently has started its journey in Retail Banking. “City Retail - add a little city to your life” is the new brand-mantra, the pay-off line for City Retail.

Our aim is clear. We want City Bank to become the most preferred bank to all individual clientele of the country, at least of the cities and towns where we operate. We want to provide our customers the best-in-class services, innovative products and financial solutions from smart outlets - all with a big smile that conveys and generates happiness all the way!

Deposit	Loan	NFB	Card
<ul style="list-style-type: none"> > Current Account > Savings Account > City Savings Delight > City Onayash > City Shomridhdhi > City Projonmo > City Ichchapurun > City Bunon > City Digoon Praptee > City Youth School Plan > City Youth College Plan > Fixed Deposit 	<ul style="list-style-type: none"> > City Drive > City Solution > City Express > City Double > City Scholar > City Home 	<ul style="list-style-type: none"> > Student File > Medical File > City Wallet > i-Banking > Locker Service 	<ul style="list-style-type: none"> > Debit Card → Visa Debit Card → MasterCard Debit Cards > Credit Card → The American Express® Cards → VISA Platinum Card → VISA Classic Local → VISA Classic Dual → VISA Gold Local → VISA Gold Dual > The CityMaxx Card

2.6.2 CITY BANK CORPORATE BANKING

City Bank is a major player in Bangladesh wholesale banking industry to offer the full scope of innovative, customized solutions and services. We offer service at the highest level. Our focus is not on short-term profit, but on building long-term relationships and standing by our clients whenever they need us.

We have a unique business focus on enabling project financing, trade, investment and supply chain financing for clients. We aim to be a one-stop gateway for corporate and financial institutions looking to extend their business. And we are committed to using our country wide network to facilitate our clients' growing trade and investment flows and supply chain financing needs across our business footprint.

We focus exclusively on corporate and institutional clients domiciled or conducting business in our footprint, offering clients access to our extensive branch network and award-winning suite of state of the art services.

City Bank fully understands the importance of time, convenience and efficiency to the success of your business. We make easy the complex financial world for you and help you maximize every opportunity.

- Working Capital Finance
- Trade Finance
- Short/Mid-Term Finance
- Project Finance
- Islamic Finance
- Structured Finance
- Cash Management
- Investment Banking

2.6.3 CITY BANK SME BANKING

SME Banking of City Bank is assuming a new and modern dimension. It is entering in to a wider horizon. The philosophy of extending banking services to SME's of the country is to meaningfully push every one of them up to the next level of respective business operations. The upward push would be meaningful as they would be business wise competitive for a sustainable future. It is therefore would be turning in to an abode of SME's to grow to the next level. Hence, the bank has named it City Business - for taking SME's to the next level.

For the first time in the history of CityBank, SME Banking business processes are going to be driven thru a centralized platform model. This is a fundamental move away from a 25 years legacy system of decentralized geography based branch banking model.

- CITY Muldhan
- CITY Sheba
- CITY Shulov
- City Munafa
- City Nokshi
- City Agro

2.6.4 CITY MANARAH - ISLAMIC BANKING

City Bank introduces City Manarah - Islamic Banking. City Manarah is here to guide you and manage your finances in a fully Islamic Shariah Compliant way. It offers a wide variety of deposit and investment products such as Manarah Savings, Manarah Current, Manarah Term Deposit and Manarah Monthly Deposit Schemes. Each account is designed to meet your financial needs with best value for your money.

For your better understanding please take a closer look at all the Manarah deposit and investment products and also visit your nearest branch at Dhaka, Chittagong, Sylhet, Comilla, Rajshahi and Khulna for Islamic Banking services and products

- Manarah Current Account
- Manarah Savings Account
- Manarah Term Deposit Receipt
- Manarah Monthly Deposit Scheme
- Manarah Personal Finance
- Manarah Auto Finance
- Manarah Hajj Deposit Scheme

2.6.5 CITY BANK TREASURY & MARKET RISK DIVISION

City Bank has a dedicated Treasury team who is capable of providing all treasury Solutions. Through our foreign correspondent business partners CBL is providing a wide range of Treasury products. In CBL Treasury, there are four teams who are specialized in their own area to ensure the best possible solution to our customer requirement. CBL has following teams in the Treasury:

01. Foreign Exchange (Local & G7)
02. Money Market
03. Corporate Sales
04. ALM & Market Research

Each team is dedicated to provide best solutions to their respective areas. Through our four dedicated team we provide the following services:

01. Client Solution & Risk Management

- Hedging solutions against adverse market movements
- Advice on efficient hedging policy
- Structured products to match customers' needs
- Corporate Advisory Services

02. Product Range

- Foreign Exchange
 - i. Local Currency spot & Forward*
 - ii. G7 Spot & Forward
- Money Market
 - i. Call Money
 - ii. Term Deposits
 - iii. Securities (T-Bills, T-Bonds)
 - iv. Repo & Reverse Repo

- Foreign Exchange & FC Interest Rate SWAP
- Foreign Currency & Commodity Derivatives

03. Market Information & News Update

- Economic Research & Technical Analysis
- Market Report (Daily, Quarterly & Half Yearly)

Treasury services of City Bank

- Overnight Deposits
- Term Deposits
- Foreign Exchange (Forex)
- Local Currency Spot & Forward
- Derivatives

Overnight Deposits

Funds which are placed / borrowed for overnight are known as overnight deposit. Rates of the overnight deposit are fixed on a daily basis and the rate keeps on changing on the basis of demand and supply of any day. It is used to meet up the daily fund management of all financial institutes. Overnight deposit is also known in the market as call deposit. CBL is an active participant of the inter-bank call market. CBL injects market liquidity and plays an important role in the inter - bank call money market.

Benefits:

- Due to the nature of product it has minimum credit risk as the tenor is overnight.
- Very effective tool to manage daily liquidity management.
- Call money rates indicates the market liquidity.
- Traded in bulk volume.

Term deposit

A deposit held at a financial institution that has a fixed term. These are generally short-term with maturities ranging anywhere from a month to a year. When a term deposit is account are opened, the lender/borrower understands that the money can only be withdrawn after the term has ended or by giving a predetermined number of days' notice.

Inter-bank term deposits are considered as relatively safe investment and these are especially very appealing to conservative, low-risk investors who are expecting an adverse interest rate movement.

CBL has a strong presence in the inter-bank term deposits and Mudaraba Term deposits market. Due to our presence in both conventional banking and Shraiah banking CBL is one of the liquidity providers in the inter-bank Term deposit market.

Benefits:

- Due to its nature of fixed term, it minimizes interest rate risk during the tenor of the deposit.
- Helps to manage Balance Sheet Gap.
- Reduce too much dependency on call market thus helps to manage regulatory liquidity requirement.
- Depending on the forward yield curve can be used to maximize returns on investment.

Foreign Exchange (Forex)

Foreign Exchange market is known as the market in which currencies are traded. The forex market is the largest, most liquid market in the world with an average traded value that exceeds \$1.9 trillion per day and includes all of the currencies in the world. The volume of this market is increasing continuously.

There is no central marketplace for currency exchange; trade is conducted over the counter (OTC). The international forex market is open 24 hours a day, five days a week, and these currencies are traded worldwide among the major financial centers of London, New York, Tokyo, Zürich, Frankfurt, Hong Kong, Singapore, Paris and Sydney

The forex is the largest market in the world in terms of the total cash value traded, and any person, firm or country may participate in this market.

Local Currency Spot & Forward

Our currency is not fully convertible thus it is not traded across the world. Our currency BDT is traded in our local market and this market is regulated as per our foreign exchange regulation and central bank core risk management guidelines.

The City Bank Ltd. is very active in the inter-bank USDBDT market and one of the leaders among the local private banks. CBL treasury provides market information and competitive price in USDBDT. It has wide source of foreign currency through its Exporter, Exchange Houses and different local and multinational corporate customers. Its dedicated local currency desk is designed to provide tailor made solution for USDBDT trade.

Spot & Forward both are used to manage foreign exchange risk. Forwards, especially in our economy where our local currency BDT devalues periodically against USD, is very popular among the importer to hedge BDT devaluation risk.

Major Currency Spot & Forward

CBL also well equipped to price world major currency spot & forward price. CBL treasury is connected to the international market quotes very competitive prices on world major currency spot & forwards.

Derivatives

In finance, a security whose price is dependent upon or derived from one or more underlies assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage.

Futures contracts, forward contracts, options and swaps are the most common types of derivatives. Because derivatives are just contracts, just about anything can be used as an underlying asset. There are even derivatives based on weather data, such as the amount of rain or the number of sunny days in a particular region.

Derivatives are generally used to hedge risk, but can also be used for speculative purposes.

CBL Treasury team has a verity of derivatives products for its corporate customers:

01. Foreign Exchange

- Options
- SWAPS
- Forwards

02. Interest Rate Swap

03. Commodity Derivatives

- Commodity Options
- Commodity Forwards
- Commodity Futures
- Commodity SWAP.

3.1 WHAT IS INTERNATIONAL TRADE?

All claims to foreign currency payable abroad, whether in the form of balances held with banks abroad, or bills of exchange, cheques, drafts, securities and similar instruments payable abroad in foreign currency are treated foreign Trade. International Trade refers to exchange of goods and services that take place along international boundaries.

International Trade and International Movement of money & capital are the main objective of foreign exchange dealings. Foreign Exchange, like as foreign trade is a part of Economics, deals with the means and methods by which rights to wealth in one country's currency are converted into those of another country's currency.

3.2 WHY A COUNTRY WANTS TO GO FOR FOREIGN TRADE?

No country in this world is in a position to produce everything in quantities to large enough to provide its people to a reasonable high standard of living. Under this circumstance a country enters into international trade with other countries in order to fulfill its deficit of its merchandise in comparison to the demand of its population. The deficit happened due to:

- ✦ Comparative advantage between countries
- ✦ Absolute advantage of one country on a particular product
- ✦ Specialization of any product.
- ✦ To minimize opportunity cost.
- ✦ Expanded trading opportunities
- ✦ Favorable exchange rates
- ✦ Economic development, National income, savings, employment and investment.

3.3 THE FACTORS OF BANGLADESH FOREIGN EXCHANGE & FOREIGN TRADE DETERMINE BY:

- ✦ Deficit in Trade account since independence though the situation has changed a lot.
- ✦ Unfavorable terms of trade (rising import, instability in export earning)
- ✦ Inward looking trade policy (import substitution)
- ✦ Necessity of incentives to exporters
- ✦ Vast range of import goods, on the other hand limited export goods.
- ✦ Depreciation/ devaluation of local currency

3.4 RISKS IN INTERNATIONAL TRADE:

Companies doing business across international borders face many of the same risks as would normally be evident in strictly domestic transactions. For example,

- ✦ Buyer insolvency (purchaser cannot pay)
- ✦ Non-acceptance (buyer rejects goods as different from the agreed upon specifications)
- ✦ Credit risk (allowing the buyer to take possession of goods prior to payment)
- ✦ Regulatory risk (e.g., a change in rules that prevents the transaction)
- ✦ Intervention (governmental action to prevent a transaction being completed)
- ✦ Political risk (change in leadership interfering with transactions or prices)

3.5 SOME IMPORTANT TERMS RELATES TO INTERNATIONAL TRADE:

1) Balance of trade:

Balance of trade refers to the net difference between the value of exports and imports of commodities /visible item of a country for a certain period of time (normally one year). When the difference is in excess of exports over import the country is said to have a favorable balance of trade and when imports are more than the exports it is said that the country is having an unfavorable balance of trade.

2) Balance of payment:

Balance of payment of a country is a systematic record of all economic transactions between the resident of that country and the residents of another country during a given period of time (normally one year). Thus the balance of payment includes both visible and invisible items of foreign trade. i.e. balance of payment includes balance of trade and other invisible items of foreign trade. The invisible items are service received from consultancy/ shipping line/insurance, foreign investment, loans & aids etc.

3) Foreign exchange:

It refers to the process or mechanism by which the currency of one country is converted into the currency of another country. i.e. it the method by which rights to wealth in a country's currency converted into the rights to wealth in another country's currency.

4) Authorized dealer:

As per foreign exchange regulation Act 1947 Bangladesh Bank gives authorization to some branches of some schedule bank to perform foreign exchange and foreign trade, they are known as authorized dealer.

3.6 LETTERS OF CREDIT SIMPLY DEFINED

Definition

In simple terms, a letter of credit is a bank undertaking of payment separate from the sales or other contracts on which it is based. It is a way of reducing the payment risks associated with the movement of goods. Expressed more fully, it is a written undertaking by a bank (issuing bank) given to the seller (beneficiary) at the request, and in accordance with the buyer's (applicant) instructions to effect payment — that is by making a payment, or by accepting or negotiating bills of exchange (drafts) — up to a stated amount, against stipulated documents and within a prescribed time limit.

Why use a Letter of Credit?

The need for a letter of credit is a consideration in the course of negotiations between the buyer and seller when the important matter of method of payment is being discussed. Payment can be made in several different ways: by the buyer remitting cash with his order; by open account whereby the buyer remits payment at an agreed time after receiving the goods; or by documentary collection through a bank in which case the buyer pays the collecting bank for account of the seller in exchange for shipping documents which would include, in most cases, the document of title to the goods. In the aforementioned methods of payment, the seller relies entirely on the willingness and ability of the buyer to effect payment. When the seller has doubts about the credit-worthiness of the buyer and wishes to ensure prompt payment, the seller can insist that the sales contract provides for payment by irrevocable letter of credit. Furthermore, if the bank issuing the letter of credit (issuing bank) is unknown to the seller or if the seller is shipping to a foreign country and is uncertain of the issuing bank's ability to honor its obligation, the seller can, with the approval of the issuing bank, request its own bank or a bank of international repute such as HSBC bank to assume the risk of the issuing bank by confirming the letter of credit.

3.6.1 Types of Letters of Credit

Basic Types of Letters of Credit

There are three basic features of letters of credit, each of which has two options. These are described below. Each letter of credit has a combination of each of the three features.

Sight or term

Letters of credit can permit the beneficiary to be paid immediately upon presentation of specified documents (sight letter of credit), or at a future date as established in the sales contract (term or usance letter of credit).

Revocable or Irrevocable

Letters of credit can be revocable. This means that they can be cancelled or amended at any time by the issuing bank without notice to the beneficiary. However, drawings negotiated before notice of cancellation or amendment must be honored by the issuing bank. An irrevocable letter of credit cannot be cancelled without the consent of the beneficiary.

Unconfirmed or Confirmed

An unconfirmed letter of credit carries the obligation of the issuing bank to honor all drawings, provided that the terms and conditions of the letter of credit have been complied with. A confirmed letter of credit also carries the obligation of another bank which is normally located in the beneficiary's country, thereby giving the beneficiary the comfort of dealing with a bank known to him.

To The Exporter/Seller

- Letters of credit open doors to international trade by providing a secure mechanism for payment upon fulfillment of contractual obligations.
- A bank is substituted for the buyer as the source of payment for goods or services exported.
- The issuing bank undertakes to make payment, provided all the terms and conditions stipulated in the letter of credit are complied with.

- Financing opportunities, such as pre-shipment finance secured by a letter of credit and/or discounting of accepted drafts drawn under letters of credit, are available in many countries.
- Bank expertise is made available to help complete trade transactions successfully.
- Payment for the goods shipped can be remitted to your own bank or a bank of your choice.

To the Importer/Buyer

- Payment will only be made to the seller when the terms and conditions of the letter of credit are complied with.
- The importer can restrict the shipping dates for the goods being purchased.
- Cash resources are not tied up.

SPECIAL TYPES OF LETTERS OF CREDIT

So far a description has been provided of the basic types of letters of credit used to cover the shipment of goods. In addition to these basic types, there are various specialized formats which meet particular sets of circumstances.

Red Clause Letter of Credit

A red clause letter of credit incorporates a clause, traditionally written in red, which authorizes the bank acting as the negotiating or paying bank to pay the beneficiary in advance of shipment. This enables the purchase and accumulation of goods from a number of different suppliers, and the arrangement of shipment in accordance with the letter of credit terms. Such advances will be deducted from the amount due to be paid when the documents called for are presented under the letter of credit. If the beneficiary fails to ship the goods or cannot do so before the expiry of the letter of credit, the issuing bank is bound to reimburse the negotiating or paying bank, recovering its payment from the applicant. Variations of such credits may also require that any advances be secured by temporary warehouse receipts until shipment is affected. Beneficiaries of red clause letters of credit are invariably brokers/agents of buyers in a particular field.

Transferable Letter of Credit

A transferable letter of credit allows the beneficiary to act as a middleman and transfer his rights under a letter of credit to another party or parties who may be suppliers of the goods.

Depending on whether the letter of credit permits partial shipments, fractional amounts may be transferred to more than one beneficiary. The letter of credit however, can be transferred only once: the secondary beneficiaries cannot transfer their rights to a third party. Transfer of a letter of credit can be made on specific application by the original beneficiary to the authorized transferring bank. To be transferable, a letter of credit must be so marked by the issuing bank which can only do so on the applicant's specific instructions. The applicant should be aware that any second beneficiary, the probable supplier, is usually a party not likely known to the applicant. The terms and conditions of the transferred letter of credit must be identical to those of the original letter of credit with the following exceptions:

- The original beneficiary may be shown as the applicant on the transferred credit.
- The amount of the letter of credit, and unit prices if any, may be less than in the original letter of credit (the difference being the original beneficiary's profit margin).
- The latest shipment date, if any, and expiry date as shown on the original letter of credit should be shortened.
- The percentage of insurance coverage, if any, should be increased to satisfy the requirements of the original letter of credit.

Back-to-Back Letter of Credit

The Bank opened it for import L/C against export L/C through foreign exchange and this branch received by export oriented industrial units opening advice the beneficiary under the bonded warehouse systems, subject to observance of domestic value addition requirement prescribed by the NBR/Ministry of Commerce from time to time. The following instruction should be complied with while opening Back to Back L/C:

- ✦ The unit requesting for this facility should process valid IRC, ERC and valid bonded warehouse license.
- ✦ The branch will hold the export L/C affixing bank lien stamp thereon and be kept in safe for security purpose.
- ✦ The export L/C should have validity period adequate to the time needed for importation for inputs, manufacture of merchandise and shipment of consignee.
- ✦ The Back to Back L/C will have to open up to 180 days issuance basis except in case of those opened against Export Development Fund Administration by Bangladesh.
- ✦ Interest for the issuance period will not exceed LIBOR or the equivalent interest rate in the currency of settlement

Deferred Payment Letter of Credit

Under a deferred payment letter of credit, the applicant does not pay until a future date determined in accordance with the terms of the letter of credit. No drafts are called for, which avoids “stamp duties” charged by some countries on bills of exchange (drafts). One reason an exporter might extend credit terms to an importer could be the competitiveness of the market and the need for the exporter to finance the importer if the exporter is to make the sale.

OTHER TYPES OF LETTERS OF CREDIT

The letters of credit described thus far cover the movement of goods from one destination to another. There are other types of letters of credit which are not specifically related to the movement of goods. The principal one is as follows:

Standby Letters of Credit

Standby letters of credit may apply in general to transactions which are based on the concept of default by the applicant in performance of a contract or obligation. In the event of default, the beneficiary is permitted to draw under the letter of credit. Standby letters of credit may be used as a substitute for performance guarantees, or issued to guarantee loans granted by one firm to another, thereby securing payment to the creditor in the event the other party fails to repay its obligation on the due date. Even if the applicant claims to have performed, the bank issuing the letter of credit is obliged to make payment provided the beneficiary produces complying documents, usually a sight draft, and a written demand for payment.

3.6.2 STEPS IN AN IMPORT LETTER OF CREDIT TRANSACTION

The Sales Contract

The sales contract is the formal agreement between the buyer and seller specifying the terms of sale that both parties have agreed upon. The contract should include: a description of the goods; the amount; the unit price; the terms of delivery; the time allowed for shipment and presentation of documents; the currency; and the method of payment.

Application & Agreement

The bank’s letter of credit application and agreement forms, when executed, constitute a payment and reimbursement contract between the issuing bank and its customer. It is also the

customer's instruction to the issuing bank. The letter of credit must be issued exactly in accordance with the customer's instructions; therefore, it is important that the application be completed fully and accurately, so as to avoid the inconvenience of having to have the letter of credit amended. The agreement constitutes an undertaking by the customer to reimburse the issuing bank for drawings paid in accordance with the terms of the letter of credit, and normally takes the form of an authorization to debit the customer's account.

Issuance of the Letter of Credit

The issuing bank prepares the letter of credit as specified in the application and forwards it by telephonic transmission or airmail to the advising bank, (a branch or correspondent of the issuing bank). The issuing bank instructs the advising bank as to whether or not to add its confirmation, as per their customer's instructions.

Advising

The advising bank forwards the letter of credit to the beneficiary (seller) stating that no commitment is conveyed on its part. However, if the advising bank has been asked to confirm the letter of credit and agrees to do so, it will incorporate a clause undertaking to honor the beneficiary's drafts, provided the documents evidence that all terms and conditions of the letter of credit have been complied with.

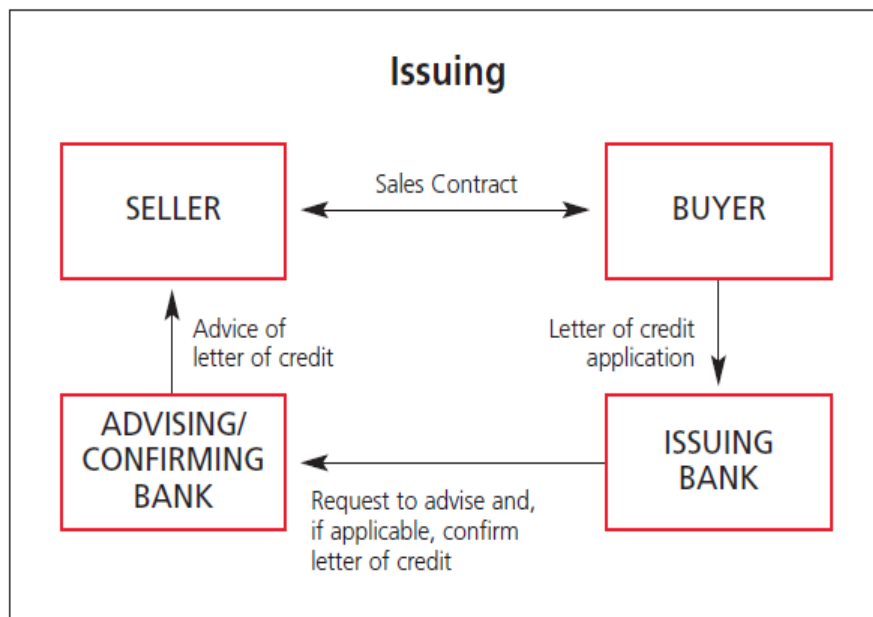


Figure 3.1: Import L/C process

3.6.3 DOCUMENTS USUALLY REQUIRED UNDER A LETTER OF CREDIT

There is no limit to the number and variety of documents which letters of credit may stipulate. The following is a list of documents most commonly seen in a letter of credit transaction. Each document is described in brief with a check-list for preparing the document. As already stated, the beneficiary should, on first being advised of the letter of credit, examine it carefully and be satisfied that all the documentary requirements can be complied with. Unless the documentary requirements can be strictly complied with, the beneficiary may not receive payment from the issuing bank. If there are any requirements that cannot be complied with, the beneficiary should immediately request the applicant to arrange for an appropriate amendment to the letter of credit.

DRAFT

- A draft is a bill of exchange and a legally enforceable instrument which may be regarded as the formal evidence of debt under a letter of credit. Drafts drawn at sight are payable by the drawee on presentation. Term (usance) drafts, after acceptance by the drawee, are payable on their indicated due date.
- Drafts must show the name of the issuing bank and the number and date of the letter of credit under which they are drawn.
- Drafts must be drawn and signed by the beneficiary of the letter of credit.
- The terms of the draft must be expressed in accordance with the tenor shown in the letter of credit; e.g., at sight or at a stated number of days after bill of lading/shipment date.
- The amount in words and figures must agree and be within the available balance of the letter of credit and in the same currency as the letter of credit.
- The amount must agree with the total amount of the invoices unless the letter of credit stipulates that drafts are to be drawn for a given percentage of the invoice amount.

Commercial Invoice

The commercial invoice is an itemized account issued by the beneficiary and addressed to the applicant, and must be supplied in the number of copies specified in the letter of credit.

Checklist

- The invoice description of the goods must be identical to that stipulated in the letter of credit.

- ❑ Unit prices and shipping terms, ie., CIF, FOB, etc., must be as stipulated in the letter of credit. Extensions and totals should be checked for arithmetical correctness. For definitions of CIF, FOB etc.

Consular or Customs Invoice

A consular or customs invoice is prepared by the beneficiary on forms either supplied by the buyer or local consulate offices. Checklist

- ❑ Consular invoices must be visaed (officially stamped) and signed by a consular officer of the importing country and be supplied in the official form and number of copies as stipulated in the letter of credit. All headings of the forms must be completed.
- ❑ The value of goods required must agree with that shown on the commercial invoice.

Bill of Lading

A bill of lading is a receipt issued by a carrier for goods to be transported to a named destination, which details the terms and conditions of transit. In the case of goods shipped by sea, it is the document of title which controls the physical custody of the goods. There are two different types of bill of lading:

- ❑ A STRAIGHT BILL OF LADING is one that names a specific consignee to whom goods are to be delivered. It is a non-negotiable document.
- ❑ An ORDER BILL OF LADING is one that is written “to order” or to order of a named party making the instrument negotiable by endorsement. Letters of credit usually call for an order bill of lading blank endorsed, meaning the holder of the bill of lading has title to the goods.
- ❑ Given that each bill of lading must be either “straight” or “order”, the following is a list of more common types of bill of lading:
 - ❑ An OCEAN BILL OF LADING is one issued by an ocean carrier in sets, usually three signed originals comprising a complete set, any one of which gives title to the goods. Ocean bills of lading may be issued in “straight” or “order” form.
 - ❑ A SHORT FORM BILL OF LADING is one issued by a carrier which does not indicate all the conditions of the contract of carriage. This is acceptable unless otherwise specified in the letter of credit.
 - ❑ A CHARTER PARTY BILL OF LADING is one which shippers may, when large or bulk cargoes are concerned, lease the carrying vessel for a stated time or specific voyage under a charter party contract with the owner. Goods carried are then covered

under a form of bill of lading issued by the charterer and indicate as being shipped, subject to the term and conditions of the charter party. Charter party bills of lading are not acceptable unless specifically authorized by the letter of credit.

- A MULTIMODAL TRANSPORT DOCUMENT is one covering shipments by at least two different modes of transport.
- Ensure that the port of loading and port of discharge are as stipulated in the letter of credit.
- The shipment must be consigned in the manner stipulated in the letter of credit.
- A general description of the goods is acceptable if consistent with but not necessarily identical with the description specified in the letter of credit and other documents.
- If the letter of credit calls for an “on board” bill of lading, it must be evidenced by a “shipped on board” bill of lading, or by marked or stamped “on board” notation indicating the date the goods were loaded on board.
- If the letter of credit stipulates that freight is to be prepaid; or if the invoice is priced CIF or CFR; or if the ocean freight has been added to the FOB or FAS value: the bill of lading must be marked “freight paid” or “freight prepaid”. Expressions such as “freight to be paid” or “freight payable” are not acceptable.
- The bill of lading must be “clean”. Any superimposed marking indicating a defect in the packaging or condition of the goods renders the bill of lading “unclean” and unacceptable.
- Bills of lading indicating goods shipped “on deck” are not acceptable unless specifically allowed in the letter of credit.
- The total number of packages comprising the shipment, shipping marks and numbers, and any gross weight must agree with those on the commercial invoice and other documents.
- Letters of credit should stipulate a period of time after date of issue of the bill of lading or other shipping document for presentation of drawings. If no such period is specified, banks will refuse documents and consider them to be stale dated if presented later than 21 days after the date of “on board” endorsement, or, in the case of a shipped bill of lading or other shipping document, 21 days after the date of issue.
- The bill of lading is to cover only goods described in the invoice and specified in the letter of credit.
- Any correction or alteration must be initialed by the party signing the bill of lading.

- The name of the carrier must appear on the front of the bill of lading where the particulars of the shipment are shown.
- If the bill of lading is signed by an agent, the name of the agent as well as the name of the carrier must be shown.

Air Waybill

An air waybill is a receipt issued by an air carrier indicating receipt of goods to be transported by air and showing goods consigned to a named party. Being a non-negotiable receipt it is not a document of title.

Checklist

- Only the goods invoiced and specified in the letter of credit may be covered by the air waybill.
- If the letter of credit stipulates that freight is to be prepaid; or if the invoice is priced CIF or CFR; or if freight is otherwise included in the invoice: the air waybill must indicate that freight has been paid.
- The airport of departure and airport of destination must be as stipulated in the letter of credit.
- The number of packages and gross weight shown on the air waybill must be consistent with the other documents.
- An air waybill issued by a forwarder is not acceptable.

Insurance Policy or Certificate

Under the terms of a CIF contract, the beneficiary is obliged to arrange insurance and furnish the buyer with the appropriate insurance policy or certificate. The extent of coverage and risks should be agreed upon between the buyer and seller in their initial negotiations and be set out in the sales contract. Since the topic of marine insurance is extremely specialized and with conditions varying from country to country, the services of a competent marine insurance broker are useful and well-advised.

- If the letter of credit calls for an insurance policy, an insurance certificate is not acceptable and the policy must be provided. Broker's cover notes are not acceptable unless specifically allowed in the letter of credit.
- If the insurance policy or certificate indicates that it is issued in duplicate, both copies must be presented.

- Unless the amount to be insured is stipulated in the letter of credit, the amount should cover at least the CIF value plus 10 percent if invoiced in those terms. Otherwise, the amount should be for the greater of the draft amount or the total invoice value plus 10%.
- The amount insured must be expressed in the same currency as the letter of credit.
- The description of the goods insured must be consistent with that in the other documents although not necessarily identical.
- The number of packages comprising the shipment and shipping marks and numbers must agree with those shown on the invoice and bill of lading.
- The name of the carrying vessel, port of loading and port of discharge must agree with those shown on the bill of lading.
- The insurance document must cover transshipment if transshipment is indicated on the bill of lading.
- The insurance document must cover specifically those risks stipulated in the letter of credit. The “all risks” clause in the insurance document does not cover risks of war, which must be separately shown as covered,

If required by the letter of credit.

- Unless the letter of credit specifies to whom loss is to be payable, the insurance document must be endorsed by the party to whose order it is made so as to be in negotiable form.
- The date of the insurance document should not be later than the date of shipment as shown by the bill of lading or other transport document. However, the insurance document may be dated after the date of shipment provided it evidences that cover is effective from date of dispatch i.e., by way of “warehouse to warehouse” clause.
- Any alterations or corrections to the insurance document must be initialed by the party signing the document.
- The insurance document must be signed by an authorized person.
- The foregoing are the most common documents usually called for in an export letter of credit. The following may also be asked for to satisfy government requirements or for the convenience of the buyer.

Certificate of Origin

As the name suggests, a certificate of origin certifies as to the country of origin of the goods described and should comply with any stipulations in the letter of credit as to originating country and by whom the certificate is to be issued. The certificate should be consistent with and identified with the other shipping documents by shipping marks and numbers, and must be signed.

Inspection Certificate

When a letter of credit calls for an inspection certificate it will usually specify by whom the certificate is to be issued; otherwise, the same general comments as in the case of the certificate of origin apply. As a preventative measure against fraud or as a means of protecting the buyer against the possibility of receiving substandard or unwanted goods, survey or inspection certificates issued by a reputable third party may be deemed prudent. Such certificates indicate that the goods have been examined and found to be as ordered.

Packing List

A packing list is usually requested by the buyer to assist in identifying the contents of each package or container. It must show the shipping marks and number of each package. It is not usually required to be signed.

3.6.4 STEPS IN AN EXPORT LETTER OF CREDIT TRANSACTION

Shipment of Goods

Upon receiving the letter of credit, the beneficiary should examine it carefully and be satisfied that all the terms and conditions can be complied with. If this is not possible, the beneficiary should request the applicant to arrange an amendment to the letter of credit. Once completely satisfied, the beneficiary will then be in a position to assemble and ship the goods.

Presentation of Documents by Beneficiary

The beneficiary prepares an invoice in the number of copies required, with the description of goods shown exactly as stipulated in the letter of credit. The beneficiary obtains the bill of lading and/or other transport documents from the carrier and prepares and/or obtains all other documents required by the letter of credit. These are attached to the draft, drawn on the bank indicated and at the term stipulated in the letter of credit, and are presented to the advising/confirming/negotiating bank.

Sending Documents to the Issuing Bank

The advising/confirming/negotiating bank checks the documents presented by the seller against the letter of credit. If the documents meet the requirements of the letter of credit, that bank will send them to the issuing bank, claiming reimbursement and paying the seller.

Delivering Documents to the Applicant

The issuing bank will also check the documents for compliance and then deliver them to the applicant either against payment or as an undertaking to pay on maturity of the drawing under the letter of credit.

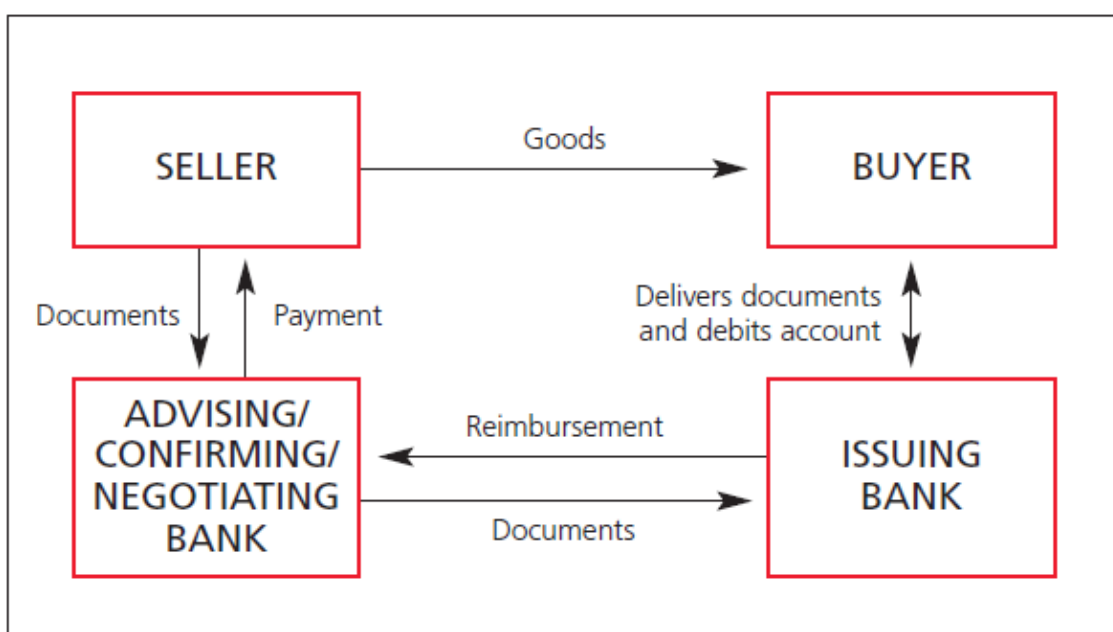


Figure 3.2: Export L/C process

3.6.5 PAYMENT PROCEDURE

Payment

On presentation of the documents called for under the letter of credit, provided they are in compliance with its terms, the advising/negotiating bank, in the case of an unconfirmed letter of credit, may pay/negotiate the draft. In the case of a confirmed letter of credit, the confirming bank is obliged to honor the drawing without recourse to the beneficiary.

Reimbursement

The advising/confirming/negotiating bank will claim reimbursement from the issuing bank.

Settlement

On receipt of conforming documents, the issuing bank will also be responsible for checking documents and will charge the applicant's account under the terms of the letter of credit application and agreement forms, effecting reimbursement to the negotiating bank.

3.7 FOREIGN EXCHANGE ACTIVITY OF THE CITY BANK

Trade Finance

City Bank's trade finance is tailored to meet the individual needs of your business. We can help even if your company has limited unstructured credit lines, due to reasons such as limited financial resources or sudden spike requirements. That's because our risk evaluation focuses more on your performance track record, existing performance and collateral valuation.

Imports Letter of credit

When buying goods from overseas suppliers, you will wish to receive the goods as ordered in the right quantity, on time and at the designated place. You will also wish to make payments only after receipt of the required documents including the title of goods.

We can solve your needs by issuing a documentary credit on your behalf. A documentary credit is our Bank's guarantee of payment for a shipment of goods against specific documents as stipulated on it.

By using a Letter of Credit, we will only make payment after receipt of titles and other documents that should fully comply with the terms of the credit. You can enjoy a safer and cheaper alternative to making advance payment or deposits

Back-To-Back Letter of Credit:

If you are an intermediary and your supplier wants to sell on documentary credit term only, you may apply for the issuance of a Back-to-Back Letter of Credit from us against the export Letter of Credit.

A Back-to-Back Letter of Credit is issued against the export credit (the master credit), but the terms and conditions may not be the same as the export credit. You must submit your own draft and invoice, together with the other shipping documents presented by your supplier to secure

payment under the export credit. After processing, you will have the export proceeds to pay your supplier and the balance credited to your account.

Deferred Letter of Credit:

A DC which allows the nomination of a bank, or the issuing bank to effect payment against stipulated documents at a maturity date as specified or determinable from the wording of the credit. With this you are able to receive the goods now and pay later.

Import bills for collection:

By informing your supplier to send their shipping documents to City Bank, you will enjoy prompt advice upon our receipt of documents and efficient payment according to your instructions.

Shipping Guarantee:

To operate your business efficiently, it is vital your goods be cleared expeditiously. By issuing a shipping guarantee in the shipper's favor, City Bank facilitates prompt clearance of goods until bills of lading is received.

Import Financing:

City Bank will be able to provide financing solutions to pay for the supplier's documents under letter of credit or import collections. Open account invoice financing is also available.

Performance bonds and other guarantees:

City Bank offers tailored solutions to meet all your performance bond and guarantee needs.

Exports letter of credit

If you are in the export business, we can help you with Export L/C advising, L/C Safekeeping, L/C Confirmation, L/C Checking and Negotiation. For financing solutions, tap on to Pre-shipment Export Finance, Export Bills for Collections, Invoice Financing. Outsource your administrative functions to City Bank's document preparation service.

Export letter of credit advising:

Benefit from prompt advising of export letter of credit from a wide international network through City Bank.

Export letter of credit safekeeping:

Rather than be inconvenienced by having to come to the bank to collect your export letter of credit, City Bank will safe keep your original and send you a working copy to facilitate the preparation of documents.

Export letter of credit confirmation:

Exporters may deal not only with unknown foreign buyers, but also with their banks which are less well known institutions and whose letter of credit (LC) may not be sufficient comfort. By requesting City Bank to confirm your export LCs, you obtain our guarantee of payment for document presented in compliance with the credit.

Pre-shipment export financing:

We provide pre-shipment finance against irrevocable letters of credit from or purchase orders in a number of currencies to allow you to trade with confidence. If you need to fulfill a sales contract but need funds to purchase raw materials or process goods for export, City Bank offers you pre-shipment export financing in a variety of currencies.

Letter of credit checking and negotiation:

City Bank's thorough checking standards will reduce the chances that your documents will be rejected. Strict service standards are applied to ensure that your documents are negotiated and dispatched quickly.

Export bills for collection:

Simplify dispatch tracking of payment and reconciliation of your export collections when you choose City Bank's documents against acceptance, documents against payment or clean collections. Discounting of export collections is also available.

Export invoice financing:

To tide over any cash flow problems arising from credit terms to the buyers, the exporter may obtain invoice financing pending buyers' payment.

Document preparation:

Benefit from lower costs, faster processing and fewer errors - outsource to City Bank the paperwork and administrative functions related to your export activities based on your letter of credit or purchase order.

3.8 FOREIGN REMITTANCE

Foreign remittance:

Remittance means transfer of fund from one place to another place through official channel. Foreign remittance refers remittance of foreign currency that are received in, from abroad and made out, to abroad. It also includes purchase and sale of freely convertible foreign bills and currencies. Two types:

1. Inward foreign remittance
2. Outward foreign remittance

Foreign inward remittance:

The means and ways of inward remittance are:

- 1) Repatriation of export proceeds
- 2) Aid, loans etc.
- 3) Wage earners.
- 4) Indenting commission
- 5) Donation, gift etc.

Modes of Foreign Inward remittances:

- 1) Telegraphic Transfer (TT)/ SWIFT transfer.
- 2) Foreign Demand Draft (FDD)
- 3) Travelers cheque (TC)
- 4) Foreign currency notes and coins.
- 5) Receipt of taka draft, issued by the different exchange house.

Foreign outward remittance:

The means and ways of outward remittance are:

- 1) Import payment
- 2) Payment against contract or agreement
- 3) Travel
- 4) Education
- 5) Treatment
- 6) Different types of fees

Modes of Foreign outward remittances:

- 1) Telegraphic Transfer (TT)/ SWIFT transfer.
- 2) Foreign Demand Draft (FDD)
- 3) Travelers cheque (TC)
- 4) Foreign currency notes and coins.

Misc. works:

- 1) Foreign bank guarantee issue.
- 2) Passport endorsement
- 3) Student file maintain etc.

Foreign Demand Draft (FDD):

If any draft is send to the name of any organization from abroad then the draft is fill-up from "C" where the draft holder is to fill-up who has send this draft, from where this draft has been sent etc. Whether family purpose or not, if the draft has been family purpose then no VAT is required against the draft. For payment of draft concerned Officer maintains a register, which is called Register for Foreign Currency paid.

Telegraphic Transfer (TT):

TT is one of the important tools of foreign currency from one country to another. The person who wants to send TT to the abroad at first he/she has to deposit amount mentioned in voucher to the cash department. It is generally performed by the bank branch through their respective NOSTRO ACCOUNT who is maintaining any foreign bank account outside the country. The originating bank send a message to the paying foreign bank for making payment against the mentioned TT account number. The foreign make payments to the party and also make debit 'Account' against respective bank. At the same time foreign bank send advice to Head Office ID division for acknowledgement the payment.

Sales of TC and FC Notes:

To get TC and FC Notes at least the customer has to submit an application form filling-up the required column, which is formatted by the bank is called T/M form. After checking the form the desk officer passes voucher and issues a TC and gives cash dollar to the customer. In both

the cases the banker endorse total amount in customer's passport. The banker requires photocopy of customer's passport (page one to seven) and endorsement paper. The charge of endorsement taken by the branch is Tk.200 only. Sale of TC and FC and Notes amount varies from different countries:

Boundary	TC/FC amount
Within SAARC Country	US\$ 1,000
Within Asia	US\$ 3,000
World Wide	US\$ 5,000

3.9 THE CITY BANK FOREIGN REMITTANCE SERVICE

The city Bank's Foreign Remittance unit meets growing customer needs for fast, secure & easy money transfers to an extensive range of destinations. Being a committed bank to its customers, we go all the lengths to remit your hard earned money safely to your loved ones. With us, apart from a range of high-class modern remittance solutions, you will get peace of mind which we believe counts to most.

Facility of City Foreign Remittance service

City Bank Limited has 83 online branches across the country, besides, the Bank has a strong remittance network with other major banks of the country. Therefore, wherever your account is, we are able to send your money instantly.

If you are a City Bank account holder, then please visit any of our branches. Our Foreign remittance service personnel will be there to help you out. If you are not an account holder, then please open an account of your choice with us to receive your remittance at earliest convenience.

CBL understands the value of your precious time. That's why have made the payment procedure simple & easy. You have the privilege of exchanging the remitted money instantly from your branch counter without going through any hassle. That is to say, if you are an account holder of City Bank, we can instantly credit the money to your account or pay cash to the receiver.

So, place your trust with City Foreign Remittance Service. Send your money to your loved ones & experience peace of mind.

4.1 LAST FIVE YEARS EXPORT BUSINESS PERFORMANCE OF THE CITY BANK LIMITED

In year 2013, Export business of the City bank was BDT 19043 Million, at year 2012 and 2011 it was BDT 13800 Million & BDT 22033 Million. At year 2013 import Business growth rate of The City Bank is 37.99% it was (- 37.37%) and 18.16% at year 2012 and 2011 respectively. We see at year 2013 the export performance or growth rate is increased it was negative at year 2012 and at year 2012 it was positive but downward from previous year. The City Bank Export business growth rate is not stable every year it is fluctuating.

Year	2009	2010	2011	2012	2013
Export (BDT Million)	13815	18646	22033	13800	19043
Growth Rate (%)	-	34.97%	18.16%	- 37.37%	37.99%

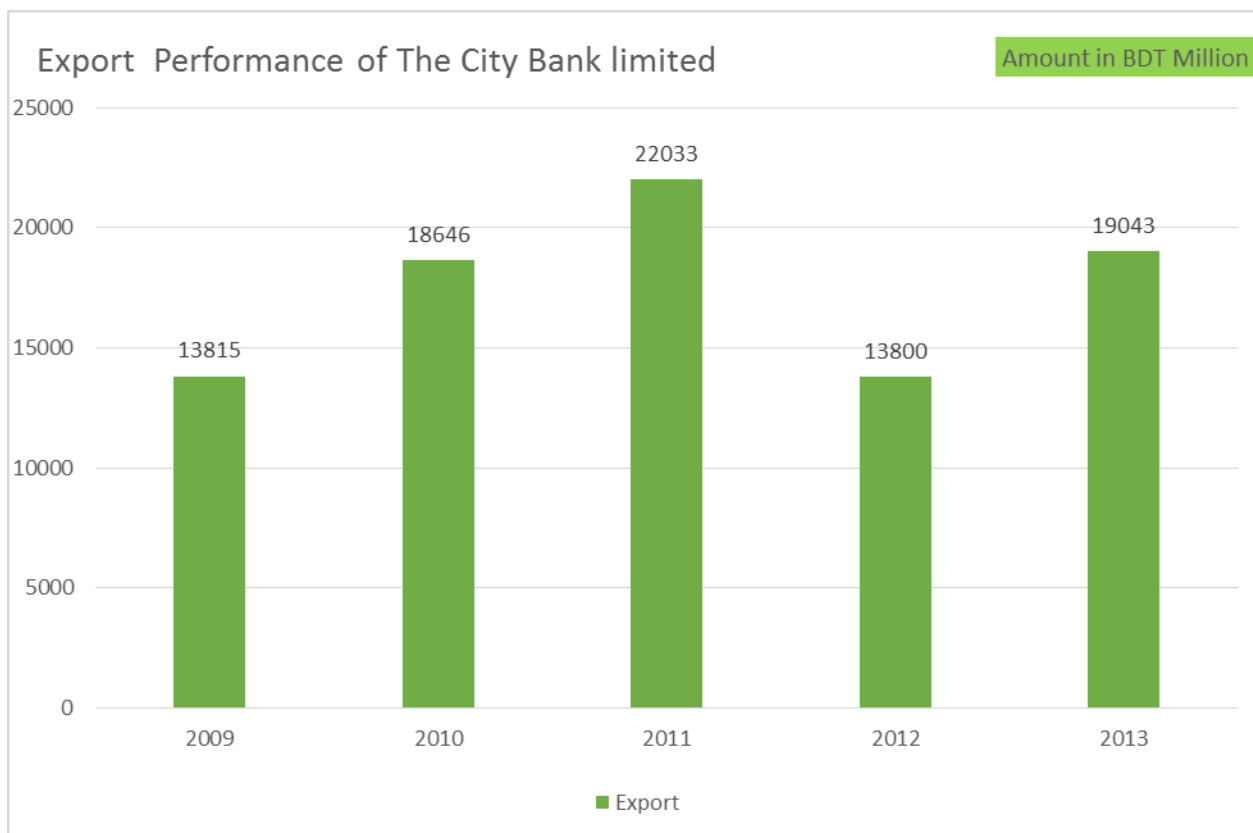


Figure 4.1: Export Performance of City bank

4.2 LAST FIVE YEARS IMPORT BUSINESS PERFORMANCE OF THE CITY BANK LIMITED

In year 2013, import business of the bank was BDT 61909 Million, at year 2012 and 2011 it was BDT 58420 Million & BDT 43474 Million. At year 2013 import Business growth rate of The City Bank is 5.97% it was 34.38% and 13.94% at year 2012 and 2011 respectively. We see the import growth rate is increasing but it is not stable every year the growth rate is fluctuating.

Year	2009	2010	2011	2012	2013
Import(BDT Million)	28718	38155	43474	58420	61909
Growth Rate (%)	-	32.86%	13.94%	34.38%	5.97%

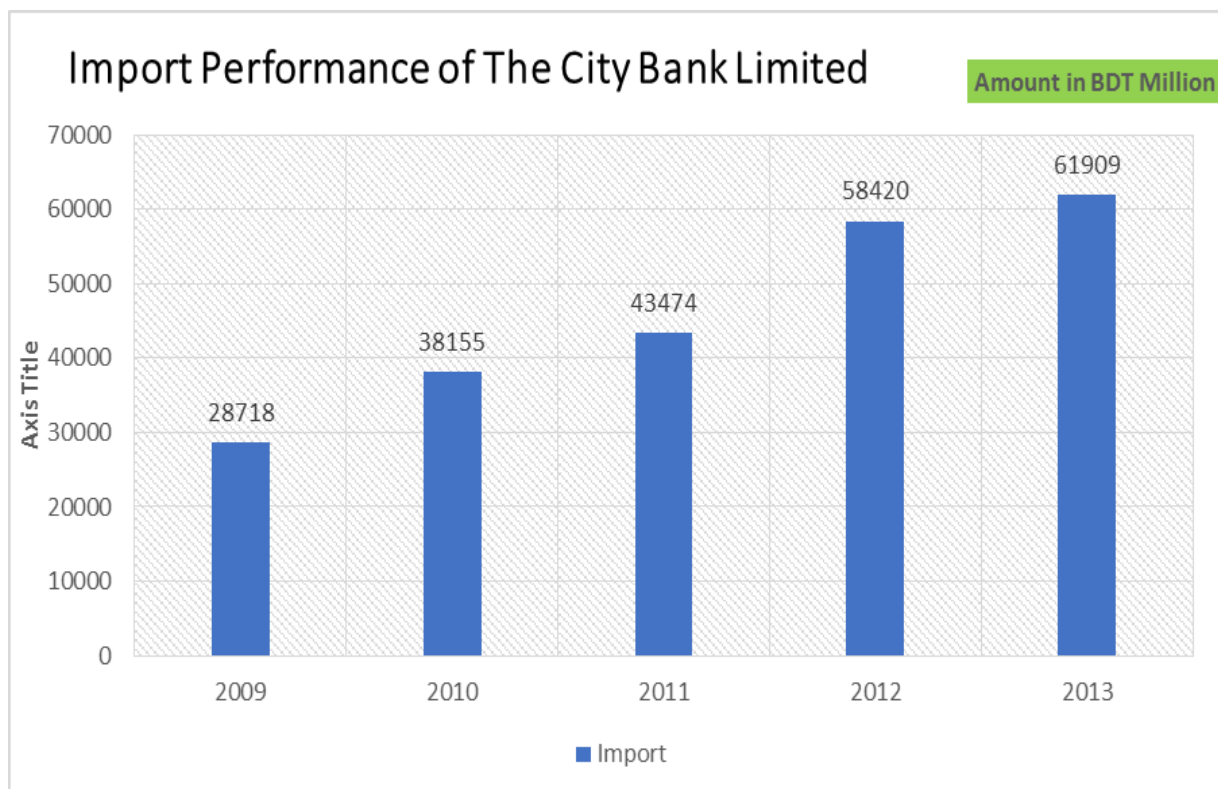


Figure 4.2: Import Performance of The City bank limited

4.3 LAST FIVE YEARS REMITTANCE PERFORMANCE OF THE CITY BANK LIMITED

Bank received BDT 25943 Million as inward remittance in year 2013. It was BDT 24594 Million and BDT 42189 Million at year 2012 & 2011 which indicates the growth rate in 2013 is 5.49% it was (- 41.71%) & 72.29% at year 2012 and 2011. Inward remittances suffered negative mainly due to a shrinking outflow of migrant workers and falling receipts from Middle Eastern nations and also the reason of world economic recession.

Year	2009	2010	2011	2012	2013
Remittance(BDT Million)	17933	24496	42189	24594	25943
Growth Rate (%)	-	36.60%	72.29%	- 41.71%	5.49%

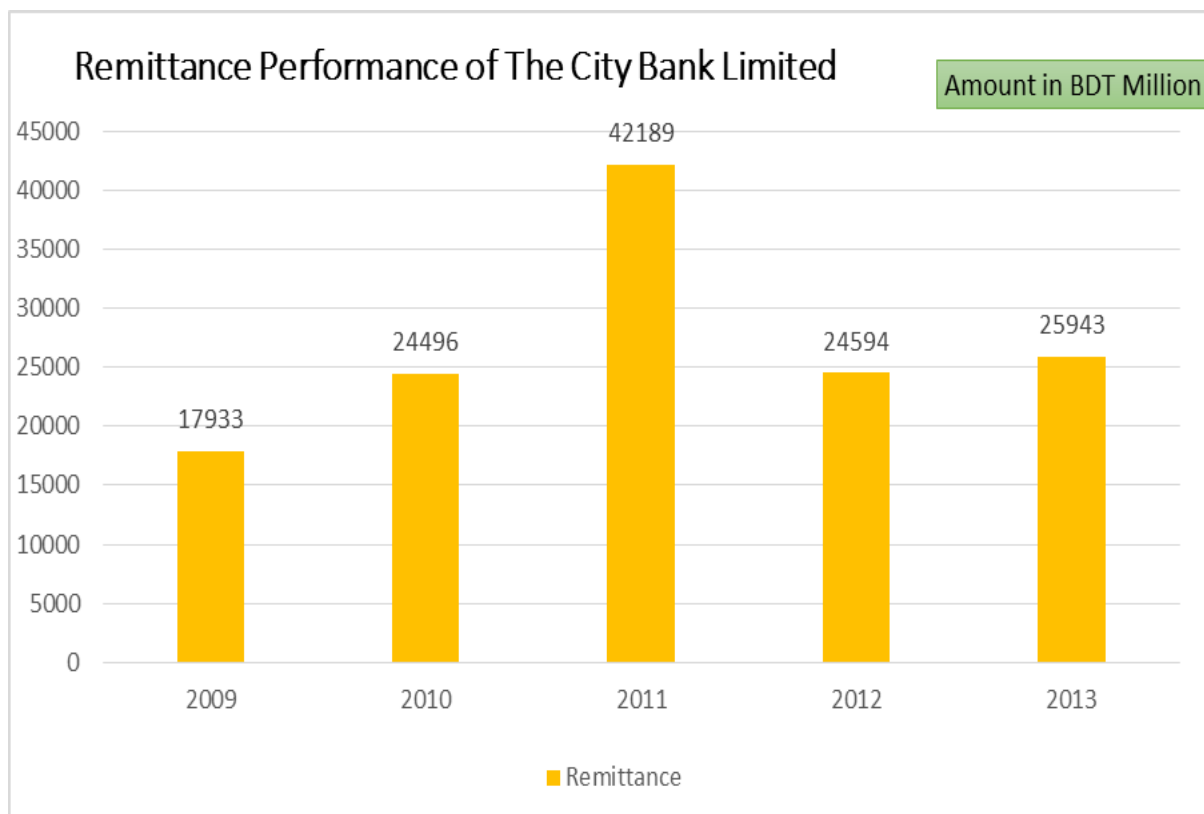


Figure 4.3: Remittance Performance of The City bank limited

4.4 THE CITY BANK LIMITED FOREIGN EXCHANGE BUSINESS TREND FROM YEAR 2006 TO 2010.

Year	Export	Import	Remittance	Total	Growth Rate
2009	13815	28718	17933	60466	-
2010	18646	38155	24496	81297	34.45%
2011	22033	43474	42189	107696	32.47%
2012	13800	58420	24594	96814	-10.10%
2013	19043	61909	25943	106895	10.41%

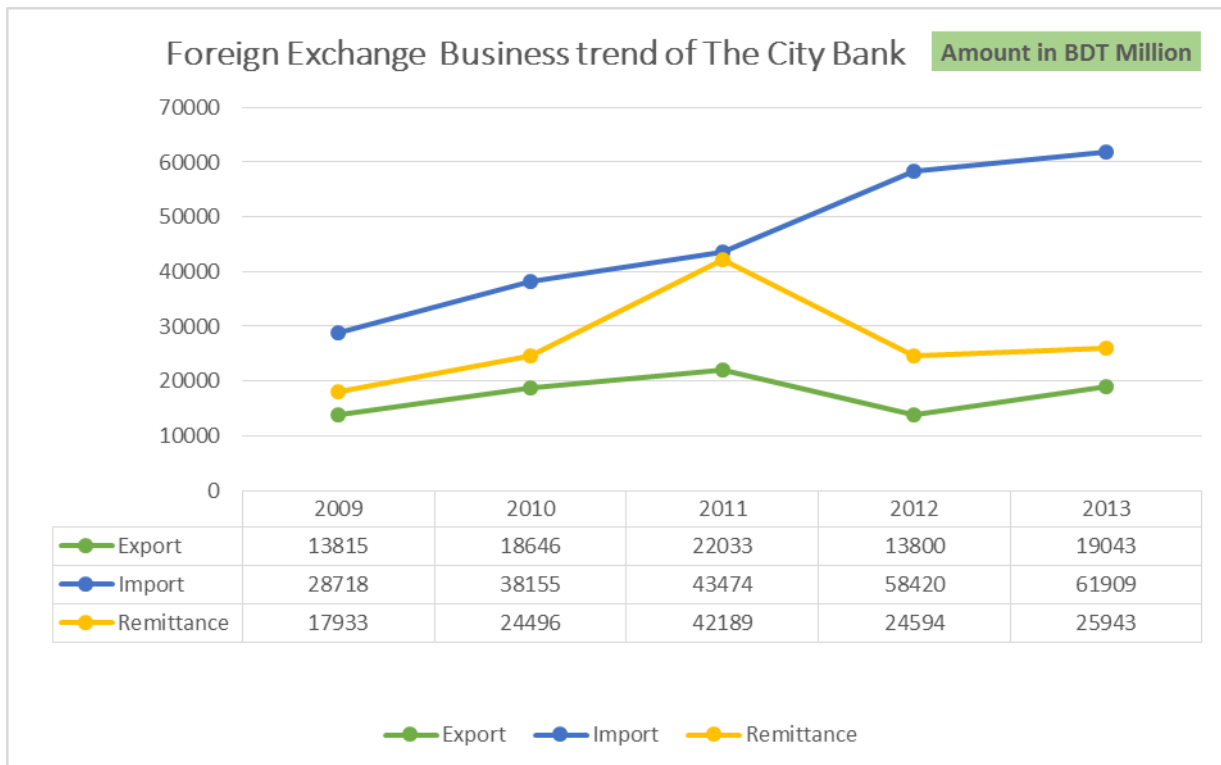


Figure 4.4: foreign Exchange Business Trend of The City bank limited

We can see above the graph, it shows that, the amount of Import has increased in every year, Export has increased in year by year except year 2012 and Foreign Remittance has also increased in every year except year 2012. The average performance of The City Bank Foreign Exchange business is up ward sloping and improving every year.

5.1 SWOT ANALYSIS OF THE CITY BANK LIMITED

The term SWOT is the abbreviated form of Strength, Weakness, Opportunity and Threat. In SWOT analysis Strength and Weakness are determined by internal factor, while Opportunity and Threat are determined by the external factors.

S→ Strength

W→Weakens

O→Opportunity

T→Threat

Strengths

- ✦ CBL is offering market leading wide product range for its customers among all competitors
- ✦ Only the issuer of world leading American Express® Credit Card in Bangladesh
- ✦ Doing modernized banking with fully online branches
- ✦ Current winner of Strongest Bank of Bangladesh award by Asian Banker Association
- ✦ Leading merchant acquirer bank of Bangladesh
- ✦ Strong ATM network nationwide with a large number of ATMs
- ✦ CBL first signed with world famous MoneyGram™ in the country to ensure quick and safe delivery of remittance to the customer.
- ✦ A dynamic player in socio-economic development of the country by investing money.
- ✦ Excellent customer service throughout the banking industry
- ✦ A very good number of efficient and energetic personnel with continuous rapid business growth
- ✦ Only and first bank who has an exclusive lounge at Hazrat Shahjalal International Airport, Dhaka for its valued American Express® card members.

Weakness

- ✦ Provides less employee benefits comparing with its competitors
- ✦ Management is not that much good that is why it takes long time in taking crucial decisions and business risk.
- ✦ IT division does not have a good personnel and system backup where the business is highly related with this section
- ✦ The job satisfaction level of the employee is lower
- ✦ There are some common errors in taking managerial decisions which work as a roadblock of business growth
- ✦ The very old employee had not got enough training based on today's IT situation
- ✦ Motivation power is less which diminish the productivity

Opportunities

- ✦ Making sense of money to its customer by offering good financial products and services
- ✦ To become a rate leader and drive the rate growth
- ✦ Featuring the Islamic Banking for the customers considering the culture
- ✦ Capitalizing the strong brand image among the industry
- ✦ To come with innovative concept which will help to hold a strong position in the market and newly renovation might be establish.

Threats

- ✦ Competitors always concentrating on innovation and modernizing banking
- ✦ There are more competitors in the market
- ✦ The other banks are providing better compensation and salary to their employees
- ✦ The competitors bank have better and well-timed training strategy then CBL
- ✦ The unstable political, social, economic conditions

6.1 FINDINGS OF THE STUDY

1. The City Bank limited foreign exchange Business performance growth rate is 10.41%, -10.10 % & 32.47% at year 2013, 2012 & 2011 respectively.
2. The City Bank Import foreign exchange business growth rate is 5.97%, 34.38% & 13.94% at year 2013, 2012 & 2011 respectively.
3. The City Bank Export foreign exchange business growth rate is 37.99%, -37.37% & 18.16% at year 2013, 2012 & 2011 respectively.
4. The City Bank inward Foreign Remittance growth rate is 5.49%, -41.71% & 72.29% at year 2013, 2012 & 2011 respectively.
5. The City Bank Ltd has both Export and Import financing Facility for customers.
6. Export and Import financing interest rate is Export financing 7% fixed and import financing 16.5% + (3% to 5%).
7. Bankers have not good relationship with customers and L/C opening process is slow.
8. The annual charge of maintaining account is (BDT 600+) it is higher than other banks. As a result the existing customers are not satisfied with the charge that's why they also lose the potential clients.
9. There has strong computer-networking system between the all branches of City Bank.
10. Strong Internet Banking Facility & Strong ATM network nationwide with a large number of ATMs
11. Only City Bank is the issuer of world leading American Express® Credit Card in Bangladesh
12. The City Bank has 24 hours Call Center Facility for all customers.
13. The City Bank has Student File opening facility for any student going abroad for higher studies.
14. The City Bank Ltd providing MoneyGram, Western Union, Express Money, UAE exchange & Trans-Fast Remittance money transfer services at all branches.
15. The City Bank Ltd has Dual Currency international Debit and Credit Card Facility for Customers.
16. City Bank limited hasn't Foreign Currency (FC) account opening facility for NRB customers.
17. City Bank Student File Annual maintenance charge is BDT 6325 (+Vat).
18. The City Bank Ltd hasn't prepaid foreign currency travel card for customers traveling abroad.

6.2 RECOMMENDATION OF THE STUDY

1. Bankers can improve the relationship with their corporate customers for increasing Letter of credit opening.
2. The bank should introduce prepaid foreign currency travel card for customers traveling abroad.
3. The bank may introduce some promotional program to increase export. If bank give more emphasis to export parties they will be influenced.
4. To attract more clients the bank should create a new marketing strategy, which will increase the total export import business.
5. The bank should provide Export and Import financing facility at a lower interest rate to increase opening letter of credit and processing time should be faster
6. The bank need to improve efficient management system. Higher authority should give high concentration about the efficient management problem.
7. The City bank should provide Foreign Currency (FC) account opening facility for NRB customers.
8. The charge of maintaining the account should be reduced and competitive.
9. The bank should arrangement monthly /quarterly training courses /workshops for the selected by the authority in order to promote employee to their desired level.
10. The bank should reduce annual student file maintenance charge.
11. Charges in foreign exchange include SWIFT charges, Document Handling Charges, Stamps Charges as well as VAT. If such charges could be reduced, Bank will definitely attract more customers.
12. The bank should reduce annual charge of international dual currency credit card.

6.3 CONCLUSION OF THE STUDY

As a bank CBL has to do a lot of things for the betterment of the country. The Bank is strongly positioned in the market and with its core strengths it can match shareholders' expectations and thus raise their wealth in future through ethical banking and best pricing and must be customer satisfaction. Thus, it has to take initiatives so that it can fulfill the desire of the govt. as well as people. It will enhance more private services and build up working teams to provide the best services to its valuable customers. It must be run in organized way and discipline must be ensured in all sphere of its performance. Increase the profit, increase customer lending, assess the financial condition & try to increase the number of customer. To do these the recommended suggestions can be used. Although it is theoretical suggestions, it is not valueless. It has great impact on the banking business and other sectors of the economy. For this, government's help is essential and it is expected that govt. will broaden its hand for implementing the recommendations for the welfare of the people of Bangladesh. Overall, the bank must make a positive attempt to be more outward looking in their goals and aware of what is happening. They must also emphasis on the domestic scenario more closely and analyze any certain trends and strategies of their competitors.

This report has attempted to explain the banking practice, that are followed by The City Bank Limited and also attempt to harmonize and link the theoretical knowledge, with the experience gathered in the period practical orientation.

7.1 REFERENCE

Book and Practical References

- ✦ Annual report of The City Bank Limited
- ✦ Several book of The City Bank Limited
- ✦ Circulars from Head Office.
- ✦ Different department's circulars.
- ✦ Everyday working experience in The City Bank Limited
- ✦ Banks Magazines, Brochures.
- ✦ Other short notes provided by the bank employee in different times.

Website:

- ✦ www.thecitybank.com
- ✦ www.google.com
- ✦ www.bangladesh-bank.org
- ✦ www.wikipedia.org
- ✦ www.swift.com

And other information based website

7.2 Appendix-01

Abbreviation & Acronym:

A/C	- Account
BOE	- Bill of Exchange
BTB	- Back to Back
BGMEA	- Bangladesh Garments Manufactures & Exporters Association
BB	- Bangladesh Bank
BIC	- Bank Identifier Code
BC	- Bill of Collection
B/L	- BILL of Exchange
CCI & E	- Chief Controller of import and export
CRF	- Clean Report of Finding
Cr	- Credit
Dr	- Debit
DP	- Demand Promissory
EC	- European community
ERC	- Export Registration Certificate
EDF	- Export Development Fund
EPZ	- Export Processing Zone
ERQ	- Export Retention Quota
EXP	- Export Form
FC	- Foreign Currency
FOB	- Fee on Board
FDD	- Foreign Demand Draft
FDBP	- Foreign Documentary Bill for Purchased
FDBC	- Foreign Documentary Bill for Collection
GDP	- Gross of Domestic Product
ID	- Identification
IRC	- Import Registration Certificate
IMP	- Import Form
ICC	- International Chamber of Commerce
IPO	- Initial Public Offering

ITC	- Import Trade Control
L/C	- Letter of Credit
LTR	- Loan against Trust Receipt
LDBP	- Local Documentary Bill for Purchased
LDBC	- Local Documentary Bill for Collection
LCAF	- Letter of Credit Authorization Form
MBA	- Masters of Business Administration
MT	- Mail Transfer
NFCD	- Non-resident Foreign Currency Deposit
PO	- Payment Order
PSI	- Pre Shipment Inspection
PI	- Performa Invoice
PAD	- Payment against Document
RMG	- Readymade Garments
RFCD	- Resident Foreign Currency Deposit
SWIFT	- Society for Worldwide Inter Bank Financial Telecommunication
TT	- Telex Transfer
TC	- Travelers Check
T/M	- Traveling and Miscellaneous
TR	- Trust Receipt
TIN	- Tax Identification Number
UCPDC	- Uniform Customs and Practices for Documentary Credit
VAT	- Value Added Tax

7.3 APPENDIX-02

FIVE YEARS FINANCIAL PERFORMANCE AT A GLANCE

PERFORMANCE AT A GLANCE

Taka in Million unless specified

	2013	2012	2011	2010	2009
Deposit Growth 14.24% From 94,099 M in 2012	Income Statement				
	Interest Income	13,613	12,443	9,415	7,090
	Interest Expenses	8,593	7,673	4,997	3,516
	Non-Interest Income	3,876	3,790	3,338	3,728
	Non-Interest Expenses	4,750	3,993	3,560	3,201
	Profit Before Provision	4,146	4,567	4,196	4,100
	Profit Before Tax	1,806	1,763	3,468	2,999
	Profit After Tax	911	763	2,018	1,849
Loan Growth 7.86% From 83,333 M in 2012	Balance Sheet				
	Authorized Capital	10,000	10,000	10,000	10,000
	Paid-up Capital	6,951	6,319	5,055	3,889
	Reserve Fund & Surplus	11,574	11,643	12,801	7,630
	Total Shareholders' Equity	18,525	17,961	17,856	11,519
	Deposits	107,497	94,099	83,818	67,420
	Loans and Advances	89,879	83,333	76,807	60,327
	Investments	26,492	20,291	15,431	12,474
	Fixed Assets	6,809	5,921	5,950	3,206
	Total Assets	147,472	130,186	115,736	90,898
	Off-Balance Sheet Exposures	47,962	37,742	15,866	20,387
Regulatory Capital 16,697 M From 15,772 M in 2012	Foreign Exchange Business				
	Export	19,043	13,800	22,033	18,546
	Import	61,909	58,420	43,474	38,155
	Remittance	25,943	24,594	42,189	24,496
Shareholders' Equity 18,525 M From 17,961 M in 2012	BIS Capital Measures*				
	Risk Weighted Assets	143,377	134,759	117,575	111,049
	Core Capital (Tier I)	12,968	12,127	11,322	9,260
	Supplementary Capital (Tier II)	3,739	3,646	3,714	3,120
	Tier I Capital Ratio	9.0%	9.0%	9.6%	8.3%
	Tier II Capital Ratio	2.6%	2.7%	3.2%	2.8%
	Total Capital Adequacy Ratio	11.6%	11.7%	12.8%	11.2%
Profit After Tax 911 M From 763 M in 2012	Credit Quality				
	Provision for Unclassified Loans	1,200	1,170	1,400	1,040
	Provision for Classified Loans	3,645	3,410	1,101	970
	Percentage of NPL over Total Loans and Advances	8.1%	7.5%	3.4%	4.4%
Number of ATMs 213 From 163 in 2012	Share Information				
	No of Shares Outstanding (in million)	695.1	631.9	505.5	38.9
	Earnings Per Share				
	Basic	1.3	1.2	4.0	3.7
	Diluted	-	-	-	-
	Cash Dividend	-	-	-	-
	Stock Dividend**	20%	10.0%	25.0%	30.0%
	Market Value Per Share (Taka)	20	27	53	1,000
	Price Earning Ratio (Times)	15	22	13	17
	Net Assets Value Per Share (Taka)	27	28	35	296
CREDIT RATING	Operating Performance Ratio				
Rating	2013	2012			
Long Term	AA3	AA3			
Short Term	ST-2	ST-2			
* Valid till 30 June 2014					
	Credit Deposit Ratio	76.3%	82.7%	85.7%	89.5%
	Cost to Income Ratio	53.4%	46.6%	45.9%	43.8%
	Total Operating Income per employee	3.4	3.1	2.8	2.7
	Total Profit per employee	1.6	1.7	1.5	1.5
	Cost of Funds	7.6%	7.5%	6.4%	4.9%
	Cost of Deposits	8.4%	8.5%	6.4%	5.3%
	Yield on Loans and Advances	15.1%	14.9%	13.1%	12.7%
	Return on Assets	0.7%	0.6%	2.0%	2.2%
	Return on Equity	7.3%	4.3%	13.7%	21.3%
	Distribution Network				
	Number of Branches	92	90	90	88
	Number of SME Center & Agri Branches	12	12	12	11
	Number of ATM	210	163	122	72
	Number of Employees	2,647	2,765	2,772	2,685
	Number of Foreign Correspondents	570	548	538	533

* BIS: Bank for International Settlements

** The Board of Directors in its 455th meeting decided to recommend distribution of 20% (twenty percent) stock dividend subject to approval of the shareholders