

2008-11

A WORKING REPORT ON BRANCH OPERATIONAL ACTIVITIES OF UNITED COMMERCIAL BANK LIMITED

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A WORKING REPORT ON BRANCH OPERATIONAL ACTIVITIES OF
UNITED COMMERCIAL BANK LIMITED

by

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ID: 0210033

An Internship Report in Partial Fulfillment
Of The Requirements for the Degree
Bachelor of Business Administration

INDEPENDENT UNIVERSITY, BANGLADESH
November 2008

A WORKING REPORT ON BRANCH OPERATIONAL ACTIVITIES OF
UNITED COMMERCIAL BANK LIMITED
Gulshan Branch, Dhaka

by

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has been approved
November 2008

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ACKNOWLEDGEMENT

I wish to express my gratitude to Mr. M. Shahjahan Bhuiyan, Managing Director of United Commercial Bank Limited for providing me with this internship opportunity. I would especially like to thank Mr. Golam Awlia, Senior Vice President and Manager, and all me fellow colleagues of United Commercial Bank Limited, Gulshan Branch, Dhaka for all their support during my internship period.

I would like to express my sincere gratitude and appreciation to my Supervisor Ms. Arpita Jahan for her constant guidance, support and encouragement throughout my internship period, without whom it would be impossible on my part to complete my internship report successfully. I am also grateful to my concerned departmental Heads (Foreign Exchange & General Banking) for giving me time and sharing their valuable experience which helped enrich my knowledge and gain real life experience.

Finally I would like to express my sincere gratitude and indebtedness to the authority of Independent University, Bangladesh for giving me this opportunity to implement whatever theoretical knowledge in have gained during our BBA 499 program into real life, thus better equipping me for the challenges ahead.

Letter of Transmittal

December 1, 2008

Dr. Nadim Jahangir
Associate Professor
School of Business
Independent University, Bangladesh
Dhaka Bangladesh

Subject: Submission of Internship Report.

Dear Sir,

It is my great pleasure to submit a working internship report on "Branch Operational Activities Of United Commercial Bank Limited, Gulshan Branch, Dhaka" being a part of BBA 499 program to you for your consideration.

Sincere efforts have been made on my part to study related materials, documents, observe operations performed in United Commercial Bank Limited and Examine relevant records for preparation of the report.

I have tried to make this report as comprehensive as possible in accordance with the guidelines provided and would appreciate your kind consideration should there be any error.

Thank You.

Yours Faithfully,

Zannatul Sumaiya
ID: 0210033

Table of Contents

	Page
Chapter 1 - Introduction Of The Report.....	3
Origin Of The Report.....	4
Objective Of The Report.....	4
Scope Of The Report.....	4
Sources Of The Data.....	5
Limitation Of The Report.....	5
Methodology Of The Report.....	5
Chapter 2 - Introduction of United Commercial Bank Limited.....	6
About United Commercial Bank Limited.....	7
Board of Directors	7
Executive Committee	7
Audit Committee	8
Five Years at a glance (2001-05).....	8
Branches of United Commercial Bank Limited.....	9
Products of United Commercial Bank Limited.....	11
Chapter 3 – Foreign Exchange Department of UCBL, Gulshan Branch, Dhaka.....	12
Definition of Foreign Exchange.....	13
Fundamentals of Foreign Exchange.....	14
Administration of Foreign Exchange.....	14
Functions of Foreign Exchange.....	14
Kinds if Foreign Exchange.....	15
Chapter 4 - Foreign Exchange (Import & Export).....	15
Sale and Payment Terms in Foreign Exchange.....	17
SHORT TERM CREDIT:	
Documentary Letter of Credit.....	17
Document against Payment (DP) or cash against delivery (DA)	17

	Document against Acceptance (CAD).....	17
	Consignment Sale.....	18
	Value Payable/Cash on Delivery.....	18
MEDIUM TERM CREDIT:		
	Supplier's/Seller's Credit.....	19
	Buyer's Credit.....	19
Definition of Documentary Credit.....		20
	Types of Letter of Credit.....	21
	Irrevocable Letter of Credit.....	21
	Confirmed/Unconfirmed Letter of Credit.....	21
Parties to a Letter of Credit.....		22
	The Opening Bank.....	22
	The Advising Bank.....	23
	The Buyer & beneficiary.....	23
	The Paying Bank.....	23
	The Negotiating Bank.....	24
	The Confirming Bank.....	24
Contents of the Letter of Credit.....		24
Contract of Sale.....		26
Application for the issuance of Letter of Credit,,,		26
Advising a Letter of Credit.....		28
Advising Procedure.....		29
Add Confirmation.....		29
Amendments & Modifications.....		30
Transmission of Credit and Amendments.....		30
Shipment and Lodgment of Documents.....		30
Import Procedure.....		31
	Accounting Procedure.....	32

	Lodgment of Documents.....	33
	Accounting Procedures at the time of lodgment.....	33
	Retirement of Import Documents.....	34
	Scrutiny of Documents.....	34
	Monthly Returns.....	36
	Disposal of IMP Form.....	36
	Loan against Imported Merchandise (LIM).....	36
	Cases of LIM A/C.....	36
	Creating a LIM Account.....	37
	Letter of Trust (LTR).....	38
	CHAPTER 5 – General Banking.....	39
	General Banking Sections, types of Account & Procedures.....	39
	Types of Account.....	41
	Current Account.....	41
	Savings Account.....	41
	Short Term Deposit Account.....	41
	Fixed Deposit Account.....	42
	Account Opening Procedure.....	43
	Normal Account.....	43
	Savings Account.....	43
	Current Account.....	43
	Checklist of Documents to be obtained for various types of Accounts.....	44
	Sole Proprietorship.....	44
	Partnership.....	44
	Limited liability Company.....	44
	Association/Trust/Society.....	45
	Crediting Periodic Interest.....	45
	Issuance of Cheque Book.....	45

Account Closing.....	46
Remittance (Foreign/Local).....	46
Issuance of Pay Order (PO).....	47
Different modes of PO.....	47
Settlement of PO.....	48
Cancellation of PO.....	48
Loss of PO.....	48
Demand Draft (DD).....	49
Issuance/Cancellation of DD.....	49
Role of the Drawn Branch.....	50
Telegraphic Transfer (TT).....	51
Endorsements.....	52
Inter Brach Credit/OBC.....	52
Locker Service.....	53
Cash.....	54
Receiving Cash.....	54
Disbursing Cash.....	54
Transfer.....	56
Clearing House.....	57
Nature of Clearing House.....	57
Clearing House Process.....	57
Types of Clearing House.....	57
Inward Cheque.....	58
Outward Cheque.....	58
Recognized member Banks of Bangladesh Bank Clearing House.....	58
Reasons for Cheques returning.....	59
Extract.....	59

Debit Voucher.....	60
Statement of Affairs.....	61
Amortization & Depreciation.....	61
Functions of the Finance Control Division.....	62
Annexure 1.....	
Annexure 2.....	

Table of Figures

	Page
Figure A - Mechanism of a Letter of Credit.....	26

List of Table(s)

	Page
Table 1 – Key Financials of UCBL for last five years at a glance.....	8

Abstract

Our Internship, being a partial fulfillment requirement of Bachelor of Business Administration (BBA 499) program is designed to bridge the gap between academic knowledge and practical experience. It provides us with a great opportunity to gain first hand experience while implementing our academic knowledge gained throughout our BBA program. This report has been prepared in connection with all my experiences gathered during my internship period of 03 (three) months with United Commercial Bank Limited, Gulshan Branch, Dhaka.

United Commercial Bank Limited (UCBL) started its journey as a Private Commercial Bank on 3rd August 1999. The banking operations of UCBL are divided into three broad sections- (i) General Banking, (ii) Credit, and (iii) Foreign Exchange. This report is mainly based on observations from each section of UCBL Gulshan Branch, Dhaka. While preparing this report, I have tried to make acquaintance with the Bank and Branch.

(i) By definition, General Banking is part of a financial institution that mediates or stands between ultimate borrowers and ultimate lenders. Banks perform this function in two ways - taking deposits from various areas in different forms and lending that accumulated amount of money to the potential investors in other different forms. It is the starting point of all the banking operating. General Banking department aids in taking deposits and simultaneously provides some ancillaries services. It provides those

customers who come frequently and those customers who come one time in banking for enjoying ancillary services.

(ii) Foreign Exchange is concerned with the settlement of international indebtedness, the methods of effecting the settlements and the instruments used in this connection and the variation in the rates of exchange at which settlement of international indebtedness is made.

(iii) Bank credit is an important catalyst for bringing about economic development in a country. Without adequate finance, there can be no growth or maintenance of a stable economy. UCBL, being one of the largest private commercial bank of the country, has some prejudice to finance directly on priority basis to agriculture, industry and commerce sector for strengthening the economic base of the country. Hence, it is very clear that, UCBL plays an important role to move the economic wheel of the country. Providing different sorts of credit and schemes like loan against imported merchandise (LIM), Trust Receipt, Bank Guarantee, Industrial Loan, SOD, Consumer Credit scheme, Executives Car Loan, House Finance is the main spring of the credit department.

Chapter 1

Introduction of the Report

Origin of the Report

Internship is a partial fulfillment requirement of Bachelor of Business Administration (BBA 499) program. Since the banking sector is a flourishing sector, I have chosen 'United Commercial Bank Limited' (UCBL), being one the most experienced, for the completion of this internship program. This report mainly focuses on the Branch operations of UCBL Gulshan Branch, Dhaka.

Objective of the Report

The objective of this study is to gather as much practical knowledge as possible with regards to the Banking Business Sector and the way it functions. Throughout our BBA program, we are trained with theoretical materials supported with case studies from actual life experiences, internship not only enables us to implement that knowledge but also gain practical orientation which gives us the chance to view those system and their operations in action first hand so that we can identify the same and answer questions i.e. why it happens, when it happens and its subsequent consequences.

Scope of the Report

United Commercial Bank Ltd. is one of the first generation Private Bank in Bangladesh. The scope of this study is limited to the operations/day to day activities of UCBL Gulshan Branch, Dhaka only and further explores the organization structure, background and overall performance of the Bank.

Sources of Data

Data for this report has been gathered from both Primary and Secondary sources as under:

- Primary source –
 - ✓ Practical desk work and personal observation
 - ✓ Study of relevant file as provided by the officers concerned.
 - ✓ Direct interaction with Officer of the Branch
 - ✓ Direct dealings with the Customer of the Branch

- Secondary source –
 - ✓ Annual Reports
 - ✓ Periodic internal reports
 - ✓ Periodic internal

Limitation of the Report

Time restraint was a major limitation. During the time allotted (03 months), doing desk work, collecting accurate data preparing in-depth report was a major challenge. Lack of information sharing was also a prime factor as UCBL Gulshan Branch is one of the busiest Branch handling maximum traffic, the concerned Officers had very limited spare time and since being an intern, one is not entitled to Bank sensitive data.

Methodology of the Report

The above report has been designed as a Working Report. During my internship period, I have had the opportunity to work with the Foreign Exchange Department and General Banking (front desk, account opening, remittance) and therefore elaborate discussions with regards to the activities of the said departments are made.

Chapter 2

Introduction of United Commercial Bank Limited



About United Commercial Bank Limited

United Commercial Bank Limited (UCBL), one of leading first generation Private Commercial Bank (PCB), was incorporated in Bangladesh in mid 1983 as a Public Limited Company under Companies Act 1913, subsequently replaced by the Companies Act 1994 and is governed by the Banking Companies Act 1991. The Bank is listed with Dhaka and Chittagong Stock Exchange for trading and was established under the rules & regulations of Bangladesh Bank. The Bank has a Branch network of 84 Branches spread all over the country.

Since inception UCBL has managed to leave a distinct mark in the realm of Private Sector Banking by offering personalized service, innovative practices, dynamic approach and efficient Management.

Board of Directors

Chairman	: Mr. Md. Jahangir Alam Khan
Vice-Chairperson	: Mrs. Qamrun Nahar
Chairman, EC	: Hajee M. A. Kalam
Directors	: Hajee Yunus Ahmed
	Mr. M. A. Sabur
	Mr. M. A. Hashem
	Mr. Shabbir Ahmed
	Mr. Kazi Enamul Hoque
	Mr. Showkat Aziz Russell
	Mr. Riyadh Zafar Chowdhury
	Mr. Nur Uddin Javed
	Mrs. Aziza Karim
	Mrs. Setara Begum
Managing Director	: Mr. M. Shahjahan Bhuiyan
Secretary	: Mr. Mirza Mahmud Rafiqur Rahman

Executive Committee of the Board

Chairman	: Hajee M. A. Kalam
Directors	: Hajee Yunus Ahmed Mr. M. A. Sabur Mr. Kazi Enamul Hoque Mr. Shabbir Ahmed Mr. Showkat Aziz Russell
Managing Director	: Mr. M. Shahjahan Bhuiyan
Secretary	: Mr. Mirza Mahmud Rafiqur Rahman

Audit Committee

Chairman	: Mr. M. A. Sabur
Members	: Mrs. Qamrun Nahar Mr. Kazi Enamul Hoque
Secretary	: Mr. Mirza Mahmud Rafiqur Rahman

Five Years Position at a Glance

(Fig. in million BDT)

		2001	2002	2003	2004	2005
1.	Authorized Capital	1,000	1,000	1,000	1,000	1,000
2.	Paid-up Capital	230	230	230	230	230
3.	Reserve Fund	394	440	658	783	1,045
4.	Deposits	14,246	16,417	17,413	20,970	24,559
5.	Advances	10,942	11,826	14,396	15,385	20,211
6.	Investments	1,962	3,962	3,022	3,020	2,877
7.	Gross Income	1,727	1,766	2,197	2,554	3,188
8.	Gross Expenditure	1,224	1,311	1,493	1,697	2,036
9.	Net Profit(pre-tax)	175	155	417	626	852
10.	Import Business	13,133	14,975	18,488	24,386	29,408
11.	Export Business	5,309	5,621	7,492	10,470	14,785
12.	Foreign Correspondents	193	256	295	322	329
13.	Number of Employees	1,812	1,819	1,874	1,878	1,949
14.	Number of Branches	79	80	80	80	80
15.	Number of Shareholders	3,539	3,943	3,907	3,979	4,064

Table - 1

BRANCHES OF UCBL*Dhaka Division (28 Nos.)*

- | | |
|-----------------------------|----------------------------------|
| 01. Principal Branch | 02. Moulvibazar Branch |
| 03. Islampur Branch | 04. Elephant Road Branch |
| 05. Malibagh Branch | 06. Bangshal Branch |
| 07. Nawabpur Branch | 08. Kawran Bazar Branch |
| 09. Mohammadpur Branch | 10. Nayabazar Branch |
| 11. Gulshan Branch | 12. Mirpur Branch |
| 13. Foreign Exchange Branch | 14. Hasnabad Branch |
| 15. Mymensingh Branch | 16. Narsingdi Branch |
| 17. Narayangonj Branch | 18. Tangail Branch |
| 19. Paglabazar Branch | 20. Madhabdee Branch |
| 21. Faridpur Branch | 22. Tongi Branch |
| 23. Zinzira Branch | 24. North Brook Hall Road Branch |
| 25. Mohakhali Branch | 26. Bhulta Branch |
| 27. Uttara Branch | 28. Dhanmondi Branch |

Chittagong Division (28 Nos.)

Zonal Office:

Rifles Club Shopping Complex (1st fl.)

Nandan Kanon

Jubilee Road, Chittagong 4000

- | | |
|-------------------------|---------------------------|
| 01. Agrabad Branch | 02. Khatungonj Branch |
| 03. Jubilee Road Branch | 04. Kadamtali Branch |
| 05. Chawkbazar Branch | 06. Port Branch |
| 07. Anderkilla Branch | 08. O.R.Nizam Road Branch |
| 09. Madunaghat Branch | 10. Noapara Branch |
| 11. Lohagara Branch | 12. Nazirhat Branch |
| 13. Kamal Bazar Branch | 14. Fatickchari Branch |
| 15. Cox's Bazar Branch | 16. Comilla Branch |

- | | |
|-------------------------|--------------------------|
| 17. Chandpur Branch | 18. Lakshmipur Branch |
| 19. Brahmanbaria Branch | 20. Maizdee Court Branch |
| 21. Chowmuhani Branch | 22. Feni Branch |
| 23. Dhohazari Branch | 24. Muradpur Branch |
| 25. Station Road Branch | 26. Bahaddarhat Branch |
| 27. Gohira Branch | 28. Chokoria Branch |

Rajshahi Division (09 Nos.)

- | | |
|----------------------------|---------------------|
| 01. Bogra Branch | 02. Dinajpur Branch |
| 03. Rangpur Branch | 04. Rajshahi Branch |
| 05. Naogaon Branch | 06. Pabna Branch |
| 07. Serajgonj Branch | 08. Natore Branch |
| 09. Chapainawabgonj Branch | |

Khulna Division (07 Nos.)

- | | |
|---------------------------------------|----------------------|
| 01. Khulna Branch | 02. Jessore Branch |
| 03. Kushtia Branch | 04. Jhenaidah Branch |
| 05. Noapara Bazar Branch Jessore | 06. Chuadanga Branch |
| 07. Khan Jahan Ali Road Branch Khulna | |

Barisal Division (01 Nos.)

01. BARISAL BRANCH

Sylhet Division (11 Nos.)

- | | |
|-----------------------|------------------------|
| 01. Sylhet Branch | 02. Moulvibazar Branch |
| 03. Biswanath Branch | 04. Beanibazar Branch |
| 05. Amborkhana Branch | 06. Goalabazar Branch |
| 07. Sherpur Branch | 08. Zindabazar Branch |
| 09. Nabigonj Branch | 10. Barolekha Branch |
| 11. Shibgonj Branch | |

Products & Services of UCBL

- ✓ Western Union Money Transfer
- ✓ Online Service
- ✓ Credit Card
- ✓ Monthly Savings Scheme
- ✓ Travelers Cheques
- ✓ Import Finance
- ✓ Working Capital Finance
- ✓ Underwriting and Bridge Financing
- ✓ Industrial Finance
- ✓ NFCD (Non Resident Foreign Currency Deposit A/c)
- ✓ Consumer Credit Scheme
- ✓ SMS Banking Service
- ✓ One Stop Service
- ✓ Time Deposit Scheme
- ✓ Deposit Insurance Scheme
- ✓ Inward & Outward Remittances
- ✓ Export Finance
- ✓ Loan Syndication
- ✓ Trade Finance
- ✓ Foreign Currency Deposit A/C
- ✓ RFCD (Resident Foreign Currency Deposit A/c)
- ✓ Locker Service

Chapter 3

Foreign Exchange Department of United Commercial Bank Limited Gulshan Branch, Dhaka

DEFINITION OF FOREIGN EXCHANGE

Foreign Exchange refers to the process or mechanism by which the currency of one country is converted into the currency of another. In Banks when we talk of foreign exchange, we refer to general mechanism by which a bank converts currency of one country into that of another.

Dr. Paul Einzig defines Foreign Exchange as the system or process of converting one national currency into another and transferring of ownership from one country to other countries.

According to Mr. H. E. Evitt. 'Foreign Exchange is that section of economic science which deals with the means and method by which right to wealth in one country's currency are converted into rights to wealth in terms of another country's currency. It involved the investigation of the method by which the currency of one country is exchanged for that of another, the causes which rendered such exchange necessary the forms which exchange may take and the ratio or equivalent values at which such exchanges are effected'.

The expression 'Foreign Exchange' is also popularly used to denote a foreign currency.

Foreign Exchange means foreign currency and includes:-

- (i) all deposits, credits and balances payable in any foreign currency and any drafts, travelers cheques, letters of credit and bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency; and
- (ii) any instrument payable, at the option of the drawee or holder thereof or any other party thereto. Either in Indian currency or in foreign currency or partly in one and partly in the other. Thus, foreign exchange includes foreign currency; balances kept abroad and instruments payable in foreign currency.

It is concerned with the settlement of international indebtedness, the methods of effecting the settlements and the instruments used in this connection and the variation in the rates of exchange at which settlement of international indebtedness is made.

Fundamentals of Foreign Exchange

There are 03 fundamental aspects of the general mechanism of Foreign Exchange:

- a) Every country has its own currency-legal tender/distinctive unit of account
- b) The conversion of one currency into another is effected by Banks by book-keeping entry carried out in the two centers concerned.
- c) These exchanges are affected by means of credit instruments viz. Draft, Mail Transfer, SWIFT etc.

Administration of Foreign Exchange in Bangladesh

While Bangladesh Bank (Central Bank) has full authority to administer foreign exchange in Bangladesh, it cannot do so by itself. Foreign exchange is received or required by a large number of exporters and importers in the country. It would be impossible for Bangladesh Bank to deal with them individually. Therefore provision has been made in the concerned Act, enabling our Central Bank to delegate its powers of functions to Authorized Dealers and Authorized money changers.

FUNCTION OF FOREIGN EXCHANGE

Since Banks act as a media for the system of foreign exchange policy, its imperative that the concerned desk officers are well acquainted with the following:

- | | |
|------------------------------------|--------------------------------------|
| ✓ How the rate of exchange works | ✓ Intervention money |
| ✓ Forward and spot rate | ✓ Foreign exchange transaction |
| ✓ Methods of quoting exchange rate | ✓ Foreign exchange trading |
| ✓ Premium and discount | ✓ Export and import letter of credit |
| ✓ Risk of exchange rate | ✓ Non-commercial letter of trade |

- ✓ Causes of exchange rate
- ✓ Exchange control
- ✓ Convertibility
- ✓ Exchange position
- ✓ Financing of foreign trade
- ✓ Nature & function of foreign exchange market
- ✓ Rules and Regulation used in foreign trade
- ✓ Exchange Arithmetic

There are three kinds of foreign exchange transaction:

1. Import
2. Export
3. Remittance.

Chapter 3

Foreign Exchange Transactions (Import & Export)

Sale and Payments terms in Foreign Trade

Every foreign trade transaction is the result of a sale contract between the seller and buyer. A sale contract incorporates a number of terms and conditions relating to the various aspects of the deal, one of the most important perhaps are the terms relating to the place and mode of delivery, the terms of payment of relevant charges, the mode of payment for the goods to be bought and sold.

Payment terms stipulates where, when and how the payment will be effected. Terms involving payment within a period of 06 months from the date of shipment are deemed as *Short-term Payment*, while those involving a period beyond 06 months but within five years are *Medium-term* payment terms. If goods sold on credit terms extending beyond five years they are considered as *Long-term* payments.

The following are the main types of *Short-term payment terms* offered by the exporter:

a) DOCUMENTARY LETTER OF CREDIT-

In documentary Letter of Credit terms, a Bank undertakes to pay on behalf of the importer, provided that the exporter fulfills certain terms and conditions. It has be described as ` an arrangement' which is a written undertaking by a bank to pay or to arrange to pay for a specified merchandise provided that the beneficiary submits all the requisite documents.

b) DOCUMENT AGAINST PAYMENT (D/P) OR CASH AGAINST DOCUMENT (CAD) –

Under the Documents against Payment (D/P) the seller agrees to deliver the documents entitling the goods to the buyer against payment and there is no undertaking by any bank to honor the claim. Under this arrangement, the exporter ships the merchandise, collects the required shipping documents and presents the full set of documents along with the Bill of Exchange to his bank which in turn sends the documents to its overseas branch or correspondent

bank. Since the bill is drawn D/P, the foreign branch or correspondent bank is authorized to release the documents to the importer only against payment. Banks often finance such transaction by the D/P bills on a 'with recourse' basis.

c) DOCUMENT AGAINST ACCEPTANCE (D/A) –

The contract of sale may be on D/A terms which means that the documents of title to the goods sold will be delivered to the buyer on his acceptance of the concerned Bill of Exchange, while payment is to be made by the drawee/acceptor on maturity, i.e. after expiry of the tenor of the bill. The Bill is accepted by the importer by signing the Bill of Exchange and is marked D/A. The credit period is extended by the exporter may be 30, 60, 90 or 120 days. The drawee may retire the documents on any day within the due date of the bill.

d) CONSIGNMENT SALE –

Under the Consignment Sale the exporter consigns the goods to his agent or representative in the foreign centre and the consignee arranges for its sale. Under this arrangement, the actual sale takes place long after the export of goods. The consignee remits the sale proceeds after the goods are sold. Very often, the consignee is required to execute a Bank Guarantee to the effect that as and when the goods are sold, the sale proceeds will duly be remitted to the consignor.

e) V.P / C.O.D-

V.P stands for Value Payable and C.O.D. for Cash on delivery. These abbreviation are generally used in international trade when goods are dispatched by post parcel. The letter C.O.D is used in the case of shipment by air. They imply that the post parcel would be delivered to the buyer only against payment of the value thereof in cash.

Medium and Long term credits

Medium and long term credits are generally referred to as deferred payment terms. Credit maturities ranging from one year to five years are termed as Medium Term credits while maturities exceeding five years are treated as long term credits. Long term commercial credits with maturities of 7 to 15 years are very common in the sale of capital goods, turn-key projects etc.

Medium term export credit flows from two channels, i.e. it may come in the form of 'Supplier's/Seller's Credit' or 'Buyer's Credit'.

A) SUPPLIER'S/SELLER'S CREDIT –

Such credit is customarily extended by the suppliers direct to the overseas buyer and is usually granted in cases of deferred payment basis. Suppliers in turn obtain finance from banks or financial institutions against the security of the claims receivable from abroad upon completion of certain formalities.

In such case, suppliers may obtain pre-shipment finance from his bank to enable him to procure raw materials for production. At the post-shipment stage, he may allow the importer to pay the amount in installments and in-turn obtains post-shipment finance from his bank for a similar term from his bank. In addition to granting pre and post shipment finance, the exporter's bank may be required to execute performance guarantee on behalf of the exporter guaranteeing performance under the contract of the sale.

B) BUYER/S CREDIT –

In foreign trade, Buyer's Credit refers to a long-term credit granted by the exporter's banker to the overseas buyer in the latter's undertaking to pay the value of the exports by installments at regular intervals over a

specified number of years and furnishing a bank guarantee on favor of the exporter's banker against any default in such payments.

At the pre-shipment stage, the buyer's credit may take the form of opening 'red clause' letter of credit by the importer authorizing the exporter's bank to extend the pre-shipment finance to the exporter. At the post-shipment stage the exporter's bank would make immediate payment to the exporter by extending loan to the importer. The seller receives the amount due under the contract immediately and is not responsible for payment by the importer. Therefore the credit risk is borne by the bank in the buyer's credit.

DOCEUMENTARY CREDIT

One of the important functions of any commercial bank is to finance import and export trades. In international trade, because of the distance involved, buyers and sellers do not know each other. By opening letter of credit on behalf of a buyer favoring a seller, the commercial banks undertake to make payments to a seller subject to compliance with terms and conditions of the credit guarantee.

In the sphere of international trade the letter of credit occupies an important place as a method of payment. Since trade financed by a letter of credit involves many parties from different countries and the civil and commercial laws of these countries vary widely, its imperative that all parties to a letter of credit must clearly have the same understanding about the terminology used in the credit. In the absence of standardization of the code relating to L/C, the scope for difference in the interpretation of

the terms and conditions are great. To minimize this scope for ambiguities and differences, the INTERNATIONAL CHAMBER OF COMMERCE formulated the Uniform Customs and Practice for Documentary Credits (UCPDC) to establish a set of rules governing documentary credits which will be accepted universally by all the countries.

TYPES OF LETTER OF CREDIT (EXPORT)

The type of letter of credit depends of the initial contract based on which the credit is issued and advised, the parties involved, the rights and obligations of the different parties and the degree of protection provided to the beneficiary.

A documentary credit may be classified under the following types depending upon the particular provisions it contains. A major few of which are as follows:

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

- B) **IRREVOCABLE CREDIT** –is one which contains an absolute undertaking on the part of the issuing bank to accept and pay the bills drawn upon it as long as the terms and conditions stipulated in the letter of credit are fulfilled. It is a confirmed credit by the opening bank.

An irrevocable letter of credit cannot be revoked, amended or modified by the issuing bank without the consent of the beneficiary or any other party cornered including the confirming bank.

- C) **CONFIRMED and UNCONFIRMED CREDIT** - An irrevocable credit may be confirmed or unconfirmed. A confirmed credit is one which has been confirmed by the advising bank. The bank issuing the credit through its branch or correspondent located in the beneficiary's country with a request to add its confirmation to the subject credit. If the advising bank adds confirmation to the credit, it becomes a confirming bank. Confirmation constitutes a definite and legal undertaking on part of the confirming bank and will duly honor the payment or acceptance on presentation of the stipulated documents and provided that all the terms and conditions of the subject credit is satisfied.

On the other hand when the advising bank does not add its confirmation but merely forwards the credit to the beneficiary, the subject credit remains unconfirmed. Such a credit is called a irrevocable unconfirmed credit. In such case, the advising bank may at its own discretion may or may not negotiate the bills, However in practice the documents tendered under an irrevocable credit, though unconfirmed, are readily negotiated by the abnks is all countries as the risk involved in such a transaction is very limited.

PARTIES TO A LETTER OF CREDIT

A letter of credit is issued by a Bank at the request of an importer in favor of an exporter from whom he has contracted to purchases some commodity or commodities. The importer, the exporter and the issuing bank are parties to the letter of credit. There are however, one or more than one banks that are involved in various capacities and at various stages to play an important role in the total operation of the credit.

- i) The opening Bank.
- ii) The Advising Bank.
- iii) The Buyer and the Beneficiary.
- iv) The paying Bank.
- v) The negotiating Bank.
- vi) The confirming Bank.

i) The opening Bank: The opening Bank is one that issues the letter of credit at the request of the buyer. By issuing a letter of credit it takes upon itself the liability to pay the bills drawn under the credit. If the drafts are negotiated by another bank, the opening Bank reimburses that Bank. As soon as the opening Bank, issuing a letter of credit (L/C), it express its undertaking to pay the bill or bills as and when they are drawn by the beneficiary under the credit. When the bills are presented to or when antic is received that bills have been presented to a paying or negotiating Banks its liability matures.

- ii) The Advising Bank:** The letter of credit is often transmitted to the beneficiary through a bank in the latter's country. The bank may be a branch or a correspondent of the opening bank. The credit is some times advised to this bank by cable and is then transmitted by it to the beneficiary on its own special form. On the other occasions, the letter is sent to the bank by mail or telex and forwarded by it to the exporter. The bank providing these services is known as the advising bank. The advising bank undertakes the responsibility of prompt advice of credit to the beneficiary and has to be careful in communicating all its details.
- iii) The Buyer and the Beneficiary:** The importer at whose request a letter of credit is issued is known as the buyer. On the strength of the contract that he makes with the exporter for the purchase of some goods that the letter of credit is opened by the opening bank.

The exporter in whose favor the credit is opened and to whom the letter of credit is addressed is known as the beneficiary. As the seller of goods he is entitled to receive payment which he does by drawing bills under the letter of credit (L/C). As soon as he has shipped the goods and has collected the required documents, he draws a set of papers and presents it with the documents to the opening bank or some other bank mentioned in the L/C.

- iv) The Paying Bank:** The paying bank only pays the drafts drawn under the credit but under takes no opening bank, by debating the latter's accounts with it if there is such an account or by any other measured up, between the two bankers. As soon as the beneficiary has received payment for the draft, he is out of the picture and the rest of the operation concerns only the paying bank and the opening bank.

- v) **The Negotiating bank:** The negotiating bank has to be careful in scrutinize that the drafts and the documents attached there to are in conformity with the condition laid down in the L/C. Any discrepancy may result in refused on the part of the opening bank to honor the instruments is such an eventuality the negotiating bank has to look back to the beneficiary for refund of the amounts paid to him.

- vi) **The Confirming Bank:** Sometimes an exporter stipulates that a L/C issued in his favor be confirm by a bank in his own country. The opening this country to add its confirming to the credit the bank confirming the credit is known as the confirming bank and the credit is known as confirmed credit.

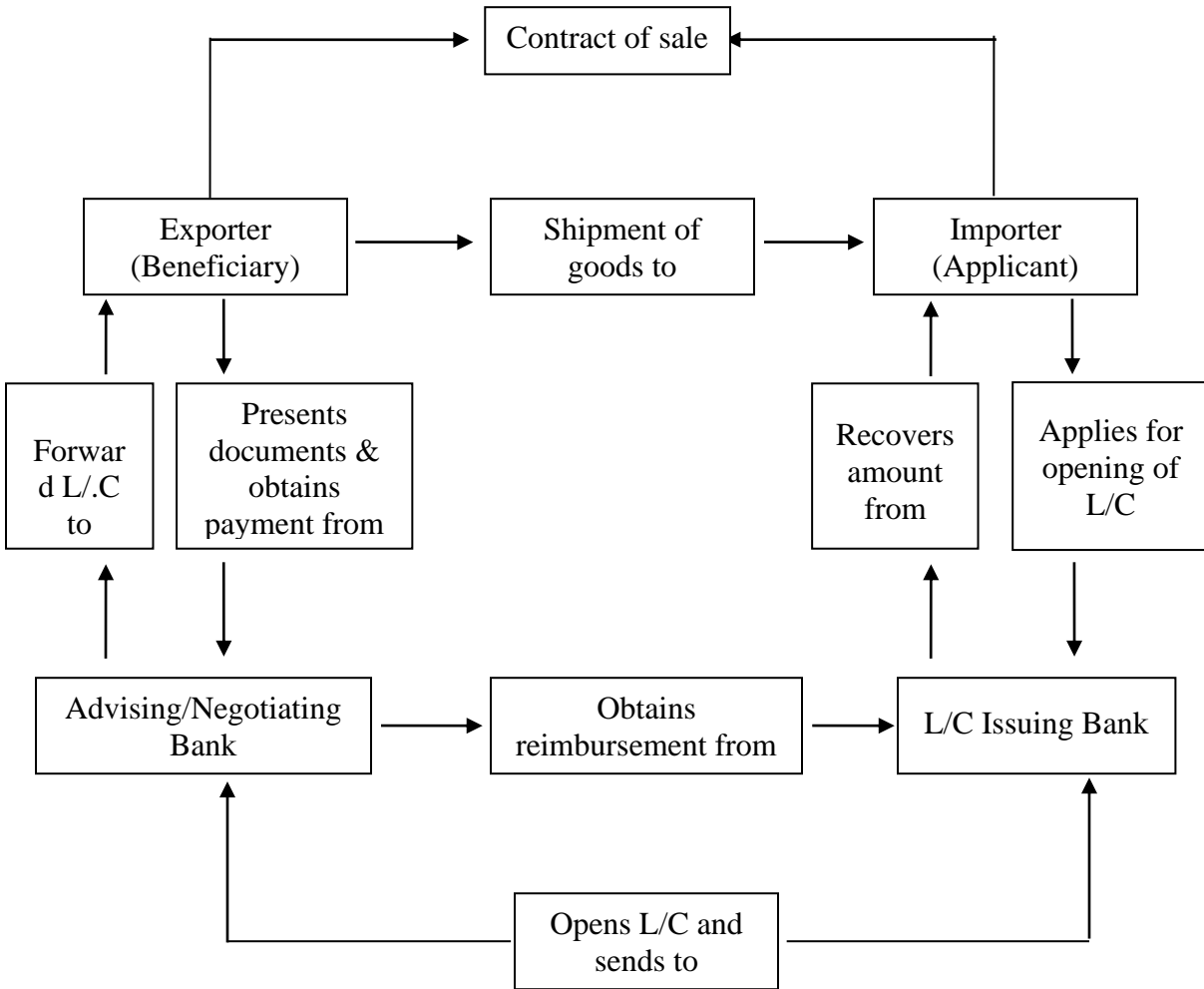
CONTENTS OF THE LETTER OF CREDIT

Banks normally issue letters of credit (L/C) on forms which clearly indicating the banks name and extent of the banks obligation under the credit. The contents of the l/c of different Banks may be different .In general l/c contain the following information:-

- i) *Name of the buyer:* who is also known as the accounted since it is for his account that the credit has been opened.
- ii) *Name of the seller:* Who is also known as the beneficiary of the credit.
- iii) *Moment of the credit:* This should be the value of the merchandise plus any shipping charges intent to be paid under the credit.
- iv) *Trade terms:* Such as F.O.B and CIF.
- v) *Expiration date:* Which is specified the latest date documents may be presented. In this manner or by including additionally a latest shipping date, the buyer may exercise control over the time of shipment.
- vi) *Documents required:* Which will normally include commercial invoice consular or customers invoice, insurance policies as certificates, if the source is to be effected by the beneficiary and original bills of lading.

vii) *General description of the merchandise:* This briefly and in a general manner duly describes the merchandise covered by a letter of credit.

Mechanism of a letter of credit



The process for a letter of credit is summarized in the above diagram detailed as under:

Figure – A

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

Application for issuing Letter of Credit - The importer would apply on the bank's standard form to his bank for issuing a letter of credit. In addition to recording full details of the proposed credit, the application also serves as an agreement 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 the supplier/manufacturer/beneficiary (including his bank)
- Name and address of the opener (including license No. etc.)
- The total amount of credit applied for and whether the credit is a specific credit or a revolving letter of credit and amount of the currency in which documents are to be drawn.
- The type of credit to be opened i.e. whether revocable or irrevocable, confirmed or unconfirmed, transferable etc.
- The terms of the sale, i.e. whether the contract is on CIF, C&F, FOB basis.
- The risks to be covered under the policy and the amount of insurance.
- Brief description of goods including quantity, quality and unit price.
- The terms of payment, whether on D.A. or D.P. basis.
- Specified documents required, such as invoice, bill of lading, marine insurance, certificate of origin, consular invoice etc.
- Place of shipment, destination and latest date for shipment.
- Details regarding the mode of shipment and the documents which are to accompany the Bill of Exchange viz. Airway Bill or Air Consignment Note, Bill of Lading or Post Parcel receipt, whether part shipment or transshipment allowed.
- The date up to which the credit shall remain valid and the date within which documents should be presented for negotiation.
- Method of advice of credit, whether it should be sent by mail, SWIFT.

The request for a letter of credit is analogous to that of giving an advance. Hence, precautions should be taken while establishing a letter of credit. The importer is required to give the following authority to the issuing bank:

- i) The bank will have the pledge of documents and the title to the goods covered under the credit.
- ii) The importer will accept and pay on maturity if the bills are drawn on D.A. basis and pay on presentation in the case of bills drawn and payable on demand.
- iii) The provisions and articles of the UCPDC usually govern the letter of credit operations unless otherwise specified.

The importer must submit the following papers along with L/C application form prior to opening a letter of credit:

- a) Import license/Authorization Form or Import Registration Certificate as the case may be.
- b) Indent/Proforma Invoice
- c) Insurance Cover Note
- d) P Forms and other documentation etc.

On receipt of credit application form along with the importer's requisite papers, the bank takes into account the following considerations-

- 1) The credit standing of the applicant
- 2) The financial standing, market reputation and integrity of the customer
- 3) The nature of commodity to be imported, its marketability and durability and stability of price will be considered to determine the margin asked for by the banker for opening of credit.

- 4) The Exchange and Trade Controls are supplementary and complementary to each other.
- 5) The marine insurance for transaction is adequate
- 6) The opening bank must also obtain credit report of the beneficiary prior to the opening of the subject credit.

On completion of these formalities, the opening bank will then proceed for the opening of credit which just means the transferring of information provided in the credit application form by the importer which ultimately becomes the 'terms and conditions' for the credit.

ADVISING A LETTER OF CREDIT:

The Letter of Credit duly signed by any two authorized signatories whose specimen signatures are already recorded with the correspondent bank. Bank generally does not enter into direct contact with the beneficiary. Instead they utilize the services of its own branch office (if any) or correspondent bank at seller's country for the purpose of advising it to the seller (beneficiary). Thus the correspondent bank becomes the 'Advising Bank'.

The process of advising a credit consists of forwarding the original credit to the beneficiary to whom it is addressed. Prior to forwarding/advising the credit to the seller, the advising bank has to verify the signatures of the officers of the opening bank while ensuring that the terms and conditions are not in violation of regulations relating to export. While advising, the bank does not undertake any liability.

ACCOUNTING ORICEDURE:

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

DR- Customer's liability on L/C

CR – Bank's liability on L/C

The rate applied for opening the credit is the prevailing Bills Selling Rate on the date of opening of the L/C.

ADD CONFIRMATION

The creditworthiness of any institution is very difficult to ascertain and hence the occasions arise when beneficiary of the letter of credit refuses to accept the credit issued and consequently insists that such letter of credit be further confirmed by a bank in the seller's country. When the correspond bank in the seller's country adds its confirmation to the credit and advises the L/C to the beneficiary, then the correspondent bank becomes both the confirming bank as well as the advising bank.

AMENDMENTS or MODIFICATION TO A LETER A CREDIT

Changes in the original terms and conditions as stipulated in a credit may be required due to unavoidable circumstances for either of the parties concerned. Before making any amendments, written request from the importer is necessary, who generally makes this request in consultation with the supplier.

In case of revocable credit, it can be amended or cancelled by the issuing bank at any moment without prior notice to the beneficiary. But in the case of irrevocable credit, it can neither be amended nor cancelled without the consent of the issuing bank, the confirming bank (if any) and the beneficiary.

TRANSMISSION OF CREDITS AND AMENDMENTS

Transmission of credits can be affected by post or SWIFT (authenticated message) method. It is made through a standardized format of text.

When transmission is made by post, the letter of credit is prepared in a standardized manifold set of advices, consisting of several copies which are used as under:

- i) The original is the 'negotiable' advice and is forwarded by airmail to the beneficiary through Advising Bank.
- ii) The duplicate copy of the original advice is forwarded to the advising bank by the same airmail for their information and record.
- iii) One copy of the advice is sent to the reimbursing bank.
- iv) A copy of the above is sent to the applicant for their information and record.
- v) One or more copies are retained by the issuing bank for official purposes.

When a credit is teletransmitted, the standardized format is used by the opening bank. The advising bank will follow authenticated teletransmission as operative credit instrument. In this connection Article 11 (a.i) of UCPDC is followed. If the teletransmission does not contain explicit instructions about the confirmation advice to follow, the teletransmission message should not be taken as operative credit or operative amendment.

Shipment of consignment and lodgment of documents – There may be two types of exporters a) Merchant/Trade Exporter or b) Manufacturer Exporter.

If the supplier is a merchant exporter, he will immediately start packing and shipping the goods. On the other hand if he is a manufacturer exporter, he will start manufacturing the item. In either case, he will ship the goods when ready and obtain full set of the concerned documents from the transport company and submit the same to the negotiating bank alongwith all other relevant documents which are called for in the subject credit.

The shipping documents usually required are:

- i) Bill of Lading, Air Consignment Note, Post Parcel Receipt or Truck Receipt.
- ii) Bill of Exchange
- iii) Commercial Invoice
- iv) Certificate of Origin
- v) Packing List
- vi) Weight Certificate
- vii) Consular Invoice (if required)
- viii) A copy of declaration of shipment made to the Insurance company
- ix) Pre-shipment Inspection certificate
- x) Analysis certificate.

IMPORT PROCEDURE

The other important function of a commercial bank is to facilitate import of merchandise and payment of foreign exchange towards the cost of the same to suppliers.

Most imports into Bangladesh require license from the concerned competent authority. From 1983-84 shipping period the procedure has been liberalized. Now commercial banks have been entrusted with the responsibility of licensing imports in both industrial and commercial sectors. It is done by means of specially designed form known as Letter of Credit Authorization Form or simple LCAF. LCA Forms are security documents printed by the respective Bank. This form in reality is a substitute for the conventional import license.

The following documents are required to be submitted by the importer to his banker for licensing:

- i) The LCA Form properly completed in quintuplicate duly signed by the importer.
- ii) L/C Application form duly signed by the importer.
- iii) Purchase contract, i.e. indent for the goods or proforma invoice.
- iv) Insurance Cover Note.
- v) Membership Certificate from a recognized Chamber of Commerce and Industry or registered Trade Association.
- vi) A proof of payment renewal fees for the Imports Registration Certificate.
- vii) A declaration, in triplicate, that the importer has paid income tax or has submitted income tax returns for the proceeding year.
- viii) In case of Public Sector, attested photocopy of allocation letter issued by the allocation authority, Administrative Ministry or Division specifying the source, amount, purpose, validity and other terms and conditions against the import.
- ix) Any such documents as may be required as per instructions issued/to be issued by Chief Controller of Imports and Exports from time to time.

Accounting Procedure: As soon as an Import L/C is opened, the bank accepts the liability on behalf of the importer to make payment against the credit provided that the shipment is made within the period and the all the stipulated documents are presented and the other terms and conditions as per L/C are complied with.

Hence the bank has to pass an entry in the L/C Liability Ledger and also in the General Ledger to show its actual liability accepted as under-

Contingent Liability voucher

DR- Customer's Liability on L/C

CR – Bank's Liability on L/C

Margin & Bank Charges

Margin, commission, postages and other charges are recovered from the party by passing the following entries:

DR – Party's Account

CR – Margin Account on L/C

CR- Commission Account

CR – Postages Account

CR – Other Charges Account

Margin voucher would be posted in the margin Deposit register party-wise mentioning L/C number.

Lodgment of Documents

Upon shipment of contracted merchandise, the supplier prepares shipping documents and presents the same to the negotiating bank. On being satisfied that the documents are in order of the terms of the concerned L/C, the negotiating bank makes payment to the supplier by debiting the opening bank's account, if any maintained with it or claim reimbursement from another bank as stipulated in the reimbursement clause and forwards the shipping documents to the opening bank.

Accounting precedence at the time of lodgment - Whether the documents submitted are paid or dishonored, the opening bank will reverse the liability created in their books as under-

Contingent Liability reversal voucher

DR - Bank's liability on L/C

CR - Customer's liability on L/C

Vouchers on lodgment of documents

DR – payment against document (PAD) or Bill of Exchange

CR – Balance with Correspondent Bank account (responding to the debit entry) or in case of Authorized Dealer Branch, Head Office General Account.

Retirement of Import Documents – After retirement of documents by the importer, the bank will put endorsement on the draft stating 'Received Payment' under seal and signature by the bank's Authorized Signatory. The invoice is certified as 'certify invoice value' (stating foreign currency equivalent of local currency) and the B/L is endorsed in favor of the importer.

SCRUTINY OF DOCUMENTS

The L/C opening bank being received the documents from the negotiated bank will scrutinize the documents with the respective L/C terms and condition.

i) Forwarding schedule of Negotiating Bank

- Whether there is any instruction.
- Whether these instruction can be complied with.
- whether the negotiating commission realized.

ii) Bill of Exchange (Draft)

- Whether it is drawn in order.
- Whether the amount of draft corresponds with the L/C amount.
- Draft amount should be equal or less than the L/C amount.
- whether the date of the draft of the within the date as per L/C etc.

iii) Bill of Lading (B/L)

- Whether the B/L is clean i.e. there is no clause like some cartons are broken or any other clause.
- Whether there is signature of shipping Authority.
- Whether the date of B/L is within the date of shipment as per L/C.
- Whether the freight is prepared or not as per L/C terms.
- Whether the part of shipment and part of destination are similar as per L/C.
- Whether the title of B/L belongs to L/C opening bank.
- Whether the full sets of B/L dispatched by negotiating bank etc.

iv) Commercial Invoice

- Whether the full particulars of goods have been incorporated.
- Whether the amount of invoice corresponds with the amount of Bill of Exchange and as per the L/C terms.
- Whether IRC No. LCA No etc. have been incorporated.
- Whether it is signed by the beneficiary.

v) Other Documents

- Whether all other documents are prepared as per L/C.

After securitization, the official concerned may found the following :-

- i) Documents are in order i.e. no discrepancy.
- ii) Minor discrepancy-Acceptable to the importer.
- iii) Major discrepancy-May be acceptable to the Regulation or those are irremovable.

After performing necessary formalities & entry in respective registers documents to be handed over to the importer on proper acknowledgement after certification and endorsement of the documents.

MONTHLY RETURN

On the last working day of the month returns of bills lodged during the month through IMP Form to be sent to Foreign Exchange Department, Bangladesh Bank.

DISPOSAL OF IMP FORM

Original = From L/C opening bank to Bangladesh Bank after lodgment of documents.

Duplicate = To be filled by the L/C opening bank with exchange control copy of Bill of Entry submitted by the importer after clearance of the goods from the customs authority.

Triplicate = Office copy of L/C opening bank.

Quadruplicate = From L/C opening to Bangladesh Bank if the importer does retire the documents.

LOAN AGAINST IMPORTED MERCHANDISE - LIM

DEFINITION OF LIM

Import Finance plays vital role in a country's foreign trade business. Import of goods and service are needed not only for export production but also to supply domestic industry with the necessary inputs which are not locally available or available at uneconomic cost and are needed for expansion and development.

Loan against Imported Merchandise (LIM) is a facility provided by the Bank to the importers who are in shortage of fund to retire the import bills and thus to clear the goods from the post authority. In other words it may be referred as an advance against merchandise.

CASES OF LIM ACCOUNT

LIM Accounts may be created in the following two cases:-

- a) LIM Account on importer's request.
- b) Forced LIM Account.

a) Creating a LIM Account at importer's request

After lodgment of documents, the importers concerned to be intimated for early retirement of the documents by paying outstanding bill amount including other charge. If the importer is not in a position to retire the bill out of his own sources at that moment may request the bank to clear the goods by creating LIM Account. On receipt of the importer request the official of the import bills section will prepare an office note by calculating the total landed cost of the consignment. To ascertain the landed cost the following points to be considered.

Efforts should be taken so that at least 20% to 30% margin of the landed cost may realize from the importer. Realization of margin will depend on the banker customer relationship and also on the marketability of the goods.

The following charge documents have to execute by the importer:-

- i) DP Note (Demand Promissory note).
- ii) Letter of Arrangement.
- iii) Letter of Disbursement.
- iv) Letter of pledge.
- v) Any other document of necessary.

At UCBL, The Branch Heads are not empowered to sanction the LIM A/Cs in favor of the importers for clearance the goods without obtaining the approval from Head Office.

Upon receiving approval from Head Office the branch will send necessary documents to the concerned branch by indorsing the bill of lading in favor of them with certification of invoice for clearance the goods through importer's nominated as well as Bank's approved C&F agent.

The following accounting procedure are required to be carried out-

Dr – LIM Account (jn the name of the importer)

Cr –PAD or B/E Account

Cr – Interest/commission etc. (if any)

All relevant particulars pertaining to the subject LIM A/C must be entered in the LIM Register and vouchers posted.

Upon clearance, the merchandise is to be stored either at Bank's warehouse or in importer's warehouse under bank's custody and the particulars of goods to be recorded in the LIM Register. Charges on account of insurance (fire, theft, etc.), staff salary, and warehouse rent (if the goods stored at the Bank's warehouse) and other miscellaneous charges in connection with the LIM A/C will be made by debiting the party's LIM A/C under advice to the importer.

LETTER OF TRUST (LTR)

By executing the standard letter of trust (or trust receipt) the customer acknowledges receipt of the documents of title to the goods, as the case may be and agrees to hold them and the relative goods, when delivery thereof is taken by him, in trust as agents for the bank until the goods are sold or used for the express purpose for which they were released to him. The customer also undertakes to keep the transaction separate

and assign and deposit with the bank the sale proceeds immediately realization but in any case not later than time period stipulated in the letter. Further, the customer undertakes to keep the goods insured and in the event the goods or may part thereof cannot be used by him for the declared purpose or on demand being made by the bank for the return of the documents / goods, he promised to restore the goods or documents to the bank's custody. The trust receipt, thus, enables the importer customer to take re-delivery of the documents pledged to the pledge bank.

Chapter 4

General Banking

General Banking Sections, Types of Accounts, Products

Financial institution/intermediary that mediates or stands between ultimate borrowers and ultimate lenders is known as a banking financial institution. Banks perform this function in two ways - taking deposits from various areas in different forms and lending that accumulated amount of money to the potential investors in other different forms.

General Banking is the starting point of all the banking operating. General Banking department aids in taking deposits and simultaneously provides some ancillary services. It provides those customers who come frequently and those customers who come one time in banking for enjoying ancillary services. In some general banking activities, there is no relation between banker and customers who will take only one service form Bank. On the other hand, there are some customers with whom bank are doing its business frequently. It is the department, which provides day-to-day services to the customers. Everyday it receives deposits from the customers and meets their demand for cash by honoring cheques. It opens new accounts, demit funds, issue bank drafts and pay orders etc. since bank is confined to provide the service everyday general banking is also known as retail banking.

General Banking consists of the many sections in the branch. These are:

Customer Service.

Account

Opening/Closing.

Remittance.

- Payment Order Issue
- Demand Draft Issue/Collection
- T.T. Issue/Collection
- Endorsements

- IBC/OBC Collection.

Deposit.

Locker Service

Account's Department

- Clearing.
- Transfer.
- Cash.

Types of Accounts:

General Products are:

Current Deposit:

Interest Rate 0.00%

- Individual Account
- Joint Account
- Proprietor Ship Account
- Limited Company Account

Savings Deposits:

Interest Rate 6.25%

- Individual Account
- Joint Account
- Proprietor Ship Account
- Limited Company Account

Short Term Deposits:

Interest Rate 6.00%

- Individual Account
- Joint Account
- Proprietor Ship Account
- Limited Company Account

Fixed Deposits:

Fixed deposit is one, which is repayable after the expiry of a predetermined period fixed by him. The period varies from 1 month to 12 months. These deposits are not repayable on demand but they are withdrawable subject to a period of notice. Hence, it is a popularly known as 'Time Deposit' or 'Time Liabilities'. Normally the money on a fixed deposit is not repayable before the expiry of a fixed period.

Before opening a Fixed Deposit Account a customer has to fill up an application form which contains the followings:

- Amount in figures
- Beneficiary's name and address
- Period
- Rate of interest
- Date of issue
- Date of maturity
- Instructions: To be renewed automatically with interest for the next period.
Not to be renewed for next period.
Pay interest to account no. (-----) on maturity
- Special instruction - How the account will be operated (singly or jointly)
- Signature (s)
- FDR No.

A FDR account is opened and it is recorded in the FDR Register which contains the following information-

- FDR A/C no.
- FDR (Fixed Deposit Receipt) no.
- Name of the FDR Holder with address
- Maturity period
- Maturity date
- Interest rate

Procedure of Account Opening:**Account Opening (Normal Account):**

- ❖ Collect an Account opening form from the Bank.
- ❖ Fill all the requirements of the form.
- ❖ Nominee is must be specified.
- ❖ Photograph is most important for any account.
- ❖ The account holder sign of his/her own self in front or the specific bank principle Officer in the account opening form.

Account Opening (Saving Account):

- ❖ Collect an Account opening form from the Bank.
- ❖ Fill all the requirements of the form.
- ❖ Nominee is must be specified.
- ❖ Photograph is most important for any account.
- ❖ The account holder sign of his/her own self in front or the specific bank principle Officer in the account opening form.
- ❖ To open this account the most important things is that Passport Photocopy or the Word Commissioner Certificate must have to add with the account opening form.

Account Opening (Current Deposit Account):

- ❖ Collect an Account opening form from the Bank.
- ❖ Fill all the requirements of the form.
- ❖ Nominee is must be specified.
- ❖ Photograph is most important for any account.
- ❖ To open this account the most important things is that Passport Photocopy or the Word Commissioner Certificate must have to add with the account opening form and also enclose the form 12 with the account opening form.

Checklist of Documents to be obtained for various types of accounts:**Sole Proprietorship:**

- ✓ Signature Card.
- ✓ Photograph of signatories attested by introducer.
- ✓ Copy of valid Trade License.
- ✓ TIN Certificate.
- ✓ 18-A: Permission from Bangladesh Bank (for GSA & Agents only).

Partnership:

- ✓ Signature Card.
- ✓ Photography of signatories attested by introducer.
- ✓ Partnership Deed.
- ✓ Partners letter of authority to open account and authorization for operation.
- ✓ Copy of valid Trade License.
- ✓ 18-A: Permission from Bangladesh Bank (for GSA & Agents only).

Limited Liability Company:

- ✓ Signature Card.
- ✓ Photograph of signatories attested by introducer.
- ✓ Copy of Memorandum and Articles of Association (Certified by RJSC).
- ✓ Copy of Certificate of Incorporation and commencement of business (In case of public Ltd. Co.).
- ✓ Copy of Board Resolution to open the account and authorization for operation.
- ✓ List of Directors and signatories along with addresses.
- ✓ Latest copy of Form XII.

Association/Trust/Society:

- ✓ Signature Card.
- ✓ Photograph of signatories attested by introducer.
- ✓ Copy of Resolution of governing body to open the account and authorization for operation.
- ✓ Copy of constitution / bylaws/ rules.
- ✓ Certificate of registration.
- ✓ List of authorized signatories and members of the governing bodies along with address.
- ✓ Trust Deed (for Trust account only).

Interest Posting to Client's account:

Periodic interest is automatically credited to the subject client's account after necessary deductions are made in accordance with Bangladesh Bank's instructions (i.e. 10% as income tax deduction on interest accrued alongwith applicable VAT).

Issuance of Cheque Book:

Types of Cheque Book's:

- Savings Account – 10 Leaves
- Current Deposit Account – 10 Leaves
- Current Deposit Account – 25 Leaves (CDTF)
- Current Deposit Account – 50 Leaves (CDF)
- NB: CDTF: Current Deposit Twenty Five
- CDF: Current Deposit Fifty

Account Closing:

Accounts may be closed under two basic scenarios. i) at the written request of the account holder and ii) a bank reserves the right to close a dormant account where no transactions were carried out since last six years and the minimum credit balance required is below the required amount.

Remittance (Foreign/Local)

Remittance is ancillary services offered by UCBL. It aids to remit fund from one place to another place on behalf of its customers. With its extensive network of 84 branches spread all over the country, UCBL is able to remit fund from one location to another, as and when required by its client with relative ease. UCL also has remittance tie-up arrangement with reputed Exchange Houses /Money transfer Companies to facilitate inward remittance from all over the globe.

The main instruments used by UCBL, for local remittance are as under:

- Payment Order Issue/Collection
- Demand Draft Issue/Collection
- T.T. Issue/Collection
- Endorsements
- Travelers Cheque Issuance
- IBC/OBC Collection.

Payment Order Issue/Collection:

The pay order is an instrument issued by bank, instructing itself a certain amount of money mentioned in the instrument taking amount of money and commission when it is presented in bank. Only the branch of the bank that has issued it will make the payment of pay order.

Issuing Pay Order:

The procedures for issuing a Pay Order are as follows:

- ✓ Deposit money by the customer along with application form.
- ✓ Give necessary entry in the bills payable (Pay Order) register where payee's name, date, PO no, etc is mentioned.
- ✓ Prepared the instrument.
- ✓ After scrutinizing and approval of the instrument by the authority, it is delivered to customer. Signature of customer is taken on the counterpart.

Different modes of PO a customer can purchase:By cash:

Cash A/C Debit

Bills payable (PO) A/C Credit.

Income on commission A/C Credit.

By account:

Customer's A/C Debit

Bills payable (PO) A/C Credit.

Income on commission A/C Credit.

By transfer:

UCBL General/ other Dept Clients A/C Debit

Bills payable (PO) A/C Credit.

Income on commission A/C Credit.

PO A/C is the current liabilities of bank, which is acquired to be discharged by beneficiaries against cash or through an account.

Settlement of a PO:

When PO submitted by collecting bank through clearing house, the issuing bank gives payment.

Bills payable (PO) A/C Debit

UCBL General A/C Credit.

But before giving payment it is duty for issuing to observe whether endorsement was given by the collecting bank or not, then the instrument is dishonored and marking 'Endorsement required'.

Cancellation of a Pay Order:

If a buyer wants to cancel it, he should submit a letter of instrument in this regard and also return the instrument.

Accounting treatment: Adjustment entry wills be-

Bills payable (PO) -----Dr.

Customer A/C-----Cr.

When a PO is lost:

If the instrument is lost, the holder will inform to the issuing bank immediately. Bank will mark 'stop payment' on the Bills payable (PO) Register. Buyer will then ask for a new instrument by submitting a GD copy, and indemnity bond. A new instrument will be delivered.

Demand Draft Issuance/Collection:

The person intending to remit fund through a Demand Draft (DD) has to deposit the money to be remitted alongwith commission and charges for the services. The amount of commission depends on the amount to be remitted. On issuance of the DD, the remitter does not remain a party to the instrument: i) Drawer branch ii) Drawee branch iii) Payee. This is treated as the current liability of the bank as the banker on the presentation of the instrument should pay the money. The banker event on receiving instructions from the remitter cannot stop the payment of the instrument. Stop payment can be done in the following cases:

Loss of draft before endorsement: In this case, "Draft□ reported to be lost, payee's endorsement requires verification" is marked.

Loss of draft after endorsement: In this case, the branch first□ satisfies itself about the claimant and the endorsement in his favor.

Accounting treatment:

In case of issuing of the instrument:

Cash/ customer's A/C-----Dr.

UCBL General A/C (Drawn on branch)-----Cr.

Income A/C commission-----Cr.

After giving these entries an Inter Bank Credit Advice is prepared which contains the controlling number, depicting that the branch is credited to whom it is issued.

An IBCA implies the following entries,

UCBL General A/C Issuing Branch -----Dr.

Drawn on branch-----Cr.

Role of the Drawn Branch:

After receiving the IBCA lodgment is done by the branch. The following entries are given "DD In-Issuing branch" register:

Issuing branch A/C-----Dr.

Bills Payable -----Cr.

(After receiving an IBCA)

Bills Payable (DD) A/C-----Dr.

Client's A/C-----Dr.

Entries are given in "DD In-Issuing branch" register:

Issuing branch A/C-----Dr.

Bills Payable-----Cr.

(After receiving an IBCA)

Bills Payable (DD) A/C-----Dr.

Client's A/C-----Dr.

Charges:

A commission of 0.15% is taken on the draft value & Tk.50/= is taken as postal charge.

Cancellation:

To cancel an issued DD, the client has to submit an application. Issuing branch then sends an Inter Branch Debit Advice (IBDA) to the drawn branch against previously issued IBCA.

After that the following entries are given:

General A/C drawn on branch-----Dr.

Client's A/C -----Cr.

Issuing of Duplicate DD:

If the customer wants to issue a duplicate DD, than customer is asked to do the following formalities:

Making a general diary (GD) in the nearest Police Station.

Furnishing an Indemnity Bond in Tk.50/= stamp

The banker immediately marks "stop payment" in the register after receiving the application from the customer and a duplicate DD is issued.

Telegraphic Transfer:

Telex transfer (TT) is another widely used mode for remittances of funds. In case of telex transfer the message for transfer of funds is communicated through tested telex. UCBL generally recovers from the telex charges in addition to the usual service charges.

Issuing of TT:

UCBL follows the following procedures:

The customer deposits money with UCBL to be sent.

The customer obtains a cash memo containing TT serial number.

TT serial number, notifying part name is mentioned in the telex message.

The Telex Department confirms transmission of the telex.

Accounting entries for TT:

Cash A/C Client's A/C -----Dr.

UCBL General A/C (Gulshan branch)-----Cr.

Procedures for the incoming TT:

After receiving the telex, it is authenticated by test. TT Serial number is verified by the "TT in-Concern branch" register.

The following entries are given in the vouchers:

UCBL General A/C (Gulshan branch)-----Dr.

Client's A/C-----Cr.

Tk. 50/- is taken as postal charge. The minimum commission is Tk. 50/- or 0.15% of the amount whichever is higher.

Endorsements:

UCBL endorses US\$ in passports. To endorse US Dollar, the client has to apply in the prescribed form (TM Form).

The following entries are given in this regard:

Cash or Customers' A/C-----Dr.

Foreign Currency on Hand< Dollar Special> -----Cr.

IBC/OBC:

By OBC, we mean that those cheques drawn on other banks which are not within the same clearing house. Officer gives OBC seal on this type of cheques and later sends a letter to the manager of the branch of the same Bank located in the branch on which cheque has been drawn. After collection of that bill branch advises the concerned branch in which cheques has been presented to credit the customer account through

Inter Branch Credit Advice (IBCA):

In absence of the branch of the same bank, officer sends letter to manager of the bank on which the cheques is drawn. That bank will send pay order in the name of the branch. This is the procedure of OBC mechanism.

Actually OBC comes from the out side bank's branch, or inter branches. Suppose Uttara Bank, Jatrabari Branch sent a Cheque, which no: 012536, Tk. 7,00,000/- to UCBL against Uttara Bank Motijheel Corp. Branch. So this cheque could be an OBC. Now all

that UCBL has to do is collect this cheque through Bangladesh Bank Clearing House, and credit the clients account.

OBC Collection Process:

Create a Voucher against OBC: S/D A/C	OBC Tk. 7,00,000/-
0.10% Cut off as Commission on OBC	: Tk. 500
15% Cut off as Vat on Others	: Tk. 75
Tk. 20/- Cut off as Postage Recovery	: Tk. 20
Total	: Tk. 595/-

In this condition UCBL got the cheque amount of Tk. 7,00,000/-, but after cut off the commission, vat and postage recovery UCBL will be credited the amount Tk. (7,00,000 – 595)= Tk. 6,99,405/- in party account.

Locker Service:

UCBL Gulshan Branch is providing facility of locker service for the purpose of safeguarding the valuable property of customers. The person or organization that has any account in bank branch can enjoy this service. They keep their valuable assets in banker's custody. Customers have right to look after with a key of their individual locker provided by bank. UCBL maintains the following types of lockers:

- ✓ Large locker.
- ✓ Medium locker.
- ✓ Small locker.

For enjoying this service, clients have to give charge yearly Tk.2500/-, Tk.2000/- and Tk.1500/- for large, medium and small locker respectively.

CASH

The cash section of any branch plays very significant role in Accounts Department. Because, it deals with most liquid assets the UCBL Gulshan Branch has an equipped cash section. This section receives cash from depositors and pay cash against cheque, draft, PO, and pay in slip over the counter. Every Bank must have a cash counter where customer withdrawn and deposit there money. When the valued client's deposit their money at the cash counter they must have to full fill the deposit slip his/her own, then they sing as the depositor option's then they deposit their money through cash officer at the cash counter.

SEVERAL TYPES OF DEPOSIT SLIP

There are several types of deposit slip as follows:

- ✓ Current Deposit A/C Slip,
- ✓ Saving's Deposit A/C Slip,
- ✓ Pay order Slip,
- ✓ Demand Draft Slip,
- ✓ T.T. Slip.

After paying through these kinds of slips, the valued client waits for the deposit slip book out side of the cash counter. The teller deposits the money in respective accounts through computer software, while the depositors account credited, then the cash officer put a seal in the deposit slip and return it to the client.

RECEIVING CASH:

Any people who want to deposit money will fill up the deposit slip and give the form along with the money to the cash officer over the counter. The cash officer counts the cash and compares with the figure written in the deposit slip. Then he put his signature on the slip along with the 'cash received' seal and records in the cash receive register book against A/C number.

At the end of the procedure, the cash officer passes the deposit slip to the counter section for posting purpose and delivers duplicate slip to the clients.

Account treatment:

Cash A/C----- Dr.

Customer's A/C----- Cr.

DISBURSING CASH:

The beneficiary who wants to receive money against cheque comes to the payment counter and presents his cheque to the officer. He verifies the following information:

- Date on the cheque
- Signature of the A/C holder
- Material alteration
- Whether the cheque is crossed or not
- Whether the cheque is endorsed or not
- Whether the amount in figure and in word correspondent or not

Then he checks the cheque from computer for further verification. Here the following information is checked:

- Whether there is sufficient balance or not
- Whether there is stop payment instruction or not
- Whether there is any legal obstruction (Garnishee Order) or not

After checking everything, if all are in order the cash officer gives amount to the holder and records in the paid register.

Account treatment:

Customer's A/C Dr.

Cash A/C Cr.

The cash section of UCBL deals with all types of negotiable instruments, cash and other instruments and treated as a sensitive section of the bank. It includes the vault which is used as the store of cash instruments. The vault is insured up to Tk. 60 lacs. If the cash stock goes beyond this limit, the excess cash is then transferred to Principle Branch Office. When the excess cash is transferred to UCBL Principle Branch Office the cash officer issues IBDA.

Account treatment:

UCBL General A/C Dr.

Cash A/C Cr.

When cash is brought from UCBL Principle Branch Office.

Accounting treatment:

Cash A/C Dr.

UCBL General A/C Cr.

TRANSFER

Transfer, though not a critical function of the bank plays a significantly important role. So now we have to know what transfer is: transfer basically refers to a type of register maintenance. In this register officer write down every day transactions in Debit and Credit side then the officer calculate both the side of the register if both side shows same amount, it means that the total day's transaction is completely okay.

What is Clearing House?

In Bangladesh Bank, there is a very large room, which contains fifty (50) or more tables for each bank that is called the clearing house.

Nature of clearing house:

1st Clearing House

Return Clearing House

Clearing House Process:

Every bank has an officer attached to a clearinghouse who is working in collaboration with Bangladesh Bank clearing house. A major portion of deposits accepted by banks are made through cheques of different banks. Clearing officer checks all the cheques and deposit slip very carefully. After this the concerned officer enters all the relevant data into computer software which is also recognized by Bangladesh Bank automated system. Then clearing officer seals, endorses and signs all the cheques in advance date. All cheques are posted branch wise, then print outs of the same is obtained and stapled thus enclosing all the concerned cheques. The printout is referred to as a 'schedule' for better reference of the central clearing house

The data for all the cheques is also provided as a softcopy in two floppy discs as per Bangladesh Bank requirement. At the clearinghouse, the officer's first job is to present the floppy disks to Bangladesh Bank computer department.

The procedure for clearing all the cheques is centrally done by Bangladesh Bank clearing house which should be submitted by 10 a.m.

Types of Clearing Cheque:

UCBL Gulshan Branch performs the bill clearing function through Bangladesh Bank. UCBL Gulshan Branch acts as the agent of all UCBL branches for the clearing house of the Bangladesh Bank. There are two types of cheque which are-

1. Inward clearing cheque
2. Outward clearing cheque.

INWARD CHEQUES:

Inward cheques are those ones drawn the respective branch which have been presented on other banks and will be cleared / honored through the clearing house of Bangladesh Bank. Then the cheque is called inward cheque of UCBL Gulshan Branch.

Accounting treatment:

Customer's A/C Debit.

UCBL General A/c credit.

OUTWARD CHEQUES:

Outward cheques are those ones drawn on other bank branches which are presented on the concerned branch for collection through clearing house of Bangladesh Bank. These cheques are called outward clearing cheques.

RECOGNIZED MEMBER BANK'S AT THE BANGLADESH BANK CLEARING HOUSE WITH THEIR RESPECTIVE CLEARINGHOUSE CODE:

SL No.	Name of Bank	Code
1	Agrani Bank	11
2	Al-Baraka Bank Bangladesh Limited	49
3	Al-Arafah Islami Bank Limited	57
4	Arab Bangladesh Bank Limited	41
5	Bangladesh Bank	10
6	Bangladesh Commerce Bank	64
7	Bangladesh Krishi Bank	31
8	Bangladesh Shilpho Bank	32
9	Bangladesh Shilpo Rin Sangstha	34
10	Bank Asia Limited	51
11	Brac Bank Limited	72
12	Citi N.A Bank Limited	26
13	Credit Agricole Indosuez	27

SL No.	Name of Bank	Code
14	Dhaka Bank Limited	56
15	Dutch Bangla Bank Limited	59
16	Eastern Bank Limited	52
17	First Security Bank Limited	67
18	Habib Bank Limited	25
19	HSBC Limited	83
20	IFIC Bank Limited	45
21	Islami Bank Bangladesh Limited	42
22	Jamuna Bank Limited	71
23	Janata Bank	12
24	Marcentile Bank Limited	60
25	Mutual Trust Bank Limited	65
26	National Bank Limited	43
27	National Bank of Pakistan	28
28	National Credit and Commerce Bank Limited	53
29	One Bank Limited	62
30	Prime Bank Limited	54
31	Pubali Bank Limited	47
32	RAKUB	33

Reason for the Returning Cheques:

Memorandum.

United Commercial Bank Limited

_____ Branch

Date: _____

Cheque No: _____ for Taka _____

Is/are returned un-paid for reason(s) no _____

- Fund Not arranged for
- Effects not cleared, may be present again.
- Exceeds arrangement.
- Fund neither covers nor received.
- Payment stopped by drawer.
- _____ Payee's endorsement irregular requires bank's confirmation.

- _____ Payee's endorsement irregular, illegible / required.
- Drawer signature differs / required.
- Alteration in Date / figures / words required drawer's full signature.
- Cheque is post dated / out of date / mutilated.
- Amount in word and figure differs.
- Crossed cheque must be presented through a Bank.
- Clearing stamps required.
- Addition to Bank discharge should be authenticated.
- Cheque crossed "Account's Payees Only".
- Collecting Bank discharge irregular.

Extract:

Extract is a statement of all originating and responding transactions among inter-branches through inter branches debit and credit advice. At the end of the day, all the debit and credit advices of different department come to accounts department. It makes extract in light of all advices.

Actually extract shows the balance of UCBL Gulshan Branch general A/C. The objective of preparing it is to know how many transactions have been originated and responded by the respective branch per day. Branch has to send it its Head Office keeping one photocopy.

Debit Voucher:

For making cash payment like entertainment, conveyance, Account Department writes a debit voucher. Amount is withdrawn through cash section by presenting debit voucher.

Statement of affairs:

Accounts section prepares the statement of affairs for finding the profit /loss as well as amount of assets and liabilities of concerned branch per day. Theoretically; it is called financial statement and has two parts:

- Income and Expenditure A/C.
- Statement of assets & liabilities.

AMORTIZATION AND DEPRECIATION:

Amortization is the allocation of the cost of an intangible asset to expense. For example: prepaid expenditure, prepaid insurance and goodwill etc. Amortization schedule is determined by the decision of management.

Depreciation is a process of cost allocation of assets not a process assets valuation.

- Fixed Assets have been show at written down value.
- Depreciation is charged at the following rates on reducing balance method on all fixed assets other than motor vehicles, which are depreciated on straight-line basis:

<u>Particulars of assets</u>	<u>Rate of Depreciation</u>
Immovable Property	2.50%
Furniture	10%
Interior Decoration	10%
Office Equipment	20%
Motor Vehicles	20%
Books & Periodicals	10%

FUNCTIONS PROVIDED BY FINANCE CONTROL DEPARTMENT (FCD):

Like any other commercial Bank, UCBL Accounts Department is regarded as the nerve Center of the bank. Since banking business mainly deals with depositors' money, they must be handled with utmost care and diligence. Any compromise in proper handling of routine procedures may obstruct public confidence and the goodwill of the bank. Unprofessional handling will also have an adverse effect. To avoid any unwelcome incidents, the bank provides a separate department whose function is to check for possible mishandling in passing vouchers or wrong entries or fraud or forgery. This department is referred to as the Finance Control Department.

The main tasks of the FCD at UCBL Gulshan Branch, Dhaka may broadly be categorized in two sections.

- Daily Tasks
- Periodical Tasks.

DAILY TASKS:

- Recording the daily transactions in the cashbook.
- Recording the daily transactions in general and subsidiary ledgers.
- Preparing the daily position of the branch comprising of deposit and cash.
- Preparing the daily Statement of Affairs showing all the assets and liability of the branch as per General Ledger and Subsidiary Ledger separately.

- Making payment of all the expenses of the Branch.
- Recording inter branch fund transfer and providing accounting treatment in this regard.
- Checking whether all the vouchers are correctly passed to ensure the conformity with the 'Activity Report'; if otherwise making it correct by calling the respective official to rectify the voucher.
- Recording of the vouchers in the Voucher Register.
- Packing of the correct vouchers according to the debit voucher and the credit voucher.

PERIODICAL TASKS:

- ❖ Preparing the monthly salary statements for the employees.
- ❖ Publishing the basic data of the branch.
- ❖ Preparing the weekly position for the branch which is sent to the Head Office to maintain Cash Reserve Requirement (CRR).
- ❖ Preparing the monthly position for the branch which is sent to the Head Office to maintain Statutory Liquidity Requirement (SLR).
- ❖ Preparing the weekly position for the branch comprising of the break up of sector-wise deposit, credit etc.
- ❖ Preparing the weekly position for the branch comprising of the denomination wise statement of cash in tills.

- ❖ Preparing the quarterly statements (SBS-2 and SBS-3) where SBS-2 shows “classification of deposits excluding inter bank deposits, deposits under wage earner’s scheme and withdrawals from deposits accounts” and SBS-3 shows “classification of advances (excluding inter bank) and classification of bills purchased and discounted” during the quarter.
- ❖ Preparing the budget for the branch by fixing the target regarding profit and deposit so as to take necessary steps to generate and mobilize deposit.
- ❖ Preparing an ‘Extract’ which is a summary of all the transactions of the Head Office account with the branch to reconcile all the transaction held among the accounts of all the branches.

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ACRONYMS

A/C	Account
AD	Authorized Dealer
B/L	Bill of Lading
BB	Bangladesh Bank
BOE	Bill Of Exchange
CCI & E	Chief Controller of Import & Export
CFR	Cost & Freight
CIB	Credit Information Bureau
CIF	Cost Insurance & Freight
DD	Demand Draft
DP Note	Demand Promissory Note
EPB	Export Promotion Bureau
EXP	Export Form
FC	Foreign Currency
FDD	Foreign Demand Draft
FOB	Free On Board
HS Code	Harmonized system of coding
IBC	Inward Bills for Collection
IBCA	Inter Branch Credit Advice
IBDA	Inter Branch Debit Advice
IMP	Import Form
IRC	Import Registration Certificate
L/C	Letter of Credit
LCAF	Letter of Credit Authorization Form
OBC	Outward Bills for Collection
PO	Payment Order
PSI	Pre Shipment Inspection

SWIFT	Society for Worldwide Inter Bank Financial Telecommunication
TC	Travelers Cheque
TIN	Tax Identification Number
TR	Truck Receipt
TT	Telegraphic Transfer
STD	Short Term Deposit
FDR	Fixed deposit receipt
CC	Cash Credit
C & F	Clearing & Forwarding
CRF	Clean Report Findings
ERC	Export Registration Certificate
IBCT	Inter branch Credit Transaction
LIM	Loan against Imported Merchandise
LTR	Loan against Trust Receipt