2012-05-01

A WORKING REPORT ON FOREIGN EXCHANGE OPERATION OF COMMERCIAL BANK OF CEYLON PLC AND COMPARATIVE STATISTICAL ANALYSIS BETWEEN COMMERCIAL BANK OF CEYLON PLC AND EASTERN BANK LTD.

Khan, Samira

INDEPENDENT UNIVERSITY, BANGLADESH

A WORKING REPORT ON FOREIGN EXCHANGE OPERATION OF COMMERCIAL BANK OF CEYLON PLC AND COMPARATIVE STATISTICAL ANALYSIS BETWEEN COMMERCIAL BANK OF CEYLON PLC AND EASTERN BANK LTD.

By

Samira Khan

ID# 0811089

All internship report presented in partial fulfillment

of the requirements for the Degree

Bachelor of Business Administration

INDEPENDENT UNIVERSITY, BANGLADESH

April, 2012

A WORKING REPORT ON FOREIGN EXCHANGE OPERATION OF COMMERCIAL BANK OF CEYLON PLC AND COMPARATIVE STATISTICAL ANALYSIS BETWEEN COMMERCIAL BANK OF CEYLON PLC AND EASTERN BANK LTD.

By

Samira Khan

ID# 0811089

Has been approved

April, 2012

____

Md. Tarafder Rafiqul Islam

Lecturer

School of Business

Independent University, Bangladesh

COMMERCIAL BANK

Our Interest Is In You

LETTER OF TRANSMITTAL

DATE: APRIL 15, 2012

To

The Supervisor

Mr. Tarafder Rafiqul Islam

(Lecturer)

Department of Business Administration

Independent University, Bangladesh.

Subject: Submission of Internship Report Spring 2012

Dear Sir,

I have the pleasure to inform you that I have accomplished my internship report on **"Foreign Exchange Operation Of Commercial Bank Of Ceylon Plc And Comparative Statistical Analysis Between Commercial Bank Of Ceylon Plc And Eastern Bank Ltd"**. I have completed my internship from Commercial Bank of Ceylon PLC, Agrabad Branch, Chittagong, Bangladesh.

It would be impossible on my part to get done this assignment without your grand cooperation and assistance. Once again I would like to thank you for your prolonged support and guidance during my Internship and preparing the report. And I hope that you would be kind enough to see inconveniences or mistakes that may have appeared beyond my knowledge.

Sincerely Yours

Samira Khan
(ID- 0811089)
Bachelors of Business Administration
Independent University, Bangladesh

COMMERCIAL BANK
Our Interest Is In You

Acknowledgement

All the praise and admiration for Almighty God the most gracious, most merciful that has enabled me for successful completion and submission of this report timely. It is indeed a great pleasure and honor on my part to have the opportunity to submit this report, after three month of practical orientation in **Commercial Bank of Ceylon PLC**.

I would like to express profound gratitude and indebtedness to my honorable supervisor **"Mr. Tarafder Rafiqul Islam"** lecturer, Faculty of Business Administration, Independent University, Bangladesh, for his direct concern, professional guidance, encouragement during my research work and for his critical suggestions and corrections of the manuscript in the preparation of this Internship report.

I would like to pass my gratitude to **Mr. Mostafa Anowar Sohel (Head of Human Resource of CBC)**, **Mr. Ashim Kumar Nandy (Deputy General Manager)** and **Md. Tipu Sultan Shikdar (Head of SME Center, C.D.A Avenue, Chittagong),** for their unconditional support, which facilitated me to complete my internship in CBC successfully.

I convey my special thanks to **Mr. Liaquat.A.Khan, Mr.Ashfak Ahmed** and **Mr.Biswajit Chowdhury**, who supported me full heartedly, during my internship in the **SME Centre, C.D.A Avenue, Chittagong.** I offer my sincere thanks to all the officials of **Commercial Bank of Ceylon PLC**, **Chittagong** who cooperated me throughout and helped me gather various information required for my internship.

Executive Summary

Banking sector has expanded today's business world A financial institution that is licensed to deal with money and its substitution by accepting time and demand deposit making, loans and investing in security is called Bank. In Bangladesh there are too many banking institution. They all are trying to keep their customer in a level through providing better service.

This report is based on my three months internship program in **Commercial Bank of Ceylon PLC**, which is a partial requirement for completing my BBA program. The report represents the foreign exchange operation on **CBC**, and a comparative statistical analysis between a foreign bank (Commercial Bank of Ceylon PLC) and local bank (Eastern Bank Ltd).

This report is a basis of information obtained from primary and secondary sources like interview from officials, practical deskwork, annual reports and different manuals from CBC.

Different Foreign Exchange Operations such as L/C opening, Foreign Inward/Outward Remittances, and various others operations have been discussed in the report. Further detailed knowledge on Export/Import Mechanism, Documents required for opening various accounts and L/C are also incorporated in my internship report.

Moreover I have prepared a comparative research, analyzing the overall performances of **Commercial Bank of Ceylon PLC** and **Eastern Bank Ltd.** The research represents a ratio analysis, where various financial ratios have been computed and presented graphically, to determine the overall performances of the two banks. The ratios have been computed from three years (2008-2010) Annual Reports of the banks

COMMERCIAL BANK
Our Interest Is In You

Table of Content

COMMERCIAL BANK
Our Interest Is In You

COMMERCIAL BANK

Our Interest Is In You

List of Tables

List of Figures

CHAPTER-1

INTRODUCTION

1.0 ORIGIN OF THE REPORT

This report has been prepared to make a study on "FOREIGN EXCHANGE OPERATION OF COMMERCIAL BANK OF CEYLON PLC."The report also incorporates a comparative research between Commercial Bank of Ceylon PLC (CBC PLC) and Eastern Bank LTD (EBL). This report has been prepared for the fulfillment of the internship program, required for the completion of BBA Program of Independent University, Bangladesh (IUB).

The report has been prepared based on information obtained during internship from Commercial Bank of Ceylon PLC, Agrabad Branch, Chittagong. And further information has been obtained from EBL.

1.1 OBJECTIVES OF THE REPORT

The main objective of the report is to understand and deal with the foreign exchange functions of Commercial Bank of Ceylon PLC.

In a broader sense, the specific objectives to be analyzed would include the followings:

* To be familiar with the code of ethics management of Commercial Bank of Ceylon PLC.
* To understand CBC's compliance with Foreign Exchange Regulations of Bangladesh Bank.
* To be acquainted with the different departments of foreign exchange.
* To identify the various activities of the foreign exchange departments.

* To know about the documentations required for opening accounts in the foreign exchange section such as Export or Import L/C, foreign inward/outward remittance, etc.
* To focus on the overall performance of the foreign exchange operation.
* To prepare a comparative statistical study between a foreign bank like Commercial Bank of Ceylon PLC and a local bank such as Eastern Bank Limited.

1.2 SCOPE OF THE REPORT

The scope of this internship report is strictly confined to the annual reports and information gathered while working at Commercial Bank of Ceylon PLC. The report will provide a clear idea about the various foreign exchange operations of the bank. This would include details about different types of L/C and its operations, the documentations required and how L/C accounts are opened, the procedures and mechanism of different types of foreign exchanges departments, the foreign exchange rules and regulations of Bangladesh Bank, and certain issues of foreign exchange followed by Commercial Bank of Ceylon PLC.

Moreover this report covers a comparative statistical analysis between Commercial Bank of Ceylon PLC (CBC) and Eastern Bank Limited (EBL). This acts as a research project for the internship program. The comparative study incorporates a comparison of the overall performance of the two banks. The initiative is to evaluate the banking performances of a local bank operating in Bangladesh such as EBL, and a foreign bank operating in our country such as CBC PLC.

Various financial ratios have been implemented to compare the overall performance between the two banks. The ratios are calculated from the financial statements shown in the annual reports of CBC PLC and EBL.

1.3 METHODOLOGY OF THE REPORT

To gather information about foreign exchange and the comparative research, several steps and procedures have been followed in order to make my internship report more informative.

- ♣ To analyze the comparative research, various financial ratios have been calculated in order to show a comparison between Commercial Bank of Ceylon PLC and Eastern Bank Limited. The comparison is based on three years statistical data, in order to show relative trends between the banks.
- ♣ The computed results are represented graphically in the form of bar charts, pie charts, etc. This helps to give a clear visual of the comparisons between the two banks.
- ♣ For both the banks, I have given a comment for each ratio calculated. And finally the overall performances of both the bank have been evaluated.
- ♣ Certain measures have also been drawn, to improvise further the performances of CBC PLC.

1.3.1 Data Collection

Data has been collected from both primary and secondary sources based on empirical as well as theoretical analysis.

❖ **Primary Sources**

Primary data have been collected through observation of various activities in the bank. Face to face contact with the officials made it easier for me to collect information for my report. Apart from this, various opinions of the officer and clients helped to collect effective information.

❖ **Secondary Sources**

Various secondary data have been gathered from the following sources:

- ✓ Annual Reports of Commercial Bank of Ceylon PLC.
- ✓ Different brochures and publications of the bank.
- ✓ Websites related to the bank.
- ✓ Different documents related to foreign exchange department of the bank.
- ✓ Research books and journals.

1.4 LITERATURE REVIEW

For the purpose of accomplishing the research, the researcher has to consult research articles pertinent to the research. Since financing and handling trading are the major functions of banks and the research is related to trade service, the researcher has consulted several articles which are related to the Foreign exchange. In a universe with a single currency, there would be no foreign exchange market, no foreign exchange rates, and no foreign exchange. But in our world of mainly national currencies, the foreign exchange market plays the indispensable role of providing the essential machinery for making payments across borders, transferring funds and purchasing power from one currency to another, and determining that singularly important price, the exchange rate. Over the past twenty-five years, the way the market has performed those tasks has changed enormously.

“Foreign exchange” refers to money denominated in the currency of another nation or group of nations. Any person who exchanges money denominated in his nation’s currency for money denominated in another nation’s currency acquires foreign exchange. The definition simply clears the idea about Foreign exchange.

Since the early 1990s, with increasing internationalization of financial transactions, the foreign exchange market has been profoundly transformed, not only in size, but in coverage, architecture, and mode of operation.

Holmes et al. (1991) first published the paper in which they categorized banks’ competitiveness in the foreign exchange market into two segments: banks’ endowments factors and acquired factors. Following Holme et al, Tschoegl (1997) classify the factors into country specific and firm specific factors. They also focused on short run and long run monetary policy which also have an impact on foreign exchange. Above information also says how to get the competitiveness in foreign exchange sector.

Country and firm specification given the new dimension regarding this sector as both have a huge impact on foreign exchange. Example may clear the idea- in Russia only ruble is the way to do business so if anyone wants to do business in Russia must have to follow their way of doing business and have to exchange through ruble.

Large exchange rate movements and large persistent produced dissatisfaction and discomfort in both academic and policy-making circles, though concern among the latter has been greater. Some have suggested that the persistence of imbalances is due to a changed world whereby exchange rates no longer "work" to eliminate imbalances. Others have claimed that the persistence of large imbalances even after large exchange rate changes have occurred is de facto evidence of unfair trade practices. Few, though not all, have seemed willing to consider the possibility that the unusual behavior of exchange rates and external imbalances is a by-product of unusual exogenous events.

More specifically, there has been relatively little attention paid to systematic explorations of the relationship be teen observable changes in real and nominal exchange rates, net external flows of goods and capital, and events like unusually divergent fiscal policies, changes in regulations affecting capital flows, wealth redistributions among industrial countries, and the effects of pegging the dollar at an overvalued level.

When these factors are considered, the co movements of exchange rates and external imbalances appear as natural counterparts of identifiable exogenous events. As such they are neither unusual nor indicative of a special Unresponsiveness of behavior to exchange rates or rising protectionism and therefore not sufficient reasons to contemplate "managed trade".

As Literature review means going through some research literature, before start a research to get a preliminary idea about the topic. In this regard it helped me a lot to understand my topic in a more comprehensible way.

My research topic is, **“**Foreign Exchange in Ceylon bank”**”.** I have tried my level best to put here main strategically important articles on the elements of foreign exchange.

1.5 ADDITIONAL RESPONSIBILITY

For several weeks during my internship program, I have also worked in the SME CENTRE, which is located in C.D.A AVENUE, CHITTAGONG.

Small and Medium Enterprises (SME) are companies whose turnover falls below certain limit. For small entrepreneurs credit limit will be ranged from Tk. 50,000 (Fifty thousand) to Tk.50, 00,000 (Fifty lakh). In Commercial Bank of Ceylon PLC, the SME CENTRE provides several products and services to its customer. It includes opening different accounts for its customers, providing ATM services, facilitating foreign inward/outward remittances, keeping records of customers pay orders and deposits, and many other various services.

1.5.1 TYPES OF ACCOUNTS

❖ **Savings Account**

With the regular savings account, customer has the option of savings through a monthly interest paying account or a half yearly interest paying account at attractive interest rate and interest is calculated on daily balance basis.

Documents needed to open a Savings Account:

a) Specimen Signature Card duly completed.

b) Two photographs of the account holder(s) and nominee duly attested by the introducer.

c) Copy of valid passport/National identification/Certificate from Ward Commissioner of the Accountholder and Nominee of applicant, duly attested

d) Letter from Organization, where applicable.

e) Nominee form duly completed.

❖ **Current Account**

CBC PLC's Current account gives customer the convenience of managing day-to-day transactions. For operating this account, cheques are provided to the account holder. This helps them to make easy payments and collect proceed of cheques and cash received by customer. The initial payment to open such accounts is minimum Tk.25000/=

<u>Documents needed to open a Current Account</u>:

- ✓ Specimen Signature Card duly completed.
- ✓ Two photographs of the account holder(s) and nominee duly attested by the introducer.
- ✓ Copy of trade license from Organization.
- ✓ Partnership Deed in case of Partnership business.
- ✓ Copy of valid passport/National identification/Certificate from Ward Commissioner of the Accountholder and Nominee of applicant, duly attested.
- ✓ Nominee form duly attested.

❖ **Short Term Deposit Account (STD)**

It is a penalty free, instant access account, which gives competitive rate of interest.

Special features offer in this account are:

i. Sweep facility available.

ii. Interest on daily basis.

iii. Special rate offered over 100 million.

iv. Interest paid yearly.

❖ **Fixed Deposit Account (FDR)**

Fixed Deposit is a time deposit, which offers attractive rates of interest. Interest can be credited automatically to an account of the customer's choice.

The fixed deposit has terms ranging:

a) 3 months. b) 6 months. c) 1 year (Monthly / Annual interest). d) 2 years (Monthly / Annual interest). e) 3 years (Monthly / Annual interest). f) 5 years (High5FD).

❖ **Dream Planner Savings (DPS)**

DPS is a Deposit Pension Savings Account, which guarantees attractive return on customer's hard earned monthly deposits at the end of a guaranteed period. Customers can relax and watch their monthly deposit grow.

Special Features include:

i. **Deposit amounts:** Account holder can choose an affordable monthly deposit amount from BDT 1000, 2000, 3000, 5000 or 7000.

ii. **Period Options:** 3, 5 or 7 years.

iii. **Flexibility:** Customer can deposit any day of the month at any of CBC PLC's Branch or simply give a standing instruction from their other accounts.

iv. **Emergency:** Account holder may encash prematurely any time. If deposit is withdrawn 6 months after opening, interest will be paid at normal savings rate.

v. **Loan:** Customer may avail loan up to 80% of principal amount of the deposit after 2 years of opening your account.

1.5.2 ATM CARD/CBC PLC SHOPPING CARD

Using ATM card account holder can enjoy ATM services 24hours a day. For customer's convenience, CBC card can be used in any of the 1900+ ATMs that accept VISA Cards at a fee of only Tk.12 for Cash Withdrawal and Tk.2.5 for Balance Enquiry. ATM card can also be used for Shopping or Dining in any VISA outlet.

Special features include:

- ♣ 24 hours banking.
- ♣ Operate in Bangla or English.
- ♣ Balance inquiry Print mini statement.
- ♣ Transfer funds (Your accounts have to be linked through ATM)
- ♣ Draw as low as BDT 100.

1.6 LIMITATIONS OF THE REPORT

During my internship period, several constraints were faced, which made it difficult to accumulate necessary information for my report. Some of these include the followings:

- ♣ Since Commercial Bank of Ceylon PLC is a foreign bank, there is certain secrecy of information. As a consequence all necessary information for my internship report could not be obtained.
- ♣ Time constraint is a big factor. Accumulating so much information in just few months is quite difficult. And since officials stay busy with their work, it was also a problem to collect adequate information from the bank.
- ♣ Total dependence upon published materials from the banks themselves. While the financial statements are audited, it still is what the bank provides and so, there is always a bit of uncertainty about the exactness of the data.

CHAPTER-2

"COMMERCIAL BANK OF CEYLON PLC"

AN OVERVIEW

2.0 HISTORY

With an unblemished history of nearly a century in the Sri Lanka's Banking arena, Commercial Bank has been rated as the Best Bank in Sri Lanka for the 13th successive year.

In Bangladesh, Commercial Bank of Ceylon PLC commenced its banking business, by acquiring the operations of Credit Agricole Indosuez (CAI), a French multi-national Bank in November 2003, with two branches and two booths. When CAI decided to exit because of a shift in their global strategy, CBC seized this opportunity to grave a slice of the rich Bengali market. And the acquisition of CAI gives us instant access to their large Corporate Client base and banking infrastructure.

2.1 LEGAL STATUS

Commercial Bank of Ceylon PLC is a public limited company incorporated in Sri Lanka on 25th June 1969, under the Companies Ordinance and listed in the Colombo Stock Exchange in March 1970.

2.2 NETWORK OF CBC OPERATIONS IN BANGLADESH

Over the period of last 7 years of operation in Bangladesh, CBC has expanded its branch network to:

- 7 branches, 2 specialized Offshore Banking Units sections in Dhaka(Dhanmondi) and Chittagong(CEPZ)
- 6 SME centres in Bangsal Road(Dhaka), Progati Sharani(Dhaka), Shantinagar(Dhaka), Tongi (Dhaka), Jubilee Road(Chittagong) and CDA Avenue (Chittagong)

COMMERCIAL BANK
Our Interest Is In You

2.3 VISION AND MISSION OF CBC

Vision

To be the Bank of Excellence in service and commitments

Mission

To deliver optimum value to the customers, employees, shareholders and the nation, while ensuring good Corporate Governance

2.4 REWARDS AND ACHIEVEMENTS

- CBC has been upgraded to 'AAA' (Triple A) by CRISL for long term and was also reaffirmed 'ST-1' for short term based on the financial of 2010. Previously CBC had been awarded AA+ for three consecutive years. Short term rating "ST-1" represents the highest certainty on timely payment and safety is almost similar to the risk free Government short term obligations. The rating AAA by CRISL was based on bank's asset quality, capital adequacy, financial and operating efficiency, risk management, etc.
- Commercial Bank of Ceylon (CBC) received "CSR Award 2008-2009" from Banker's Forum. Bank received the award for the regular participation in the Corporate Social Responsibility.
- Commercial Bank of Ceylon has received "ICMAB Best Corporate Performance Award-2008" organized by The Institute of Cost and Management Accountants of Bangladesh (ICMAB).
- CBC has received "The Best Business Award 2008" among the foreign banks, organized by the Arthakantha Publications.
- CBC was recognized as the Best Commercial Bank Award by the Weekly Financial Mirror during the "Financial Mirror-Samsung Mobile Business Award' 09"

- CBC received award as “The Best Foreign Bank” at the “Financial Mirror – Robintex - Partex Business Award 2005”
- Commercial Bank of Ceylon (CBC) received the Best Foreign Bank award for the second successive year at the ‘Arthakantha Business Award 2005’

CHAPTER-3

FOREIGN EXCHANGE OPERATION

3.0 OVERVIEW

Foreign exchange refers to the mechanism by which the currency of one country is converted into the currency of another country and thereby involves the international transfer of money. Increasing globalization has led to a massive increase in the number of foreign exchange transactions in recent decades. The global foreign exchange market is by far the largest financial market, with average daily volumes in the trillions of dollars.

According to Dr.Paul Einzig, an economist: “Foreign exchange is the system or process of converting one national currency into another and of transferring the ownership of money from one country to another.”

Foreign Exchange Department is an international department of the bank. It deals with globally and facilitates international trade through its various modes of services. It bridges between importers and exporters. Bangladesh Bank issues license to scheduled banks to deal with foreign exchange. These banks are known as Authorized Dealers. If the branch is authorized dealer in foreign exchange market, it can remit foreign exchange from local country to foreign country.

3.1 FOREIGN EXCHANGE REGULATION ACT

Foreign Exchange Regulation Act 1947 was enacted on 11th March 1947 in the then British India. This act was first adapted in Pakistan and then in Bangladesh. Basic regulations under the FER Act are issued by the Government as well as by the Bangladesh Bank in the form of notifications, which are published in the Bangladesh Gazette.

The main objective of the Act are to conserve the limited foreign exchange resources and to ensure that the available foreign exchange is utilized only for priority requirements in the economy and financial interest of Bangladesh and the maintenance of the proper accounting of foreign exchange receipts and payments.

All banks in Bangladesh, including Commercial Bank of Ceylon, are obliged to follow the rules and regulations of Bangladesh Bank. In case of Foreign Exchange the banks must abide by the Foreign Exchange Regulation Act 1947, in order to proceed with their Foreign exchange transactions.

Foreign exchange transactions are being controlled by the following rules & regulation:

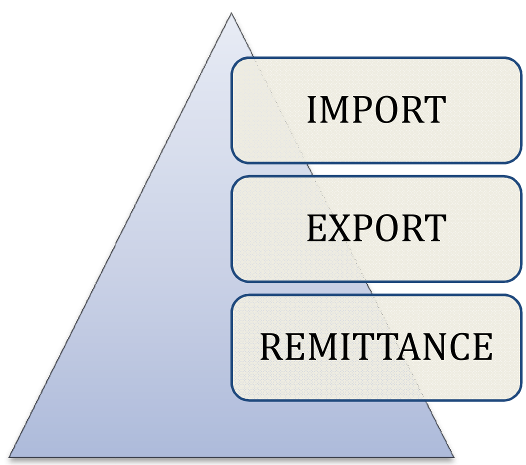
- Foreign Exchange Regulation Act 1947.
- Bangladesh Bank issues foreign exchange circular from time to time to control the export, import & remittance business.
- Ministries of commerce issues export & import policy giving basic formalities for import & export business.
- Sometime CCI&E issues public notice for any kind of change in foreign exchange transaction.
- Bangladesh bank published two volumes in 1996. This is compilation of the instructions to be followed by the authorized dealers in transitions relation to foreign exchange.

3.2 TYPES OF FOREIGN EXCHANGE

a) **Imports:** Imports are foreign goods and services purchased by consumers, firms, & Governments in Bangladesh. The importers are asked by their exporters to open letter of credits so that their payment against goods is ensured.

b) **Exports:** A function of international trade whereby goods produced in one country are shipped to another country for future sale or trade. The sale of such goods adds to the producing nation's gross output. Export brings the foreign currency in the economy. Higher the export, higher the reserve of foreign currency.

c) **Remittances**. Remittance means sending of fund from one place to another. When fund is transferred to or received from foreign country, it is called remittance. Commercial Bank of Ceylon PLC places an important role to transfer money from other countries to Bangladesh and vice versa.



FIGUERE: 1 TYPES OF FOREIGN EXCHANGE DEPARTMENT

CHAPTER-4

IMPORT

4.0 IMPORT OPERATION

Commercial Bank of Ceylon PLC conducts their import operation as per the Import and Export Control Act 1950, which is regulated by the Ministry of Commerce. Importers must have Import Registration Certificate (IRC) issued by Chief Controller of Import and Export (CCI&E) to import goods from other countries

IRC is issued **by CCI&E (chief controller of the imports & exports).** To get an IRC an importer needs to apply the CCI&E through a bank & submits the following documents:

- Trade License from municipal or the local authority
- Partnership deed in case of partnership concern Certificate of Registration with the Registrar of Joint Stock Companies, Articles and Memorandum of Association in case of limited companies
- TIN (Tax Identity) Certificate
- VAT (Value Added Tax) Certificate
- Membership Certificate from the local Chamber
- Nationality certificate
- Ownership documents or the rent receipts of the place of business
- Bank solvency certificate

4.1 LETTER OF CREDIT

A letter of credit 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 up to a stated amount, against stipulated documents and within a prescribed time limit.

It is an instrument through which a bank furnishes its credit in place of its customer's credit. The bank plays an intermediary role to help complete the transaction. A letter of credit does not prevent an importer from being taken in by a dishonest exporter, because the bank deals only in documents and does not inspect the goods themselves.

4.2 TYPES OF LETTER OF CREDIT

i. **Revocable Letter of Credit:** The terms and conditions of this type of L/C can be changed at any time without the consent of or notice of the beneficiary. In case of seller (Beneficiary) revocable credit involves risk. A revocable credit may be amended or cancelled by the issuing bank prior notice to the beneficiary. On the other hand revocable credit gives the buyer maximum flexibility. This kind of L/C does not exist in our country.

ii. **Irrevocable Letter of Credit:** The terms and conditions of such L/C cannot be changed. This kind of L/C exists in Bangladesh. It is a definite undertaking of the issuing Bank, provided that the stipulated documents are presented to the nominated bank. Once this commitment has been entered into, the bank cannot disown its responsibility without the agreement of the beneficiary. Therefore this type of L/C gives the beneficiary a high degree of assurance that he will be paid for his goods or services.

4.3 MECHANISM OF LETTER OF CREDIT

The following diagram a clear view of the operation of Letter of Credit (L/C) in Commercial Bank of Ceylon PLC:

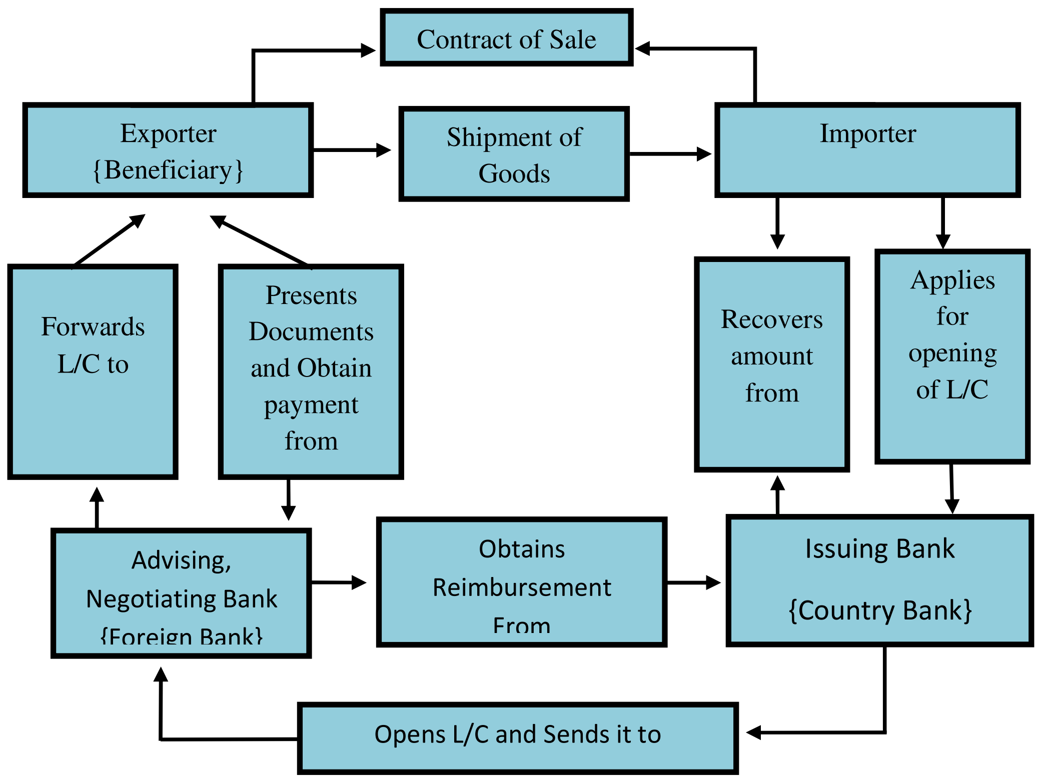


FIGURE-2: MECHANISM OF LETTER OF CREDIT

Various steps are involved in the operation of a letter of credit. These are described below:

1. The transaction originates when the importer and exporter enters into a contract sale. The contract covers all important details such as description, value of goods, the due date for shipment, methods of payment, etc.
2. The importer applies for a letter of credit to the issuing bank, which opens L/C on behalf of the importer.
3. The issuing bank opens the letter of credit that is channeled through its overseas correspondent bank, known as the advising bank. The advising bank advises the exporting country about the L/C. It may also assume the role of confirming and negotiating bank, depending upon the conditions of credit.
4. The advising bank informs the exporter (the beneficiary) of the arrival of the letter of credit.

5. Exporter ships the goods to the importer or other designated place as stipulated in the letter of credit.
6. Meanwhile, the exporter also prepares his own documents and collects transport documents or other documents from relevant parties. All these documents will be sent to his bank, which is acting as the negotiating bank. Negotiating bank negotiates the bill and pays the amount to the beneficiary. It has to carefully investigate the documentary credit before negotiation in order to see whether the documents are in order or not.
7. Negotiation of export bills happens when the banker agrees to provide him with finance. In such case, he obtains payment immediately upon presentation of documents. If not, the documents will be sent to the issuing bank for payment or on an approval basis as in the next step.
8. Documents are sent to the issuing bank (or reimbursing bank, which is a bank nominated by the issuing bank to honor reimbursement from negotiating bank) for reimbursement or payment.
9. Issuing bank honors its undertaking to pay the negotiating bank on condition that the documents comply with the letter of credit terms and conditions.
10. Issuing bank releases documents to the importer when the latter makes payment to the former or against the latter's trust receipt facility.
11. The importer takes delivery of goods upon presentation of the transport (usually shipping) documents.

4.4. OPENING OF AN IMPORT L/C:

For import transaction or trade, an importer needs to open a Letter of Credit (L/C). Commercial Bank of Ceylon PLC maintains certain regulations of Bangladesh Bank to deal with L/C opening and procedures. Some of these are discussed below:

4.4.1 DOCUMENTATION REQUIRED FOR OPENING L/C

- **a.** L/C Application Form.
- **b.** Indent/ Pro-Forma Invoice.

c. Import Registration Certificate (IRC).

d. Taxpayer Identification Number (TIN) Certificate.

e. Vat Registration Certificate.

f. Inspection Order Form (IOF) for Pre-shipment inspection certificate, where applicable.

g. Letter of Credit Authorization (LCA) Form.

h. Insurance Coverage.

i. Membership Certificate of Chamber of Commerce and Industry or any other Trade association.

j. Name and Address of the Beneficiary Bank.

k. No Objection Certificate (NOC) from present nominated Bank regarding up to date Bill of Entry.

4.4.2 DOCUMENTS PROVIDED BY BANK FOR L/C

Bank will supply the following papers/documents for opening a L/C

- L/C Application Form.
- LCA Form.
- IMP Form.
- Adhesive Stamp (BDT 150.00)

4.4.3 THE CLAUSES COMPRISED IN L/C

- A clause authorizes the beneficiary to draw bills of Exchange up to a certain on the opener.
- Description of the goods to be shipped.
- An undertaking by the issuing bank that bills drawn in accordance with the condition will be duly honored.
- Instructions to the negotiating bank for obtaining reimbursement of payments under the credit.
- List of shipping document which are to accompany the bills.

4.4.4 TRANSMISSION OF L/C

The ways of transmission of L/C are as follows:

- Though SWIFT.
- Though Mail.
- Though Couriers.
- Though Emergency Mail Service.
- Though Telex.

4.4.5 L/C OPENING VOUCHERS

At the time of opening L/C, following entries are given to realize Liability Voucher and Bank's charge and Margin Voucher:

(a) Liability Voucher

Clients Liability (Liability of Constituents for Acceptance)	DR	
Bankers Liability (Acceptance of Constituents A/C)		CR

This entry constitutes contra (assets and liability simultaneously) in the bank balance sheet

(b) Bank's charger & margin voucher:

Party's A/C	DR	
S/D A/C margin on L/C		CR
I/A commission on L/C		CR
VAT on L/C Commission		CR
I/A SWIFT Charge		CR
Postage Charge		CR
Remaining in Hands		CR
I/A Miscellaneous		CR

4.4.6 PRE-SHIPMENT INSPECTION

While importing certain products, inspection is mandatory. This means that in order to import all goods except those identified as exempt, prohibited or restricted, Importers in Bangladesh will be required to complete an IOF (Inspection Order Form) or Inspection Information Form (IIF), prior to the goods being shipped from their overseas Exporter. For this procedure an application is sent to M/S BIVAC International Bangladesh Limited, where detail of the particular L/C is send in order to inspect delivery goods.

4.5 PAYMENT OF IMPORT DOCUMENTS

Payment procedures of Commercial Bank of Ceylon PLC involved the following tasks.

- **Date of Payment:** Payment is made within 7 days after the documents have been received. If the payment is on deferred L/C, then the negotiating bank may claim interest for making delay.
- **Preparing Sale Memo:** As sale memo is made at B.C. rate to the customer. As the TT and O.D. rate is paid to the ID, the difference between these two rates is known as Exchange Trading. Then an Inter Branch Exchange Trading Credit advice is sent to International Division.
- **Requisition for the foreign currency:** For arranging necessary fund for payment a requisition is sent to the ID.
- **Transmission of Telex:** A telex is transmitted to the correspondent bank ensuring that payment is being made.

4.6 DEFERRED L/C PAYMENT

CBCL follows certain measures in case of deferred L/C:

- Such L/C should only be entertained for trusted and tested party.
- Some cash margin must be taken at the opening stage and for the balance amount payment schedule towards building up 100% margin.

- Constant supervision and monitoring.
- Collaterals including hypothecation/Mortgage of imported goods.
- Charge document including TR.
- Clearance of the Import through own nominated CNF agencies.

4.7 IMPORT TURNOVER

TOTAL NUMBER OF L/C(S)	TOTAL TURNOVER
775	**6,286,831**

TABLE-1: IMPORT TURNOVER OF YEAR-2011

The above diagram shows the import turnover of Commercial Bank of Ceylon PLC in the year 2011. It is analyzed that the turnover rate has increased than previous years, since more L/C(s) came to Bangladesh from different countries such as, India, Thailand, China, Japan, etc.

CHAPTER-5

EXPORT

5.0 EXPORT POLICY

Commercial Bank of Ceylon PLC also conducts their export operation as per the Import and Export Control Act 1950, which is regulated by the Ministry of Commerce of Bangladesh. Export policy provides the overall guideline and incentives for promotion of export in Bangladesh. The objective of export operation in our country is to encourage exports to the extent possible so as to earn valuable foreign exchange for the country.

5.1 EXPORT MECHANISM

Following steps shows the export procedure followed by Commercial Bank of Ceylon PLC

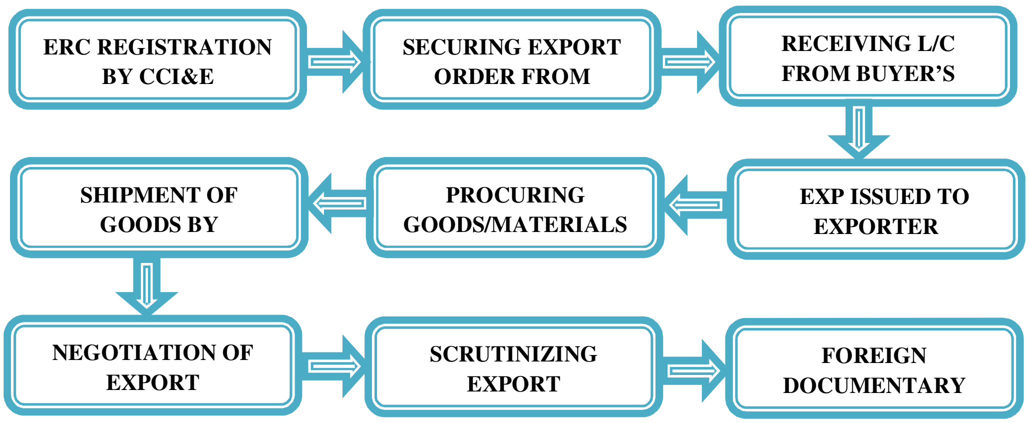


FIGURE-3: MECHANISM OF EXPORT

A. ERC REGISTRATION

Under the export policy of Bangladesh the exporter has to get the valid export registration certificate (**ERC**) from chief controller of export & import (**CCI&E**). The ERC is required to renew every year.

The following documents are required in order to obtain ERC from CCI&E:

a) Nationality & Assets Certificates.
b) Trade license.
c) Bank Certificate.
d) Income Tax Certificate.
e) Registered Partnership Deed, in case of partnership concern.
f) Memorandum & Articles of Association and Certificate of Incorporation in case of Limited Company.

COMMERCIAL BANK

B. **SECURING EXPORT ORDER**

After obtaining the ERC from CCI&E, the exporter can proceed to secure the export order. He can do this by contracting the buyers directly through correspondence.
In this purpose exporter can get help from:

- Liaison Offices.
- Buyer's Local Agent.
- Export Promoting Organization.
- Bangladesh Mission Abroad.
- Chamber of Commerce (Local & Foreign).
- Trade fair.

C. **RECEIVING THE LETTER OF CREDIT**

The export is normally executed against letter of credit initiated by foreign buyer, clearly stating the terms and conditions of export and payment. When export is made against L/C, the exporter should examine the following terms of L/C in order to avoid any future complicacy:

- The terms and conditions of L/C are definite, clear and also are in conformity with those of the contract.
- The L/C should be an irrevocable one and be confirmed by the advising bank.
- The L/C should provide sufficient time for shipment and a reasonable time for negotiation. If nothing is mentioned, the shipper would be allowed 21 days to negotiate the documents.

D. **EXPORT PERMISSION(EXP):**

After getting ERC the exporter can apply to Commercial Bank of Ceylon PLC with trade license, and if the bank is satisfied, an EXP is issued to the exporter.

❖ **<u>Certified Export Permission (EXP) by Custom Authority</u>**

At the time of shipment, disposal of EXP form is essential. The EXP forms are to be in quadruplicate form. After completing the EXP forms, the exporter should submit them to Commercial Bank of Ceylon PLC. These forms should then be submitted to the Customs Authority along with the shipping bill, at time of the shipment.

The EXP forms will be delivered in the following manners:

EXP FORMS	IN SUPPORT OF
ORIGINAL	Customs authority reports first copy of EXP to Bangladesh Bank after shipment of the goods.
DUPLICATE	Customs authority reports first copy of EXP to Bangladesh Bank after shipment of the goods.
TRIPLICATE	On realization of export proceeds the same bank to the same authority reports Triplicate.
QUADRUPLICATE	The negotiating bank as their office copy retains Quadruplicate

TABLE-2: DIFFERENT TYPES OF EXPORT PERMISSION FORMS

E. **<u>PROCURING THE GOODS/MATERIALS</u>**

After making the deal and on having the L/C opened in his favor. The next step for the exporters is to set about the task of procuring or manufacturing the contracted merchandise. If the exporter has to procure the raw materials from another supplier (Local or abroad) he has open back-to-back L/C.

F. **SHIPMENT OF GOODS**

The following documents are normally involved at the stage of shipment:

- EXP Form.
- ERC (Valid).
- Copy of Export L/C.
- Custom Duty Certificate.
- Shipping Instruction.
- Insurance Policy.
- Invoice.
- Inspection Certificate.
- Freight Documents.
- Quality Control Certificate.
- Certificate of Origin.
- Packing List.
- Bill of Lading
- Bill of Exchange, if required

G. **NEGOTIATION OF EXPORT DOCUMENT**

Negotiation stands for payment of value to the exporter against the documents stipulated in the L\C**.** Soon after the shipment, the exporter should make arrangement for early submission of the documents to Commercial Bank of Ceylon PLC, with the terms of credit. Exporter should remain in constant touch with the negotiating bank early negotiation of export bills. If any mistake is detected or any document is found missing, then the same should be corrected or supplied for early settlement of the matter.

H. **FOREIGN DOCUMENTS BILL PURCHASE**

After submission of all required documents to the bank for negotiation, it is the officers of bank's responsibility to scrutinize the documents. If the documents are satisfactory, bank purchase the documents on the basis of the bank customer relationship. This is known as foreign documentary bill purchase (FDBP).

A Foreign Documentary Bill Purchase (FDBP) Register is maintained in CBC PLC for recording all the particulars.

Procedure for Foreign Documentary Bill Purchase (FDBP):

- After purchasing the documents, CBC PLC gives the following entries:

FDBP A/C	DR	
Customer A/C (Before Realization of proceeds)		CR

- Upon realization of proceeds the negotiating bank would pass the following vouchers:

HEAD OFFICE	DR	
FDBP A/C (Adjustment after realization of proceeds)		CR

I. **FOREIGN DOCUMENTARY BILLS FOR COLLECTION**

Foreign Documentary Bill for Collection **(FDBC)** signifies that the exporter will receive payment only when the issuing bank gives payment. Commercial Bank of Ceylon PLC makes regular follow-up with the L/C opening Bank in case of any delay in getting payment. The exporter submits duplicate EXP Form and Commercial Invoice.

Subsequently, the value of the bill is calculated and the following entries are given:

Head Office	DR	
Client's A/C		CR
Government Tax		CR
Postage A/C		CR
Income A/C Profit on Exchange		CR

COMMERCIAL BANK
Our Interest Is In You

After passing the above vouchers, an Inter Branch Exchange Trading Debit Advice is sent for debiting the NOSTRO account**.** Commercial Bank of Ceylon PLC has NOSTRO account with its reimbursing bank.

A Foreign Documentary Bill for Collection **(FDBC)** Register is maintained in the bank, where the first entry is given when the documents are forwarded to the issuing bank for collection and the second one is done after realization of the proceeds.

5.2 EXPORT TURNOVER

TOTAL NUMBER OF L/C(S)	TOTAL TURNOVER
2,033	**12,597,647**

TABLE-3: EXPORT TURNOVER OF YEAR-2011

The above diagram shows the export turnover of Commercial Bank of Ceylon PLC in the year 2011. It is analyzed that the turnover rate has increased than previous years, since more L/C(s) went out of Bangladesh to different countries such as, India, Thailand, China, Japan, etc.

CHAPTER-6
FOREIGN REMITTANCE

6.0 OVERVIEW

Foreign remittance can be defined as the purchase and sale of freely convertible foreign currencies as admissible under "Foreign Exchange Regulation Act 1947" and "Guidelines for Foreign Exchange Transaction (VOL. 1 & 2)" of Bangladesh. Commercial Bank of Ceylon PLC being responsible for dealings in foreign exchange is required to keep proper records. They are also accountable to submit to the Bangladesh Bank prescribed periodic returns and statements of all foreign exchange transactions concluded by them.

6.1 FOREIGN CURRENCIES

The following are the foreign currencies in which foreign remittances are transferred inward and outward CBC PLC:

- ⇨ US Dollars (USD)
- ⇨ Swiss Franc (CHF)
- ⇨ Euro (EUR)
- ⇨ Great Britain Pounds (GBP)
- ⇨ Japanese Yen (JPY)
- ⇨ Canadian Dollar (CAD)
- ⇨ Swiss Franc (CHF)
- ⇨ Singapore Dollars (SGD)
- ⇨ Australian Dollars (AUD)
- ⇨ Hong Kong Dollars (HKD)
- ⇨ New Zealand Dollars (NZD)
- ⇨ Chinese Yuan (CNY)

6.2 FOREIGN INWARD REMITTANCE

The remittance in foreign currency which is received from abroad to our country is known as foreign inward remittance. In case of inward remittance, TT/MT/Drafts etc. are drawn in CBC PLC by the foreign banks of exchange houses. When foreign bills, TCs & cash foreign currency is purchased by our local and MNC banks such as CBC PLC, this is also referred as inward remittance.

6.2.1 PURPOSE OF INWARD REMITTANCE

- ♣ Family maintenance.
- ♣ Indenting commission.
- ♣ Donation.
- ♣ Gift.
- ♣ Foreign investment.
- ♣ Export proceeds.
- ♣ Others.

6.2.2 MODE OF INWARD REMITTANCE

- ♣ **Telegraphic Transfer (TT):** Telegraphic Transfer refers to the payment instruction by tested telex/cable or authentically faxes in foreign bank to local bank. Normally foreign banks with which drawing arrangement or correspondent banking relationship prevail sends Telegraphic Transfer.

- **Mail Transfer (MT):** Mail transfer refers to payment in cash to the third party or for a credit to be used to the account of the payee in the books of the agent.
- **Foreign Demand Draft (FDD):** Foreign Demand drafts normally issued by the foreign bank/exchange company to local bank.
- **Payment order (PO):** Order directing transfer of funds to a designated account or beneficiary. Payment orders may be sent by mail (or private courier), telex message, or through SWIFT.
- **Travelers Cheque (TC):** Issued Travelers cheques may be purchased by local bank.
- **Foreign Currency Notes:** Authorized dealers are permitted to purchase foreign currency, notes.

6.2.3 FOREIGN INWARD REMITTANCE TURNOVER

US DOLLAR (USD)	JAPANESE YEN (JPY)	EURO (EUR)	GREAT BRITAIN POUND (GBP)
54061840.45	**10099995**	**265835**	**13,203**

TABLE-4: FOREIGN INWARD REMITTANCE TURNOVER (2011)

6.3 FOREIGN OUTWARD REMITTANCE

Foreign outward remittance refers to the remittances in foreign currency made from Bangladesh to abroad. Foreign outward remittance includes:

- Issuance of Telegraphic Transfers (TT), Mail Transfer (MT), Foreign Demand Draft (FDD) issued by local banks on foreign banks.
- Rate of Foreign Currency, Notes, Travelers Cheques.
- Reimbursement against import, bills retired etc.

6.3.1 PURPOSE OF FOREIGN OUTWARD REMITTANCE

- Traveling purpose.
- Educational purpose.
- Attending seminar & workshop.
- Medical treatment.
- Business travel quota.
- Evaluation fee, Membership fee, visa fee, pre-shipment fee.
- Advertising of Bangladesh commodities etc

6.3.2 MODE OF FOREIGN OUTWARD REMITTANCE

a) **Telegraphic Transfer (TT):** Local banks can draw telegraphic transfer to those banks with which they have accounting relationship & message should contain test & brief description of the beneficiary.

b) **Foreign Demand Draft (DD):** Any authorized dealer branches can issue foreign drafts draw on the bank with which they have an accounting relationship.

c) **Foreign Currency, Notes:** Authorized dealer branches are permitted to safe foreign currency notes as per ceiling fixed by Bangladesh Bank.

d) **Traveler's Cheque (TC):** AD branches can sale Travelers cheques as per the ceiling fixed by Bangladesh Bank.

e) **Reimbursement against Import**: Local banks can reimburse funds against import through their account.

6.3.3 FOREIGN OUTWARD REMITTANCE TURNOVER

US DOLLAR (USD)	JAPANESE YEN (JPY)	EURO (EUR)	GREAT BRITAIN POUND (GBP)
202,491,60.69	**584,462,1.54**	**10,700**	**46,985**

TABLE-5: FOREIGN OUTWARD REMITTANCE TURNOVER (2011)

6.4 TYPES OF FOREIGN CURRENCY ACCOUNT

a) Resident Foreign Currency Deposit (RFCD) Account: A person ordinarily resident in Bangladesh can maintain foreign currency accounts with foreign currencies brought in at time of their return to Bangladesh from visits abroad. This accounts are termed as RFCD Accounts

b) Non-resident Foreign Currency Deposit (NFCD) Account: This type of accounts can be maintained as long as the account holder desires. Amount brought in by non-resident Bangladeshi can be deposited in FC Accounts any time after to Bangladesh.

6.5 WHO IS ENTITLED TO OPEN FC ACCOUNTS

Commercial Bank of Ceylon PLC with Authorized Dealership License, may, without prior approval of Bangladesh Bank, can open Foreign Currency (FC) Accounts, in their books in the name of:

i. Bangladeshi Nationals residing abroad.
ii. Foreign Nationals residing abroad or in Bangladesh.
iii. Foreign firms and companies registered abroad and operating in Bangladesh.
iv. Bangladeshi Nationals working as employees/consultants in international bodies in Bangladesh and drawing pay and allowances in foreign currency.
v. Merchandise and service exporters.
vi. Industrial enterprises in EPZ.

6.6 DOCUMENTS REQUIRED FOR OPENING FC ACCOUNTS

♣ **For Bangladeshi Wage Earners:**

a) Photocopy of valid passport.
b) Photocopy of employment contract or work permit.
c) Two copies of Passport size photograph of each account holder and Nominee duly attested.

- **For Foreign National Company/Firm**

a) Two copies of passport sized photograph of account holder for individual and operators of other account holder.
b) Copies of relevant pages of passport for individual and operators of other account holder.
c) Copies of service contract/ appointment letter/work permit, if any for individual.
d) Copies of registration in Bangladesh with Board of Investment/Bangladesh Bank, for Foreign Joint Venture Firm.
e) Copies of the Memorandum and Articles of Association or Joint Venture Agreement for Joint Venture Companies.

CHAPTER 7

COMPARATIVE STATISTICAL ANALYSIS

7.0 OVERVIEW

This part of my internship report incorporates a comparative statistical analysis. It explains a comparison of the overall performance of a local bank in Bangladesh (Eastern Bank Limited) and a foreign bank in Bangladesh (Commercial Bank of Ceylon PLC). The objective is to show a contrast of two leading banks operating in Bangladesh, each having different ethics, innovations and services, from different perspective.

Eastern Bank Limited (EBL) is considered as a leading private commercial bank in the country with undisputed leadership in Corporate Banking and a strong Consumer and SME growth engines.

On the other hand, Commercial Bank of Ceylon PLC (CBC) is a multi-national bank, operating in Bangladesh for several years. Unique products and services, superior service quality and efficient and customized solutions to the requirements of corporate and personal banking customers are hallmarks of the successful stride of CBC in Bangladesh.

7.1 STATISTICAL ANALYSIS

Several financial ratios have been calculated and evaluated, in order to clearly reflect the performances of the various departments of the two banks. The ratios have been computed based on financial statements obtained from the Annual Reports of the banks.

i. **CURRENT RATIO**

Current ratio is mainly used to give an idea of the bank's ability to pay back its short-term liabilities with its short-term assets (cash, inventory, receivables).Usually the higher the current ratio, the more capable a bank is of paying its obligations.

	2008	2009	2010
CBC:			
Current Asset (CA)	16,219,898,689	18,128,512,260	18,634,118,791
Current liabilities (CL)	14,014,954,823	15,549,188,980	15,505,362,088
Current ratio= (CA÷CL)	1.157	1.165	1.201
EBL:			
Current Asset	53,352,000,000	68,067,000,000	78,440,000,000
Current liabilities	46,521,000,000	58,025,000,000	65,638,000,000
Current ratio= (CA÷CL)	0.581	1.170	1.193

TABLE 1: CALCULATION FOR CURRENT RATIO

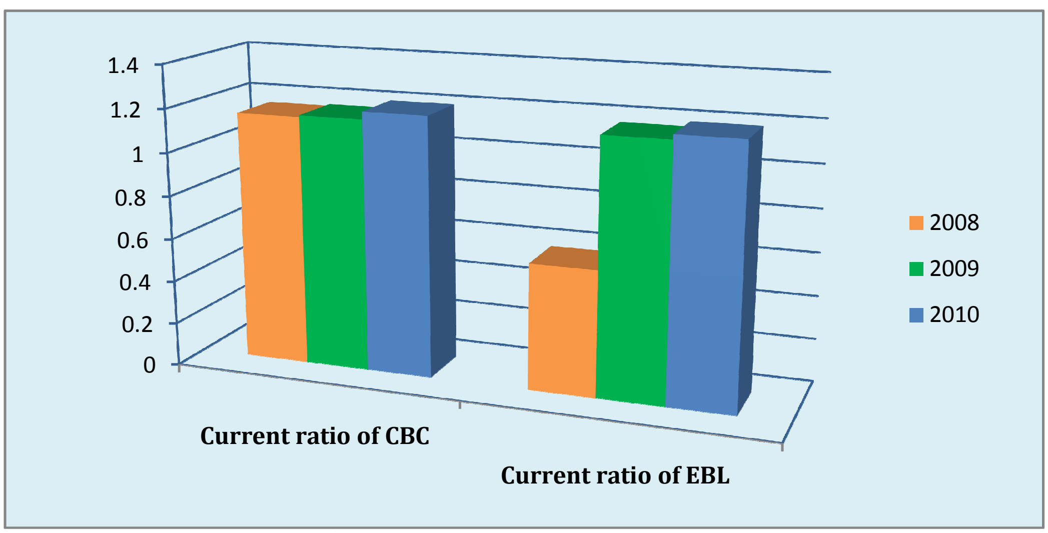


CHART-1: CURRENT RATIO OF CBC AND EBL (2008-2010)

Comments:

The above ratio shows the current ratio of Commercial Bank of Ceylon PLC (CBC) and Eastern Bank Limited (EBL). It is important to calculate this ratio, since it can give a sense of the two banks operating cycle or its ability to turn their product into cash.
From the above diagram, it is seen that in 2010, CBC's current ratio is stronger than the other two years. It shows that this year's liabilities could be recovered with its assets.

On the other hand EBL's current ratio in 2010 is far better than 2008's current ratio. It increased dramatically. It shows the bank has achieved a strong position in 2010 than in 2008 and 2009. It also implies that the liabilities seen in 2010 could be recovered with its assets.

ii. **WORKING CAPITAL**:

Working capital is the measure of a bank's and its short-term financial health. Positive working capital means that the bank is able to pay off its short-term liabilities.
Negative working capital means that a bank currently is unable to meet its short-term liabilities with its current assets.

	2008	2009	2010
CBC:			
Current Asset (CA)	16,219,898,689	18,128,512,260	18,634,118,791
Current liabilities (CL)	14,014,954,823	15,549,188,980	15,505,362,088
Working Capital = (CA-CL)	2,204,943,866	2,579,323,280	7,083,582,703
EBL:			
Current Asset	53,352,000,000	68,067,000,000	78,440,000,000
Current liabilities	46,521,000,000	58,025,000,000	65,638,000,000
Working Capital = (CA-CL)	6,831,000,000	10,042,000,000	12,802,000,000

TABLE 2: CALCULATION FOR WORKING CAPITAL OF CBC AND EBL