Assessment of Letter of Credit of HSBC

HSBC The world’s local bank

By

Fauzia Sharmin
ID # 2002-2-10-005
Department of Business Administration

Submitted To

Professor Dr. Tanbir Ahmed Chowdhury
Chairman Department of Business Administration
Coordinator MBA, EMBA & MBM
East West University

20th August, 2007
East West University, 43 Mohakhali C/A, Dhaka-1212
Acknowledgement

I would like to take the enormous opportunity to express my sincere gratitude to those without their blessings and cooperation this report would not have been possible.

First of all I am grateful to Almighty Allah for concluding this paper on time.

I would like to thank my supervisor of the internship program Professor Dr. Tanbir Ahmed Chowdhury, Coordinator MBA & EMBA, East West University, Dhaka, for his guidance, constant and spontaneous support, efficient supervision and constructive suggestions. Without his help this report could not have been a comprehensive one.

I would also like to express my humble gratitude to my organizational supervisor, Mr. Razib-bin-Roshid and Taslima Tisha, Assistant Officer, Corporate Banking, HSBC Bank. His/her guidance, advice and cooperation allowed me to complete this report successfully.

Last but not least I also acknowledge my family and friends for their support and encouragement throughout my internship period and also while preparing this report.
Abstract

As competition is raising the global standards for quality, increasing the demand for advanced technology & innovation and increasing the value of customer satisfaction, the global market is swiftly changing from a seller’s market to a buyer’s market. This is a profound period of social, economic and political change and to remain competitive globally, organizations must be aware of all aspects of the emerging global economic order.

Moreover, the evolution of global communications and its known and unknown impact on how international business is conducted can’t be minimized.

We know that trade causes peace and prosperity by promoting creativity, mutual understanding, and interdependence. Market is growing in emerging economies in Eastern Europe, the Commonwealth of Independent States, China, Indonesia, Korea, India, U.S.A- in short, globally. These emerging economies hold the promise of huge markets in the future. In the more mature markets of the industrialized world, opportunity and challenge also abound as consumers’ tastes become more sophisticated and complex.

Banking institutions play a vital role in international trade. International trade is an exchange of goods between a buyer (importer) and a seller (exporter) for a predetermined price. Trade services means facilitating trade transactions that is export and import. And all export and import in international business are executed through banks.

Trade service is known by various names in other banks, e.g. Trade Finance Foreign Exchange, Foreign Trade etc. However, the functions are the same. As the name suggests, this department is involved in facilitating trade, both international & within Bangladesh. HSBC is the leading provider of trade finance and related services to importers and exporters in Asia. Trade is considered a core business of the group. The group’s presence in 81 countries of the world gives a good opportunity to control both ends of a trade transaction and keep the business within the Group. The various awards it has won from the leading publications of the world acknowledge HSBC’s excellence in trade. The trade service department has two separate subsidiaries: Credit Administration & Foreign Exchange Division.
# Table of Contents

<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Topics</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acknowledgement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Abstract</td>
<td></td>
</tr>
</tbody>
</table>

## CHAPTER 1 INTRODUCTION

1.1 Origin of the Report 1
1.2 Objectives 1
1.3 Scope 1
1.4 Methodology 2
1.5 Limitations of the Study 2
1.6 Source of data 2

## CHAPTER 2 THE HONGKONG AND SHANGHI CORPORATION

2.1 An Overview of HSBC 3
2.2 The Background of HSBC 4
2.2.1 The Making of Modern HSBC group 4
2.3 Country Classification 8
2.4 HSBC Vision Statement 10
2.5 Objective of HSBC 10
2.6 International Brand 10
2.7 International Reach 10
2.8 Staff 10
2.9 Share Listing 10
2.10 Technology 11
2.11 Products and Services 11
2.11.1 Personal banking 11
2.11.2 Private Banking 11
2.11.3 Commercial Banking 11
2.11.4 Corporate & Industrial Banking 12
2.11.5 Payment and cash management 12
2.11.6 Industrial Banking 13
2.12 Group business Principals and Values 13
2.12.1 HSBC five core Business Principals 13
2.12.2 HSBC key Business value 14
2.13 HSBC Bangladesh 14
2.14 HSBC Activities in Bangladesh 15
2.14.1 Personal Banking services 15
2.14.2 Corporate Banking services 16
2.14.3 HSBC Trade Services 16
2.14.4 Financial Institution 17
2.14.5 Payment and Cash Management 17
2.15 Overview of Functional department 17
2.15.1 Financial Control Department 17
2.15.2 Treasury 18
2.15.3 Credit Operation 19
2.15.4 Institution Banking 19
2.15.5 Technical Service Department 19
2.15.6 Trade Service 19
2.15.7 Human Resource & Training 20
2.15.8 External & Internal entities 20
2.15.9 Universal Banking (HUB) 20
2.15.10 Internal Control 20
2.15.11 Personal banking 21
2.15.12 Corporate Banking 21
2.15.13 Administration 21

CHAPTER 3 AN OVERVIEW OF DOCUMENTARY CREDIT

3.1 Documentary Credit 22
3.2 Type of LC 23
3.2.1 LC According To Security Provided 23
3.2.2 LC According to Payment Method 24
3.2.3 Green Clause Credit 26
3.2.4 Special Types of LC 27
3.3 Parties to Letter of Credit 28
3.4 Additional Parties to LC 29
3.5 Steps Involved in Import procedures 29
3.6 Registration of Importers 30
3.7 Imports Formalities 31
3.8 Opening of Import LC 32
3.8.1 Pre-registration of opening of LC 32
3.8.2 Documents require from the importers 33
3.8.3 Receipts of LC Application from Importer 33
3.8.4 Opening of LC 34
3.8.5 Prior Permission of Bangladesh Bank for import 34
3.8.6 LC Authorization form 35
3.8.7 LC & Remittance against Import 36
3.8.8 Advising of LC 37
3.8.9 Amendment to Letter of credit 37
3.9 After Shipment of Goods 38
3.9.1 Document of Import bill 39
3.9.2 Security of Shipping Document / Lodgment of import Bills 40
3.9.3 Bills under LC 41
3.9.4 Retirement of Import Bills 41
3.9.5 Shipping Guarantee for release of Imported goods 42

3.10 Financing of Imports 43
3.10.1 Post Import Finance 43
3.10.2 Clean Import Loan 44

CHAPTER 4 PERFORMANCE ANALYSIS OF HSBC
4.1 Level of Customer Satisfaction 45
4.2 Comparison with other Banks regarding Level of Satisfaction of Service 46
4.3 Volume of different types of L/C in HSBC regarding the degree of security 47
4.4 Customer view point regarding the products of HSBC 48
4.5 Volumes of different types L/C according to payment methods 49
4.6 Revenue/Profit from L/C 50
4.7 The Charge Schedule 51

CHAPTER 5 SWOT ANALYSIS
5.1 Strengths 56
5.2 Weaknesses 58
5.3 Opportunities 59
5.4 Threats 60

CHAPTER 6 FINANCIAL INFORMATION OF HSBC 61

CHAPTER 7 CONCLUSION

BIBLIOGRAPHY 63

APENDIX A & B
A Trade Documents
B L/C Document 64
Chapter-1
INTRODUCTION

1.1. Origin of the Report

This is a report of internship program of BBA, supervised by Dr. Tanbir Ahmed Chowdhury, Professor, Coordinator MBA, EMBA & MBM, East West University. The intern was placed in “The Hongkong and Shanghai Banking Corporation Limited” for the four months internship to have a convenient grasp over the organization’s activities. The Topic of the report is proposed to be “Assessment of Letter of Credit of HSBC” would cover a critical financial analysis of the Import and export Operation of the Trade services department of the HSBC.

1.2. Objectives of The Report

The primary objective of the report is to meet the Compulsory requirement of submitting a report that is an indispensable part of the internship program at HSBC. The secondary objective is to apprise the HSBC with special references to Trade Services activities.

As the report is based on two major criteria; one is organization part and second one is project part or the analytical part. Specific objectives are presented as follows:

1. To present an overview of HSBC
2. To appraise the Import L/C financing by HSBC
3. To recommended the remedial majors for the improvement of Import L/C financing by HSBC.

1.3 The Scope of The Study

The report will mostly focus on how HSBC Bangladesh are providing documentary credit facilities to importers located in our country and how their trade services are making our transaction methods worldwide more acceptable.
1.4 **Methodology**

The report is based on primary and secondary data. For data collection following methods are followed:

1. On the Job observation  
2. By reading books of different foreign Exchange guideline  
3. Browsing the Website of the HSBC Bangladesh Limited.  
4. Finally, through conversation with the different level executives of The HSBC.

1.5 **Source of Data**

Both the primary as well as the secondary form of data is used to prepare the report. The details of these sources are highlighted below.

(a) **Primary Sources:**

During the exploratory research, in-depth interviews were conducted with various managers, employees of HSBC.

(b) **Secondary Sources:**

Secondary information was collected from relevant documents and literature, BIBM Guide, HSBC Internet web sites, Trade Services ABC guide, UCP 2000.

Other secondary sources were books on foreign exchange and trade services.

1.6 **Limitation of The Study**

An Intern has to complete the internship and prepare an internship report within short time. In briefly, I faced following limitations during the time of preparing this report.

- Due to time shortage, details of many aspects of the services of HSBC Bangladesh Limited have been skipped in this report.
- One of the main barriers in writing this report was the confidentiality of data. Though I saw their internal procedure that is being used in processing and evaluating any documentary credit, but I was told strictly not to disclose that even in my internship report.
- Deficient comprehension of the respondent was another major problem.
CHAPTER-2

THE HONGKONG & SHANGHAI BANKING CORPORATION

2.1 AN OVERVIEW OF HSBC

The HSBC Group is named after its founding member, The Hongkong and Shanghai Banking Corporation Limited, which was established in 1865 in Hong Kong and Shanghai to finance the growing trade between China and Europe.

Thomas Sutherland, a Hong Kong Superintendent of the Peninsular and Oriental Steam Navigation Company helped to establish this bank in March 1865. Then, as now, the bank's headquarters were at 1 Queen's Road Central in Hong Kong and a branch was opened one month later in Shanghai. Throughout the late nineteenth and the early twentieth centuries, the bank established a network of agencies and branches based mainly in China and Southeast Asia but also with representation in the Indian sub-continent, Japan, Europe and North America. In many of its branches the bank was the pioneer of modern banking practices.

The post-war political and economic changes in the world forced the bank to analyze its strategy for continued growth in the 1950s. The bank diversified both its business and its geographical spread through acquisitions and alliances.

HSBC Holdings plc, the parent company of the HSBC Group, was established in 1991 with its shares quoted on both the London and Hong Kong stock exchanges. The HSBC Group now comprises a unique range of banks and financial service providers around the globe.

HSBC maintains one of the world's largest private data communication networks and is reconfiguring its business for the e-age. Its rapidly growing e-commerce capability includes the use of the internet, PC banking over a private network, interactive TV, and fixed and mobile, including wireless application protocol or WAP-enabled mobile, telephones.
2.2 THE BACKGROUND OF HSBC

The HSBC Group has an international pedigree, which is unique. Many of its principal companies opened for business over a century ago and they have a history rich in diversity and achievement.

2.2.1 The Making of The Modern HSBC Group

The post-war political and economic changes in the world forced the bank to analyze its strategy for continued growth in the 1950s. The bank diversified both its business and its geographical spread through acquisitions and alliances. This strategy culminated in 1992 with one of the largest bank acquisitions in history when HSBC Holdings acquired the UK’s Midland Bank plc (now called HSBC Bank plc). However, it remained committed to its historical markets and played an important part in the reconstruction of Hong Kong where its branch network continued to expand.

In 1959 the bank completed two important purchases, those of The British Bank of the Middle East (now HSBC Bank Middle East) and the Mercantile Bank. The British Bank of the Middle East had begun life as the Imperial Bank of Persia in 1889 but throughout the 1940s and 1950s had extended its sphere of operations and pioneered banking in the Gulf States. The history of Mercantile Bank stretched back to 1853 - the year it was founded in Bombay (now Mumbai) - and by the 1950s it had a strong identity within Indian and other Asian markets.

In 1965 the bank purchased a controlling interest in Hang Seng Bank, which had been established in Hong Kong in 1933. By the 1970s the policy of expansion by acquisition of subsidiaries with their own identities and specializations was firmly in place. Like 1971 The Cyprus Popular Bank Limited (now Laiki Bank) becomes an associated company.

The Hongkong and Shanghai Banking Corporation forms a merchant banking subsidiary in 1972, Wardley Limited (now called HSBC Investment Bank Asia Limited). Midland Bank acquires a shareholding in UBAF Bank Limited (now known as British Arab Commercial Bank Limited).

In 1974 Samuel Montagu becomes a wholly owned subsidiary of Midland.
In 1978 The Saudi British Bank is established under local control to take over The British Bank of the Middle East's branches in Saudi Arabia.

During the 1980s the bank concentrated on moving into those markets where it was not yet fully represented.

In 1980 The Hongkong and Shanghai Banking Corporation acquires 51% of New York State's Marine Midland Bank, N.A. (now called HSBC Bank USA), with a controlling interest in Concord Leasing. UK-based merchant bank Antony Gibbs becomes a wholly owned subsidiary. Midland acquires a controlling interest in leading German private bank Trinkaus & Burkhardt KGaA (now HSBC Trinkaus & Burkhardt KGaA).

In 1981 Hongkong Bank of Canada (now HSBC Bank Canada) is established in Vancouver. The Group acquires a controlling interest in Equator Holdings Limited.

In 1982 Egyptian British Bank S.A.E. is formed, with the Group holding a 40% interest.


In 1986 The Hongkong and Shanghai Banking Corporation establishes Hongkong Bank of Australia Limited (now HSBC Bank Australia Limited) and acquires James Capel & Co. Limited, a leading London-based international securities company.

In 1987 The Hongkong and Shanghai Banking Corporation acquires the remaining shares of Marine Midland and a 14.9% equity interest in Midland Bank.

HSBC Holdings plc, the parent company of the HSBC Group, was established in 1991 with its shares quoted on both the London and Hong Kong stock exchanges.

The acquisition in July 1992 of Midland Bank in the United Kingdom created one of the largest banking and financial services organizations in the
world. Midland was founded in 1836 in Birmingham and had grown in the nineteenth and twentieth centuries through a series of mergers and amalgamations. In 1974 Midland acquired the London merchant bank of Samuel Montagu, whose own distinguished history stretches back to 1853. Samuel Montagu has been integrated into HSBC Investment Bank, as has James Capel, a leading London-based international securities company, which was acquired by the Group in 1986.

The 1990s have seen further expansion and consolidation of the various businesses of the HSBC Group. In the United States, a joint venture, the Wells Fargo HSBC Trade Bank was formed in 1995. Elsewhere in the Americas in 1997, a new subsidiary Banco HSBC Bamerindus was established in Brazil; the acquisition of the Roberts Group (now called HSBC Bank Argentina SA) in Argentina was completed, and a 19.9 percent interest in Mexico’s Grupo Financiero Serfin was purchased. In 1999, HSBC Holdings plc signed a memorandum of understanding with the Government of Korea for the acquisition of a controlling Seoul Bank, one of the largest commercial banks in South Korea.

HSBC and Merrill Lynch form a joint venture to launch the first international online banking and investment services company in 2000. HSBC acquires CCF (Credit Commercial de France), one of France's largest banks. Shares in HSBC Holdings are listed on a fourth stock exchange, in Paris. HSBC acquires Chase Manhattan’s branches in Panama. The Group increases its shareholding in Egyptian British Bank to over 90% and has since renamed it HSBC Bank Egypt S.A.E. PCIB Savings Bank in the Philippines is purchased and renamed HSBC Savings Bank (Philippines) Inc.

In 2001 HSBC acquires Barclays Bank’s branches and fund management company in Greece; IRB Finance Berhad, a finance company in Brunei; and Intermediaries Financiers, Agenda de Valores y Boisa, S.A., a Spanish retail stock broking company. CCF purchases Banque Hervet, a regional bank in France. HSBC acquires a controlling interest in China Securities Investment Trust Corporation, Taiwan’s leading asset management company; and enters into discussions to complete its purchase of Demir Bank TAS, Turkey’s fifth largest private bank.
Many of the members have changed their name into HSBC, The Hongkong and Shanghai Banking Corporation Limited to introduce the whole group under one brand name.

Midland Bank, one of the principal UK clearing banks, was acquired by HSBC Holdings in 1992. Headquartered in London, the bank has a personal customer base of five and a half million, business customers of over half a million, and a network of almost 1,700 branches in the United Kingdom. Midland has offices in 28 countries and territories, principally in continental Europe, with a number of offices in Latin America.

Hang Seng Bank, in which Hongkong Bank has a 62.1% equity interest, maintains a network of 146 branches in the Hong Kong SAR, where it is the second-largest locally incorporated bank after Hongkong Bank. Hang Seng Bank also has a branch in Singapore and two branches and two representative offices in China.

Marine Midland Bank, headquartered in Buffalo, New York, has 380 banking locations state-wide. The bank serves over two million personal customers and 120,000 commercial and institutional customers in New York State and, in selected businesses, throughout the United States.

Hongkong Bank of Canada is the largest foreign-owned bank in Canada and the country’s seventh-largest bank. With headquarters in Vancouver, it has 116 branches across Canada and two branches in the western United States.

Banco HSBC Bamerindus was established in Brazil in 1997. The bank has its head office in Curitibank and a network of some 1,900 branches and sub-branches, the second largest in Brazil.

Hongkong Bank Malaysia is the largest foreign-owned bank in Malaysia and the country’s fifth-largest bank, with 36 branches.

The British Bank of the Middle East (British Bank) is the largest and most widely represented international bank in the Middle East, with 31 branches throughout the United Arab Emirates, Oman, Bahrain, Qatar, Jordan, Lebanon and the Palestinian Autonomous Area, including an offshore banking unit in Bahrain.
The bank also has branches in Mumbai and Trivandrum, India, and Baku, Azerbaijan, as well as private banking operations in London and Geneva.

HSBC Banco Roberts was acquired in 1997. Based in Buenos Aires, it is one of Argentina's largest privately owned banks, with 60 branches throughout the country.

Hongkong Bank of Australia has 16 branches across Australia. It is the flagship of the HSBC Group's businesses there, operating under the name HSBC Australia, and providing a complete range of financial services.

The Saudi British Bank, a 40%-owned member of the HSBC Group, has 63 branches throughout Saudi Arabia and a branch in London.

Other associated Group banks are British Arab Commercial Bank, The Cyprus Popular Bank and Egyptian British Bank. Wells Fargo HSBC Trade Bank is a San Francisco-based joint venture between HSBC and Wells Fargo Bank, providing trade finance and international banking services in the United States through its offices in five western states and in conjunction with Wells Fargo's 32 regional commercial banking offices in 10 western states. In addition, the Group has a non-equity strategic alliance with Wells Fargo Bank, which provides access to a wide range of banking services through that bank's more than 1,900 staffed outlets. The Group also has a non-equity alliance with Wachovia Corporation, one of the leading corporate banks in the United States, with business relationships in 50 states.

2.3 COUNTRY CLASSIFICATIONS:

To ensure that key resources (management time, capital, Human resources and information technology) are correctly allocated and that the exchange of best practice is accelerated between entities, the group has classified the countries where it operates into 3 categories: the large, the major and the international.

These classifications are a function of sustainable, attributable earnings, the number of retail clients, balance sheet and size of operation. A brief presentation of this classification is shown below:
**Large**: The countries are United Kingdom, USA Mainland China and Hongkong. More than one million personal clients belong this type. Sustainable earnings greater than US$200 million. Business focus on:

- Concentrated group resources on wealth management.
- Be a top player in any market/region served.
- Develop cross selling, loyalty programs and value added products.

**Major**: The major players of this category are Argentina, Canada, India, Malaysia, Kingdom of Saudi Arabia, Singapore and UAE. Sustainable earnings between US$100-200 million. Business focus on

- Universal Bank (Personal, corporate and investment banking with domestic business)
- Platforms for international group business.
- Next generation of “large” companies.
- Stable self-funding entities.
- Onshore head quarter.

**International**: The rest of the world belongs to this category. Earning below US$100 million. Business focus on

- Platform for international group business
- Limited domestic presence.
- “Nursery” for developing management.
- Tomorrows major Businesses
- Supported by Offshore HQ.
2.4 **HSBC VISION STATEMENT**

"We aim to satisfy our customers with high quality service that reflects our global image as the premier international bank"

2.5 **OBJECTIVES OF HSBC**

To beat mean Total Shareholder Return performance of a peer group of financial institutions over a three-year rolling average, with a minimum objective to double shareholder return value in five years.

HSBC's objectives are to provide innovative products supported by quality delivery of systems and excellence customer services, to train and motivate staffs and to exercise community responsibility. By combining regional strengths with group network HSBC's aim is to be the bank of choice and one of the leading banks in its principle markets. HSBC's goal is to achieve sustained earnings growth and to continue to enhance shareholders value.

2.6 **INTERNATIONAL BRAND**

A key part of the Group's business strategy, announced in 1998, is the creation of a global brand featuring the HSBC name and hexagon symbol. The symbol is now a familiar sight around the world. The Group has embarked on the next phase — making the HSBC brand universally synonymous with its core values of integrity, trust and excellent customer service.

2.7 **INTERNATIONAL REACH**

More than 7000 offices in 81 countries.

2.8 **STAFF**

More than 284000 employees in 81 countries and territories.

2.9 **SHARE LISTING**

HSBC Holdings is listed on the London, Hong Kong, New York and Paris stock exchanges. Trading of the company’s shares on the stock exchanges is conducted in London, Hong Kong and Paris in the US$0.50 ordinary shares, and in New York in the form of American Depositary Shares, each of which represents five ordinary shares.
2.10 TECHNOLOGY

HSBC maintains one of the world's largest private data communication networks and is reconfiguring its business for the e-age. Its rapidly growing e-commerce capability includes the use of the internet, PC banking over a private network, interactive TV, and fixed and mobile, including wireless application protocol or WAP-enabled mobile, telephones.

2.11 PRODUCT AND SERVICES

Product range Personal, commercial, corporate, investment and private banking; trade services; cash management; treasury and capital markets services; insurance; personal and business finance; pension and investment fund management; trustee services; and securities and custody services.

2.11.1 Personal Banking

Including current accounts, loans and mortgages, cards, savings, investments, pensions and electronic banking. Personal banking services offered will vary from country to country.

2.11.2 Private Banking

Including investment, fund management, asset management and protection, financial advice, tax and trust. Private Banking is part of the Investment Banking division of the HSBC Group and services offered will vary from country to country.

2.11.3 Commercial Banking

Including finance, payments and cash management, electronic banking, merchant services, trade services, custody, leasing, and factoring. Commercial banking services offered will vary from country to country.
2.11.4 **Corporate and Institutional Banking**

As one of the world's largest banking and financial organizations with an extensive global capability, the HSBC Group is a major player in the Corporate and Institutional banking market.

HSBC's clients are the major multi-nationals. To meet their needs HSBC created Global Relationship Management teams across 79 countries and territories. A typical client service team comprises:-

The Global Relationship Manager who is accountable for the overall relationship and continually reviews the clients' needs, ensuring the delivery of appropriate products and services.

Regional and local Relationship Managers working with the clients in their countries of operation.

An Advisory Relationship Manager from HSBC's Investment Bank who identifies strategic and tactical opportunities and develops flexible solutions for our clients.

Appropriate product specialists to meet client needs.

HSBC's approach ensures ease of contact, responsiveness, consistency of service and execution.

2.11.5 **Payments and Cash Management**

Effective cash management is more than a simple product or service - it is about implementing a strategy for managing customer’s cash flow that is focused on their long-term goals, yet flexible enough to adapt to change.

Through the process of listening to individuals needs and then acting in partnership to deliver the right solutions, HSBC's is committed to helping the clients make the most of their financial assets.

HSBC operate on a global basis, but also work on a local level to ensure the cross-border differences are identified and any related benefits exploited.
HSBC teams of specialists ensure that whether you need solutions across the world, regionally or locally, they have the skills, expertise and resources to deliver them. They automate as many functions as possible, whilst ensuring you retain control.

HSBC claims that they are the people to talk to if anyone wants the following:-

- Global cash flow co-ordination
- Enhanced risk management
- Improved security and audit controls
- Minimized costs and reduced operating expenses
- Maximized liquidity, returns and interest benefits

2.11.6 **Investment Banking**

Investment Banking and Markets brings together the advisory, financing, equity securities, asset management, private banking and trustee, private equity and treasury and debt capital markets activities of the HSBC Group. Resourced by over 10,000 staff around the world, Investment Banking and Markets operates through dedicated offices and via the Group's commercial banks' network in 79 countries and territories. It offers a full spectrum of services for the Group's corporate, institutional and retail clients. By drawing on local commercial market knowledge and international product expertise, the Investment Banking and Markets business is able to provide an excellent combination of global coverage and local market penetration.

2.12 **GROUP BUSINESS PRINCIPLES AND VALUE**

2.12.1 **The HSBC Group is committed to Five Core Business Principles:**

- Outstanding customer service;
- Effective and efficient operations;
- Strong capital and liquidity;
- Conservative lending policy;
- Strict expense discipline;
2.12.2 **HSBC Operates According to Certain Key Business Values:**

- The highest personal standards of integrity at all levels;
- Commitment to truth and fair dealing;
- Hand-on management at all levels;
- Openly esteemed commitment to quality and competence;
- A minimum of bureaucracy;
- Fast decisions and implementation;
- Putting the Group's interests ahead of the individual's;
- The appropriate delegation of authority with accountability;
- Fair and objective employer;
- A merit approach to recruitment/selection/promotion;
- A commitment to complying with the spirit and letter of all laws and Regulations wherever we conduct our business;
- The promotion of good environmental practice and sustainable Development and commitment to the welfare and development of each local community.

HSBC's reputation is founded on adherence to these principles and values. All actions taken by a member of HSBC or staff member on behalf of a Group company should conform to them.

2.13 **HSBC BANGLADESH**

The HSBC Group is represented in Bangladesh by its Head Office in Dhaka (Sonargaon Road), a second full-service branch in Chittagong (Agrabad) and three booths in Gulshan, Motijheel and Dhanmondi with a vision to satisfy its customer with high quality service that reflects its global image as the premier International Bank. The Bank opens another new booth in Saver Dhaka EPZ. The Bank has been serving customers in Bangladesh since 1996. It has also an Offshore Banking Unit, which provides banking services for foreign companies based in the Export Processing Zones in Dhaka and Chittagong. In September 1999, it introduced ATM and telephone banking for Personal Banking. The four ATMs located at the four branches, there are five off-site ATMs located in Uttara, Dhanmondi, Banani, Shantinagar and GEC (Chittagong). As one of the largest international banks in Bangladesh, HSBC
has a long-term commitment to its customers and provides a comprehensive range of financial services: personal, commercial and corporate banking; trade services; cash management; treasury; consumer & business finance; and securities and custody services.

2.14 DIFFERENT ACTIVITIES IN BANGLADESH

As one of the largest international banks in Bangladesh, HSBC has a long-term commitment to its customers and provides a comprehensive range of financial services: personal, commercial and corporate banking; trade services; cash management; treasury; consumer & business finance; and securities and custody services.

2.14.1 Personal banking services

The Hong Kong and Shanghai Banking Corporation Limited offers a full range of personal banking products and services designed to take care of its customers' growing needs and requirements. HSBC in Bangladesh has launched a number of loan products during 2000. Personal Installment Loan and Education Loan are unsecured loans that do not require any personal guarantee or cash security; Car Loan, also, does not require any down payment or personal guarantee. The Bank has already launched Phone banking, a state-of-the-art automated telephone banking service available 24 hours a day, 7 days a week, 365 days a year, which allows customers to access their account from the comfort of the office or home. HSBC is the market leader in the local auto Pay service with which the company can initiate bulk taka payments to, or taka collections from, any HSBC current or savings accounts of counterparts for a specified sum at a specified date, regardless of the branch. HSBC also offers Power Vantage, a unique all-in-one package of products and services designed to give total financial control to the customer; a unique savings account, which allows the customer to do any number of transactions without any charges being incurred or credit interest lost. To satisfy the growing needs of real estate HSBC Bangladesh recently launched Home Loan Scheme and a special type of deposit product named "Bangladesh International" for non-resident Bangladeshis.
2.14.2 **Corporate banking services**

The Hongkong and Shanghai Banking Corporation Limited offers a wide range of cash financing, working capital, short and medium-term loans and guarantee facilities from its Head Office and Chittagong branch. The Offshore Banking Unit (OBU) provides US Dollar denominated working capital as well as short-term finance for capital imports to eligible businesses. Using high speed communication links, HSBC connects customers to international payment systems.

With the global expertise and local knowledge

2.14.3 **HSBC Trade Services**

As the leading provider of trade finance and related services to importers and exporters in Asia, HSBC in Bangladesh operates a highly automated trade-processing network and offer an electronic data interchange (EDI) capability through Hexagon. The Bank also uses SWIFT, an efficient and secure mechanism for bank-to-bank global communications used for all trade related activities including fund transfers and issuance of DC's (Documentary Credit).

Believe in us when it comes to Trade
2.14.4 Financial Institutions

Provides global trade services and cash management services to local banks. HSBC’s world wide network strength, with over 7000 offices in 81 countries and territories, coupled with a world class reputation in Trade Finance ("Best Trade Documentation Bank" - Euro money) and an unparalleled presence in Asia ("Best Bank in Asia" — Euro money), places HSBC in an ideal position to render unmatched correspondent banking services.

HSBC’s commanding presence in the USA (5th largest USD clearing bank globally), UK (largest GBP clearing bank globally), and the Euroland (largest Euro clearing bank in the UK) both in terms of network strength and clearing ability allows the Bank to also provide first class cash management solutions in 3 major global currencies; the US dollar, Pound sterling and the Euro.

2.14.5 Payments and Cash Management

HSBC was the pioneer in introducing electronic cash management solutions in Bangladesh, by introducing its state-of-the-art proprietary software, Hexagon, back in 1997. This was initially made available to corporate clients only but has since been expanded to include banks and retail clients. With Hexagon, the Bank's proprietary cash management system, corporate customers can access banking services from anywhere in the world to view account balances and statements, make transfers and international payments, and to open documentary credits, by using only a PC, a modem and a telephone line.

2.15 AN OVERVIEW OF FUNCTIONAL DEPARTMENTS

2.15.1 Financial Control Department (FCD)

FCD is responsible for the preparation of the Annual Operating Plan (AOP), monitoring treasury risk limits, profit exposure and maintaining strong liquidity. FCD is the key member of the Asset Liabilities Management Committee (ALCO), which deals with how efficiently the bank’s assets and liabilities are managed. FCD also deals with money market matters. FCD acts as a custodian of all vouchers. FCD as the name implies does all the banks monitoring of the banks internal compliance and all local regulatory requirements.
Assessment of Letter of Credit of HSBC

FCD has responsibilities for some or all of the following activities:

Financial accounting and reporting to the appropriate Head Office and IHO in accordance with prescribed reporting procedures:

- Financial reporting as required by local regulations and laws;
- Assets and Liability performance analysis;
- Management Accounting;
- Use of Management Information systems;
- Co-ordinate of planning;
- Financial planning, including capital budgeting;
- Cost control;
- Setting tax, investment and administration policy;
- Monitoring exchange rate and interest rate exposures; and
- Tax compliance and planning.

2.15.2 Treasury

Like any other bank Treasury is the most important department for HSBC. Treasury Department is responsible for:

☑ Maintaining liquidity position of the bank
☑ Maintaining the Statutory Liquidity Ratio i.e. 16% and the Cash Reserve
☑ Ratio i.e. 4% of the Bank's total capital.
☑ Fixing buying and selling rates of the currencies
☑ Taking short and long position on the currencies
☑ Dealing with call money market
☑ Buying and selling of bonds
☑ Touching with all things happening in the market
2.15.3 **Credit Operations**

This department is a member of ALCO (Asset Liability Management Committee), which coordinates in preparation of lending analysis and data on concentration of risk and identifies possible lending risks. This department is also responsible for monitoring all necessary documents and securities related to loans.

2.15.4 **Institutional Banking**

Corporate Institutional Banking department facilitated the development of money market and investment activities in the Bank. This department explores the Financial Institutional Group market; identify customers and financial institutional related issues. They maintain close relationship within the department within the bank regarding all foreign exchange issues. Also maintains close relationship with Hexagon, which provides different rates of stocks and bonds of both the local and international markets. This Department's prime duty is to make sure that the bank complies with Bangladesh Bank, SEC, DSE, CSE and client reporting requirements.

2.15.5 **Technical Services Department**

This department relates to all other departments in order to provide technical services. This Department's job is to plan, negotiate and purchase maintenance of IT, Communications, PABX, Security systems etc. They provide technical support such as on-line communication (HSBC owns their on V-SAT in Bangladesh as it has globally), Unisys Banking Terminal (HSBC's personal banking software), GEM (Group Electronic Mail), Local Area Network, Submit off-line batch run report (the daily pre-programmed reports are responsibility of TSV for printing). The TSV department of HSBC is responsible for the smooth running of all mechanical and electrical systems in the bank if any problem occurs they are there.

2.15.6 **Trade Services**

This department maintains a close relationship with Corporate Banking, Credit Operations, Personal Banking for marketing and selling trade services to existing and target customers. Currently this is HSBC's the most prolifically department in Bangladesh. This department handles all the trade-related business of the bank. Equipped with latest communication networks this department handles DC's, Amendments, import, export bills etc.
2.15.7 **Human Resource & Training Department**

The functions of Human Resources Department are strategic planning and policy formulation for compensation, recruitment, promotion, training, development and appraisal. This department also contributes to employees' performance by providing high standard of training.

**Operations:**
- Top level Decision making process on compensation, promotion, training, development & appraisal
- Development of employee
- Conducting a wide range of training sessions for the Bank's personnel
- Assists all HR activities

2.15.8 **Communicates with the external & internal entities**

Although HSBC Bangladesh also has a separate Training Department, but it operates under direct supervision of Manager Human Resources.

2.15.9 **Hongkong Bank Universal Banking (HUB)**

This department is responsible for the entire offline batch run reports. The HUB officer is responsible for coordination with TSV (Trade Services) and GHO (Group Head Office) HUB to ensure that the system is used and understood to HUB's full potential and is available to end user for maximum available time.

2.15.10 **Internal Control**

Internal Control officer is responsible for ensuring quality, ISO responsibility, local compliance and group compliance by fulfilling the internal audit requirement.

**Operations:**
- Ensures quality
- Ensures standard
- Ensures operational responsibilities
- Ensures group requirements
2.15.11 **Personal Banking**

This department manages daily operations of customer services department. HSBC introduce ATM under the supervision of this department.

**Operations:**

- Manages daily operation
- Plans and directs sales and marketing
- Plans for service development
- Top-level authority for customers dealings and transaction
- Provides required service to the customers directly
- Maintains documentation and report flow vary rapidly
- Helps in planning in field level
- Assists PLBM in decision-making process
- Assists PLBM in different level of research
- Assists PLBM day-to-day work
- Keeps track and inform PLBM in present condition of the competition in the market

2.15.12 **Corporate Banking**

**Operations:**

- Market risk analysis regarding assistant liability
- Analysis of credit risk
- Follow-up the reports
- Implementation and feedback of strategic decisions
- Maintains relationship with corporate clients

2.15.13 **Administration**

Their job is to monitor and provide the daily necessities of the Bank. They are responsible for purchasing of Bank's supplies, dealing with daily expenses, checking of vouchers, arrangement of basic security for the Bank's personnel, dealing with third party workers, depreciation calculation and taking care of Bank's fixed assets.
Chapter 3
An overview of Documentary Credit or L/C

3.1 Documentary Credit or Letter of Credit:

In simple terms, a Documentary Credit is a conditional bank undertaking of payment.
Expressed more fully, it is a conditional Undertaking given by bank [Issuing Bank] at the request of a customer [Applicant] or on its own behalf to pay a seller [Beneficiary] against stipulated documents provided all the terms and conditions of the Credit is complied with.

These stipulated documents are likely to include those required for commercial, regulatory, insurance or transport purposes such as commercial invoice, certificate of origin, insurance policy or certificate and a transport document of a type appropriate to the mode [s] of transport used.

Documentary credits offer both parties to a transaction a degree of security, combined with possibility, for creditworthy party, of securing financial assistance more easily.

A Documentary credits therefore-

- Are arrangements by banks for settling international commercial transactions.
- Provide a form of security for the parties' involved.
- Ensure payment provided that the terms and conditions of the credit have been fulfilled.
- Mean that payment by such means is based on documents only, and not on merchandise or services involved.

3.2 Types of Letter of Credit:

3.2.1 Letter of credits according to the degree of security provided-

a) **Revocable L/C:**

A revocable credit can be modified or cancelled by the issuing bank at any time even after shipment provided no payment has been made with or without notice to the seller. A credit is taken to be revocable if it does not expressly state that it has been irrevocably opened. Since this type of letter of credit can be cancelled at any time, is very risky to the seller.

b) **Irrevocable, Unconfirmed Credit:**

An irrevocable credit constitutes a definite undertaking of the issuing bank, provided that the terms and conditions of the credit are complied with. The irrevocable, unconfirmed credit is a commonly used type of documentary credit. Once this commitment has been entered into, the bank cannot decline responsibility without the agreement of the beneficiary as in the case of a revocable credit.
c) **Irrevocable, Confirmed Credit:**

An irrevocable credit can also be confirmed. Whenever the Advising Bank/Issuing Bank’s Agent adds its own confirmation to the credit it is called a Confirmed Irrevocable Letter of Credit. Otherwise, it is to be treated as unconfirmed L/C. Here the beneficiary not only has the undertaking of the Issuing Bank abroad but also that of a Bank in his own country and is of value if the Issuing Bank's standing is doubtful, the confirmed credit offers a very high degree of security for the exporter.

### 3.2.2 Letter Of credits according to Payment Methods:

a) **Sight Credit:**

When the payment terms stipulate the presentation of sight draft, the beneficiary (the seller) receives the proceeds of the credit upon presentation and examination of the documents. The negotiating bank after making payment to the exporter sends the documents to issuing bank. After determining that the documents are in order, the issuing bank delivers them to the buyer and at the same time debits the buyer's account, which offsets reimbursements to the seller's bank.

b) **Acceptance Credit/Term Credit (Credit with time drafts):**

In case of acceptance credit the exporter draws a time draft either on the issuing or confirming bank or on the buyer or on another bank depending upon the credit terms. The payment date may be for example 90 days after the invoice date or the date of transport documents. When the documents are presented the draft is accepted instead of payment being made.

c) **Deferred Payment Credit:**

The credit with deferred payment differs slightly in its effect on the beneficiary from the time draft. The main difference is the lack of a draft. Upon presentation of the proper documents, the bank so authorized issues a written promise to make payment on the due date. Term credits i.e. acceptance credits and deferred payment credits are financing instruments for the buyer. During the payment period, the buyer can often sell the goods and pay the credit amount with the proceeds.
d) **Credit with Advance Payment:**

Some letters of credit provide for advance payment of a portion of the credit prior to compliance with all the credit provisions. The purpose of this advance is to give the exporter, the fluids necessary to purchase or process merchandise especially for the buyer. Two typical arrangements deserve mention:

i) **Progress Payments:**

The beneficiary is allowed to draw on the credit in proportion to the progress achieved in production of the merchandise or completion of a project. This arrangement is used in case of large capital outlays such as heavy machinery, plants and roads. The balance of the credit is available against complete compliance along with relevant documents.

ii) **Red Clause Credit:**

Under this type of letter of credit the opening bank instructs the negotiating (advising) bank to make advances to the beneficiary up to an aggregate amount in order to enable him to purchase and process merchandise. The advances with interest are to be realized on purchasing/negotiation of export bills to be tendered by the exporter. In this case all risks goes to issuing bank since the issuing bank undertakes the payment of such advances with interest should they not be repaid by the beneficiary prior to the expiration of this credit. In the event of non-delivery of shipping documents by the beneficiary in time, the issuing bank will recover the amount advances plus the interest and any charges from the applicant who assumes all risks.

It is so called because clause was originally written in red ink to draw attention to the unique nature of credit. It specifies the amount of the advance that is authorized, in some instances it is for the full amount of the credit.

A Red Clause Credit is used for example by a wool importer in England to enable wool shipper in Australia to obtain funds to pay the actual suppliers by direct purchase obtaining a loan from the proceeds due to the Australia bank. This bank would get repayment of the plus interest from the proceeds due to the Australian beneficiary when the wool are shipped and documents presented in accordance with the terms of the Credit If however the beneficiary failed to ship the wool and so repay the loan
by presenting documents called for by the Credit the Australian bank would have the right to demand repayment with interest from the issuing bank and that bank would have a similar right receipt against the applicant for the credit.

3.2.3 **Green Clause Credit:**

A Green Clause Credit is a credit with a special clause incorporated into it that which only authorizes the advising bank to grant pre-shipment advances but also storage for storing the goods prior to shipment. It is useful in situations where shipping space not readily available, i.e., some African countries. It is so called because the clause originally written in green ink to draw attention to the unique nature of this Credit present this type of Credit is not in us.

3.2.4 **Special types of Letter of Credit:**

a) **Revolving Credit:**

When the importer anticipates having a regular flow of merchandise from a particular foreign supplier, he may wish to open a revolving letter of credit. Under a revolving credit the amount of the credit is automatically reinstated after drawing is fully met or after a specified period of time. Revolving Credit may be revocable or irrevocable. It can revolve in relation to time or value. But Credit that revolves in relation to value is not in common use. The text of such a credit might read as follows:

"Amount of credit USD 10,000 revolving 5 times to a maximum of USD 60,000". As soon as the first installment of USD 10,000 has been utilized, the credit automatically becomes valid for the next USD 10,000 until the maximum amount of USD 60,000 is reached.

In case of a Credit that revolves in relation to time e.g., which is available for up to &15,000 per month during a fixed period of time say, six month the Credit is automatically available for $15,000 each month irrespective of whether any sum was drawn during the previous month. A credit of this nature can be cumulative or non-cumulative. If the credit is stated to be "cumulative" any sum not utilized during the first period carries over and may be utilized during a subsequent period. If the credit is "non-cumulative" any sum not utilized in a period ceases to be available i.e., it is not carried over to a subsequent period.
b) **Transferable L/C:**

Under this type of L/C, the beneficiary is permitted to transfer his rights in part or in full to another party. In some cases the seller is not the actual producer or manufacturer of the goods. In such cases the original beneficiary request for a transferable credit. The issuing bank can transfer a credit only if it is expressly designated a “transferable”. A transferable credit can be transferred once only.

c) **Standby L/C:**

The Standby Letter of Credit is very similar in nature to a guarantee. The beneficiary can claim payment in the event that the principal does not comply with its obligation to the beneficiary. Payment can usually be realized against presentation of a sight draft and written statement that the principal has failed to fulfill his obligations.

With this instrument the following payments and performance, among others, can be supported:

- Repay funds borrowed or advanced
- Fulfill subcontracts
- Undertake payment of invoices made on open account.

d) **Back-to-Back L/C:**

One credit backs another. It may so happen that the beneficiary/seller of an L/C is unable to supply the goods direct as specified in the Credit as a result of which he need to purchase the same and make payment to another supplier by opening a second Letter of Credit. In this case, the second Credit called to "Back to Back Credit". These concepts involve opening of credit on the strength of first credit i.e., mother L/C opened by foreign importers.

Under Back-to-Back concept, the mother L/C stands as security for opening of second credit i.e., Back to Back Credit. The beneficiary / seller of the first credit as applicant of the second credit remains responsible to the bank for payment whether payment against first credit is made or not.

Back-to-Back Credit is opened in conformity to the terms and conditions as stipulated in mother credit expect the price of the goods. Shipment period and vanities of Back-to-Back Credit the negotiated price is quoted. The shipment period and vanities of Back-to-Back Credit are given earlier than the original vanities as stipulated in the mother L/C that helps the seller of the first credit to substitute his drafts, commercial invoices and other documents, if any with that drawn by the seller of Back-to-Back Credit.
The handling of a "Back-to-Back" credit is similar to a transferable one. If the original L/C allows partial shipment, several back-to-back letters of credit may be issued against it.

There are two types of Back-to-Back L/C viz. Inland and Foreign. Inland Back-to-Back L/C is opened on account of intermediary local buyers who process the goods from local mills/traders for ultimate export.

Foreign Back-to-Back L/C is established in our country in the field of Garments Industry against or on the basis of a Foreign Export L/C for import of raw materials from foreign countries for execution of the relative export order.

3.3 Parties to a Letter of Credit:

A letter of credit is a legal instrument, which binds all parties according to the terms and conditions incorporated in the credit. There are four principal parties in a Letter of Credit:

a) **The Importer/Buyer/Opener:**
   
The purchaser of the goods is called importer. Once the buyer and the seller have agreed to the sales transactions, it is the buyers' responsibility to initiate the opening of the letter of credit.

b) **Issuing Bank/Opening Bank:**
   
The Bank which at the request of his customer (importer) opens a Letter of Credit is named as Issuing Bank. The Issuing Bank is the buyer's bank/opening bank of the credit.

c) **The Seller/Exporter/Beneficiary:**
   
The supplier of the goods is called as seller or exporter or the beneficiary. The seller after shipping the goods as per terms of the credit presents the documents to the negotiating bank.

d) **Advising Bank:**
   
It is the correspondent bank of the issuing bank of the credit through which the credit issued by the opening bank is advised at seller's country. Advising bank may also be a negotiating bank.

e) **Negotiating Bank:**
   
The bank who negotiates/purchases/discounts the documents tendered by the exporter as per terms of the credit is known as negotiating bank.
3.4 Additional parties to the Letter of Credit:

a) Confirming Bank:

Performing the same service as an Advising bank, the confirming bank, in addition, becomes liable to pay for documents in conformity with the letter of credit’s terms and conditions.

b) Accepting Bank:

A bank that (as specified in the letter of credit) accepts time usance drafts on behalf of the importer is called an accepting bank. The accepting bank can also be the issuing bank.

c) Paying Bank:

The bank that affects payment to the beneficiary (as named in the letter of credit) is known as Paying Bank/ Drawee Bank.

d) Reimbursing Bank:

If the Issuing Bank does not maintain any account with a bank that will be negotiating documents under a L/C, then arrangement is made to reimburse the Negotiating Bank for the amount to be paid under a credit from some other bank with which the Issuing Bank maintains his account. The latter bank is termed as Reimbursing Bank.

3.5 Steps Involved in Import Procedures

1. Procurement of IRC from the concerned authority.

2. Signing purchase contract with the seller.

3. Requesting the concerned bank (importer's bank to open an L/C (irrevocable) on behalf of the importer favoring the exporter/seller/beneficiary

4. The issuing bank opens/ issues the L/C in accordance with the instruction/ request of the importer and request another bank (advising bank) located in seller's /exporter's country to advise the L/C to the beneficiary. The issuing may also request the advising bank to confirm the credit, if necessary.
5. The advising bank advises/informs the seller that the L/C has been issued.

6. As soon as the exporter/seller receives the L/C and is satisfied that he can meet L/C terms and conditions, he is in a position to make shipment of the goods.

7. After making shipment of goods in favor of the importer the exporter/s submits the documents to the negotiating bank for negotiation.

8. The negotiating bank scrutinizes the documents and if found o.k. Negotiate documents and sends the said documents to the L/C issuing bank

9. After receiving the documents the L/C issuing bank also examines the document and if found o.k. And makes payment to the negotiating bank.

10. The L/C opening bank then requests the importer to receive the document payments

3.6 Registration of Importer:

To carry on the business of import the first thing one needs is registration with the licensing authority of the area. To get this registration the interested person/institution submits the application along with the following Papers documents directly to the Chief Controller Imports and Exports or respective zonal office of CCI&E.

1. Income tax registration certificates.
3. Certificates from Camber of Commerce and Industry or Registered Trade Association.
5. Copy of Trade license.
6. And any other document if required by CCI&E.
7. Partnership deed in case of partnership firms
8. Certificate of Registration Memorandum and Articles of Association in case of limited company.
The nominated bank of the application will scrutinize the papers document verify the signature of the application. After securitization and verification, the non-bank will forward the same to the respective CCI&E office with forwarding such duplicate through banks representative. The CCI&E office will acknowledge duplicate copy of the forwarding schedule and return back to the bank representative.

On being satisfied, after securitization of the documents the respective office of CCI&E will issue Import Registration Certificate (IRC) to the application. Registration is not required for import of goods by Government department authorities and statutory bodies recognized educational institutions and hospital addition, registration is not required for import of goods, which do not involve foreign exchange.

3.7 Import Formalities

Import of goods from outside Bangladesh is regulated by the Ministry of Commerce in accordance with Imports and Exports (Control) Act 1950 and the Notifications issued there under. Goods from South Africa and Israel or goods originated from these countries are not importable. Import of goods into Bangladesh is no permissible on the flag vessel of Taiwan, South Africa and Israel. Import formalities to be observed by an importer for import of goods into Bangladesh are briefly enumerated below:

The intending importers holding a valid IRC may approach his nominated Authorized Dealer to open L/C for the import of the permissible item as per current Import Policy Order (IPO). For establishing the intended L/C, the importer is required to submit the following documents/papers with the Authorized Dealer:

a) L/C application in the printed format of the designated bank (A.D.) duly filled in and signed by the importer or his authorized agent. This L/C application is also an agreement between the importer and the bank. This form is to be stamped with Tk.50 adhesive stamp affixed on it under the Stamp Act in force in Bangladesh.

b) The importer must also submit the LCA Form, together with Indent/Contract/Purchase Order/ Performa Invoice/Sale Order (duly accepted by the importer) along with L/C application.

c) The importer has also to obtain Marine Insurance cover for the import and submit the Marine Insurance cover note for the purpose of opening the L/C.
d) Original IRC (duly renewed up to current date) should also be produced to the bank for verification and return.

e) Membership Certificate of Local Chamber of Commerce and Industries as well as Municipal Trade License issued in favor of the importers should also be submitted to the bank for verification and return.

f) Authorized Dealer should also, in this connection, get a full set of IMP Form duly signed by the importer which subsequently is to be submitted to Bangladesh Bank along with monthly return for sale of Foreign Exchange for the import covered under the L/C.

### 3.8 Opening of Import Letter Of Credit

The import of goods into Bangladesh is regulated by the Ministry of Commerce in accordance with the imports and exports (control) Act 1950 and notifications issued there under while Bangladesh Bank control the financial aspects such as method of payments, rates of exchange, remittances against imports through its exchange control department under the provisions of foreign exchange regulation Act 1947. The Customs Authorities physically supervised the goods to ensure that the items imported are permissible under import trade control regulations before release of the same for consumption in the country.

### 3.8.1 Pre-Requisite For Opening Of A Letter Of Credit

a) Must be a client/account holder.

b) Request letter from the client to open L/C.

c) Original IRC (Import Registration Certificate) duly renewed up to current date should also be produced to the bank for verification and return.

d) Valid Membership Certificate from a registered Chamber of Commerce and Industries/Trade Association.

e) Trade License.

f) Income Tax declaration in triplicate/TIN Certificate.

(g) INDENT issued by the local indenting agent or PROFORMA INVOICE issued by the foreign supplier/contract/purchase order/sale order (duly accepted by the importer).

h) Fixing up of margin of L/C on mutual basis.
3.8.2 Documents Required from the Importer

a) DOCUMENTARY CREDIT APPLICATION (supplied by the Bank -duly filled in by the importer or his authorized Agent. This application is an agreement between the importer and the Bank. This form is to be affixed with Tk. 150/- adhesive stamp.

b) INSURANCE COVER NOTE (Marine/Air/Post) in favor of the Bank

c) One set of IMP FORM (4 copies) duly signed by the importer. 3 (three) copies are to be left blank and are to be filled in after the documents arrive from the Negotiating Bank. The remaining one copy is kept for Bill of Entry purpose, which is signed by the Bank for submission to Bangladesh Bank along with the monthly return for sale of foreign exchange for the import covered under the L/C.

d) UNDERTAKING for Fluctuation of Foreign Currency duly signed.

e) LC AUTHORIZATION FORM In Lieu of Import License duly signed by the importer and permission from Bangladesh Bank (may be taken by the client and/or by the Bank on behalf of the importer).

3.8.3 Points to be scrutinized on Receipt of L/C Application from the Importer

a) Verify the signature of the importer with the specimen signature available with the Bank.

b) Imported items are in accordance with Indent/ Pro-forma Invoice.

c) Item being imported is not banned or restricted.

d) L/C clauses contravene the exchange control regulations.

e) The indent bears signature of the indenting agent as well as that of the importer.

f) The marine insurance Cover Note mentions the items to be imported and the port of shipment, the destination, the mode of shipment and risk covers.

g) The indenters IRC number & registration number with Bangladesh Bank have been quoted.

If the above documents are found in order, the Bank approves the amount of margin on the basis of his past performance, his financial position, marketability of the goods, the type of credit to be opened and the type of financing the importer needs after arrival of the goods. Head Office sanctions the margin only after careful consideration to safeguard the interest of the Bank.
3.8.4 Opening of L/C

After receiving the above documents and on scrutiny of the documents on the basis of importers application, Indent/ Pro-forma Invoice, the Bank performs the following tasks:

a) Prepare the L/C (Irrevocable L/C) 6 sets signed by two authorized signatories of the Bank.

b) Reimbursement Authority (2 copies)

After preparation of the above documents (by Issuing Bank), send the following documents to Advising Bank with a forwarding letter enclosing therewith a duplicate copy of Letter of Credit in favor of the beneficiary:

a) Send two copies of L/C papers (one for Negotiating Bank and another for the Exporter/Seller) with a forwarding letter to the Negotiating Bank. Also send "Reimbursement Authority" separately to reimbursement Bank.

b) Original copy of Reimbursement Authority (1 copy) and a copy of L/C be sent to the reimbursement Bank separately.

In case L/C - At sight

Reimbursement Authority to be sent to Advising Bank to honor reimbursement claim of the claiming/Negotiating Bank against above noted credit by debit to our Head Office A/c No. maintained with Advising Bank in that country.

In case L/C - Deferred Payment

A clause is incorporated in the Original L/C that "claim reimbursement on maturity date" from Head Office account.

3.8.5 Prior Permission of Bangladesh Bank for Import

All imports into Bangladesh against cash foreign exchange resources of the country are subject to prior permission of the Bangladesh Bank in the form of registration of Letter of Credit Authorization Forms from the Bangladesh Bank Registration Units stationed at all offices of the Chief Controller of Imports and Exports. Ministries and Govt. Departments may; however, import goods against specific allocations given to them by the Ministry of Finance subject to obtaining specific clearance from the Exchange Control Department of Bangladesh Bank and no L.C. Authorization Form, Import Permit or Clearance Permit are required for their import.
For import under External Economic Aid, Loan/ Credit, Commodity Exchange and Wage Earner's Scheme, no L.C. Authorization Form is required to be got registered with Bangladesh Bank Registration Unit unless otherwise specifically mentioned by Bangladesh Bank in any Foreign Exchange Circular for any particular category/item of import. Imports under Secondary Exchange Market Scheme (SEM), however, necessitate prior registration of L.C. Authorization Forms with the Bangladesh Bank Registration Units.

### 3.8.6 L.C. Authorization Form (Letter of Credit Authorization Form)

L/C. Authorization Forms are available in sets (each set consisting of five copies) with all Authorized Dealers of Foreign Exchange. The copy marked "For Exchange Control Purpose" acts as the basis on which remittances against imports into Bangladesh are permitted. No Letter of Credit may be opened and/or remittances of foreign exchange effected by an Authorized Dealer to cover import of goods into Bangladesh unless the Exchange Control copy of a valid L/C. Authorization Form that is duly registered with the Bangladesh Bank, where such registration is required, covers the import.

In case of imports against barter/loan/aid etc. where registration of L.C. Authorization Forms will not be needed the nominated bank of the importer will submit the Form directly to the designated bank. The designated bank will countersign the Form under their seal with date. The designated Bank will retain the original and duplicate copies of the Form and send triplicate and quadruplicate copies to the licensing office and quintuplicate copy to the importer's bank.

The Authorized Dealers will not issue blank L.C. Authorization Forms to their clients.

The importers should sign the L.C. Authorization Forms themselves in all cases in the presence of the Authorized Officer of the bank. The Authorized Dealer should sign the LCAF evidencing verification of the importer's signature and his entitlement. Authorized Dealer (A.D.) should, however, be satisfied before allowing their clients to sign the LCAFs that they have got entitlement of the amount for importing goods under the current Import Policy as declared by the Government. A.Ds, should also ensure that while signing the L.C. Authorization Forms, the Bank's official concerned puts his signature with date and seal, hi no case A.D. will accept authenticated LCAFs (for opening L.C.) direct from the parties.
Bangladesh Bank’s registration of all LCAFs for import of industrial raw and packing material and also for import of commercial items will remain valid for remittance for one year subsequent to the month of registration e.g. 15.01.99 Reg. Valid until 31.01.2000. Registration of LCAFs issued for import of capital machinery and spares will remain valid for 18 months subsequent to the month of Registration.

A.Ds should not under any circumstances, make remittance against any LCAF after expiry of the registration validity without first obtaining revalidation of registration from the Bangladesh Bank. A.Ds should ensure that registration number as given by the Bangladesh Bank is correctly and legibly reproduced on the IMP forms covering the sale of exchange as also on the relative schedules.

3.8.7 **Letter of Credit and Remittances against Imports**

A.Ds should established L.C against specific authorization only on behalf of their own customers who maintain accounts with them and are known to be participating in the trade. Payments in retirement of the bills drawn under L.Cs must be received by the A.Ds by debit to the account of the concerned customer or by means of a crossed cheque drawn on the drawee's other bankers. These restrictions will not only apply to import of articles for the private use of the importer (actual user).

All L/Cs and similar undertaking covering imports into Bangladesh must be documentary L.C and should provide for payment to be made against full sets of on board (shipped) bills of lading, air consignment notes, railway receipts, post parcel receipts showing dispatch of goods covered by the credit to a place in Bangladesh. All L/Cs must specify submission of signed invoices and certificates of origin. If any particular LCAF requires the submissions of any other document or the remittance of exchange at certain periodical intervals or in any other manner, the L/Cs should be opened incorporating the instruction contained on the LCAF.

It is not permissible to open L/C for imports into Bangladesh in favor of beneficiaries in countries imports from which are banned by the competent authority.

A.Ds will open L/Cs invariably in the currencies (approved ones as notified by the Bangladesh Bank from time to time) in which the indents are procured by the importers.

L/Cs covering import of goods into Bangladesh against valid LCAF should be opened within the period prescribed by the Licensing Authority.
No amendment or revalidation of L/C against LCAF will be valid without the prior permission of the Licensing Authority. However, this restriction shall not be applied where the amendment is of technical nature or where the extension is made upto the period of validity for shipment against relative LCAF.

3.8.8 Advising of Letter of Credit

Advising means forwarding of a Documentary Letter of Credit received from the Issuing Bank to the Beneficiary (exporter). Before advising an L/C the Advising Bank must see the following:

1. Signatures of Issuing Bank officials on the L/C verified with the Specimen Signatures Book of the said bank when L/C received by airmail.

2. If the Export L/C is intended to be an operative cable L/C, Test Code on the L/C invariably be agreed and authenticated by two authorized officers.

3. L/C scrutinized thoroughly complying with the requisites of concerned UCPDC provisions.

4. Entry made in the L/C Advising Register.

5. L/C advised to the Beneficiary (exporter) promptly and advising charges recovered.

3.8.9 Amendments to Letter of Credit

After issuance and advising of a Letter of Credit, it may be felt necessary to change some of the clauses of the Credit. All these modifications are communicated to the Beneficiary through the same Advising Bank of the Credit. Such modifications to a LC are termed as amendment to a Letter of Credit.

There may be some of the conditions in a Credit are not acceptable by the beneficiary. In this case, beneficiary contact applicant and request for amendment of the clauses. On receipt of such request applicant approaches his banker i.e. issuing bank with a written request for amendment to the Credit. The issuing Bank scrutinize the proposal for amendment and same are not in contravention with the Exchange Control Regulation and bank’s interest bank may then process for amendments form an integral part of the original Credit.
L/C amendments are to be communicated by telex, SWIFT or mail. If there is more than one amendment to a Credit, all the amendment must bear the consecutive serial number that the advising bank can identify the missing of any amendment.

**The Issuing Bank has to-**

a) Obtain written application from the applicant of the credit duly signed and verify the bank.

b) In case of increase of value, application for amendment is to be supported by Indent/Pro-forma Invoice evidencing consent of the beneficiary.

c) In case of extension of shipment period, it should be ensured that relative LCA valid/revalidated/increased up to the period of proposed extension.

d) Amendment on increase of Credit amount and extension of shipment of shipment period because amendment of Insurance Cover Note also to be submitted.

e) Proper recording and filing of amendment is to be maintained.

f) Amendment charges (if on account of applicant) will be recovered and necessary voucher is to be passed.

**The following clauses of L/C are generally amended-**

1. Increase/decrease value of L/C and increase/decrease of quantity of goods.
2. Extension of shipment/negotiation period.
3. Terms of delivery i.e. FOB, CFR, CIF etc.
4. Mode of shipment.
5. Inspection clause.
6. Name and address of the supplier.
7. Name of reimbursing bank.
8. Name of the shipping line etc.

**3.9 After Shipment of Goods**

The beneficiary of the L/C (supplier) after effecting shipment of the goods as per terms of the L/C, prepares/collects set of B/L, Bill of Exchange, Commercial Invoice and necessary documents as required under the terms of the L/C and presents the drafts to the negotiating bank along with the supporting documents for negotiation.

The negotiating bank negotiates the drafts and if they find the documents in order as per terms of L/C, they make payments to the beneficiary and forward the Drafts and the shipping documents to the L/C opening Bank under cover of a forwarding letter containing necessary instructions for L/C.
opening Bank. The negotiating bank also obtains reimbursement of the amount paid against the Draft either by debit to Nostro account of the L/C opening Bank or otherwise as stipulated in the L/C.

When does Negotiating Bank send documents for collection to Issuing Bank (Advising Bank)?

a) In case discrepancies are found by the Negotiating Bank.

b) In case of minor discrepancies, at the request of the beneficiary (seller/exporter).

c) In case Negotiating Bank does not want to negotiate (purchase) documents/does not want to effect payment without collection of documents from the Advising Bank (L/C Issuing Bank).

3.9.1 Documents of Import Bill

Import Bill comprises of the following documents:

<table>
<thead>
<tr>
<th>Documents</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Covering letter</td>
<td>Negotiating Bank.</td>
</tr>
<tr>
<td>b) Bill of Exchange or Draft</td>
<td>Exporter</td>
</tr>
<tr>
<td>c) Bill of Lading</td>
<td>Shipping</td>
</tr>
<tr>
<td>d) Declaration to Bill of Lading</td>
<td></td>
</tr>
<tr>
<td>e) Shipment Airway Bill.</td>
<td>Air Line</td>
</tr>
<tr>
<td>f) Commercial Invoice</td>
<td>Exporter</td>
</tr>
<tr>
<td>g) Packing List.</td>
<td>Exporter</td>
</tr>
<tr>
<td>j) Shipment Advice</td>
<td>Shipping Agent</td>
</tr>
<tr>
<td>k) Beneficiary’s Certificate.</td>
<td></td>
</tr>
<tr>
<td>l) Weight Note.</td>
<td></td>
</tr>
<tr>
<td>m) Custom Certificate,</td>
<td></td>
</tr>
<tr>
<td>n) Other documents, if called for under the credit.</td>
<td></td>
</tr>
</tbody>
</table>
3.9.2 Scrutiny Of Shipping Documents/Lodgment Of Import Bills

On receipt of shipping documents from the negotiating bank, the same should be very carefully scrutinized to ensure that they have been drawn strictly as per terms of the relative credit.

The Bank will look into the following main points and scrutinize the documents with reference to the terms of the credit:

a) The documents have been negotiated within the stipulated date and the amount of the draft is within the L/C amount. The draft has been drawn in accordance with the L/C terms and is endorsed to the order of the Bank.

b) The invoices have been properly and correctly drawn and signed by the supplier giving full description of the merchandise along with unit price as per Indent. The Invoice must bear the LCA number, IRC number of the importer, ITC schedule number and Registration number of the Indenter.

c) The Bill of Lading is a clean "Shipped on Board" B/L showing freight prepaid and is duly endorsed to the order of the Issuing Bank. The B/L must not show any adverse clause about the condition of the goods. The port of shipment, port of destination, date of shipment, name of consignee, notify party as shown in the B/L must agree with those mentioned in the L/C. The B/L must bear the authorized signature and cover the merchandise described in the Invoice.

d) The Certificate of Origin given by the supplier should be in conformity with that mentioned in the L/C.

e) Other documents such as packing and weight lists should also accompany the shipping documents and must correspond with the terms of the L/C.

f) A copy of the Insurance declaration is attached to the documents which should be sent by the beneficiary to the importer/insurance company immediately after the shipment has taken place.

g) Verify if the foreign correspondent's dues are charged in accordance with the instructions contained in the L/C.

h) All other documents required in the L/C are received.
If any discrepancy is noticed, the same should be brought to the notice of the importer immediately for his written instruction before lodgment in BLC and payment is made. If the importer refuses to accept the documents, the negotiating bank should be advised within 3 working days of receipt of the documents by cable/telex for instruction with regard to the disposal of the goods and the documents.

3.9.3 Bills under Letter Of Credit (BLC)

It is a funded credit facility extended to the customers to lodge the import bills after satisfying that the documents have been drawn strictly in accordance with the credit terms and conditions. Usually, bills drawn under cash L/C are to be paid at sight. But most of the cases, it is observed that clients fail to place the required fund at the bank's disposal to settle the negotiating bank's claim. In such cases, Bank has to create a BLC account in the name of customer towards settlement of claim within 3 working days from the date of receipt of shipping documents. It is worth mentioning here that BLC is created for full invoice value from the date of negotiation of documents by the foreign banks and in this case clients participation i.e. margin will not be taken into consideration.

When Bank lodges the import documents through debit of BLC, the documents are thereafter stamped with BLC number and entered into BLC Register. The shipping documents are then kept in safe custody for ultimate delivery to the importer. The importer should be immediately called in writing to retire the import documents.

BLC liability is supposed to be adjusted with up-to-date interest within 21 days from the date of negotiation of shipping documents by the foreign banks. If an importer retires the documents within the stipulated 21 days, he will be entitled to receive interest on the margin amount at the prevailing savings rate of interest.

3.9.4 Retirement of Import Bills

Retirement means release of document on receipt of full payment of the bills from customers. This process of settlement of import claims is technically known as retirement of bills. Before retirement bank should ensure that all payables have been recovered and that all formalities including exchange control requirements are complied with.

On receipt of intimation, the importer gives necessary instructions with regard to retirement of bill. The importer may ask the bank to retire the bill by debit to his account.
The shipping documents are handed over to the importer after adjustment of the loan to the debit of his account. Before delivering the import documents to the importer, the Bank should –

a) Endorse on the invoices the amount that they have remitted from Bangladesh.

b) Endorse the bill of exchange and bill of lading to the order of the importer.

c) Return the custom purpose copy of the LCA to the importer for clearance of the consignment from the custom authority.

The importer may request for providing LIM facility, if arranged earlier, in case LIM facility is given, normally bank itself will arrange for clearance of the goods on payment of import duty, sales tax and other charges and store the goods at the bank’s go-down subject to release on production of delivery order as per arrangement.

Sometimes the documents are also handed over to the importer against Trust Receipt (TR) for clearance of the goods on the clear understanding that the importer will hold the goods or the sale proceeds thereof in trust with him at the disposal of the bank till the entire loan is liquidated.

All payments for imports into Bangladesh are REQUIRED TO BE REPORTED to Bangladesh Bank with the original copy of the IMP form duly certified by the Bank. The importer is required to produce exchange control copy of customs bill of entry to the bank within 4 months from the date of remittance.

3.9.5 Shipping Guarantee for Release of Imported Goods

The original shipping documents are evidence of shipment of merchandise under documentary credit. The importer gets the goods released from the port by presenting the original Bill of Lading (BL).

Sometimes the goods arrive before the receipt of shipping documents by the Bank, in such cases; the importer may be able to obtain a STEAMSHIP GUARANTEE from the Bank for the merchandise. He can then turn this guarantee over to the carrier, in place of the Bill of Lading, and pick up his goods.

A steamship guarantee is a document issued by the bank and addressed to the carrier. It asks the carrier to accept the guarantee in place of all original bills of lading and to release certain merchandise to the importer. The guarantee promises that there will be no legal consequences on the carrier because he has released the merchandise without a bill of lading and that an original bill of lading will be forwarded as soon as it is received.
The bank will realize full payment before issuance of a shipping guarantee. The importers will undertake/accept original documents even with discrepancies. The bank will also endorse non-negotiable shipping invoice and bill of lading in favor of the importer. The bank will maintain a register for issuance of shipping guarantee.

3.10 FINANCING OF IMPORT

3.10.1 Post import finance

The Loan against Imported Merchandise (LIM) or Trust Receipt (TR) is post-import financing allowed by the Bank to its valued customers in specific cases. At the time of retirement of import documents, the importer may request the Bank for providing LIM facility.

In case LIM facility is given, normally bank itself will arrange for clearance of the goods on payment of import duty, sales tax and other charges and store the goods at the Bank’s godown subject to release on production of delivery order as per arrangement.

The loan against security of merchandise imported through the Bank are allowed against pledge of goods, retaining margin prescribed on their landed cost, depending on their categories and credit restrictions imposed by the Bangladesh Bank. The letter of undertaking and Indemnity shall be obtained from the client before the goods are cleared through LIM account.

The clearance of the goods should be taken through approved clearing agent of the bank. The landed cost of the merchandise shall properly be worked out before the goods are delivered to the customer against proportionate payment. In case of part delivery, it must be ensured that the valuable and less valuable items are not averaged together.
The following documents must be obtained from the customer before creating LIM:

a) Demand Promissory Note.
b) Letter of Agreement.
c) Letter of Pledge with Supplementary Agreement.
d) Merchandise to be duly insured with specific risk clauses along with Bank's mortgage clause.
e) Letter of disclaimer to be obtained from the owner of the godown in case of rented godown.

3.10.1. b Trust Receipt (T.R.)

Trust Receipt is a non-renewable funded credit facility allowed by the Bank to its exclusively valued clients only. For such loan prior approval from Head Office must be obtained. In case of LTR, import documents are delivered to the customer WITHOUT PAYMENT.

The period of Trust Receipt may be 30, 45, 60 or 90 days as allowed by Head Office. The loan is adjustable within the period. The customer holds the goods or their sale proceeds in Trust for the Bank till the loan is fully adjusted. The Trust Receipt is a document that creates the Bank's lien on the goods. The sale proceeds of goods held in Trust must be deposited in the Bank by the borrower, irrespective of the period of the Trust Receipt. Trust Receipt is always calculated on the amount arrived at after deducting the amount held in margin account.

The following documents must be obtained before allowing LTR:

a) Demand Promissory Note.
b) General Letter of TR with supplementary Agreement.
c) Letter of Agreement.
d) Personal Guarantee of all the partners in case of Partnership firm.
e) Personal Guarantee of all Directors in case of Limited Company.

3.10.2 Clean Import Loan (CIL)

This is a clean advance to the importer and the bank has no control over the goods. The bank is given a promissory note and sight bills are settled by debiting the importer's CIL A/C with the full bill amount. The marginal deposit (if any) should be credited to the CIL account treating it as partial payment. The CIL is repayable at maturity with interest calculated in arrears. Bank charges the importer prevailing commercial interest rate for the amount of loan sanctioned. Maturity ranges from say, 30 days to as much as 180 days or more after the loan is drawn down depending on the customers' trade cycle.
4.1 Level of Customer Satisfaction

<table>
<thead>
<tr>
<th>LEVEL</th>
<th>FREQUENCY</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>Highly satisfied</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Neutral</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>Dissatisfaction</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Highly dissatisfied</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table: 01: Level of Customer Satisfaction

**ANALYSIS:**

This graph is based on level of satisfaction regarding customers’ point of view. This level of satisfaction is based on the service standard. Here the products mean the service provided by the Trade Services Department and if it matches with expectations then the customer experiences satisfaction if not then dissatisfaction. According to the chart, it is apparent that majority (30%) of the respondents are satisfied with the service that they got from the bank. The interesting fact is that 22% of the respondents are in neutral position i.e. they don't know whether they are satisfied or not.
4.2 Comparison with other Banks regarding Level of Satisfaction of Service (Customers’ viewpoint)

**Ranking of the Banks**

<table>
<thead>
<tr>
<th>Name of the Banks</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC</td>
<td>9</td>
<td>18%</td>
</tr>
<tr>
<td>SCB</td>
<td>11</td>
<td>22%</td>
</tr>
<tr>
<td>Amex</td>
<td>6</td>
<td>12%</td>
</tr>
<tr>
<td>CA Agricole</td>
<td>8</td>
<td>16%</td>
</tr>
<tr>
<td>Bank Asia</td>
<td>3</td>
<td>6%</td>
</tr>
<tr>
<td>Citibank NA</td>
<td>4</td>
<td>8%</td>
</tr>
<tr>
<td>Nationalized Commercial Banks</td>
<td>4</td>
<td>8%</td>
</tr>
<tr>
<td>Other Private Commercial Banks</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Table: 02: Ranking of Banks

![Bar chart showing the ranking of banks]

**ANALYSIS:**

This graph shows the ranking of different banks leading in Bangladesh regarding customer viewpoint. According to that, 22% of the total customers conduct business with Standard Chartered that is the highest and 18% conduct transaction with HSBC.
4.3 Volume of Different types of L/C in HSBC regarding the degree of Security

<table>
<thead>
<tr>
<th>TYPES</th>
<th>VOLUME</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVOCABLE</td>
<td>20%</td>
</tr>
<tr>
<td>IRREVOCABLE</td>
<td>50%</td>
</tr>
<tr>
<td>CONFIRMED</td>
<td>30%</td>
</tr>
</tbody>
</table>

Table: 03: Volume of Different types of LC

![Pie chart showing the percentage of different types of L/Cs]

Figure: 03

**ANALYSIS:**

This graph is based on the volume of different types of L/Cs according to security provided by the bank. There are several types of L/Cs issued by Import department such as Revocable, Irrevocable, and Confirmed etc. The graph shows the percentage of this L/Cs. From here we can see that the Irrevocable L/C’s are in most common L/C (50%). And then revocable & confirmed are in 20% & 30% respectively. Irrevocable L/C constitutes a definite undertaking of the issuing bank, provided that the terms and conditions of the credit are complied with.
4.4 Customer viewpoint regarding the Products of HSBC

<table>
<thead>
<tr>
<th>Products</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>L/C</td>
<td>16</td>
<td>32%</td>
</tr>
<tr>
<td>Import Loan</td>
<td>9</td>
<td>24%</td>
</tr>
<tr>
<td>Bill Discounts</td>
<td>8</td>
<td>16%</td>
</tr>
<tr>
<td>Export Loan</td>
<td>12</td>
<td>18%</td>
</tr>
<tr>
<td>Shipping Guarantee</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table: 04: Customer View Point Regarding products of HSBC

**ANALYSIS:**

This graph has a clear indication of the various products of HSBC. Banking products means the services that a bank provides to its customer. In export and Import business i.e. trade services of HSBC, it is observed that L/C has the top most priority to the customer. On the other hand, the bank earns their major revenue from Trade Services Department. And the other products: import loan (24%), bill discounting (16%), export loan (18%), and shipping guaranty (10%) volume accordingly.
4.5 Volume of different types of L/C according to Payment methods

<table>
<thead>
<tr>
<th>TYPES</th>
<th>VOLUME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sight</td>
<td>25%</td>
</tr>
<tr>
<td>Acceptance</td>
<td>25%</td>
</tr>
<tr>
<td>Deferred</td>
<td>20%</td>
</tr>
<tr>
<td>Standby</td>
<td>10%</td>
</tr>
<tr>
<td>Back to Back</td>
<td>20%</td>
</tr>
</tbody>
</table>

Table: 05: *Volume of Different Types of LC*

![Bar chart showing volume of different types of L/Cs](image)

**Figure: 05**

**ANALYSIS:**

This graph shows the different types of L/Cs regarding payment method. It means when customer opens L/C they have to ensure the payment method that in which method they will pay the bill. In that case the bank provide them a specific time period and by this time the customer have to complete their payment otherwise the bank will charge interest. In this method the sight and acceptance L/Cs are in same position. And rest of the L/Cs that means deferred, back-to-back and standby have 20%, 20%, 10% volume respectively.
4.6 **Turnover from L/C**

<table>
<thead>
<tr>
<th>Year</th>
<th>Import (Billion. BDT)</th>
<th>Export (Billion. BDT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>30.56</td>
<td>27.39</td>
</tr>
<tr>
<td>2005</td>
<td>46.47</td>
<td>41.96</td>
</tr>
<tr>
<td>2006</td>
<td>59.97</td>
<td>60.69</td>
</tr>
</tbody>
</table>

**Table: 06: Yearly Turnover**

The above table shows the revenue earnings or profit from Import and Export L/C of year 2004, 2005 and 2006. From the table, we can easily see that the Earning from L/C is increasing from year to year. The following graph also shows the same trend.

**ANALYSIS:**

Here we can see that the organization earns the huge amount of profit from the Letter of Credit.
### Import Charge Schedule

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>CHARGE</th>
<th>MINIMUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. DC Opening Commission</td>
<td>0.5% per qtr</td>
<td>BDT 1000</td>
</tr>
<tr>
<td>1. Irrevocable/Revocable DC</td>
<td>0.30% subsequent qtr</td>
<td></td>
</tr>
<tr>
<td>2. Back to Back L/C</td>
<td>Same as above</td>
<td></td>
</tr>
<tr>
<td>3. DC Under Aid/ Barter</td>
<td>On application</td>
<td></td>
</tr>
<tr>
<td>B. DC Amendment commission</td>
<td>Same as opening commission</td>
<td>BDT 1000</td>
</tr>
<tr>
<td>1. Increase of DC amount/ Extension of DC validity</td>
<td>BDT 500 plus cable/ courier charges</td>
<td></td>
</tr>
<tr>
<td>2. Other DC terms</td>
<td>BDT 1,500 for 1st qtr</td>
<td></td>
</tr>
<tr>
<td>C. DC cancellation</td>
<td>BDT 750 for subsequent qtr</td>
<td></td>
</tr>
<tr>
<td>D. Shipping Guarantee/ Airway Bill Release/ Delivery Order</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E. Import Bills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Acceptance Commission</td>
<td>0.50% for 1st qtr 0.30% for subsequent qtr</td>
<td>BDT 1000</td>
</tr>
<tr>
<td>2. Handling of DC/non DC bills</td>
<td>BDT 1000</td>
<td></td>
</tr>
<tr>
<td>3. Collection of usance non DC Bills</td>
<td>0.30%</td>
<td>BDT 1000</td>
</tr>
<tr>
<td>4. Action fee</td>
<td>BDT 1000</td>
<td></td>
</tr>
<tr>
<td>F. Foreign Correspondent Charges</td>
<td>At actual + Cable charges</td>
<td></td>
</tr>
<tr>
<td>G. DC Transmission Charges</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table: 07: Charge Schedule of LC (Import)
## Export Charge Schedule

<table>
<thead>
<tr>
<th>Product</th>
<th>Standard Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Export DC Advising</strong></td>
<td></td>
</tr>
<tr>
<td>DC Advising</td>
<td>Facility Customer-BDT 1000</td>
</tr>
<tr>
<td></td>
<td>Non Facility Customer- BDT 1500</td>
</tr>
<tr>
<td>Amendment Advising</td>
<td>Facility Customer- BDT 500</td>
</tr>
<tr>
<td></td>
<td>Non Facility Customer- BDT 750</td>
</tr>
<tr>
<td>Electronics DC Advising</td>
<td>BDT 1500</td>
</tr>
<tr>
<td>Electronics DC Amendment Advising</td>
<td>BDT 750</td>
</tr>
<tr>
<td><strong>Transfer of DC/Amendment</strong></td>
<td></td>
</tr>
<tr>
<td>DC</td>
<td>Customer-BDT 1500</td>
</tr>
<tr>
<td>Amendment</td>
<td>Non customer – BDT 2500</td>
</tr>
<tr>
<td><strong>Confirmation of DC</strong></td>
<td></td>
</tr>
<tr>
<td>DC at Sight/Usance</td>
<td>1.00% p.q.*</td>
</tr>
<tr>
<td></td>
<td>Min 1 qtr or USD 200 whichever is higher + other charges</td>
</tr>
<tr>
<td></td>
<td>* (Confirmation charge may vary by country)</td>
</tr>
<tr>
<td><strong>Export Bills</strong></td>
<td></td>
</tr>
<tr>
<td>Negotiation Bills (Sight)</td>
<td>0.5% (min BDT 3000 + transmission charges + other costs)</td>
</tr>
<tr>
<td>Collection</td>
<td>0.25% (min BDT 3000 + Transmission Charges + other costs)</td>
</tr>
<tr>
<td>Cancellation of Export DC Transfer</td>
<td>BDT 2500 + Transmission Charges</td>
</tr>
<tr>
<td>EXP Certification</td>
<td>BDT 300 Per Certification</td>
</tr>
<tr>
<td>Foreign Correspondence Charges</td>
<td>At Actual</td>
</tr>
<tr>
<td>Processing of Cash Assistance/Incentive</td>
<td>BDT 3000 per presentation</td>
</tr>
<tr>
<td>Issuance of PRC</td>
<td>BDT 1000 per Month (BB endorsed Copy)</td>
</tr>
<tr>
<td>Remittance Handling fee</td>
<td>BDT 1000 per each previous certificate</td>
</tr>
<tr>
<td>Remittance Handling fee</td>
<td>BDT 500 per remittance</td>
</tr>
<tr>
<td>Certification</td>
<td></td>
</tr>
<tr>
<td>Issue</td>
<td>BDT 500 per Certificate</td>
</tr>
<tr>
<td>2nd Copy of the certificate</td>
<td>BDT 300 per Certificate</td>
</tr>
<tr>
<td>Copy documents</td>
<td>BDT 300 per 10 pages</td>
</tr>
<tr>
<td>Service</td>
<td>Charge</td>
</tr>
<tr>
<td>------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Cable / Telex</td>
<td></td>
</tr>
<tr>
<td>Local</td>
<td>BDT 750 Per Transmission</td>
</tr>
<tr>
<td>Foreign</td>
<td>BDT 1000 per Transmission</td>
</tr>
<tr>
<td>FAX</td>
<td></td>
</tr>
<tr>
<td>Local</td>
<td>BDT 100/minute</td>
</tr>
<tr>
<td>Foreign</td>
<td>BDT 150/minute</td>
</tr>
<tr>
<td>Postage / Mail</td>
<td></td>
</tr>
<tr>
<td>Local</td>
<td></td>
</tr>
<tr>
<td>- Registered Mail</td>
<td>BDT 75 per Document</td>
</tr>
<tr>
<td>- Ordinary Mail</td>
<td>BDT 50 per Document</td>
</tr>
<tr>
<td>- Courier</td>
<td>BDT 100 per Document</td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
</tr>
<tr>
<td>- Registered Mail</td>
<td>BDT 300 per Document</td>
</tr>
<tr>
<td>- Ordinary Mail</td>
<td>BDT 100 per Document</td>
</tr>
<tr>
<td>- Courier</td>
<td>BDT 1500 per Document</td>
</tr>
<tr>
<td>- For DC</td>
<td>BDT 2000 per DC</td>
</tr>
</tbody>
</table>

Table: 08: Charge Schedule of LC (Export)
Chapter-5
SWOT ANALYSIS

In order to analyze the performance of trade services of HSBC Bank, I have conducted a SWOT analysis through some in-depth interviewing of the target corporate customers and also some of their officers. In the process of making a SWOT, customers and employees point out some major strengths and weaknesses as well as some threats and opportunities regarding the various issues of the Bank such as –

- service level
- organizational identity
- operational competence
- technology and machinery
- Employee efficiency etc. along with many other issues.

I hope the effect of this analysis presented in next few pages can be very much helpful to evaluate the performance level of Trade Services Department of HSBC Bank as well as overall banking activities.
### Strength
- Strong corporate identity
- Distinct operating Procedure
- Distinct schedule
- Strong employee bonding and belongings
- Efficient Performance
- Young enthusiastic Workforce
- Empowered Work force
- Companionable Environment
- Equalization
- MBO
- One-to-one" meeting
- Modern equipment & technology

### Weakness
- Narrow operating span
- Absence of strong Marketing Activities
- More Innovative products must be offered
- Lack of customer confidence
- Too many contract workers
- Low remuneration Package
- Diversification
- International Credit Cards
- High Cost for Maintaining an Account
- Lack of employees
- Training facility.

### Opportunity
- Acquisition
- Distinct operating procedures
- Country wide network
- Experienced Managers
- Huge population.

### Threat
- Upcoming Banks
- Default Culture
- Similar Products are offered by other Banks
- Industrial downward trend due to recession, inflation & Unemployment.
5.1 **Strengths**

**Strong corporate identity**

HSBC is the leading provider of financial services identity worldwide. With its strong corporate image and identity it can better position in the minds of customers. This image has helped HSBC grab the personal banking sector of Bangladesh very rapidly.

**Distinct operating Procedure**

HSBC in known worldwide for its distinct operating Procedures procedure. The company's managing for Value strategies satisfy customers needs better and also keeps the firm profitable.

**Distinct schedule**

Everyone in HSBC from the appraiser to the top management has to work to the same schedule towards a different aspect of the same goal, interfacing simultaneously at all level over quite a long period of time.

**Strong employee bonding and belongings**

HSBC employees are one of the major assets of the company. The employees of HSBC have a strong sense of commitment towards organization and also feel proud and a sense of belonging towards HSBC. The strong organizational culture of HSBC is the main reason behind this strength.

**Efficient Performance**

HSBC provides hassle free customer service to its client base comparing to the other financial institutions of Bangladesh. Personalized approach to the needs of customers is its motto.

**Young enthusiastic Workforce**

The selection & recruitment of HSBC emphasizes on having the skilled graduates & postgraduates who have little or no previous work experience. The logic behind is that HSBC wants to avoid the problem of 'garbage in & garbage out'. & this type young & fresh workforce stimulates the whole working environment of HSBC.
Empowered Work force

The human resource of HSBC is extremely well thought & perfectly managed. As from the very first, the top management believed in empowered employees, where they refused to put their finger in every part of the pie. This empowered environment makes HSBC a better place for the employees. The employees are not suffocated with authority but are able to grow as the organization matures.

Companionable Environment

All office walls in HSBC are only shoulder high partitions & there is no executive dining room. Any of the executives is likely to plop down at a table in its cafeteria & join in a lunch chat with whoever is there. One of the employees has said, "It's exciting to know you may see & talk to the top management at any time. You feel a real part of things".

Equalization

At HSBC workshops are conducted periodically. On the workshops, all people participate as equals, with new members free to openly challenge top managers.

MBO

HSBC also has Management by Objectives (MBO) everywhere. Each person has multiple objectives. All the employees must have to get the approval of their bosses on what they are going to do. Later they review as how well they have performed their job with their management as well as the peer group.

One-to-one" meeting

The MBO makes the review a communication device among various groups. The key to the system is a "one-to-one" meeting between a supervisor & a subordinate. In the meeting, the problems in dealing with customers are put forward first & everyone dug it to solve them.

Modern equipment & technology

HSBC owns the best banking and information technology in Bangladesh. It ultra modern banking systems starting from terminal pc's to HUB's are based on the international HSBC group standards and are the latest. The Hexagon product is one of the best examples in this context.

Visually appealing facilities

HSBC has some of the best visually appealing branches and office premises in Dhaka & Chittagong that highly attracts customer’s attentions and customers also feel the international environment while banking with HSBC.
5.2 Weaknesses

Narrow operating span

HSBC has a very narrow operating span in Bangladesh. It has only 2 full service branches in Bangladesh situated only at Dhaka and Chittagong. Various geographic segments are currently not availing the services of HSBC due to inconvenient branch location or absence of neighborhood branches.

Absence of strong Marketing Activities

HSBC currently don't have any strong marketing activities through mass media e.g. Television. TV ads playa vital role in awareness building. HSBC has no such TV ad campaign.

More Innovative products must be offered

In order to be more competitive in the market HSBC should come up with more new attractive products. This one of the weakness that HSBC is currently passing through.

Lack of customer confidence

As HSBC is fairly new to the banking industry of Bangladesh average customers lack the confidence in HSBC and judge the bank as an average new bank.

Too many contract workers

HSBC has contract workers who lack the commitment with superior quality service and also are pretty dissatisfied as being a contract worker. This hampers the bank's service quality as a whole.

Low remuneration Package

The remuneration package for the entry level officers are considerable low. Since other foreign and local banks offer a more lucrative salary package, it will be difficult for HSBC to attract MBA’s in future with its current salary package.

Diversification

HSBC can peruse a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking or diversify in to leasing and insurance. As HSBC is one of the leading providers of all financial services, in Bangladesh it can also offer these services.
International Credit Cards

This is one of the most popular and emerging product in Bangladesh which offers customers total financial mobility. Various other banks and institutions are currently offering this product. HSBC can also take advantage of this product and grab the market share.

High Cost for Maintaining Account

The account maintenance cost for HSBC is comparatively high. This is very often highlighted by other banks. In the long run this might turn out to be a negative issue for HSBC.

5.3 Opportunities

Acquisition

HSBC is one of the experts in acquiring various firms and organizations. In Bangladesh it can also diversify quickly by acquiring various local established banks and increase its total operation within Bangladesh rapidly.

Distinct operating procedures

Repayment capacity as assessed by HSBC of individual client helps to decide how much one can borrow. As the whole lending process is based on a client's repayment capacity, the recovery rate of HSBC is close to 100%. This provides HSBC financial stability & gears up HSBC to be remaining in the business for the long run.

Country wide network

The ultimate goal of HSBC is to expand its operations to whole Bangladesh. Nurturing this type of vision & mission & to act as required, will not only increase HSBC's profitability but also will secure its existence in the long run.

Experienced Managers

One of the key opportunities for HSBC is its efficient managers. HSBC has employed experienced managers to facilitate its operation. These managers have already triggered the business for HSBC as being new in the market.
Huge Population

Bangladesh is a developing country, to satisfy the needs of the huge population, a large amount of investment is required. On the other hand building EPZ areas and some Govt. policies easing foreign investment in our country made it attractive to the foreigners to invest in our country. So, HSBC has a large opportunity here.

Weak marketing massage by local & foreign banks

The basic assumption of trade business is that customer will come to the bank and ask for service that is why local & foreign banks are not that much enthusiastic about letting know their service features. This an opportunity for HSBC to develop massages regarding their services.

5.4 Threats

Upcoming Banks

The upcoming private local & multinational banks posses a serious threat to the existing banking network of HSBC: it is expected that in the next few years more commercial banks will emerge. If that happens the intensity of competition will rise further and banks will have to develop strategies to compete against and win the battle of banks.

Similar Products are offered by other Banks

Now day’s different foreign and private banks are also offering similar type of product with an almost similar profit margin. So, if all competitors fight with the same weapon, the natural result is declining profit.

Default Culture

This is a major problem in Bangladesh. As HSBC is a very new organization the problem of non-performing loans or default loans is very minimum or insignificant. However, as the bank becomes older this problem will arise enormously and the bank may find itself in a more threatening environment. Thus HSBC has to remain vigilant about this problem so that proactive strategies are taken to minimize this problem.

Industrial downward trend due to recession, inflation & Unemployment

Bangladesh is economically unstable country. Flood, draught, cyclone, and newly added terrorism have become an identity of our country. Along with inflation, unemployment also creates industry wide recession. These caused downward pressure on the capital demand for investment.
Chapter-6
Financial Information of HSBC

6.1 **Return on Assets (ROA)**

Return on assets (ROA) is measured by the ratio of net income and total assets. By the returning assets, if the company's net income increases the profitable ratios of the company increases. The higher the ROA, the better the company is attaining. But in the years 2003 through 2006 (not Published), they have maintained a positive ROA, which indicates of good yielding of results. We can say that the managerial efficiency is pretty much satisfactory compared to the banking industry. HSBC is giving continued emphasis on quality assets, which resulted in providing a sound asset base for the bank.

![Graph of Return on Assets](image)

6.2 **Return on Equity (ROE)**

The ROE (net income divided by equity capital) is the most important measurement of banking returns as well as a company's returns because it is influenced by how well the bank has performed on all other categories and indicates whether a bank can compete for private sources of capital in the economy. HSBC has maintained significantly high ROE throughout the years of its operations.

![Graph of Return on Equity](image)
6.3 **Net Interest margin:**

Net Interest margin for the year 2004 was 3.07% and in the year 2005 was 4.44% which indicate a good sign that HSBC has gradually forcing to acquire good earnings using assets.

![Graph showing Net Interest Margin for 2004 and 2005](image)

See APENDIX-1 To Know more About The **PROFIT/LOSS ACCOUNT, BALANCE SHEET** and **CASH FLOW** of HSBC as Ended on 31\textsuperscript{ST} December 2005.
Chapter-7
Conclusion

Trade services are one of the finest departments of the HSBC because their operations are well organized and they are also the major source of profit of the Bank. The department is run by a group of professionals who are well organized and committed to the Bank. Their whole system is highly automated and does not allow for any sort of discrepancies.

Once Credit Administration Department gives input to the system regarding the L/C details of any client including L/C commission, margin, limit, Trade service Department carry out the subsequent tasks. They ask the branch to collect initial margin from the client and complete necessary documentation. What was really interesting to me is that under this type of highly automated system the branch or anyone else cannot take any undue favor. What usually happens in private commercial banks of our country is that most of the time branches open LC without head office approval and sometimes provide the client more than the limit he/she is entitled to. They often exceed overdraft limit in providing overdraft limit to the client. These things usually happen because of favoritism, etc. But at HSBC, even branch manager cannot provide any sort of extra limit or facility than the client is entitled to because their software is such that it does not allow any body to provide any facility that is not mentioned into it. Only head office can change instruction previously mentioned into the software. So if branch need to increase credit limit or any other sort of facility of any client, then they have to approach to head office and wait for approval. This allows for highest security and safety on the Bank’s behalf.

Furthermore, HSBC Bangladesh has its own banking software named HSBC Universal Banking Software (HUB) which connects their local office to their world wide offices with the capability of high speed data interchange. Various facilities such us HSBC Universal Banking software Hexagon or online banking services phone banking services, both local and foreign currency ATM cards have made HSBC Bangladesh unique compared to other foreign and local banks of our country.
Glossary of Terms

HSBC- Hongkong and Shanghai Banking Corporation
PFS- Personal Financial Services
DC- Documentary Credit
OBU- Offshore Banking Unit
FOL- Facility Offer Letter
BLC- Advance Against Import Bills
LIM- Advance Against Imported Merchandise
ATM- Automatic Teller Machine
TR- Advance Against Trust Receipt
HTV- HSBC Trade Services
HUB- HSBC Universal Banking System

References:

- HSBC Handbook, the ABC Guide to Trade Service.
- http://www.hsbc.com
- http://www.hsbc.com/about hsbc.htm
- http://www.hsbc.com/hisbc group.htm
Assessment of Letter of Credit of HSBC

The Hongkong and Shanghai Banking Corporation Limited
Dhaka Main Office:
Anchor Tower, 1/1-B Sonargaon Road, Dhaka-1205, Bangladesh
Tel: (880-2) 9660536-43
Facsimile: (880-2) 9660554
Web: www.hsbc.com.bd