

Internship Report
On

**The Correspondent Banking Business
of Financial Institution Department of
Standard Chartered Bank**

Prepared For

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Subject: BUS - 499
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Date of Submission
December 25, 2006

ACKNOWLEDGMENT

This is for partial fulfillment of the course BUS-499 (Internship) being assigned and coordinated by my honorable teacher **Dr. Tanbir Ahmed Chowdhury**. In doing this, guidance of course coordinator, practical knowledge from the work place and browses in different website have been made use of.

I could not complete this report without the help of a number of people those who helped me with their valuable suggestions. First of all, I remember blessings of Almighty Allah because of which I could complete this report in a healthy and sound mind.

Special and heartfelt thanks to my teacher, **Dr. Tanbir Ahmed Chowdhury**, who has supported me in every moment of my work and has solved my problems whenever I had.

I would also like to express my foremost gratitude to Mr. Towhidul Islam, Senior Relationship Manager, my supervisor at Financial Institution department of Standard Chartered Bank for his valuable and constant guidelines through out the internship period and kind concern and suggestion regarding career aspects and for being so flexible.

I would also like to express my gratitude to all the officials of Financial Institution Department who helped me and gave me their valuable time, for providing me with the most real information on the basis of which I have prepared this project. I am thankful to all of them for helping and guiding me.

And finally I would like to thank Standard Chartered Bank, for providing me with the opportunity to being with the world class esteemed organization as a part of my Internship.

I also thank our families and friends who have gave me to this stage in my life and who have always supported me all the time.

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Letter of Transmittal

December 25, 2006

Dr. Tanbir Ahmed Chowdhury

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Dear Sir:

Here is the internship report on "The Correspondent Banking Business of Financial Institutions department of Standard Chartered Bank". I am very much pleased to submit the report which is pivotal requirement for the completion of BBA program from East West University. The report is a result of my practical work that I have conducted during specified time of internship. All the works presented here is done with utmost sincerely and honestly.

The whole experiences of this report writing enable me to bridge the gap between the theoretical knowledge and practical knowledge. I am grateful to you for providing such an opportunity and also grateful to all the persons who help me to make it possible.

I have tried my best to make this report holistic and informative enough. Besides this, there may be shortcomings. I would be grateful if you consider those from excusable point.

Sincerely yours

Helena
25-12-06

Helena Binte Hashem
ID: 2003-1-10-028


EXECUTIVE SUMMERY

Standard Chartered bank has a history of more than 150 years and it is well-established in growth markets and aims to be the right partner for its customers. As the part of my internship requirement I had chance to drill with their various banking services. This report is a clustered format of Standard Chartered Bank's innovative Financial Institutions Department oriented products. In the report entitled "The Correspondent Banking Business of Financial Institutions Department of Standard Chartered Bank"- have tried exclusively to emphasize on SCB's Financial institutions Department elaborately. This report is divided into ten major parts.

En the first part, there is overall presentation of report origin, objective, scope, and methodology, limitations that I faced in preparing the report. In the second part, there is the pre-history of SCB, historical background of Standard Bank and the Chartered Bank are take place.

In the third part of the report I focused on the SCB in Bangladesh. How many branches it has at this country, the historical background of those banks which SCB acquire are explained here. This part is also contain the mission, value, strategic intend, band promise and commitment to stockholders.

Fourth part of the report consists of analysis of financial ratios and growth of performance parameters of Standard Chartered Bank I have tried to bring out year wise growth trend of assets, loans and advances and deposits under. In the fifth part, there is a detailed focus on the Financial Institution Department (FID) of SCB, its nature, establishment of new correspondent relationship, organogram, as well as the detailed descriptions of its products.



The process of export and import and the documents needed for this process are described in details at part six. In part seven, I enclosed a group work which we prepared for FI Department of SCB. This part focused on the wallet size of Asian Clearing Union (ACU) account.

As a part of my internship work, I did a survey on the clients of SCB for finding the satisfaction level of them as well as the quality of the service of the SCB. This is in chapter eight. In chapter nine I tried to find out the problems of SCB's FI department. Then I give recommendations and conclusion at chapter ten which is the last part of this report.

The Correspondent Banking Business of Financial Institution Department of Standard Chartered Bank



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Chapter 1



Introduction

1.1 Introduction

With the advent of the 21st century, globalization and consolidation, amongst the multinational and foreign companies are making their impact in the third world economy including that of Bangladesh. To address this ever increasing competition, Bangladeshi financial institutions and other companies and firms gearing themselves in order to meet challenges both locally as well as internationally.

Due to globalization and expansion of international Business, finance plays the major roles for the economic development. The development of a modern economy would not have been possible without the use of money. A fundamental characteristic of money is that it is like a collective commodity. There is a parallel relationship between the money and banking. Bank is an important and essential financial institution for the necessity of the use of money and the protection of the money.

At the very arena of globalization and technological innovation, banking business has become more competitive. To cope up with this, bankers should have vast theoretical knowledge and professional skill as well as technical basis. As a BBA student, with major in finance, I felt bank is my destiny to gather practical knowledge. With a view to develop skilled professional in banking area, East West University has undertaken the internship-training program for its BBA students. As a partial and essential requirement of the BBA degree, on authority's instruction I have selected the Standard Chartered Bank, one of the very old banking institutions doing business in this part of Indo-pak sub-continent for having practical exposure in Banking, especially in the correspondent banking for three month internship program.

It would not be out of place to mention here that during the course of the program I had to face and undergo several exercises. Before going to the main report I must confess that with the given limited time it would not at all be possible to cover the whole activities of the 150 years old bank and its total business portfolio. In preliminary survey I could find that there are 11 departments in the bank (Organization Chart is at Chapter - 3) of which, in my opinion The Financial Institution Department is the most vital and knowledge generating department. It always remains busy, among others with Letter of Credits (L/Cs) issues by different banks and receives by the beneficiary banks both local and foreign and thereby ensures financial transactions, ad confirmations, help bill negotiations, resolve disputes, etc.

1.2 Origin of the report

This report is a requirement of BBA Internship Program and includes experiences during internship. Internship report contains Intern's experience with the host organization and also gives the Intern an opportunity to know the host organization and its business. This report is about the Correspondent Banking Business of Standard Chartered Bank in Bangladesh as the host organization is the same and the interns were assigned to work in Financial Institution Department (FID) of this host organization.

1.3 Rationality of the study:

From the various department of Standard Chartered Bank Financial Institution Department is one of the efficient departments. The main activities of this department are to maintain the correspondent business with other banks which are the customer of FID of Standard Chartered Bank. Correspondent business means to perform the foreign trade activities. The sales executives of this department collect L/C [local and international] from other client banks. Then they process those L/C and advice, negotiate, give confirmation etc. After the expiry of the date of the L/C this department transfer fund to other related bank. For example: SCB London, Mumbai, National Bank of Pakistan etc. After that, those banks send the fund to beneficiaries account. FID's has no relationship with the applicant and the beneficiary. They just maintain relationship with the other banks who are the customer of SCB's FI Department.

1.4 Objective of the study:

1. **To preset an overview of Standard Chartered Bank (SCB):** The main objective of the study is to evaluate the performance of the Standard Chartered Bank and to have an overall idea on how it operates and what functions it does.
2. **To apprise the activities of Financial Institution department (FID):** Another objective of the study is to apprise the activities of Financial Institution Department (FID) of SCB, getting knowledge about the products and services of this department and how much efficiently this department can serve to its customers (Other Banks).

3. **To apprise the financial performance of SCB and FID:** Analyzing the growth of SCB's assets, deposit, loan and advance and operating income, as well as analyzing the ratio of its like: return on equity, return on assets, net profit margin etc is the objective of this report. Also analyzing the financial performance of FID is the objective of this report.

4. **For customer survey:** The customers of Financial Institution Department are other banks which deal with export import business. So, another important objective of this study is to survey the satisfaction level on the service provided by the FI Department of SCB.

1.5 Scope of the Report:

The scope of the report was to find the satisfaction level of the customers of Financial Institution Department of Standard Chartered Bank . In addition, the report was done to find the function of this department as well as the effectiveness of its activities, qualities of various services of it. Further more, the report also focused on the financial analysis of SCB in Bangladesh. The scope of this report is also emphasized by a survey report prepared by taking sample of 17 banks and by finding out their satisfaction, problems, commends etc.



1.6 Methodology of the Report

1.6.1 Sample Information

Samples are collected from the customers (Other Banks) of SCB's Financial Institution Department. Here, the samples had been picked up on a judgmental basis. For the organization part, much information had been collected from different published articles, journals, brochures and web sites. All the information incorporated in this report has been collected both from the primary sources and as well as from the secondary sources.

1.6.2 Primary Source of Data

Collecting data directly from the practical field is called primary source of data. The methods that were used to collect the primary data are as follows:

1.6.2.1 Observation Method:

Observation method may be defined as systematic viewing according to concise Oxford Dictionary "accurate watching, nothing of phenomena as they occur in nature with regard to cause and effect and mutual relationship". I have observed many of the activities of Financial Institution Department.

1.6.2.2 Interview Method:

The face-to-face interview was taken, where one person-the interviewer, asks the respondent (in my case, "one employee from any other bank"), questions designed to obtained answer pertinent to research problems. In order to get the real information and data about the Financial Institution Department's Services, I went to different bank and took interview directly.

1.5.2.3 Other Primary Sources are:

- Discussion with officials of SCB
- Face to face conversation with the clients.
- Questionnaire Survey (Attached in the Appendix)
- Discussions with customers over the telephone & responding to their query.

1.6.3 Secondary Sources of Data

The secondary data has been collected from the MIS of Standard Chartered Bank. To clarify different conceptual matters, internet and different articles published in the journals & magazines have been used.

Secondary Sources are:

- Annual Reports of SCB
- Annual Reports of Asian Clearing Units (ACU)
- Annual Publication of Export Promotion Bureau
- Other published documents of SCB.

1.6.4 Data Collection

Both secondary and primary data are used for preparing this report. But the research was mainly based on the customer survey (Survey on 17 Banks). Information was collected directly from the customers who are directly dealing with the Financial Institution Department of Standard Chartered Bank. Printed questionnaires and personal interviews are treated as the main instruments for data collection. In many times, the telephonic interview was handy for collecting data.

1.7 Sample Frame of the Study

The populations are the clients of the Financial Institution Department of Standard Chartered Bank and they were the sample frame. This department has thirty Six (36) clients out of which seventeen (17) have been selected on random basis. The educational qualification of the sample population ranged from Bachelor's to Masters Degree.

1.8 Limitations

- ⌘ Respondents were reluctant to respond while conducting the survey.
- ⌘ Limitation of time was one of the most important factors that shortened the present study. Due to time limitation many aspects could not be discussed in the present study. Due to time constraints, the sample size had to be restricted to 17 only.
- ⌘ Confidentiality of data was another important barrier that was confronted during the conduct of this study. Every organization has their own secrecy that is not revealed to others. While collecting data at Standard Chartered Bank, personnel did not disclose enough information for the sake of confidentiality of the organization.
- ⌘ As, I had more dependence on the primary sources, so there might be some level of inaccuracy with those collected information. Though, adequate verification and cross-checking was used, to minimize the error level.
- ⌘ Above all, this internship report was prepared just after starting my first job at SCB. So, it was very hard for me to accommodate time for preparing this report. Mostly, our office timings at SCB are from early morning till 8 p.m. During office hours it's simply hard to manage time for working with the report. And, working with the report after regular office hours is quite hectic.

Chapter 2



BACKGROUND OF STANDARD CHARTERED BANK

2.1 An Overview

Standard Chartered Bank, a British bank incorporated in 1853, is one of the world's well-known international banks. It is currently operating in six regions: Europe, Africa, Middle East and South Asia (MESA), South East Asia, and America and group activities are concentrated in Asia, Africa and the Middle East. Standard Chartered is well established in growth markets and aims to be the right partner for its customers. The Bank combines deep local knowledge with global capability. This Bank is trusted across its network for its standard of governance and its commitment to making a difference in the communities in which it operates.

2.2 HISTORICAL BACKGROUND

Standard Chartered Bank was formed through the merger in 1969 of two British overseas banks: the Standard Bank of British South Africa and The Chartered Bank of India, Australia and China.

2.2.1 Historical Background of the Chartered Bank

Chartered Bank is the older bank of India. It was started in 1853 following the grant of a Royal Charter from Queen Victoria. The moving force behind the Chartered Bank was a Scot, James Wilson, who made his fortune in London making hats. James Wilson went on to start *The Economist*, still one of the world's pre-eminent publications.

The Chartered Bank opened its first branches in 1858 in Chennai and Mumbai. A branch opened in Shanghai that summer beginning Standard Chartered's unbroken presence in China. The following year the Chartered Bank opened a branch in Hong Kong and an agency was opened in Singapore. In 1861 the Singapore agency was upgraded to a branch which helped provide finance for the rapidly developing rubber and tin industries in Malaysia. In 1862 the Chartered Bank was authorised to issue bank notes in Hong Kong. Subsequently it was also authorised to issue bank notes in Singapore, a privilege it continued to exercise up until the end of the 19th Century.

In Asia the Chartered Bank expanded opening offices including Myanmar in 1862, Pakistan (Western part of India now) and Indonesia in 1863, the Philippines in 1872, Malaysia in 1875, Japan in 1880 and Thailand in 1894. Some 34 years after the Chartered Bank appointed an agent in Sri Lanka it opened a branch in 1892 to take advantage of business from the tea and rubber industries. During 1904 a branch opened in Vietnam. Both the Chartered and the Standard Bank opened offices in New York and Hamburg in the early 1900s. The Chartered Bank gaining the first branch license to be issued to a foreign bank in New York.

Chartered Bank affected by the war as well as with natural calamity. Disaster struck the Chartered Bank's office in Yokohama, Japan, when it was destroyed by an earthquake in 1923 killing a number of staff. The Chartered Bank was particularly affected by the Second World War when numerous Asian countries were occupied by Japan.

In 1948 the Chartered Bank opened in Bangladesh (erstwhile East Pakistan) and during 1957 it acquired the Eastern Bank. The Eastern Bank gave the Chartered Bank a network of branches including Aden, Bahrain, Beirut, Cyprus, Lebanon, Qatar and the United Arab Emirates. The Chartered Bank also entered into a joint venture to form the Irano-British Bank which opened for business in 1959. The bank grew rapidly and had 24 branches when it was nationalised in 1981.

2.2.2 Historical Background of the Standard Bank

In 1862, the Standard Bank was founded by a group of businessmen led by another Scot, John Paterson, who had immigrated to the Cape Province in South Africa and had become a successful merchant. Both banks were keen to capitalize on the huge expansion of trade between Europe, Asia and Africa and to reap the handsome profits to be made from financing that trade.

The Standard Bank opened for business in Port Elizabeth, South Africa, in 1863. It pursued a policy of expansion and soon amalgamated with several other banks including the Commercial Bank of Port Elizabeth, the Colesberg Bank, the British Caffarian Bank and the Fauresmith Bank. The Standard Bank was prominent in the financing and development of the diamond fields of Kimberly in 1867 and later extended its network further north to the new town of Johannesburg when gold was discovered there in 1885. Over time, half the output of the second largest goldfield in the world passed through the Standard Bank on its way to London. In 1892 the Standard Bank opened for business in Zimbabwe, and expanded into Mozambique in 1894, Botswana in 1897, Malawi in 1901, Zambia in 1906, Kenya, Zanzibar and the Democratic Republic of Congo (D.R.C.), in 1911 and Uganda in 1912. Of these new businesses, Botswana, Zanzibar and the D.R.C. proved the most difficult and the branches soon closed. A branch in Botswana opened again in 1934 but lasted for only a year and it was not until 1960 that the Bank re-opened for business in Botswana.

Even the First World War offered opportunities for expansion when the Standard Bank set up a branch in Tanzania shortly after British troops occupied the formerly German administered Dares Salaam in September 1916.

By the mid 1950s the Standard Bank had around 600 offices in Southern, Central and Eastern Africa. Its network grew substantially in 1965 when it merged with the former Bank of British West Africa which had some 60 branches in Nigeria, 40 branches in Ghana and eleven branches in Sierra Leone in addition to operations in Cameroon and Gambia. Despite these acquisitions and expansion into new countries such as Mexico, South Korea and Oman (1968).



2.2.3 Starting of Standard Chartered Bank

Both the Standard and Chartered Bank networks were comparatively small. Both viewed the future with some trepidation as the need to protect themselves from acquisition became ever more apparent. Standard Chartered PLC In 1969 the decision was made by the Standard Bank and the Chartered Bank to undergo a friendly merger thus forming Standard Chartered PLC. It was one year later that the descendants of the "Chartered Bank of India, Australia and China" were finally permitted to open a representative office in Sydney, Australia. Standard Chartered subsequently acquired the UK based Hodge Group, in which it already had a minority shareholding, and the Wallace Brothers Group. The Hodge Group brought to Standard Chartered an extensive network of UK offices specializing in installment credit and industrial leasing, and after a period of rationalization its name was changed to Chartered Trust Limited. Standard Chartered's operations in Jersey emerged from the integration of other Hodge Group businesses with those of Wallace Brothers Bank (Jersey), Limited.

Standard Chartered decided, after the merger, to expand the Group outside its traditional markets. In Europe a number of offices were opened including Austria, Belgium, Denmark, Ireland, Spain and Sweden as well as several major cities in the UK. Standard Chartered also opened offices in Argentina, Canada, Colombia, the Falkland Islands, Panama and Nepal. In the USA a number of offices were opened and three banks were acquired. These included the Union Bank of California which gave Standard Chartered a presence in Brazil and Venezuela. The opening of a branch in Istanbul in 1986 was overshadowed by a far more dramatic event when Lloyds Bank of the UK made a hostile take-over bid for Standard Chartered. Standard Chartered won its right to remain independent but entered into a period of considerable change.

By the late 1980s Standard Chartered already had considerable exposure to third world debt. To this were added provisions against loans to corporations and entrepreneurs who could not meet their commitments. Standard Chartered reviewed its operations and decided to focus on its core strengths of Consumer



Banking, Corporate & Institutional Banking and Treasury in its well established operations in Asia, Africa and the Middle East. This led to a series of divestments notably in Europe, the United States and Africa. During this time staff numbers were reduced; businesses not considered core were sold or closed; associate holdings disposed of; unprofitable branches closed and back office functions consolidated. In addition expensive buildings were sold with the proceeds reinvested in the business, and the senior management team was radically changed and strengthened.

Even within this period of apparent retrenchment Standard Chartered expanded its network, re-opening in Vietnam in 1990, Cambodia and Iran in 1992, Tanzania in 1993 and Myanmar in 1995.

In 1998 Standard Chartered concluded the purchase of a controlling interest in Banco Exterior de Los Andes (Extebandes), an Andean Region bank involved primarily in trade finance. With this purchase Standard Chartered now offers full banking services in Colombia, Peru and Venezuela. In 1999, Standard Chartered acquired the global trade finance business of Union Bank of Switzerland. This acquisition makes Standard Chartered one of the leading clearers of dollar payments in the USA. Standard Chartered also opened a new subsidiary, Standard Chartered Nigeria Limited in Lagos, acquired 75 per cent of the equity of Nakornthon Bank, Thailand; and agreed terms to acquire 89 per cent of the share capital of Metropolitan Bank of the Lebanon.

On April 15, 2005, the bank acquired Korea First Bank, beating HSBC in the bid, since when the branches have been rebranded as SC First Bank. Standard Chartered Bank is one of the three banks issuing banknotes for Hong Kong, the other two being the Bank of China (Hong Kong) and the Hongkong and Shanghai Banking Corporation. On 28 March 2006, Singapore-based Temasek Holdings acquired the 11.55% share of Standard Chartered owned by the estate of the late billionaire Khoo Teck Puat. Temasek Holdings did not disclose the terms of purchase; it was sold for £2.3 billion or US\$4 billion. Before the acquisition, Temasek owned 0.07% of ordinary shares directly and indirectly; the acquisition makes it the largest shareholder in the British-based bank.

Today the bank is a leading player throughout the developing world. Ranked 5th globally. As of 2006, the bank employs 44,000 people encompassing 89 nationalities across 1,200 locations, in more than 50 countries in Asia, Africa, UK and the Americas.

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:

FIGURE 2.1: COUNTRY CLASSIFICATIONS OF SCB



Large: United Kingdom, USA and Hong Kong SAR/Mainland China.

Definition

More than one million personal clients
Sustainable earnings greater than US\$200 million

Business Focus

Concentrated Group resources on wealth management
Be a top 10 player in any market / region served
Develop cross selling, loyalty programs and value added products

Major: Argentina, Canada, India, Malaysia, Kingdom of Saudi Arabia, Singapore and United Arab Emirates.

Definition

Sustainable earnings between US\$100-200 million

Business Focus/Rationale

Universal bank's (personal, corporate and investment banking with domestic business)
Platforms for international Group business
Next generation of "large" companies
Stable self funding entities
Onshore HQ

International: The Rest of the World**Definition**

Earnings below US\$100 million

Business Focus/Rationale

Platforms for international Group business
Limited domestic presence
"Nursery" for developing management
Tomorrow's Major Businesses
Supported by offshore HQ

Table 2.1: Establishment of Standard Chartered Bank around the world

Country	Year Established	Country	Year Established
United Kingdom	1853	Australia	1964
China, India, Sri Lanka	1858	Mexico, Oman	1968
Hong Kong, Singapore	1859	Peru	1973
Indonesia,	1863	Jersey	1978
Philippines	1872	Brazil	1979
Malaysia	1875	Venezuela	1980
Japan	1880	Falkland Islands, Macau	1983
Zimbabwe	1892	Taiwan	1985
The Gambia, Sierra Leone, Thailand	1894	Cameroon	1986
Ghana	1896	Nepal	1987
Botswana	1897	Vietnam	1990
USA	1902	Cambodia, South Africa	1992
Bangladesh	1905	Iran	1993
Zambia	1906	Colombia	1995
Kenya	1911	Laos, Argentina	1996
Uganda	1912	Nigeria	1999
Tanzania	1917	Lebanon	2000
Bahrain	1920	Cote d'Ivoire	2001
Jordan	1925	Mauritius	2002
Korea	1929	Turkey	2003
Qatar	1950	Afghanistan	2004
Brunei, UAE	1958		

With multifarious experience and legacy of few decades SCB has to spend a very little time and energy to fight with the competitors leaving extra advantage of looking after communities in general and the customers in particulars with special attention.



Chapter 3



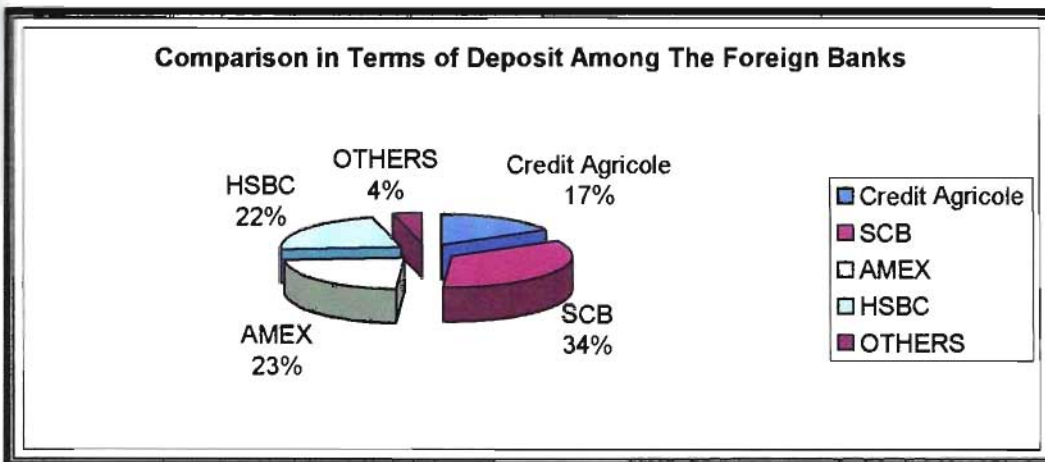
Standard Chartered in Bangladesh

Introduction

The Chartered Bank opened in Chittagong in 1948, which was, at that time, the eastern region of the newly created Pakistan. The branch was opened mainly to facilitate the post-war re-establishment and expansion of South and South East Asia. The Bank opened its first branch in Dhaka in 1966 and shifted its headquarter from Chittagong to Dhaka after the birth of the Republic of Bangladesh in 1971.

At present the Bank has ten branches in Dhaka, it also have one offshore banking unit inside the Dhaka Export Processing Zone at Savar, one branch in Narayanganj, three branches in Chittagong, one branch in Khulna, one branch in Sylhet, one branch in Bogra. In the year 1999 Standard Chartered has acquired the operation of Grindlays Bank in the Middle East and South East Asian countries. Former Grindlays Bank started its journey in Bangladesh in 1905 under the name of Grindlays Bank (when it forbears the National Bank of India opened in Chittagong). Standard Chartered Bank took-over the operation of ANZ Grindlays Bank in Bangladesh as a part of acquisition of the South East Asian and Middle East operation of the Australia and New Zealand Banking Group.

Graph 3.1



3.2 Branches of SCB:

After acquisition, Grindlays Bank is a part of Standard Chartered Group. The Bank presently has 18 outlets in 5 cities serving over 125,000 customers. The network of SCB Bank in Bangladesh includes:

10 Branches in Dhaka city

1 Branch in Savar EPZ (recently started with full banking operations)

1 Branch in Narayanganj

3 Branches in Chittagong

1 Branch in Khulna

1 Branch in Sylhet.

1 Branch in Bogra

Recently the bank opened a new branch in Bogra to reach out the in northern part of the country .The network of SCB engage itself for providing best quality banking service in retail, commercial and corporate banking segments. The countries top Enterprises; Multinational, Local Corporation and Financial institutions are served by SCB. With total asset based of BDT 17.5 billion and annual turnover of BDT 1.78 billion, SCB in Bangladesh is among the top performing multinational bank.

3.3 History of Grindlays Bank

Captain Grindlays established Grindlays and Company with partner in 1828. The name was changed to Grindlays Christian and Mathew's in 1839, which again changed to Grindlays and company in 1853. The first branch was opened in India at Church Lane, Kolkata in 1854 and the other Indian branches autonomous from London were opened by Grindlays and company in 1864. They were acquired by National Provincial Bank Limited in 1924. National Bank of India acquired Grindlays and Company in 1858 and begun to operate as National and Grindlays Limited.

3.4 Acquisition of ANZ Grindlays Bank by Standard Chartered Bank

In August 2000, the US \$1.34 billion acquisition of Grindlays Bank was completed. This made the Standard Chartered Bank the leading international bank in India and the other countries of South Asia. The acquisition strengthened the Group's competitive position in Middle East and brought to the group a respected private banking business.

Standard Chartered Bank has taken the advantage of the expansion opportunities. Buying Grindlays from ANZ now propel it from number five to number one among international banks in India, with some choice extra footholds in the Middle East. This acquisition of Grindlays Bank has added 6000 employees and 4 countries to Standard Chartered Bank's existing network of 7000 employees and 570 offices in 50 countries. The end result is that Standard Chartered Bank, which went into the 1997 Asian crisis with strong business in Hong Kong, Singapore and Malaysia, emerges with additional core markets in India and Thailand.

The deal has made Standard Chartered Bank the largest foreign bank by assets in India, Pakistan and Bangladesh and the second largest in Sri Lanka and United Arab Emirates.

In September 2000, the group agreed to acquire Chase's Hong Kong consumer banking business for US\$1.32 billion, which makes Standard Chartered Bank the leader in Hong Kong cards. At that time it was also announced that the chartered Trust had been sold to Lloyds TSB for 627 million pounds.

Until September 2002, both Standard Chartered and Standard Chartered Grindlays operated under the same management but as separate entities. With effect from September 2002, the merger was completed and Standard Chartered Bank started operating as single entity.



3.5 Acquisition of AMEX in Bangladesh

Standard Chartered Bank has signed an Agreement to acquire the commercial banking business of American Express Bank Limited in Bangladesh.

AMEX started its business in Bangladesh in 1966 by opening its first branch in Dhaka with a capital of BDT 20 million. Subsequently, the second branch was opened in 1967 in Chittagong; third branch was opened in 1999 in Dhanmondi and the fourth branch was opened in 2004. AMEX also has four booths in Dhaka and Chittagong as well as an in-branch offshore Banking Unit opened in 2001 to serve the export oriented businesses.

In Bangladesh, American Express' operations include commercial banking, correspondent banking, foreign exchange services and consumer banking. Its operation also includes Financial Institutions and Travel Related Services, but these are not part of the acquisition of AMEX business in Bangladesh.

3.5.1 A few reasons for acquiring AMEX:

- Good deposit base
- Good corporate clientele
- Attractive talent pool
- Branch licenses
- Defensive strategy

In May, SCB received a NO-OBJECTION-CERTIFICATE to proceed with the EPA from the Bangladesh Bank and have since signed an Agreement with AMEX. Standard Chartered Bank plans to migrate AEBL customers to SCB over a three month Transition Period starting August 01, 2005. From November 01, 2005 all AMEX customers can visit SCB branches. The acquisition will add 3 branches, and 3 booths to the existing network.



Table 3.1 SCB at a Glance

Name of the Organization	Standard Chartered Bangladesh LTD.
Year of Establishment	1948.
Head Office	Motijheel, Dhaka 1000, Bangladesh.
Nature of the organization	Multinational company with subsidiary group in Bangladesh.
Capital	Paid up capital: TK 4380 million Deposit – Tk 4,980 million Advance – Tk 3,255 million
Shareholders	SCB group shareholders
Products	Shown in detail
Management	Chief Executive Officer Chief Operating Officer Manager, Personal Financial Services Head of Corporate Banking Manager, Human Resources Manager, Marketing
Number of Offices	18 (10 in Dhaka, 3 in Chittagong and 1 in each of these places Savar, Sylhet, Khulna, Bogra and Narayanganj.)
Number of ATM's	25
Technology	Offers full online banking from branch to branch and also from Dhaka to Chittagong.
Service Coverage & Customers:	Serves individual and corporate customers within Dhaka & Chittagong.

3.6 Number of Employees of SCB:

Standard Chartered is one of the world's most international banks, with employees representing 80 nationalities. Standard Chartered employs 38,000 people in 950 locations in more than 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas.


3.7 Function:

It serves both Consumer and Wholesale Banking customers. Consumer Banking provides credit cards, personal loans, mortgages, deposit taking and wealth management services to individuals and small to medium sized enterprises. Wholesale Banking provides corporate and institutional clients with services in trade finance, cash management, lending, securities services, foreign exchange, debt capital markets and corporate finance.

Over the following decades both the Standard Bank and the Chartered Bank printed bank notes in a variety of countries including China, South Africa, Zimbabwe, Malaysia and even during the siege of Makeking in South Africa. Today Standard Chartered is still one of the three banks that print Hong Kong's bank notes.

3.8 Mission Statement

3.8.1 Mission

- To Consistently help the customers make Intelligent Financial Choices.
 - By being the Preferred provider of the Highest Quality services in the Chosen business areas, Relevant to all the Constituencies...
 - By being a Workplace of Choice that fosters Excellence, builds Intellectual Network and results in Absolute Professionalism.
- 

SCB Values

The values of Global SC and thereby our SCB too is as follows:

- **Responsive**

We believe in putting customers at the heart of our business. We spend time listening to our customers to understand who they are and how they operate to anticipate their needs. We recognize for our friendliness, and we go out of the way to make colleagues and customers feel at home. We empower our employees to deliver great service, through enabling them to take decisions which positively impact our customers. Our people take personal ownership for our dealings with customers, are knowledgeable about what we do and promise only what we know we will deliver. We understand that all employees are different, and have unique talents and individual needs.

- **Trustworthy**

It is our people who set us above other organizations through their unique ability to build trusted relationships with all stakeholders. Trustworthy is about meaning what we say, being able to explain our actions, doing what we promise and being consistent in our approach. It means that we know how we will be treated and that there are no surprises. It requires us to be direct and honest in our dealings. We trust people to make the right decisions and trust them to act accordingly. Team success is as critical as individual success in achieving our business goals. Trust and integrity are the foundations for working together as one Bank in supportive and productive teams.

- **Creative**

We encourage employees who can see a better way of doing things to contribute their ideas. The quality of our people and the diversity of our backgrounds means that we have an infinite capacity for fresh ideas and alternative solutions. We seek to tap this creativity. We are courageous enough to allow employees to take

considered risks, recognising that creativity comes from experimentation rather than limiting our thinking to the tried and tested. We believe in setting clear expectations, but give our people the freedom to achieve their goals in the way that is best determined by their individual talents.

- **International**

We respect the local communities where we do business, and share their aspirations to build long-term security and prosperity. We know we can make a difference to the lives of others through sponsorship of community projects and by encouraging employees to actively participate in local programmes. We thrive on the diversity of our people and the breadth of thinking their experience brings. We offer a meritocracy, where people are valued and recognised for their contribution, rather than their backgrounds. We believe in working as “one Bank” across all geographies and businesses, providing a seamless relationship to our customers. We uphold consistent ethical standards wherever we operate.

- **Courageous**

We encourage our people to take measured risks to deliver improved results for all our stakeholders. Where this results in mistakes, we seek to learn from our experience, to build better long-term solutions. We endeavour to create an environment where employees feel confident in expressing their views in the knowledge that these will be valued, even where they run counter to prevailing thinking. We are prepared to give open and constructive feedback and take tough decisions to continually improve our performance. The support we provide to employees gives them the courage to develop their talents and skills so they can make a difference, and the confidence to achieve challenging goals.



SCB Value Proposition

With SCB, one gets financial values, convenience of accessing account through wide range of channels and expert advice from our Relationship Managers who strive to make banking with SCB a pleasurable experience.

SCB provides comprehensive corporate banking solutions through dedicated teams to ensure top quality service.

- Lending products and trade finance
- Structured finance including local currency, syndications, private placements, international project finance, structured project finance etc.

SCB provides spot and forward foreign exchange service including tailored hedging products for corporate and financial institutions.

SCB integrated cash management solutions provide:

- Online fund transfer between all metropolitan cities.
- Efficient collection mechanisms at different outstation points.
- Secured electronic payment mechanism at over 100 location across the country.
- Innovative and competitive deposit products.
- Web based electronic banking services
- Prompt distribution of inward remittance at competitive rates.
- Mobile banking.

3.8.4 Strategic intent

The strategic intent of the company is as follows:

The world's best international bank

Leading the way in Asia, Africa and the Middle East.

3.8.5 Brand promise

The Right Partner –

Leading by Example

3.8.6 Corporate Governance Mechanism

Approach

Management Discipline

Balancing the pursuit of growth with firm control of costs and risks.

3.8.7 Participation

Focusing on attractive, growing markets where we can leverage our customer relationships and expertise.

3.8.8 Competitive Positioning

Combining global capability, deep local knowledge and creativity to outperform our competitors.



ESG Commitment to Stakeholders

Customers

Passionate about its customers' success, delighting them with the quality of our service

Our people

Helping its people to grow, enabling individuals to make a difference and teams to win

Communities

Trusted and caring, dedicated to making a difference

Investors

A distinctive investment delivering outstanding performance and superior returns

Regulators

Exemplary governance and ethics wherever they are.





Organization Structure of SCB Bangladesh

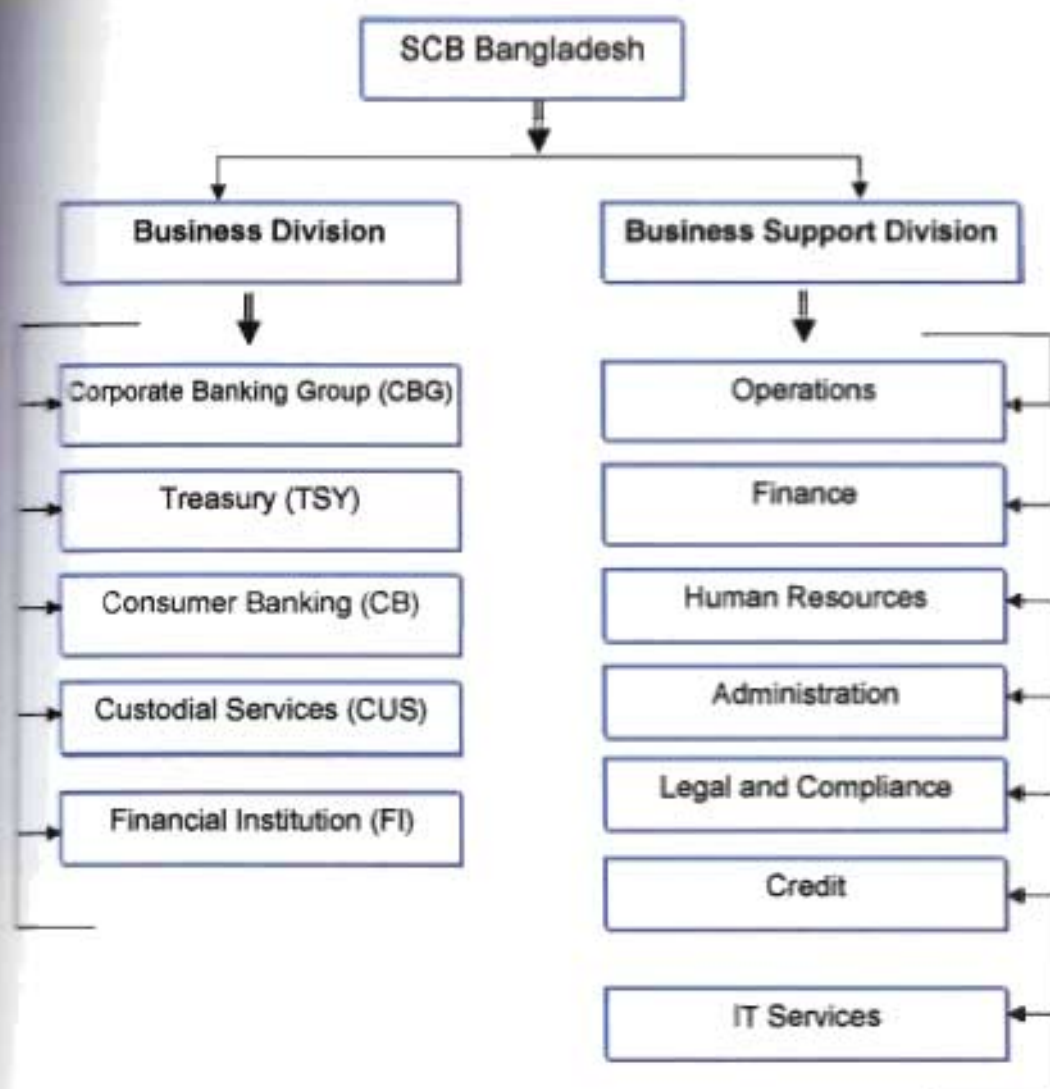
SCB Bangladesh operates with a functional structure with sufficient flexibility to reap the benefit of matrix system of organizational structure. The functional structure that relies on grouping of people on the basis of common expertise and experience allows ample opportunity to become more specialized and productive by doing the same work repeatedly and over long exposure to the work.

At SCB, the functional structure is applied with a great deal of flexibility. That is, the bank intends to shrug off the demerits of the functional structures by implementing certain flexibility and allocation of authority that enables it to reap the benefits of matrix structure. This process at SCB is achieved by greater automation of the process by using of computer technology and forming of cross-functional teams to develop new products and improve the quality of the services or address specific operational problems.

SCB in Bangladesh can be broadly divided into two functional areas: Business Division and Business Support Division. These two divisions can be divided in to some sub-division which is shown below:



Fig 3.1 : Organization Structure of SCB Bangladesh



3.9.1 Business Division

The business division has the following departments:

- **Corporate Banking Group (CBG):** This department deals with company deposits and loan services, trade services, financial institution services.
- **Treasury (TSY):** This department deals with money market investments, foreign exchange services, corporate sales, syndicated loans etc.
- **Consumer Banking (CB):** This department deals with individual deposits and loan services, credit card services, branch networks, credit and collection etc.
- **Custodial Services (CUS)**
- **Financial Institution (FI)**

3.9.2 Business Support Division

The support division consists of the following departments :

- **Operations:** This department deals with the processing activities of the business departments.
- **Finance:** This department deals with the financials of the organization and reporting.
- **Human Resources:** As the name indicates, this department deals with the people of the organization.



- **Administration:** This department ensures the smooth running of the organization by providing logistic support, etc.
- **Legal and Compliance:** This department deals ensures compliance with the local (country) and group regulations.
- **Corporate Affairs:** The corporate affairs department deals with issues like social responsibility, sponsorship etc.
- **Credit:** This department is responsible for credit rating and approvals of corporate clients.
- **IT Services:** This department ensures the smooth running of the huge SCB information network and security issues.

Chapter 4



Financial Analysis

4.1 Growth in Deposits

Table 4.1 : Total Deposit

(BDT)					
Current and Other A/C	Bills Payable	Savings Deposit	Term Deposit	Other Deposit	Total
13,716,398,303	769,656,086	16,562,411,974	14,706,470,700	11,277,485,605	57,032,422,668
10,277,358,361	496,937,448	15,452,287,532	13,505,687,735	9,357,676,989	49,089,948,065
8,189,093,733	1,275,399,455	12,387,637,939	15,607,812,770	8,007,800,002	45,467,743,899

Over the last three years SCB's total deposits under different accounts have increased significantly. Here in the above table we see term deposits decreased in 2004 than the preceding year. Savings deposit has increased at higher rate than that of Current deposit, which implies lower risk of liquidity crisis and higher potentials for long-term investment. This might be the reason that the Bank could earn increased net-interest incomes in the year 2004 even with less Loans and Advances in that year over previous year.

Table 4.2 : Growth in Deposit

(BDT)		
Year	Total Deposit	Growth Rate
2005	57,032,422,668	16.18%
2004	49,089,948,065	7.97%
2003	45,467,743,899	25.47%

The overall deposit growth rate was positive over the three years and it was highest in 2003 among the three years and 16.18% in 2005.

What follows are the analysis of financials of SCB for 3 consecutive years that is 2003, 2004 and 2005. However in calculating growth and comparing figures statistics we have considered the published financial reports where in figures of 2002 were also considered as bench mark.

4.2 Growth in Loans and Advances

Table 4.3 : Growth in Loans and Advances

(BDT)		
Year	Loans and Advances Amount	Growth Rate
2005	40,488,655,214	6.18%
2004	34,131,739,989	-2.82%
2003	39,239,421,188	32.89%

The figure shows that the growth rate was positive in 2003 over 2002 and 2005 but negative in 2004. But if we consider the corresponding deposit, interest income etc for the same period it seems to be a bit unusual. However, the rate increased to 6.18% in 2005.

4.3 Growth in Assets

Table 4.4 : Growth in Assets

(BDT)		
Year	Total Asset	Growth Rate
2005	72,989,604,245	16.69%
2004	62,547,942,384	9.01%
2003	57,376,039,295	9%

The asset growth trend was consistent over last three years under review. The growth rate showed a significant rise in the year 2005 that is about 17% as against 6% growth of loans and advances. It implies that increase of non-operating asset might be higher than Loan and Advance. Total assets of SCB increased from Tk. 57,376,039,295 in 2003 to Tk. 72,989,604,245 in the year 2005.

4.4 Operating Income

Table 4.5 : Total Operating Income

(BDT)

Year	Net Interest Income	Income from Investment	Commission, Exchange & Brokerage	Other Operating Income	Total Operating Income
2005	3,144,814,537	954,322,477	2,283,347,265	1,314,371	6,383,798,650
2004	2,804,788,210	749,055,946	1,901,620,905	318,761	5,455,783,822
2003	2,571,423,331	578,878,705	1,732,293,287	549,973	4,883,145,296

The total operating income stood at Tk. 6,383,798,650 during the year 2005 which is 17% higher than the previous year. It is an indication of increased efficiency for the bank. On the Table, we find year wise changes of operating incomes from different sources. Over the years net interest income shows steady increase, income from investment also increased considerably while commission, exchange and brokerage income increased significantly but at a lower pace. The stream of income shows better qualitative performance over the period.

Ratio Analysis

Return on Equity (ROE)

ROE = Net Income / Shareholders Equity

Table 4.6 : Return on Equity

(BDT)

Year	Net Income	Shareholders Equity	ROE
2005	2,879,241,028	8,769,360,197	32.83%
2004	2,483,554,006	6,325,101,188	39.27%
2003	1,953,674,738	4,582,908,961	42.63%

The figure shows that the rate of change of Return on Equity (ROE) declined to 32.83% in 2005 from 42.63% in 2003. The ratio declined because the rate of growth of equity was much higher than the rate of growth of net income. It can be inferred that Standard Chartered Bank retained this amount in order to increase investment and thus income from it.

Return on Assets (ROA)

ROA = Net Income / Total Asset

Table 4.7 : Return on Assets

(BDT)

Year	Net Income	Total Asset	ROA
2005	2,879,241,028	72,989,604,245	3.94%
2004	2,483,554,006	62,547,942,384	3.97%
2003	1,953,674,738	57,376,039,295	3.41%

The figures for ROA were almost similar over the three years. The ratio slightly increased in 2004 and did not improve in the next year. The total asset increased to TK 72,989,604,245 in 2005 from Tk. 57,376,039,295 in 2003 but the net income did not increase that much. That is the rate of increase of net-income could keep pace with that of assets leaving less scope for leverage.

4.7 Net profit Margin

Net profit Margin = Net profit after tax / Total operating Income

Table 4.8 : Net Profit Margin

Year	Net Profit After Tax	Total Operating Income	Net Profit Margin (BDT)
2005	2,879,241,028	6,383,798,650	45.10%
2004	2,483,554,006	5,455,783,822	45.52%
2003	1,953,674,738	4,883,145,296	40.01%

The ratio reflects effectiveness of expense management and cost control. The net profit margin of standard Chartered Bank is quite good and showing steady increasing trend. It increased from 40.01% in 2003 to 45.52% in 2004 and remained almost same in 2005.

4.3 Net Bank Operating Margin

Net Bank Operating Margin

$$= (\text{Operating Income} - \text{Operating Expenses}) / \text{Total Asset}$$

Table 4.9 : Net Bank Operating Margin

Year	Operating Income	Operating Expenses	Total Asset	Net Profit Margin (BDT)
2005	6,383,798,650	1,980,343,961	72,989,604,245	6.03%
2004	5,455,783,822	1,484,863,933	62,547,942,384	6.35%
2003	4,883,145,296	1,358,282,373	57,376,039,295	6.14%

The ratio says how effectively management is running its operations by using assets to generate income and expenses. The ratio increased slightly in 2004 but could not show a significant growth in the next year 2005. The ratio 6.03% in 2005 can be due to the higher growth of total asset from 2004 to 2005.

Keeping in view the above financials and analysis thereof it can grossly be stated that the Banks financial performance remains almost steady although the activities of the Banking Industry in Bangladesh by a large increased quite significantly. Being a veteran and well experience player of Bangladesh financial market Standard Chartered Bank has more potential to broaden its scope and thereby increase financial performance.

Chapter 5



**Financial Institution Department
(FID)**

5.1 Introduction

Standard Chartered Bank has an established presence in Asia for almost 150 years and has an extensive network throughout the region. And it has build up a wealth of experience in the servicing and financing of trade for both local corporate customers and number of correspondent banks. Financial Institution Department (former Institutional Ranking) commenced its business from 1995. Financial Institution is a specialized banking unit of **Standard Chartered**, providing products and services to the specific needs of other banks and financial institutions.

Financial Institution department assists the local banks by taking care of their cross- border business through the worldwide Standard Chartered Bank networking over 40 countries. FL markets Trade and Payment products through its strong Global Network. Within a short span of time FI has tremendously increased its market share in Bangladesh. At the end 2005 FI has expanded relationship with 35 local banks and managed approximately 50% of market share.

5.2 Nature of Business

The department offers a variety of financial products to the banks and financial institutional clients like L/C Confirmation, Negotiation, Inter and intra Bank Guarantee, Local Bill Discounting, L/C Advising, L/C Transfer, L/C amendment advising, Reimbursement Undertaking and Authorities, Fund Transfers, Export proceeds, Account Services (Vostro Account Management). The department also provides services under trade finance to its customers. This includes choice of correspondent banks for advising in L/C, confirming and negotiating services in export and import business.

5.3 Establishment of new correspondent relationship

FI-Bangladesh is responsible for promoting correspondent banking tie-ups with local banks and financial institutions with a view to maximizing the overall revenues globally from each relationship. That's why 'Agency Arrangement' are generally initiated by relationship managers (RM's) of FI-Bangladesh. Consideration is given to account profitability, reputation of the customer and future growth prospect of the relationship before establishing any agency arrangement.

Agency arrangement means establishment of correspondent relationship between two separate banks situated in two different countries. Agency arrangement is established in order to channelise foreign exchange transactions of the two banks under the arrangement with ultimate goal to ease and promote the business of the banks, in broader sense, of the two countries involved. Common business transactions done through agency arrangement are-

- **Establishment of L/C**
- **Collection Items**
- **L/C Reimbursement**
- **Add Confirmation of L/Cs**
- **Credit Lines etc.**

While approving the setting up of a new correspondent relationship with another institution, it is the responsibility of the local FI RM to confirm the bona fide existence and regulated status of the concerned institution. After receiving a formal request from the customer, an assigned RM negotiates the terms & conditions with the prospective customer. These agreed terms and conditions are then incorporated in the agency agreement, which also outlines the modus operandi of the arrangement.



Following documents are also collected from the customer which are kept in safe custody by FI-Bangladesh:

- **Copy of Bank's License.**
- **Article and Memorandum of Association.**
- **Certificate of Incorporation.**
- **Copy of the Statute.**
- **List of authorized signatories (Signature Booklet).**

The signature booklets are also distributed to major SCB branches after consulting with the customer. FI, RM may waive the need to obtain any one of the above documents if he is otherwise satisfied about the credentials of the new correspondent. Telegraphic test Keys and SWIFT Authenticator Keys (BKE) are to be established once agency arrangements are finalized. FI-Bangladesh will request Agency Arrangement, London to issue Text keys or swift Authenticator Keys for mutual use and to forward keys directly to the customer.

5.4 INCOTERMS

The word INCOTERMS means International terms. The main purpose of these 'Incoterms' is to provide a set of international rules for the interpretation of some most commonly used trade terms so the possibilities of different interpretations of those terms in different countries can be avoided. These terms have been prepared named by the International Chamber of Commerce (ICC) Paris, France and was first introduced by the ICC in the year 1936. After that several amendments and additions of the Incoterms were made by the ICC to cope with the changes in the world related international trade. The ICC has revised present Incoterms in 2000, known as Incoterms 2000.



5.5 Use of SWIFT

SWIFT means Society for Worldwide Inter-bank Fund Transfer. SCB uses their own SWIFT to serve the local bank needs. For example: a customer which is a bank or any other financial institution can maintain a Vostro account and can remit fund through the network of SCB's branches and correspondent banks. Group branches and subsidiaries provide full clearing and payment services in the UK, USA, Hong Kong and in other far East Asian regions. Such worldwide payments and receipts are facilitated by SWIFT system.

5.6 The key products of Financial Institution Department are divided into two categories

Risk Products

- L/C Confirmation
- Negotiations
- Inter and intra Bank Guarantee
- Local Bill Discounting

Non-Risk Products

- L/C Advising
- L/C amendment advising
- Reimbursement Undertaking and Authorities
- Fund Transfers
- Export proceeds
- Account Services



Description of Products:

5.6.1 RISK PRODUCTS:

5.6.1.1 L/C Confirmation

When the beneficiary or the seller receives the letter of credit from the issuing bank he wants to be sure that he must get paid after delivering the goods. In this case the seller wants the confirmation of payments from the advising bank. Standard Chartered Bank, when acts as an advising bank gives the add confirmation to the seller that this letter of credit is authenticate and the payments will be made after full filling all the terms and conditions of the letter of credit, so Standard Chartered is prepared to add its confirmation to the letter of credits advised through its network, subject to credit and country limits being available.

5.6.1.2 Negotiation

As the letter of credit is a freely negotiable financial instrument, any bank in the seller's country can be a negotiating bank. Negotiation of a letter of credit mean after delivering the goods to the buyers and full filling all the terms and conditions of the letter of credit, the seller presents the documents to a bank, like Standard Chartered. Then, it will examine all the documents as per the letter of credit. If the documents are correct and up to date the negotiating bank pays the seller or its like just purchases the documents from the seller. Standard Chartered advising and negotiation fees for each market are based on local practices and applicable regulatory guidelines. This is subject to periodic review and revision.

5.6.1.3 Inter and Intra bank guarantee

By this risky product Standard Chartered gives facilities to both the local and international corporate customers. This types of inter and intra bank guarantees gives the buyers a certainty over receiving pre-agreed payments if a suppliers fails to meet its contractual obligations. Standard Chartered's Financial Institution Banking issues guarantees and advance payments guarantees against counter guarantees received from correspondent banks worldwide.

5.6.1.4 Local Bill Discounting

Standard Chartered understands the working capital needs of a company and offers Discounting of letter of credit at when a seller gets an usance or deferred letter of credit from a buyer, the seller may wants to get the money for acquiring goods in advance or production cost earlier than the credit expires.

Standard Chartered Bank's Financial Institution banking offers discounting of bills of exchange/drafts that have been accepted by the letter of credit issuing bank under local letter of credit, master export letter of credit. By this type of service Standard Chartered facilitates the manufactures or suppliers to manage their cash flow more effectively and get access to bank easy finance.

5.6.2 Non-Risk Products

5.6.2.1 L/C Advising

When a corporate customer process a letter of credit from a local bank favoring the buyers in the different country the letter of credit has to be advised to the sellers or beneficiary. It means after the contract between the buyer and seller, the buyer issues a letter of credit from his bank to the seller's bank to notify that he wants to buy the goods. But, in this case the seller's bank does not know the buyer's bank. When the buyers and sellers are in the different countries, the risk of the non-payment is high and the authenticity of the letter of credit also major issue.

In this situation international or global banks or any other nominated banks, like Standard Chartered Banks takes the responsibility to advise the letter of credit to the sellers or seller's bank. The beneficiary receives the letter of credit promptly and the authenticity is checked though the seller can start the process to deliver the goods right in time to the buyers.



5.6.2.2 L/C Amendment

Parties involved in a L/C, particularly the seller and the buyer can not always satisfy the terms and conditions in full as expected due to some obvious and genuine reasons. In such a situation, the credit should be amended.

In case of favorable credit, it can be amended or cancelled by the issuing bank at any moment and without prior notice to the beneficiary. But in case of irrevocable credit, it can neither be amended nor cancelled without the agreement of the issuing bank, the confirming bank (if any) and the beneficiary. Amendment of a L/C is required for the following reasons:

- i) If the value of the L/C has been increased or decreased.
- ii) If the expiry date of the L/C has been extended
- iii) If the name of reimbursing bank mentioned wrongly, etc.

5.6.2.3 Reimbursement Undertaking and Authorities

On the other side the buyer is also concern that when and how to pay the seller. Letter of Credit Reimbursement helps the buyer simplify a complex trade finance problem; how to settle payment when the issuing bank is not a correspondent of the beneficiary bank. When the sellers opens a letter of credit, incorporate a reimbursement instruction into the terms of the letter of credit allowing a beneficiary bank anywhere in the world to claim payments from the Standard Chartered branches in the country where the issuing bank has established its account relationship.



When the buyer uses a letter of credit along with that simply send a separate reimbursement Authorization to Standard Chartered to effect reimbursement, preferably in a written paper. Standard Chartered Bank offer the flexibility to stipulate an exact or an approximate amount, as well as choosing whether the claim may or may not be restricted. On the receipt of a claim from any bank from the beneficiary, Standard Chartered will be processed on the day received or on the following day depending on the agreement.

5.6.2.4 Fund Transfers

Fund transfer is a non-risk product which helps the buyers and sellers to settle their payments intensely according to the letter of credit directly to the beneficiary's account any where in the world. Standard Chartered continuous link service gives customers to send their funds in any where in the world at any time.

5.6.2.5 Export proceeds

To an exporter it is very important to keep control over his goods until he is confident enough that he is going to receive payments from the buyers or importers. Standard Chartered Export proceeds collection service take charge of the process document transfer adding greater whole transaction.

In this process Standard Chartered will collect all the documents from the exporter and arrange for them to be held at the exporter's disposal during the transaction period. Once the process is complete Standard Chartered will liaise with the buyer's bank on behalf of the exporter, arrange the documents to be transfer to that bank and collect the payment.



5.2.6 Account Services

F.I offers the full range of services available under Trade Finance to its customers. The Standard Chartered Bank network in China, the Far East, the Middle East, the Indian sub-continent, Africa, UK and USA makes SCB the natural choice of correspondents for advising, confirming, and negotiating their letters of credit in these territories. Standard Chartered Bank maintains two accounts for fulfilling its purpose:

i) Vostro Accounts

Financial Institution Department, Bangladesh maintains Vostro Accounts of banking and financial institutions worldwide, customer maintaining such account can remit funds throughout the country through the Standard Chartered Bank branch network as well as through- Chartered Bank's local correspondent relationships.

ii) Nostro Accounts

In order to increase and promote the correspondent banking business worldwide, F.I uses Nostro accounts to Bangladeshi banks and financial institutions in almost all spanning the Standard Chartered Bank global network. Group branches and sides provide full clearing and payment services in the UK, USA, Hong Kong, Malaysia, Singapore and many African countries. Worldwide payments services are facilitated by a network of branches supported by electronic cash management (available in select locations), fund transfer system and membership of SWIFT.



5.7 Operational Process of Products


5.7.1 Issuing a Letter of Credit

Before issuing a L/C, the buyer and seller located in different countries, concludes a 'sales contract' providing for payment by documentary credit. As per requirement of the seller, the buyer then instructs the bank-the issuing bank-to issue a credit in favour of the seller (beneficiary). Instruction/Application for issuing a credit should be made by the buyer (importer) in the issuing bank's standard form. The credit application which contains the full details of the proposed credit, also serves as an agreement between the bank and the buyer. After being convinced about the 'necessary conditions' contained in the application form and 'sufficient conditions' to be fulfilled by the buyer for opening a credits the opening bank then proceeds for opening the credit to be addressed to the beneficiary.

5.7.2 Reimbursement Authorities:

Reimbursement authorisation means an instruction or authorisation, independent of the credit, issued by an Issuing Bank to a Reimbursing Bank to reimburse a claiming Banker if so requested by the issuing bank, to accept and pay a time draft drawn on the reimbursing Bank. Infact, FI of Standard Chartered Bank Dhaka acts as a corresponding banks of Reimbursing Bank i.e. Standard Chartered Bank, New York. Performing as the corresponding bank of Reimbursing Bank (SCB, New York), the FI of SCB, Dhaka, acts on the instruction and under the authority of the Issuing Bank.

In case of Reimbursement Authority, these should be a reimbursement claim from the Claiming Bank to the Reimbursing Bank (SCB, New York). Except as provided by the terms of its Reimbursement undertaking, a Reimbursing Bank (SCB, New York) is not obligated to honour a Reimbursement Claim.



Local bank's branches in Bangladesh send reimbursement authorizations (RAs) to FI Unit at Dhaka. These RAs are either collected by nominated courier service or sent directly by the branch. On many occasions FI peon collects RAs from branches of customer banks.

All RAs are to be signed by two authorized signatories of the concerned bank branch. Signatures appearing in the RAs are to be verified by any Group Signatory using Authorized Signature Booklet of the banks and/or List of Authorized Signatories received from branches.

RAs should contain L/C number, L/C Expiry, Amount, Charges, the account to be debited and in some occasion the name of the claiming bank. Prior to process/forwarding, FI clerk checks these details and in case of any clarification, contacts the concerned branch.

As it is a legal requirement that all Reimbursement Authorisations and Reimbursement Amendments must be issued in the form of an authenticated tele-transmission that's why RAs are usually sent to respective network offices by Swift/Telex. RAs are sent through swift MT 799. RAs are also sent by courier.

5.7.2.1 Processing of RA:

Where RAs are sent by Courier

Where courier service is used for onward transmission of RAs:

Original copies are sent to receiving group office e.g. SCB NY, Attn. Trade Reimbursement Dept. And copies are retained for future reference.

Where RAs are sent by SWIFT :



- FI- ops clerk prepares the reimbursement authority in MT 1999 on behalf of the local bank.
- FI-Ops officer verifies the message.
- Any of the Relationship Managers authenticates & sends the message.
- The following morning FI receives the original/copies of the SWIFT message.
- Clerk sends a copy of the message to the concerned bank.
- Another copy of the transmitted message is filed along with the original RA received from the local bank.

Where RAs are sent by Telex

- Having completed the above, clerk prepared an authority on behalf of the local bank.
- Clerk takes a print out of the message, checks and puts his initial on the print-out. At the same time he also saves the file in a diskette for communications room.
- Manager / RM FI checks the print-out against instructions received and puts his signature in full on the print out and sends the same to communications room for dispatch.
- Communication room authenticates and dispatches the RA message.
- The following morning FI receives the original copy of the dispatched message and ensures it agrees with the original instruction. Checking clerk/officer initials the copy.
- Clerk sends a copy of the message to the concerned bank.
- The original transmitted copy is filed along with the original RA received from the local bank.

5.7.3 Fund Transfer

Fund Transfer or payment Instruction means an instruction issued by an Issuing Bank to a Reimbursement Bank to debit its respective account directly on the value date mentioned in it. Payment services are facilitated by this product of FI. In case of fund transfer there need not to be claimed. On the value date the instruction of the issuing bank is executed.

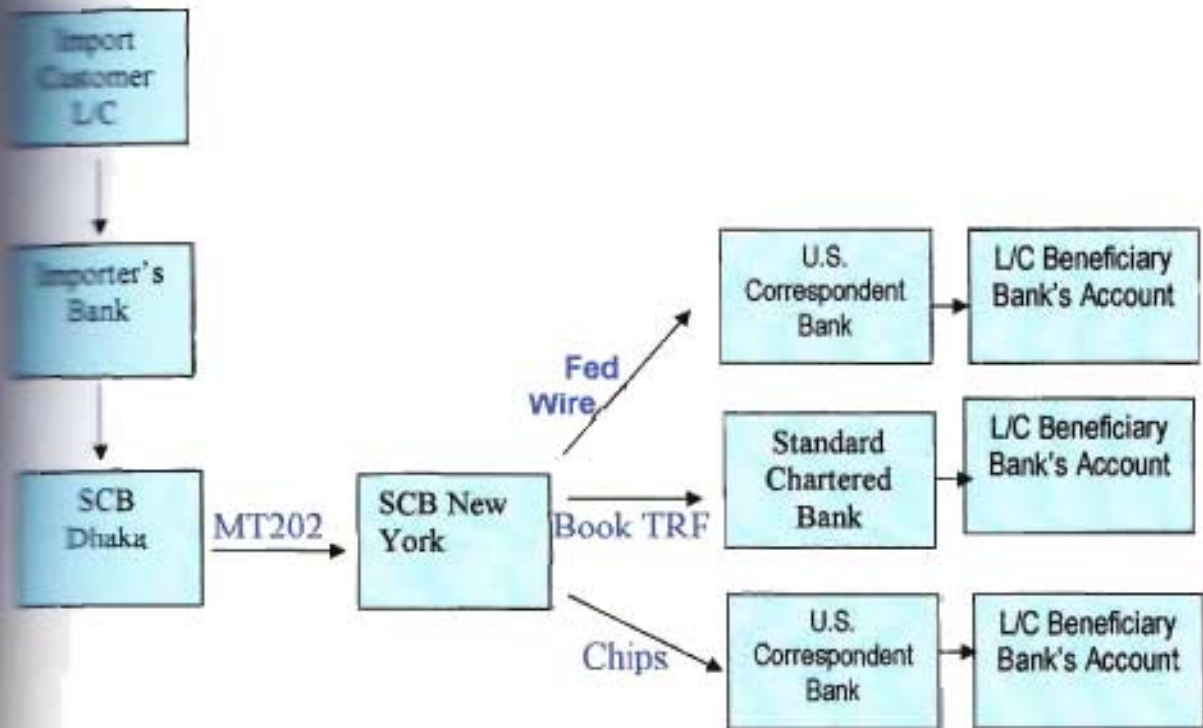
Local banks branches in Bangladesh send Fund Transfer (FT) Instructions to FI Unit at Dhaka. These FTs are either collected by our nominated courier service or sent directly by the branch. On many occasions FI peon collects FTs from branches of customer banks. All FTs are signed by two authorized signatories of the concerned bank branch. Signatures appearing in the FTs are to be verified by any FI-Ops Staffs using Authorized Signature Booklet of the banks and / or List of Authorized Signatories received from branches.

The FTs contain L/C number, Amount, Value date, Beneficiary details, Ordering customer, Charges, the account to be debited etc. FI clerk checks the FTs for all these details and in case of any incomplete information/clarification, he/she contacts the concerned branch. Any subsequent amendments are made through an authorized signatory of the concerned bank and this is further verified at our end. Having completed the above clerk inputs the Fund Transfer-Connect paying particular attention to the amount, currency, value date and other beneficiary details.



TRANSACTION FLOW

Table 5.1 : Transaction Flow of Fund Transfer



5.7.3.1 Processing of Fund Transfer

Where FTs are sent by SWIFT

- The FTs are inputted in SWIFT format MT 202
- FI-Ops officer verifies the message
- Any of the Relationship Managers authenticates the message and sends it.
- The following morning FI receives the original/copies of the swift message.
- Clerk sends a copy of the message to the concerned bank.
- Another copy of the transmitted message is filed along with the original FT Instruction received from the local bank.

Where FTs are processed by Telex

- After inputting details clerk takes a printout of the same, checks and puts initial on the computer print-out.
- At the same time he also saves the file in a diskette.
- FI-Ops Officer checks the printout against instructions received and puts his signature in full on the printout and sends the same to communications room.
- Communications room authenticates and dispatches the FTs to the receiving bank e.g. SCB NY, Attn. Fund Transfer Department.
- Original FT Instructions received from customer banks are retained at FI Dhaka.
- Transmitted copy of FTs are checked against the original copies, signed by FI-Ops officer and retained at FI Dhaka.
- A duplicate copy is sent to the concerned bank branch originating the FT.

5.7.4 L/C Confirmation

A confirmation of a Letter of Credit is a conditional undertaking given by the Confirming Bank to the Beneficiary (Exporter), to pay or negotiate/accept Bills of Exchange (Drafts), if the stipulated documents are presented to the Confirming Bank in Compliance with the terms and conditions of the L/C such confirmation, authorised by the Issuing Bank, Constitutes a second, separate conditional guarantee of payment from the confirming Bank to the Beneficiary. In this regard SCB only consider adding its confirmation to irrevocable Documentary L/Cs. Here silent confirmation is not considered by SCB, Dhaka.

As Beneficiary wants to be more secured that's why it wants confirmation from SCB centre. At this point Trade Approval System (TAS) arise. To get confirmation, the Beneficiary at the counter of SCB Centre request them to add its confirmation so that he/she could be more secured SCB centre then raises TAS and sends it to SCB, Dhaka for approval. TAS is a formal electronic application for approval which contains all the details of a particular documentary credit SCB, Dhaka, at its counter approve TAS by considering some quantitative & qualitative factors.

5.7.5 Transaction Process

On receipt of the instructions to confirm a letter of credit, the processing unit must ensure that:

The letter of credit is authentic.

- Sufficient Product limits are available in the name of the Issuing Bank and Country-including any tolerance allowed with regards to amount.
- The terms of the L/C are clear and unambiguous.
- Clarification is sought immediately from the Issuing Bank where necessary.
- The reimbursement instructions are clear and concise.
- The beneficiary agrees to the payment of confirmation fees (when they are for his account). This is particularly important in certain Asian markets.

When forwarding the confirmed letter of credit to the beneficiary, it is critical that the amount confirmed and the period of confirmation is clearly stated. In cases where discrepancies are found in documents under a usance Confirmed L/C, which are subsequently accepted by the Issuing Bank, SCB must:

- Obtain approval from the original approving units to extend the confirmation period if appropriate (e.g. the L/C has expired or the amount has exceeded); or
- Consider whether it still wishes to extend the confirmation period. If not, the L/C beneficiary must be advised that SCB's confirmation has fallen away at the same time as they are advised that the Issuing bank accepts the discrepancies.



5.8 Risk

The main purpose of a Confirmation is to remove the Bank and Country Risk associated with the transaction from the beneficiary, with the Confirming Bank undertaking these risks. A Confirmation also gives the beneficiary the opportunity to obtain non-recourse, post-shipment finance against compliant documents. Accordingly, the exporter should request the establishment of an irrevocable, Confirmed Documentary Letter of Credit.

The main risks that (SCB) undertakes with this product are summarized as follows:

5.8.1 Country Risk

This is the risk that SCB undertakes on the country of the L/C Issuing Bank once the Credit has been issued and confirmed.

Formal approval of the associated Bank and Country risks must always be obtained from the centre(s) responsible for providing such approvals prior to the customer being advised that SCB has added its confirmation to the transaction.

Exposure should be booked as a contingent liability against the Issuing Bank and Country in question. The ability to confirm our own branch paper has always been presumed to be implicit, due to the fact that a branch issued the letter of credit in the first instance, and consequently the Bank would stand behind the paper.



5.8.2 Bank Risk

This is the risk that SCB undertakes on the L/C Issuing Bank once the L/C has been issued and confirmed.

Confirmation of a sight L/C is considered lower risk than confirming a usance L/C of similar value, similar total duration and issued by the same Issuing Bank.

5.8.3 Operational Risk

The key operational risks are :

Where SCB is the Confirming Bank it has a duty to check the documents and ensure their conformity with the L/C; in other words, SCB is exposed to Documentary risks, and any payment effected is "without recourse" to the beneficiary once SCB certifies the documents as clean. Procedures for handling the checking of documents must be in accordance with existing operational processes and internal guidelines.

There is a risk that a Confirmation could be issued without approval when approval is required. All Service Delivery areas must ensure that approval to confirm L/Cs is requested and obtained on case by case basis in accordance with laid down procedures and relevant Group Instruction Circulars.

5.8.4 Credit Risk

SCB's obligor under this program is the accepting bank SCB normally has no recourse to the corporate customer, except in the event of fraud alteration of bills etc. Transactions should reflect the nature/size of the customers business and the terms of trade. Local practice should be to introduce nominal credit ceilings for borrowing customers but these should not be advised to customers. For non-borrowing corporate customers, the value of "Accepted draft" per transaction must not to exceed USD 250, 000. Any exceptions must be approved by the SCO.

5.8.5 Market Risk

There may also be a basis risk due to movements between the reference rate for interest charges for the product and the bank's actual cost of funds (eg Prime/inter bank spread etc.). The product should, wherever possible, be match funded to remove this risk.

5.8.6 Other Risk

SCB also faces inherent risk when it adds confirmation to a L/C where the reimbursement clause states that the Issuing Bank only agrees to reimburse the Confirming Bank to receipt of compliant documents at its own counters. SCB can choose either not to confirm, or confirm the L /C subject to conditions agreed with the beneficiary.

If the Confirming Bank fails to spot any adverse terms or ambiguous clauses in the L/C, the Bank may not be able to obtain payment from the Issuing Bank. Therefore, the Confirming Bank should ensure that the L/C is scrutinized for any ambiguities before Confirmation is agreed.



5.9 Performance Analysis

5.9.1 Export

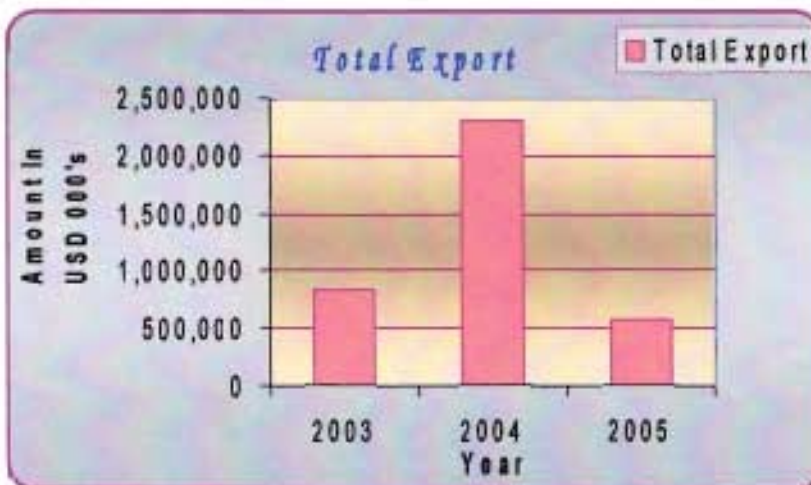
Table 5.2 : Total Export

	USD		
USD's	2003	2004	2005
Total Export	837,520	2,302,234	567,321

Source: Trade Service Department of SCB

The above table shows the export amount in US\$ for 2003, 2004 & 2005. The export business showed a much better performance in 2004 and the total export was US\$ 2,302,234. But the next year 2005 the amount decreased to US\$ 567,321.

Graph 5.1 : Total Export



The above graph shows the total export business in amount US\$. The amount of export increases significantly to US\$ 2,302,234 in 2004. The graph shows that 2005 figure reduced drastically and high inflation in many developing countries through currency depreciation and greatly affected the export business.

5.9.2 Import

Table 5.3 : Total Import

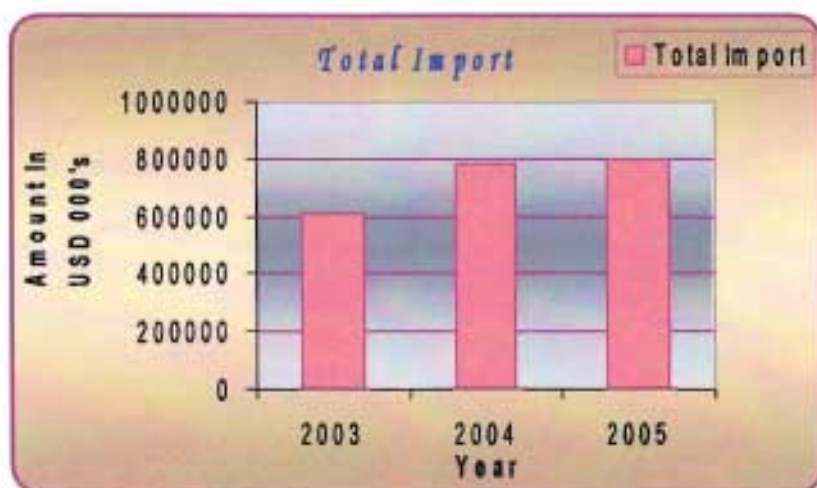
USD

Year	2003	2004	2005
Total Import	612,406	782,347	797,365

Source: Trade Service Department, SCB.

The above table shows the yearly import amount in USD imported by the local Bangladeshi importer through Standard Chartered Bank for the year 2003, 2004 & 2005. The total import has increased over three year's period.

Table 5.2 : Total Import



The graph shows that there is an increasing trend in the import business over the three periods. The total rose to US\$ 782347 in 2004 from US\$ 612406 in 2003. The figure increased slightly for the next year 2005 but could not show a significant growth. And the positive trend of the import growth throughout the period is satisfactory.

5.3.3 Comparison between Export & Import

Table 5.4 : Comparison between Export & Import

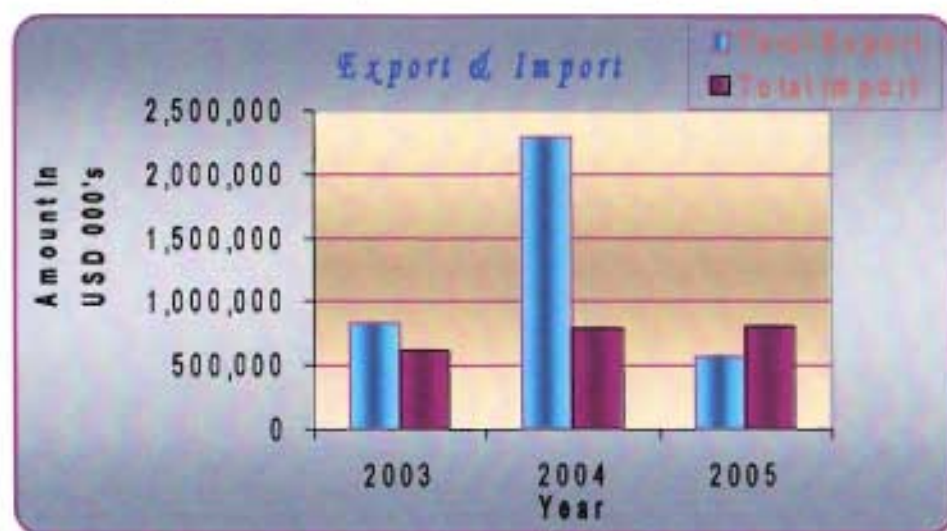
USD

Year	2003	2004	2005
Total Export	837,520	2,302,234	567,321
Total Import	612,406	782,347	797,365

Source: Trade Service Department, SCB.

The above table shows the data for both export and import amount for Standard Chartered Bank. From the table we can compare the figures for import and export and for a better look the following graph depicts the figures for the past three years.

Graph 5.3 : Comparison between Export & Import



The graph shows that the year 2004 has a much better performance than other two years 2003 and 2005. The export for 2004 was the highest among the three years but in 2005 the amount has fallen drastically. The performance for export was quite well compared to the import. The import figure did not fall or rise drastically but showed a positive trend over the three years. And we can say that the global trade service of Standard Chartered Bank works quite efficiently.

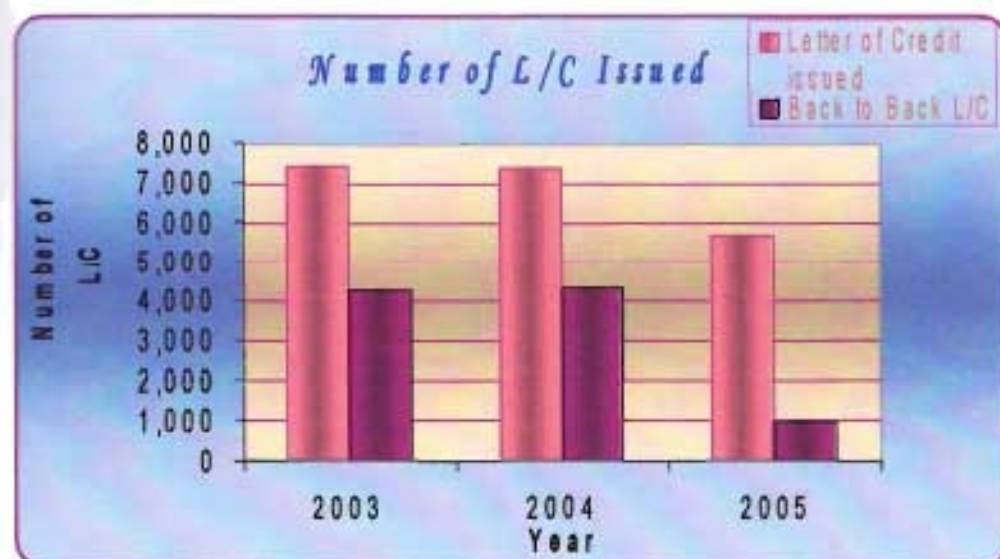
5.9.4 Number of L/C issued

Table 5.5 : Number of L/C Issued

	USD		
Year	2003	2004	2005
Letter of Credit issued	7,440	7,411	5,681
Back to Back L/C	4,239	4,283	929

Source: Trade Service Department, SCB.

Graph 5.4 : Number of L/C Issued



The above table showed the number of L/C issued and back to back L/C in the year 2003 to 2005. From the table and graph we can see that the issuance of total number of L/C is decreasing through the year 2003 to 2005. At the year 2003, the bank had 7440 L/C issued but the figure significantly dropped to 5681 at the end of the year 2005. In that issued L/C the part of back to back L/C issued is almost half of the total L/C issued in 2003 and 2004 and number of back to back L/C issued dropped significantly in 2005.

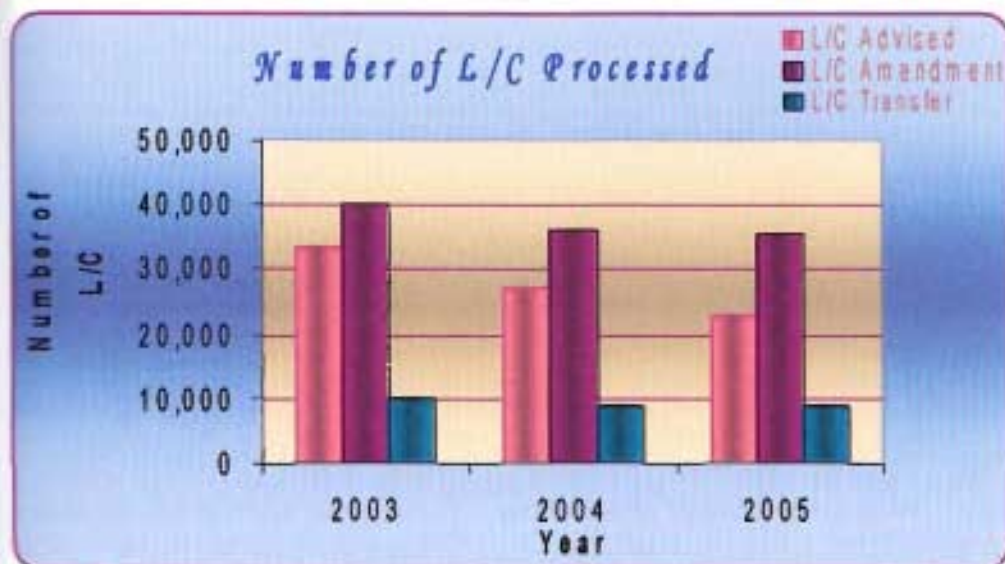
5.5 Number of L/C processed

Table 5.6 : Number of L/C Processed

Year	2003	2004	2005
L/C Advised	33,534	27,470	22,936
L/C Amendment	39,963	36,046	35,400
L/C Transfer	10,075	8,745	8,699

Source: Trade Service Department, SCB.

Graph 5.5: Number of L/C Processed



The graph shows the categories for processing letter of credit by Standard Chartered Bank. From the graph we can see the proportion of amendment and of L/C compared to the total number of L/C advised. The number of L/C amendment is very high because of various changes in the L/C's terms and conditions like change of name & address of beneficiary, data of shipment, quantity of goods etc.

Chapter 6



Financing Foreign Trade

1.1 Importance of International Trade

International trade involves a flow of goods from seller to buyer in accordance with a contract of sale. It is the exchange of goods and services between peoples of different countries.

1.1.1 Reasons for international trade is as follows:

- **Uneven resources distribution:** different countries have different amounts of natural resources, while other might have not. Therefore, countries need to exchange goods to satisfy mutual needs and wants.
- **The lack of self-sufficiency:** each country can obtain those goods that each alone can not produce or obtain the resources or materials to turn them into finished products.
- **Specialization:** the need for trade will arise because a country cannot survive with only one kind of goods (specialization goods).
- **Economic principal of comparative advantage:** it is mutually beneficial if each country specializes in producing the goods which is gas a greater advantage and obtains those goods from other countries that it cannot produce cheaply at home.
- **Differences in the demand of goods among countries:** some countries, which are producers of certain goods, still have to import the same goods from abroad. This may due to insufficient supply locally to meet the strong demand for the goods.

Risks in International Trade

Risks associated with international trade are as follows:

Risk of goods, Fraud, Credit risk, Risk of foreign exchange, Differences in legal systems among countries Differences in political systems among countries, Economic divergence. The political and economic condition in one country may deteriorate etc.

6.1.4 The role of Banks in Enhancing International Trade:

- **Provision of advances:** The provision of finance to importers (e.g. negotiation of export facility, documentary credit facility) and exporters (e.g. negotiation of export bills, purchase of bills for collection) encourages enterprises to engage in trade and enhances their liquidity position.
- **Provision of alteration payment methods:** Importers may not accept the payment of cash in advance, which gives exporters the greatest protections. On the other hand, the exporters may not accept open account, which gives importers the best payment methods.

A letter of credit, through bank channels overcomes the disadvantages of these two settlement methods and satisfies to a great extent, both the importer and exporters. So with help of banks trading volumes can be enlarged.

- **Medium of fund transfer:** a banking system allows payment to be made safely and quickly by one party to another, e.g. telegraphic transfer.
- **Export advance from banks:** in case of any queries as to the trading terms especially those related to documentary credit (D/C) transaction, traders can ask for their bankers advises.
- **Credit Risk Management:** In international trade, a buyer may have to deal with an unknown seller or vice versa. Even after trading with the overseas seller, this buyer is unlikely to know the seller thoroughly or vice

6.1.3 Problem in International Trade

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- **Credit Risk Management:** In international trade, a buyer may have to deal with an unknown seller or vice versa. Even after trading with the overseas seller, this buyer is unlikely to know the seller thoroughly or vice


versa. Thus, either the importer or the exporter may find themselves in the situation in which they are not sure about their counterparts' financial capabilities to honor payment obligations as well they fall due. With the help of banks, the trader can transfer the kind of risk to them. Banks are ready to provide various services and take the risk.

> **Management of Foreign Exchange Risk:** In international trade, as both buyer and seller are in different countries and do not deal in the same currency, they have to confront the risk of currency fluctuation. There may come to a time where the profit gained from the foreign trade transaction is totally covered by the loss in foreign exchange.

This exchange risk can be transferred from the trader to the bank that is ready to provide the former with forward foreign exchange or currency option so that the buyer and the seller can devote their time to their business.

6.2 Parties Involve in Trade Finance

1. **The Applicant:** The Applicant is the party that induces the Banks to issue the letter of credit. The applicant is normally obligated to reimburse the Banks for any payment made under the letter of credit.
2. **The Issuing Bank:** The issuing bank is the bank that issues the letter of credit. The issuing bank undertakes' an absolute obligation to pay upon presentation of documents drawn in strict conformity with the terms and condition of the letter of credit.
3. **The Advising Bank:** An advising bank simply advises a letter of credit without any obligation on its part. However, the advising bank shall take reasonable care to check the apparent authenticity of the credit that is advises. The advising bank is typically a bank in the beneficiary's located.

4. **The Beneficiary:** The beneficiary is the party entitled to drawn payment under the letter of credit. The Beneficiary will have to present the required documents to avail payment under the letter of credit.
 5. **The Confirming Bank:** The confirming bank confirms that the issuer has issued a letter of credit. The conforming bank becomes directly obligated on the credit to the extent of its confirmation and by confirming the bank receives the rights and obligation of an issuer. It is to be noted that the Advising Bank normally does confirmation or by a third bank in the beneficiary's locate.
 6. **The nominated Paying / Accepting Bank:** The bank where draft drawn under the credit are payable. In case of a usance credit where draft are to be accepted by this bank.
 7. **Negotiating Bank:** The bank that negotiates documents under the letter of credit upon presentation. Typically Advising Bank is nominated as Negotiating Bank.
 8. **Reimbursing Bank:** The bank nominated by the issuing bank to provide reimbursement to the negotiating bank or some times the payee bank.
 9. **The Transferring Bank:** A bank is specifically authorized in the credit as a Transferring Bank. Typically Advising bank is nominated as Transferring Bank. Such a bank is authorized to make the Documentary Credit available in whole or in part to one or more other Beneficiary (is) (Second Beneficiary (is)).
- 

63 LETTER OF CREDIT

A letter of Credit is a payment term generally used for international sales transactions. It is basically a mechanism, which allows importers/buyers to offer secure terms of payment to exporters/sellers in which a bank (or more than one bank) gets involved. The technical term for Letter of credit is 'Documentary Credit'. At the very outset one must understand is that Letters of credit deal in documents, not goods. The idea in an international trade transaction is to shift the risk from the actual buyer to a bank. Thus a L/C (as it is commonly referred to) is a payment undertaking given by a bank to the seller and is issued on behalf of the applicant i.e. the buyer. The Buyer is the Applicant and the Seller is the Beneficiary. The Bank that Advises the L/C to the Seller is called the Advising Bank which is generally in the country of the Seller.

The specified bank makes the payment upon the successful presentation of the required documents by the seller within the specified time frame. Note that the Bank scrutinizes the 'documents' and not the 'goods' for making payment. Thus the process works both in favour of both the buyer and the seller. The Seller gets assured that if documents are presented on time and in the way that they have been requested on the L/C the payment will be made and Buyer on the other hand is assured that the bank will thoroughly examine these presented documents and ensure that they meet the **terms** and conditions stipulated in the L/C.

Typically the documents requested in a Letter of Credit are the following:

- ◇ Commercial invoice
- ◇ Transport document such as a Bill of lading or Airway bill,
- ◇ Insurance document;
- ◇ Inspection Certificate
- ◇ Certificate of Origin

But there could be others too.



Letters of credit (LC) deal in documents, not goods. The L/C could be 'irrevocable' or 'revocable'. An irrevocable LC cannot be changed unless both the buyer and seller agree. Whereas, in a revocable L/C changes to the L/C can be made without the consent of the beneficiary. A 'sight' L/C means that payment is made immediately to the beneficiary/seller/exporter upon presentation of the correct documents in the required time frame. A 'time' or 'date' L/C will specify when payment will be made at a future date and upon presentation of the required documents.

6.4 Checking the Incoming Letters of Credit

If the exporter receives a letter of credit (L/C) directly from an issuing bank in the importing country, he/she must be very careful if the integrity of the issuing bank is unknown and the authenticity of the credit is in question.

Errors in the terms and conditions of a letter of credit may occur as a result of the applicant's error in preparing the L/C application and/or the issuing bank's error in preparing the L/C. The exporter must check the L/C immediately and thoroughly upon receipt from the bank, to ensure that the terms and conditions stipulated in the L/C are correct and conform to the sales contract, and that he/she can comply exactly with the L/C requirements. Otherwise, the exporter must immediately ask the importer to amend the L/C.

If any terms and conditions of the letter of credit are not complied with, no matter how small, a discrepancy is said to occur and it can delay or prevent the payment.



The importer should check the details of letter of credit, including the following:

- ◆ **The names and addresses** are complete and spelled correctly.
 - ◆ The L/C is irrevocable and confirmed by the advising bank, conforming to sales contract.
 - ◆ The amount is sufficient to cover the consignment.
 - ◆ The description of goods is correct.
 - ◆ The quantity is correct.
 - ◆ The unit price of goods, if stated in the L/C, conforms to the contract price.
 - ◆ The latest date for shipment or the shipping date is sufficient to dispatch the consignment.
 - ◆ The latest date for negotiation or the expiry date is sufficient to present the documents and draft(s) to the bank.
 - ◆ The port (or point) of shipment and the port (or point) of destination are correct.
 - ◆ The partial shipment/drawing is permitted or prohibited.
 - ◆ The transshipment is permitted or prohibited.
 - ◆ The L/C is transferable or non-transferable.
 - ◆ The type of risk and the amount of insurance coverage, if required.
 - ◆ The documents required are obtainable.
-
- ◆ The following words, or similar, are present in the L/C:
 - ◆ **"Unless otherwise expressly stated, this Credit is subject to the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500."**

The ICC (International Chamber of Commerce) Publication No. 500—Uniform Customs and Practice for Documentary Credits, 1993 Revision—operates from January 1, 1994. It is an update of the ICC Publication No. 400. Some banks may still use the ICC Publication No. 400. The publication is issued by the International Chamber of Commerce (ICC) in Paris, France. The ICC Publication No. 500 and other ICC publications are available at your local Chamber of Commerce affiliated with the ICC.

Specifically, how does a letter of credit work? What steps are involved?

A. The letter-of-credit process may seem cumbersome and confusing at first, but it is not difficult once you become familiar with it. Letters of credit can take many forms, but a typical transaction might involve these steps:

- The exporter, upon receiving an order for a specified quantity of goods, sends the buyer (importer) a pro forma invoice defining all conditions of the transaction.
- The importer takes the pro forma invoice to the bank and applies for an L/C.
- After verifying the terms and reaching the appropriate credit decisions, the importer's bank opens the L/C and sends it to the exporter's bank.
- The exporter's bank authenticates the L/C, verifying that it was issued by a viable bank, and mails it to the exporter.
- The exporter compares the L/C with the original pro forma invoice to ensure that the exporter can ship before expiration and that all conditions were incorporated as intended.
- The exporter prepares, generally with the help of a freight forwarder, an invoice and packing list. These documents must be completed exactly as specified in the L/C. The exporter also prepares a shipper's letter of instruction or SLI and any other specialized documents required, e.g., export license and certificate of origin. (Check with a customs broker to determine what documents are required in your case.)



- The freight forwarder receives the goods along with the completed paperwork in accordance with the terms of the L/C.
- After the goods are shipped, the forwarder or exporter submits the L/C and documents to the exporter's bank.
- The exporter's bank verifies that all required documents are in compliance with the letter of credit and forwards the documents package with a draft to the importer's bank with wiring (payment) instructions.
- The importer's bank reviews all documentation and, if the documents meet all requirements, credits the exporter's bank.
- The importer's bank simultaneously debits its customer's account.
- The exporter's bank credits the exporter's account.
- At the same time, the importer's bank releases documents to its customer. With documents in hand, the importer picks up the shipment.

Banker and freight forwarder are important resources during a letter-of-credit transaction. They will help to guide through these steps.

6.5 Different Types of Documentary Credit (D/C)

6.5.1 Red Clause Credit

A Red Clause credit is a special type of credit with a clause inserted which authorized the advising or confirming bank, to make advances to the beneficiary before presentation of the documents.

The clause is added in the documentary credit at the request of the applicant for the credit. In other words, it is a pre-shipment finance in their form of a loan the advising/confirming bank provides to the beneficiary, with payment of principal and interest guaranteed by the issuing bank of the credit, which in turn has a right of recourse to the applicant in case the beneficiary fails to ship goods and defaults in payment of the advances.

The credit specifies the amount of the advances to be given to the beneficiary, which can be in the form of a percentage or a fixed sum.

Finance is given against undertaking from beneficiary certifying that he promise to ship goods and submit documents to advising bank, which has provided him with finance.

Possible risk in issuing a red clause credit:

- a. Exporter may use the advance for other purpose
- b. Documents presented from the exporter may have discrepancies unacceptable to the importer

6.5.2 Revolving Credit

A revolving credit is a credit, which provides for the amount of the credit to be renewed automatically after use without the need to renew the credit every time. It can be revolved with respect to either;

- a. time or
 - b. amount (i.e. total value of the credit)
- 

A revolving credit "with respect to time" can be cumulative or non-cumulative. A cumulative revolving credit allows any unused credit amount of a previous month to be carried forward to the next month. A non-cumulative revolving credit, on the other hand, provides for a maximum amount of credit to be drawn each month. If the exporter fails to draw for the month, the amount in the month (full amount or any utilized balance) will be forfeited automatically.

6.5.3 Transferable Letter of Credit

A transferable letter of credit, which can be transferred in whole or in part by the original beneficiary to one or more "second beneficiaries". It is normally used when the first beneficiary does not supply the goods himself, but acts as a middleman between the supplier and the ultimate buyer.

6.5.4 Back-to-Back Letter of Credit

A Back-to-Back letter of credit is a new credit. It is different from the original credit based on which the bank undertakes the risk under the back-to-back credit. In this case, the bank's main surety/security is the original credit (Master L/C). The original credit (Selling credit) and the back to back credit (Buying Credit) are separate instruments independent of each other and in no way legally connected, although they both form part of the same business operation. The suppliers (beneficiary of the back to back credit) ships goods to the importer or suppliers goods to the exporter and presents documents to the bank as is specified in the credit. It is intended that the exporter would substitute his own documents for negotiation under the original credit, his liability under the back to back credit would be adjusted out of these proceeds. The export L/C is marked lien and no margin is taken. So we can say that Back to Back is a term given to an ancillary credit which arises where the seller used the credit granted to him by the Issuing Bank to his suppliers.

6.5.5 Confirmed credit

If a letter of credit is confirmed by a bank (the advising bank), this means, in addition to the definite undertaking to the issuing bank to honor beneficiary's draft, the advising bank makes also its promise to pay the beneficiary. Such confirmation by the advising bank not only confirms the undertaking of the issuing bank also constitutes an additional promise on the part of advising bank (which becomes a confirming bank).

6.5.6 Amendment of Letter of Credit

Amendment of LC means modification or addition /deletion of any points /terms of LC, which has already been advised. Question of amendment of LC arises due to incorporation of terms outside the contract between buyer and seller and also due to emergence of new circumstances. Usually LC is amended for the following requirement:

- Extension of validity of credit
- Change of price unit price. LC value increase or decrease.
- Changes of documentary requirements.

Regarding amendment the following points are to be noted very carefully by the issuing bank.

- Amendment of LC should be advised through LC advising bank.
- Partial acceptance of amendment is not effective without agreement of all parties whose interest is involved.



6.6 How settlement takes place under a documentary credit

When the seller surrenders the documents, he expects the bank to honor its obligation under the credit in return. Before the bank can do so, however, it must make certain that the documents comply in every respect with the credit conditions. Since this examination must be done with special care, the banks must be allowed a reasonable period of time for it. Once the documents have been found in order, the bank proceeds as follows:

6.6.1 In the Case of a Sight Credit:

If confirmed by the advising bank, the bank that has confirmed the credit upon notification is obliged to make payment. Hence the seller will receive a definite credit advice from the bank. If the credit is irrevocable but not confirmed by the advising bank, or if it is a revocable credit in either of these cases the second bank is not liable to make payment, because it is merely acting as the agent of the issuing bank.

If it is important to the seller to have the invoice amount available immediately against the documents, he should inquire in advance with the advising bank in each case whether it can make payment when the documents are submitted. In such cases it is even better to act as contracting partner to open an irrevocable credit confirmed by the advising bank, so that its definite obligation to pay exists.

6.6.2 In The Case of a Usance Credit

Here the seller will have to submit to the bank a Bill of Exchange drawn on a bank, issued in accordance with the credit terms, together with the prescribed documents.

This draft will be returned to the seller duly accepted as soon as the bank has examined the documents and found them to be in order. If desired, the seller can have the accepted bill of exchange discounted.



6.6.3 In the Case of a Deferred Payment Credit

In this case the bank will not pay the credit amount immediately at sight, but only after a specified period has elapsed. The bank will give the exporter a receipt indicating the exact payment date

6.7 Types of Account Maintain in Foreign Transaction

6.7.1 NOSTRO ACCOUNTS

NOSTRO accounts are those accounts maintained any bank abroad. With our foreign correspondents in the relative foreign currency of those countries where our correspondence bank is situated. The term "NOSTRO A/C" means our account with you. For example, we have an account with Bank of New York in U.S dollar. This account is called as NOSTRO account. All transaction relating to sales of U.S. Dollar currency will be debited to our NOSTRO account in the book of our foreign correspondent, Bank of New York. Similarly all transaction involving of purchase of U.S Dollar currency will be credited to our NOSTRO account by our foreign correspondent, Bank of New York. Since the NOSTRO Account are maintained in the books of our foreign correspondents, our Head Office International Division keeps Profoma accounts in our books for the purpose of passing contra entries and reconciliation Contra entries means, if correspondent debits us, we are to respond the entries by giving credit to our Profoma accounts. These Profoma accounts are maintained in our Auxiliary Ledger in the name of our foreign correspondents. The entries which are made to the debit and credit to out NOSTRO Accounts are booked in the Profoma accounts in the reverse direction. A debit balance in NOSTRO Accounts means credit balance in Proforma account and vice versa.

6.7.2 VOSTRO ACCOUNTS

VOSTRO Accounts, to our foreign correspondents are those accounts that are maintained by us abroad with our foreign correspondents in the relative foreign currency of that country where our correspondent bank is situated. On The other way the accounts maintained by our foreign correspondent with our local banks branches are termed by us as VOSTRO Accounts- For example, The accounts maintained by Habib Bank, UAK with our Kawran Bazar branches are termed by us as VOSTRO Accounts whereas the same is termed as NOSTRO accounts by Habib Bank UAE Branches. The account maintained by us with Bank of New York, in U.S. Dollar currency is an another example of VOSTRO Accounts in our foreign correspondents.

6.8 TERMS OF SALE

In any sales agreement, it is important that a common understanding exist regarding the delivery terms. The terms in international business transactions often sound similar to those used in domestic business, but they frequently have very different meanings.

Confusion over terms of sale can result in a lost sale or a loss on a sale. For this reason, the exporter must know the terms before preparing a quotation or a pro forma invoice.

The following are a few of the more common terms used in international trade:

CIF (cost, insurance, freight) to a named overseas port of import. Under this term, the seller quotes a price for the goods (including insurance), all transportation, and miscellaneous charges to the point of debarkation from the vessel. (Typically used for ocean shipments only.)



CFR (cost and freight) to a named overseas port of import. Under this term, the seller quotes a price for the goods that includes the cost of transportation to the named point of debarkation. The cost of insurance is left to the buyer's account. (Typically used for ocean shipments only.)

CPT (carriage paid to) and **CIP (carriage and insurance paid to)** a named place of destination. Used in place of CFR and CIF, respectively, for shipment by modes other than water.

EXW (ex works) at a named point of origin (e.g., ex factory, ex mill, ex warehouse). Under this term, the price quoted applies only at the point of origin and the seller agrees to place the goods at the disposal of the buyer at the specified place on the date or within the period fixed. All other charges are for the account of the buyer.

FAS (free alongside ship) at a named domestic port of export. Under this term, the seller quotes a price for the goods that includes charges for delivery of the goods alongside a vessel at the port. The seller handles the cost of unloading and warehousing; loading, ocean transportation, and insurance are left to the buyer.

FCA (free carrier) to a named place. This term replaces the former "FOB named inland port" to designate the seller's responsibility for the cost of loading goods at the named shipping point. It may be used for multimodal transport, container stations, and any mode of transport, including air.

FOB (free on board) at a named port of export. The seller quotes the buyer a price that covers all costs up to and including delivery of goods aboard an overseas vessel.

The exporter should quote CIF whenever possible, because it has meaning abroad. It shows the foreign buyer the cost of getting the product to a port in or near the desired country.



If assistance is needed in figuring the CIF price, an international freight forwarder can provide help to exporting firms. The exporter should furnish the freight forwarder with a description of the product to be exported and its weight and cubic measurement when packed; the freight forwarder can then compute the CIF price. There is usually no charge for this service.

A simple misunderstanding regarding delivery terms may prevent exporters from meeting contractual obligations or make them responsible for shipping costs they sought to avoid. It is important to understand and use delivery terms correctly.

6.9 Remittance

A remittance is transfer of funds from one country to another or one place to another (domestically) through banks.

In a remittance, banks acts as die go-between for the sender and the receiver of funds, to remit money to another country or place on behalf of the sender and to receiver the inward payment from overseas, or another place in the home country for payment to the receiver.

6.9.1 Parties Involved In a Remittance Process

1. **The Remitter:** The person who request a bank to transfer money on his behalf.
2. **The Remitting Bank:** The bank normally remits funds for the Remitter.
3. **The Paying Bank:** The bank, either the payee's bank on a bank near where the payee lives, which pays the specified person at the request of and according to the process.
4. **Beneficiary:** The payee of a remittance.

6.9.2 There are two sides of every remittance

1. Inward remittance and
2. Outward Remittance

6.9.2.1 Inward Remittance

Payment received by the paying bank from overseas or some other banks are known as inward remittances and may be dealt with then inward remittance department.

6.9.2.2 Outward Remittance

Payment remitted out of the country or different place in the country (domestically) by the remitting bank is known as outward and may be dealt with the outward remittance department. Sometimes, of course, in a small area the same department will deal with both inward and outward remittance.

Chapter 7



**Asian Clearing Union
(The wallet Size)**

7.1 Introduction

As per the requirement of my supervisor of SCB's FI Department we prepared a group report on wallet size of ACU account. Two of my colleagues (Intern of SCB) help me to prepare this report.

This report is based on the ACU account. ACU means **Asian Clearing Union** (ACU). Seven Asian Countries are the member of this union. Its entire member maintains a single exchange rate for their transaction.

In this report we tried to find out the total export from Pakistan to Bangladesh, import to Pakistan from Bangladesh, activities of SCB for its ACU accounts, wallet size of Bangladesh ACU account and the portion of SCB from that wallet. This report is attached here:



2.2 BANGLADESH'S EXPORT IMPORT BUSINESS WITH PAKISTAN

The statistics shown below reveals that Import and Export business in between Bangladesh and Pakistan has a sharp growth rate. It is therefore, implied that the business relationship in between these two countries are improving over the years.

Table 7.1 : Pakistan Import and Export from Bangladesh

Business Types	Year	Volume In \$	Growth Rate
Pakistan's Import From Bangladesh	2003	45,791,592	
	2004	54,077,822	18.10%
	2005	68,086,375	25.90%
Pakistan's Export To Bangladesh	2003	93,353,688	
	2004	111,434,076	19.38%
	2005	No Data	

Source: Un Comtrade. (unstats.un.org/unsd/comtrade/)

United Nations Statistics Division

From the Bangladesh Bank's report it is again reveals that Bangladesh's export import business with Pakistan is increasing. At last quarter, Pakistan's import from Bangladesh increased by 14% and its export to Bangladesh increased by 4.93%.

Table 7.2 : Pakistan Import and Export from Bangladesh

(Taka In Millions)

Business Types	Quarters	Volume In Tk.	Growth Rate
Pakistan's Import From Bangladesh	October-December, 2005	993.00	
	January –March, 2006	1132.00	14%
Pakistan's Export To Bangladesh	October-December, 2005	2513.00	
	January –March, 2006	2637.00	4.93%

Source: bangladesh-bank.org

7.3 BANKS ACU ACCOUNTS FOR PAKISTAN

Different local banks of Bangladesh maintain Asian Clearing Union (ACU) accounts for Pakistan with different correspondent banks of Karachi. Following table shows the name of the banks and their correspondent banks of Karachi as well as the amount at 31 December 2005:

Table 7.3 : Banks ACU account for Pakistan

Name of the Banks	Correspondent Banks of Karachi	At 31 December 2005		
		Amount In ACD	Conversion Rate	Amount In Taka
Al-Arafah Islami Bank Ltd.	SCB	27,754	67.92	1,885,041
Bank Al-Falah Ltd.	NO Account			
Bank Asia Ltd.	Habib Bank AG Zurich	116,537.33	58.00	6,759,165
BRACK Bank Ltd.	Crescent Comm. Bank			
BASIC Bank Ltd.	Rupali Bank Ltd.	6,751	66.21	446997
Dhaka Bank Ltd.	Rupali Bank Ltd.	161,215	68.25	11,002,909
Dutch-Bangla Bank Ltd.	Crescent Commercial Bank Ltd.	363	67.22	24,370
Mercantile Bank Ltd.	HSBC	64,283.22	66.21	4,256,192
Mutual Trust Bank Ltd.	Rupali Bank Ltd.	70.15	67.54	4,738
National Bank Ltd.	Rupali Bank Ltd. HSBC	- 133,627	- 66.21	- 8,847,449
NCC Bank Ltd.	United Bank Ltd.	22058.83	67.30	1,484,559
One Bank Ltd.	HSBC	4,708.41	66.21	311,755.60
Premier Bank Ltd.	IFIC Bank Ltd.			
Shahjalal Bank Ltd.	NO Account			
South-East Bank Ltd.	SCB	144,837	66.21	9,590,020
Standard Bank Ltd.	NIB Bank Ltd.	-	-	-
The City Bank Ltd.	NDLC-IFIC (NIB)	10,279.26	66.21	680,590
Uttara Bank Ltd.	NDLC -IFIC Bank Ltd.	101,710.62	66.21	6,734,260

7.4 THE MAIN ACTIVITIES OF SCB FOR THE ACU ACCOUNT WITH OTHER BANKS

Some banks maintain ACU account with Standard Chartered Bank. Those are Sonali Bank, South-East Bank Ltd., Mutual Trust Bank Ltd., Al-Arafah Bank Ltd., Islami Bank Ltd. and State Bank of India. These banks maintain two types of ACU accounts with SCB. Letter of Credit and other accounts.

SCB's activities (in number of L/Cs) with those banks from the month of January to June 2006 are as follows:

Table 7.4: Banks ACU Activities with SCB

Banks Name	January	February	March	April	May	June	Total
Sonali Bank	37	24	10	70	53	58	252
South-East bank Ltd.	3	4	4	3	5	6	25
Mutual Trust Bank Ltd.	1	-	1	-	-	2	4
Al-Arafah Bank Ltd.	10	4	7	3	7	4	35
Islami Bank Ltd.	12	20	28	23	23	15	121
State Bank Of India	5	6	3	3	9	6	29
Total	68	58	53	102	97	91	466

7.5 THE WALLET SIZE FOR PAKISTAN ACU (POTENTIAL BUSINESS VOLUME)

To describe the above topics effort has been taken to collect necessary information from different banks. The data so far collected are furnished bellow, where from it is observed that we could get information from 18 out of 36 banks.

Table 7.5 : Banks Approximate Number of L/C With Karachi

Sl. No.	Name of the Banks	Correspondent Banks of Karachi	Approximate No. of L/C
			For 6 Months
1.	Al-Arafah Islami Bank Ltd.	SCB	35
2.	Bangladesh Commerce Bank Ltd.		160
3.	Bank Al-Falah Ltd.	No Account	0
4.	Bank Asia Ltd.	Muslim Commercial Bank Ltd. Habib Bank AG Zurich	210
5.	Dhaka Bank Ltd.	Habib Bank AG Zurich	155
6.	Dutch-Bangla Bank Ltd.	HSBC	35
		Crescent Commercial Bank Ltd.	8
7.	Eastern Bank Ltd.	Rupali	55
		IFIC	
8.	Islami Bank Bangladesh Ltd.		121
9.	Jamuna Bank Ltd.	SCB	55
10.	Mercantile Bank Ltd.	HSBC	13
		Rupali Bank Ltd	
		Habib Bank Ltd.	
11.	Mutual Trust Ltd.	AB Bank Ltd.	70
		SCB	
		ICCI	
12.	One Bank Ltd.	HSBC	15
13.	Pubali Bank Ltd.		12
14.	Shahjalal Bank Ltd.	No Account	0
15.	Sonali Bank Ltd.	SCB	152
16.	South-East Bank Ltd.	SCB	25
17.	State Bank Of India	SCB	29
18.	UCBL	Arif Habib Bank Ltd.	45
		HSBC	
Total			1,195

Table shows that during a period of 6 months (January – June, 2006) 1,195 number of L/Cs were issued by 18 banks. If we assume that on an average other banks also opened L/Cs in same rate then total number of L/Cs issued by 36 banks stood at 2,390.

$$\frac{1,195 \times 36}{18}$$
$$= 2,390$$

For clearing the payment of L/C, the amount may debit 1 or more times. For every debit payment the 'bank charge' is \$ 25. If we consider that on an average there are 2 transactions for each L/C than the total charge will become \$1,19,500.

$$(2,390 \times 2 \times \$25)$$
$$= \$ 1,19,500$$

After issuing an L/C, parties involved in L/C, particularly the seller and the buyer sometimes can not be satisfied with the terms and conditions in full as expected due to some obvious and genuine reasons. In such situation, the terms and conditions required to be changed which is called "Amendment".

For every amendment the 'bank charge' is \$ 15. If we consider that on an average 1 L/C is amended 1.5 times then total charges for the purpose of amendment will be approximately \$ 53,775.

$$= (2,390 \times 1.5 \times \$15)$$

So, in this situation the wallet size in total is:

$$= \$ 53,775 + \$ 1,19,500$$

$$= \$ 1, 73,275$$

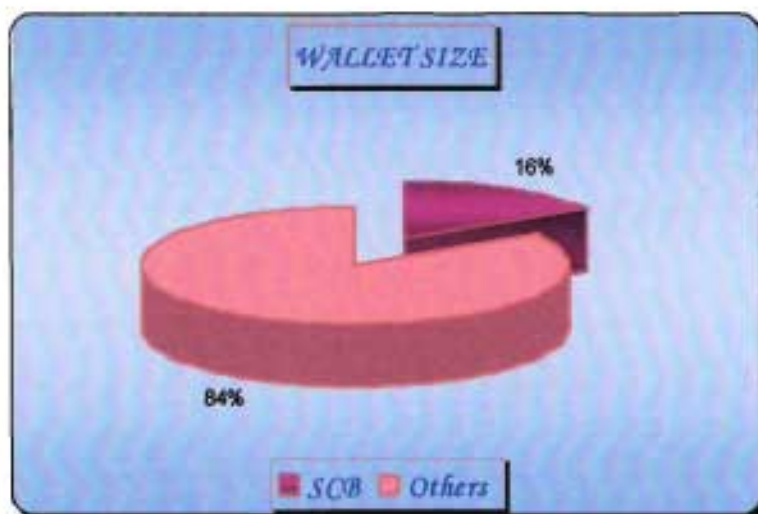
From the activities of SCB, we found that the number of issuing L/C for 6 months (January – June, 2006) was approximately 466. So, the total charge earned by SCB from the ACU account with Karachi is approximately \$ 33785.

$$= (466 \times 1.5 \times \$ 15) + (466 \times 2 \times \$ 25)$$

$$= \$ 33,785$$

The aforementioned statistics can be better depicted in the following "Pie graph"

Graph 7.1 : Wallet Size of ACU Account



The Pie above shows that the SCB's share in the wallet is only 16%, leaving an ample scope to exert necessary marketing efforts for having a better share. Facts remain that there is stiff competition in the market, but opportunities are also evident. A marginal competitive advantage and small favors towards the clients can easily increase the volume of business leaving a better bottom figure.

7.6 The best approach to increase the market share

From the wallet size for Pakistan ACU, SCB maintain only 16%. For increasing the profit of the Standard Chartered Bank, it should increase its business vis a vis market share by way of capturing a larger portion of this wallet size. SCB may consider the following approach to increase their businesses:

Rebate:

Offering some or more benefit to the customers is a common approach for increasing market size.

SCB can offer some rebate for its customer. SCB can refund a certain portion or a percentage to a bank from its profit which SCB will get from that bank and accordingly can influence that bank to open an account with SCB. For example: say, SCB earn \$100 from advising an L/C of Sonali Bank. From this earning SCB can pay 1% or 2% rebate to Sonali Bank. As this approach increases the profit of Sonali Bank, it may be interested to advice their L/C through SCB. Thus SCB can increase the volume of L/C advising which also increase its profit margin.

Rate of Charge/fees:

Rate of charge is a very competitive factor between the multi-national banks. It differs from one bank to another by a very small amount. This small difference may also be able to help to capture the market. So, if SCB provide a comparatively low rate of charge than other competitors, it will able to capture the market and increase business volume with a consequence of higher profit.

Credit Line:

SCB can also take credit line as an approach of increasing the business. Credit line means the confirmation line. Multi national banks select a credit line for other banks by analyzing their assets, liabilities, profitability etc. So, this credit line has also an international value to other banks. A bank with a larger credit line can able to increase their business. So, if SCB provide a larger credit line to a bank then other multinational banks, the bank will become interested to use SCB for advising their L/C, Payment Instructions, and Reimbursement Authority etc. For example: Suppose, SCB allows 7 millions as credit line for Sonali Bank where Citi N.A. allows 5 millions. This scenario will make Sonali Bank interested to make good business relationship with SCB which will help to increasing the profit of both banks.

Service line:

Now, customers require better service form everywhere. Better service can help to increase the business volume. So, SCB should provide the best possible services to its customers. This is possible by giving more attention in furthering the relationship with the individual customer, by minimizing processing time for each of the documents, by attending the customers' queries and complains round the clock and so on. It should make a good liaison with its customers.

Survey and data collection:

Through market survey SCB can collect relevant data on the basis of which it can formulate suitable business plan and can increase their business volume. SCB may collect information about the Banks who have not yet opened ACU accounts with Pakistan and they have the necessity to open such account in Pakistan. So far we could collect information it is understood that Bank Al-

Fallah Ltd. has no ACU account with Pakistan. This bank had the account with Faisal Islami Bank when it was Samil Bank Ltd., but after acquisition this bank requesting to its authority to open an ACU account with Pakistan. So, SCB can develop required relationship with bank Al-Fallah Ltd. and influence them to open the account immediately with a view to capture the market of that bank. Besides, it also can explore the possibility of substituting other banks that already have some account relationship with them. They can be offered better service, financial package, etc. and can convince to open another account with SCB, Pakistan.

In general SCB once find niche market that is a prospective bank then it can disclose the competitive benefit package that it can offer and take the chance of competitive edge it already has over other multinational banks like Citi bank, HSBC, etc.



Chapter 8



Survey Report

8.1 Introduction

In partial fulfilment of my academic course, Bachelor of Business Administration [BBA] I had to persuade Internship in The Standard Chartered Bank (SCB) where among others I on my personal interest and with the inspiration of my guide in the Bank, the Head of the Financial Institution Department (FID) I have undertaken a Survey of SCB's clients, with the 'null hypothesis' that service of SCB as a correspondent Bank is the best in the given situation. With this end in view after necessary discussion with the concerned officials (a) I have designed a small 'questionnaire', (b) decided to survey 15 to 20 client banks at random [considering the time constrain], (c) undertaken the survey personally along with one of the sales executives of SCB, (d) scrutinized the survey results, (e) tabulate those, (f) analyze and interpret in my opinion, and (g) furnish those hereunder.

8.2 The Report

Null hypothesis: Service of Standard Chartered Bank, as a correspondent Bank is the best in the given situation.

Population: SCB's total market size is 36 local financial institutions, both nationalized and privet.

Sample size: 17 (Seventeen)

The respondents: The dealing officers and head of the foreign tread departments of client banks.



Findings:

For correspondent banking SCB's Financial Institution Department (FID) considers the local commercial Banks as their clients and as the total market size is only 36 Banking companies. Out of these we could survey 17. The first query was whether there is any business relationship with SCB. If yes, only then we proceeded. The next question was about how many accounts are being maintained by each of the client banks. The table below shows that 35% banks have, 2 (two) accounts each followed by 23% used single account, while only 6% banks have 4 (four) accounts. 18% banks have 3 (three) accounts and again 18% have 5 (five) each.

Table 8.1 : Number of Banks Accounts

No. of Accounts maintain By each of the Banks	No. of Banks	%
1	4	23.5
2	6	35.3
3	3	17.65
4	1	5.9
5	3	17.65

The accounts are being maintained in different currencies. The most common are USD, GBP, ACU, EURO, JPY, SGD. Survey revealed that all the 17 banks have USD accounts, 9 banks have ACU accounts, 7 banks have GBP accents, 6 banks have EURO accounts, 2 Banks have JPY accounts and only one bank has SGD accounts.

In response to another question we come to know that all the Banks are member of Society for Worldwide Inter-bank Fund Transfer (SWIFT) and have same mode of communication. this was important to understand that weather service quality differs due to mode of communications where in SCB has no role.

Since the main target of the study was to find out service quality of SCB, all other questions were addressed directly or indirectly towards assessment of quality of services being rendered by the SCB to the client banks. It may be mentioned here that other then asking directly about the quality of service we have wanted to know extent of cooperation being extended, level of satisfaction, performance, service category, price competitiveness, etc.

In response to a query about service quality where there were 3 options: Excellent, Good, and Not satisfactory, the 10 respondents termed "excellent" while 7 answered as "good" and none "not satisfactory". It revealed that 41% being "good" which implies that there are scope to improve further. The result may be seen here under in tabular form:

Table 8.2 : Service Quality

Options	Number of Respondent	%
Excellent	10	59
Good	7	41
Not satisfactory	0	0

Whether the client bank are getting timely services, in answering such a question 53% admitted that they are getting timely service 'always'. But 47% told 'most of the time'. However, none answered that they get it rarely. it is therefore implied that 47% client banks want to get more attention for timely services. Regarding

cooperation from the SCB executives 71% respondents are in the opinion that they are getting cooperation always while 29% told most of the time leaving a scope for the executives to extend more and/or timely cooperation to their clients. The results are furnished below in Tabular Form.

Table 8.3 : Time and Cooperation From Sales Executives

Option	Getting Timely Service	%	Getting Desired Cooperation	%
Always	9	53	12	71
Most of the Time	8	47	5	29
Rarely	0	0	0	0

In response to direct query regarding satisfaction about the overall service of SCB all the respondents answered positively. In this regard we can conclude that no other competitors could do better than SCB. That is SCB has the market reputation of better services to the satisfaction of the clients.

Giving the choice of alternatives the respondents were asked to identify the correspondent bank they preferred most. Amazingly only 6 client banks identified Standard Chartered Bank while only one did not answered and one by passed telling that it depends. All other marked more then one banks. though the question was "Which bank preferred most?" Even then we can easily guess that most of this client banks are indifferent leaving a scope to tie them up with proper service quality and incentives.



Corresponding banks, along with the normal banking service usually extend rebate, training, tours to attend work shop, seminar etc. To have an idea about the customers' knowledge as usual as their choice about service type they were questioned about what they like most. 52% told they liked service while 26% gave importance to relationships and the rest 22% preferred training and workshop. Here it is mentionable that to motivate the desk level officers of the client banks the correspondent banks regularly offer sort of 'tour package' in the name of workshop, training etc mostly abroad and in a very attracting location. For obvious reasons concerned officers are interested in such programs. Anyway the result furnished below shows that the majority are interested in service, which in fact we mean them service quality.

Table 8.4 : Incentives

Options	%
Service	52
Training & Workshop	22
Relationship	26
Rebate	0
Others	0

Price is one of the major determinants for product and/or service marketing. So another question was regarding pricing and its competitiveness. The outcome furnished below.

Table 8.5 : Price Competitiveness

Options	Number of Respondent	%
Yes	12	71
No	1	6
Not Commend	4	23

About the pricing and incentives offered by Standard Chartered Bank, 71% felt that SCB's price and incentives are competitive while only 6% responded negatively. 24% did not comment on it. So, in the opinion of $(24 + 6) = 29\%$ respondents the price being not competitive and there are the scope of review.

Although statistically we cannot furnish data to conclude about our research hypothesis we can easily draw inference that :

- ◇ 59% admitted SCB's service as excellent leaving a scope for improving service quality with rest 41%.
- ◇ 53% are getting timely services. So 47% clients will certainly want to get more attention regarding time.
- ◇ Yet 29% client banks felt that they are not getting necessary cooperation from the sales executives of SCB. It is therefore very important to get the executives more attentive.
- ◇ All the surveyed clients are satisfied about overall service.

Out of 17 respondents only 7 offered open general comments, where from it can be identified some problems which are as follows:

- ◇ From all the cliental banks, two banks had the objection about double debits. They claim that, sometimes their L/C debited two times for which their clients has to pay double.

- ◇ Another two respondent claim that present credit limit of that bank is inadequate to run business operation with Standard Chartered Bank smoothly.
- ◇ Standard Chartered Bank did not pay interest on the credit line of its customers.
- ◇ “Business promotion activities are not competitive in comparison with other correspondent banking institution” stated by another client.
- ◇ One client’s point of view, auto account debit is another problem of SCB.
- ◇ Charges of SCB are higher than some other banks. Specially, the charge for Reimbursement Authority is very high.
- ◇ Another bank claim that the interpersonal relationship with new customer of Standard Chartered Bank is not updated.
- ◇ Training and workshops are not offered time to time. That means one client bank claim about the incentives offered by SCB.
- ◇ “Our L/C mostly open in ACU currency, but we have no ACU account with SCB” – one client told this regarding their problem for not opening ACU account.

Summing up all the observations it can safely be concluded that SCB’s service quality is satisfactory and of quality albeit there are ample scope to improve further with a view to farness more benefit out of it.



Chapter 9



Problems

9.1 Problems

It is important for every organization to audit the organization and its environment. For fulfilling this purpose it is important to find out the problems and weaknesses of the organization. These can help the organization by providing necessary information. That information will be helpful for matching organizations resources and capabilities to the competitive environment in which it operates. The following problems of Financial Institution Department of Standard Chartered Bank Bangladesh may provide a better understanding of the position of this organization as well as the department. These problems will provide an insight of what they can do in future to improve its position, market share and also how they can compete with their existing competitors.

- ◇ Financial Institution Department of Standard Chartered Bank first introduced software which provides the details of any transaction with specific date, L/C number, Reference Number, Amount, Currency etc. This system is called e-banking. With this system FI Department can collect information every day when ever they required about all debits and credits which is sequentially arranged. So, it was easy to handling the queries (collect and send information) of other banks about the fund transfer. But from October 12, 2006, this system is creating problems with the New York (USD) currency. Though most of the transactions take place with this currency. Now this data is collecting from one of Internet location named web-bank. It is time consuming and critical to maintain this data as well as find out the required one. For this reason FI department now fail to send data timely to its customer. In addition here it is necessary to maintain that, this data have to send at other banks every day with in 10 a.m. But for this problem it is difficult for FI Department to send data before 12 noon.

- ◇ There is the shortage of human resource in Financial Institution Department of Standard Chartered Bank specially in the post of sales executives. For this post they have 4 employees. So, it is difficult to them to visit all Dhaka and Narayangang branches of 36 banks.

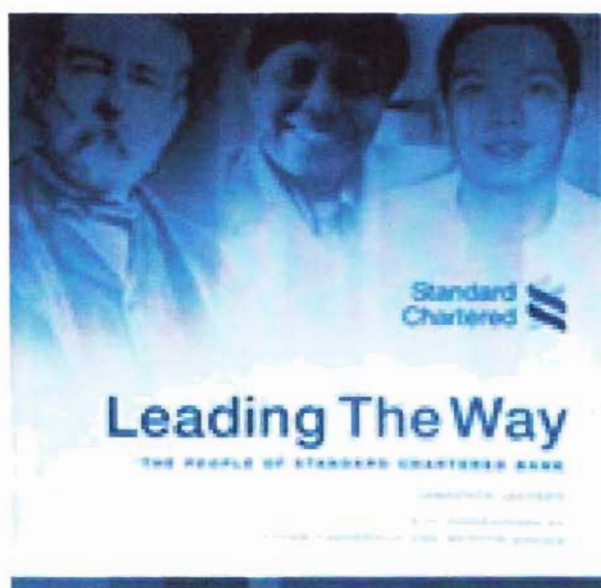
- ◇ Compared to its rivals SCB has more and high fees and charges such as minimum balance fee, ledger fee etc.

- ◇ SCB is more hierarchy-driven compared to other multi-national banks.

- ◇ SCB senior officials should be more cooperative to their subordinates and arrange for workshops training programs to keep them motivated in their work.



Chapter 10



Recommendations and Conclusions

10.1 Recommendations

There is no straight and easy way for getting success. Most of the organization has to face some problems. But for getting success it should overcome those problems. Financial Institution Department of Standard Chartered Bank also has some weak point which I tried to find out from my survey (Chapter-8) as well as from my work place (Chapter-9). For achieving the target level SCB should take care of those problems and should not allow the customers to find any weakness in their service. So they should always be competitive, technologically advanced and be creative in the business to maintain this position or to do even better than this. In this regard some recommendations are proposed below.

- ❧ As SCB's FI Department facing troubles with its software and failed to provide service on time, it has the threats for losing its customer. So, SCB should improve previous software (e-banking) or should develop new system (web banking) for better and quick service.
- ❧ More manpower is required to handle the manifold problems associated with customer handling. As relationship is the key procedure for influence the customer, SCB should employ more sales executives.
- ❧ The FI department should actively manage the complaints of various customers and encourage customers to give feedback about the services. The management should collect document complaints and use that information to identify dissatisfied customers and common service failure points. FI department of SCB also can initiate customer survey for identify the problems of the customers time to time.



- ❧ SCB should lower its charges to prevent the loss of customers.
- ❧ Customers who have good track record must get privilege from SCB in terms of charges. This will make the customer's relationship become more loyal to the bank.
- ❧ Employee trainings and workshops should be administered in order to give them knowledge and professionalism in customer interactions. They should be taught about how to deal with problem customers and problematic situations.
- ❧ Only understanding the customer problem will not highly satisfy the customer unless individual attention and caring is given to them. The FI department can provide proper individual attention and caring to confirm highly satisfy customer.
- ❧ Physical and technological facilities should be increased in evaluating credit proposals.
- ❧ Experienced and expert personnel should be kept within the bank, which will lead to a quality selection of clients.
- ❧ Some customer facing problems for not having necessary account. So, Financial Institution should to identify those customer for expanding there market share.

10.2 Conclusion

SCB has been successfully created a brand image in the market and is maintaining a strong position in the market. But still it has some weakness, which can be easily overcome. Being the current market leader of foreign commercial bank SCB has much more potential to explore the existing market. So, to be the number one forever they have to be very perfect in their business.

A bank can not be able to reach the goal until it makes the customer satisfied by providing service as much as the customer needs. After preparing this report it becomes very evident to say that there should be a goal to make the customer always happy and satisfied with the service, only then a bank can run its business safe and soundly in this competitive era.

In fine it can I said that FI is the department of Standard Chartered Bank which runs its business by providing products & services in doing their correspondent banking business. SCB has an efficient & effective FI team with performances in an excellent manner. So, considering the service sector of Bangladesh SCB should become more conscious to deal with its customers as the customers have now more choice to bank with other.



Appendix - A
Customer Survey
Questionnaire

Name of the Bank: ... Branch : ...

Name of the Employee: ... Designation: ...

1. Do you have any business with Standard Chartered Bank?

Yes No

2. How many account(s) are being maintained with SCB? _____

3. In which countries?

USD ACU EUR GBP JPY SGD

4. What about the service quality of SCB?

Excellent Good Not Satisfaction

5. Do you use SWIFT?

Yes No

6. Are you getting service timely?

Always Most of the time Rarely

7. Are you getting necessary cooperation from SCB's sales executives?

Always Most of the time Rarely

8. Are you satisfied with the overall service of the SCB's FI department?

Yes No

9. Are the pricing and incentives offered by SCB competitive?

HSBC SCB CITI Other _____

10. From the services of Correspondent Banking which part you like most?

- | | |
|---------------------------------------|--|
| <input type="checkbox"/> Service | <input type="checkbox"/> Training & Workshop |
| <input type="checkbox"/> Rebate | <input type="checkbox"/> Relationship |
| <input type="checkbox"/> Others _____ | |

11. Are the pricing are incentives offered by SCB competitive.

- Yes No

If no how do you suggest to make those competitive.

12. In your point of view, is there any specific problem you are facing with SCB's FI department?

If yes, please state in brief.

13. Your comments please, if any:

Thank You



Appendix : B

Bibliography

Advice of letter of credit	Communication by the advising bank that a letter of credit has been issued. The primary responsibility of the advising bank is to take care in establishing the authenticity of the credit; otherwise it is under no obligation with respect thereto.
Amendment	Notice from the issuing bank to the beneficiary that some specific conditions(s) or term(s) of the credit has changed. If the credit is amplified, no acknowledgement of acceptance by the beneficiary need be obtained; otherwise, beneficiary approval is required.
BB	Bangladesh Bank
Back-to-back credit	A letter of credit issued with the support of another letter of credit whose proceeds have been assigned to secure the credit. Fraught with peril, this type of credit is seldom issued. Transferable credits are a better alternative.
Banker's acceptance	A time draft that has been honoured by the bank on which it is drawn for payment on a specific future date. After the word "accepted" is superimposed on the face of the draft, and it is dated and signed, the draft becomes a negotiable instrument.



Clean letter of credit	A letter of credit with no documentary requirements other than a demand for payment, usually a draft.
Commercial letter of credit	One which functions as a vehicle for payment, usually to finance an import purchase. Typically, commercial letters of credit are issued in freely negotiable form and require presentation of documents which describe the commercial transaction, evidence shipment and transfer title.
Confirmation	An advising bank's undertaking to honour the issuing bank's letter of credit if all conditions are in compliance.
Currency	Paper money (banknotes) or coins issued by a government through an act of law.
Direct pay letter of credit	One which is available for payment only at the counters of the issuing or nominated bank.
Discrepancy	Lack of compliance with the documentary requirements or conditions of a letter of credit.
Dishonour	Refusal to accept documents as presented on the basis of discrepancies.
Draft	A demand for payment.
Expiry date	Last date on which a letter of credit may be presented for payment.

FID	Financial Institution Department
Foreign currency	The currency of any foreign country which in the official medium of exchange in circulation.
INCOTERMS	The word INCOTERMS means International terms. The main purpose of these 'Incoterms' is to provide a set of international rules for the interpretation of some most commonly used trade terms.
Negotiation credits	A credit that includes an engagement by the issuing bank to any drawer, endorser or bona fide holder of drafts. This is most common in commercial letter of credit.
Revolving letter of credit	A credit which includes a provision for reinstating its face value after being drawn under within a stated period of time. This kind of credit facilitates the financing of ongoing regular purchases.
S.W.I.F.T	Acronym for Society for Worldwide Inter-bank Financial Telecommunications. Headquartered in Brussels, Belgium, the society is an automated financial transaction information system owned and operated by a cooperative of member institutions.
Value date	The date on which a funds transfer is scheduled to take place.



Appendix : C

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