Internship Report on

Overall Procedures & Challenges of Opening Letter of Credit at Dhaka Bank (PLC)

By

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This Report is Submitted to United International University's School of Business and Economics as Part of the Bachelor of Business Administration Degree Requirements.

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Overall Procedures & Challenges of Opening Letter of Credit at Dhaka Bank (PLC)

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Letter of Transmittal

16/12/2024
Dr. Saad Hasan
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Subject: Submission of Internship Report on "Overall Procedures & Challenges of Opening Letter of Credit at Dhaka Bank (PLC)".

Dear Sir,

I am pleased to submit my Internship Report on "Overall Procedures & Challenges of Opening Letter of Credit at Dhaka Bank (PLC)". This report provides a detailed analysis of the procedures and practices related to Letters of Credit, highlighting their importance in facilitating secure and efficient international trade.

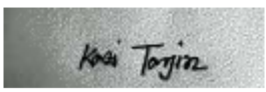
Throughout this report, I have strived to present an accurate and well-researched overview based on the knowledge and experience gained during my internship. However, I acknowledge the possibility of unintentional errors and sincerely apologize for any such oversight.

Thank you for your guidance and understanding.

Yours Sincerely,
Kazi Tamanna Tanjin Tanni

Declaration by Student

I confirm that my internship report is an original study, free of any plagiarized content. I have not engaged in any unethical practices while preparing this report.



Kazi Tamanna Tanjin Tanni

Acknowledgment

First, I want to sincerely thank Almighty Allah for giving me the courage and serenity I needed to finish my report on schedule. I have consulted several sources to acquire knowledge about project evaluation and execution, and I am intellectually indebted to the writers whose writings have influenced my comprehension.

I would like to show appreciation to Dr. Saad Hasan, Professor of Supply Chain Management at the School of Business & Economics, United International University, for his tremendous guidance, motivation, and continuous counsel. His expert advice and mentorship were instrumental in the successful completion of my internship at Dhaka Bank PLC and in shaping the insights presented in this report.

Additionally, I appreciate Syed Mahbubur Rahman, MD of Dhaka Bank PLC, for allowing me to intern there.

Finally, my sincere appreciation goes out to my family and friends for their continuous support and encouragement while I was preparing my report.

Executive Summary

This study offers a thorough examination of Dhaka Bank PLC's Letter of Credit (L/C) procedure. A common financial tool in international trade that gives importers and exporters payment security is the Letter of Credit. Issue, document verification, payment settlement, and risk management are among the important phases of the L/C process highlighted in the paper.

During my internship, I watched and took part in tasks like handling exchange rate considerations for cross-border transactions, processing payments by the L/C rules, and confirming the exporter's given documentation. The role of banks in promoting seamless commercial transactions, reducing risks, and guaranteeing adherence to global standards like the Uniform Customs and Practice for Documentary Credits (UCP 600) is also covered in the paper.

The analysis also highlights issues with the L/C process, like document inconsistencies and exchange rate fluctuations, and offers solutions to increase operational effectiveness. The value of precision, cooperation, and transparency in managing global commerce transactions was emphasized by this experience.

In addition to including problems with the L/C process, such as inconsistent documents and fluctuating exchange rates, the analysis also provides options to improve operational performance. This event highlighted the importance of accuracy, collaboration, and openness in handling international business transactions.

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CHAPTER-1

INTRODUCTION

Chapter-1 Introduction

1.1 Nature of job

An internship after the four-year Bachelor of Business Administration (BBA) degree enables students to apply their knowledge in practical settings. One of Bangladesh's leading financial firms, Dhaka Bank Limited, allowed me to finish my internship there. August 1, 2024, started my three-month internship. Thanks to this experience, I could relate my academic knowledge to real-world work.

I worked with many teams throughout my internship, helping with duties like customer service, account management, document verification, and daily operations support. Learning about banking procedures, maintaining documentation, and ensuring that all operations adhered to the bank's standards were among my duties. I also had the opportunity to observe how various divisions collaborate to meet the bank's objectives.

The surroundings at Dhaka Bank Limited were supportive and encouraging. I felt comfortable and inspired since I was treated like a team member right away. The team's constant availability to guide and help me improve my abilities helped me understand the ideals and culture of the bank. This encouraging environment aided in my personal development and equipped me to face obstacles at work.

All things considered; the internship taught me a lot about the banking sector. I gained confidence and developed abilities that would help me in my future profession because of the support and direction I received from my supervisor and coworkers. I am now ready to thrive in the rapidly evolving corporate environment thanks to this experience.

1.2 Internship Experience

During my Dhaka bank internship, I learned a lot about how a bank works and got to help with different tasks. Here are some of the main things I did and learned:

1. Supporting Clients Open Accounts:

- Guided clients through the process of creating accounts and completing paperwork.
- Describe the many kinds of accounts and services, such as fixed deposits and savings accounts.
- By speaking with clients and assisting them in understanding banking services, I was able to improve my communication skills.

2. Managing Transactions and funds:

- Cash deposits, withdrawals, and daily cash reconciliation have been noticed and helped with.
- Realised exactly how important it is to handle cash transactions quickly and accurately to maintain security and customer trust.
- Learned about teller procedures, such as keeping correct records, balancing cash, and checking funds.

3. Helping with Loan Applications:

- Helped in verifying documentation for various loan kinds (such as business and personal loans) while working with the loan department.
- Learned how the bank determines a person's loan eligibility and about credit checks.
- Recognized the significance of handling loan applications sensibly to lower bank risks.

4. Processing Cheques:

- Checked information and verified signatures as part of my assistance with the cheque-clearing procedure.
- Observed how the bank maintains accuracy by balancing checks daily.
- Figured out how banks manage checks from other financial institutions.

5. Understanding Bank Rules and Compliance-

- Participated in training on key bank rules, such as "Know Your Customer" (KYC) and Anti-Money Laundering (AML) principles, which are intended to prevent fraud.
- Discovered the importance of banks following these regulations for security and safety.
- I have a better understanding of how banking laws impact bank operations.

6. Organizing Documents:

- Kept files organized and assisted in organizing customer documentation.
- Complied with regulations to guarantee the confidentiality and security of client information.
- Improved my organizational ability, which is important while handling several documents.

7. Learning About Digital Banking:

- Noted that Dhaka Bank provides digital banking services, such as mobile banking apps and internet banking.
- Allow clients to access their accounts and complete transactions via digital banking systems.
- Found how technology is improving consumers' access to and convenience with banking.

8. Supporting Internal Audits and Reviews:

- Set up the records required for internal evaluations to assist the audit team.
- Observed the auditing procedures used by Dhaka Bank to guarantee precision, openness, and adherence to banking laws.
- Recognized how crucial routine audits are to preserving the integrity of bank operations.

9. Team Collaboration and Communication:

- Worked frequently with several Dhaka Bank teams to support day-to-day operations.
- I understood the bank's objectives, plans, and active projects by attending team meetings.
- Improved my communication and teamwork abilities, which are critical in a cooperative workplace.

10. Receiving Feedback and Professional Development:

- Establish personal objectives to do better at things like attention to detail, documentation accuracy, and customer service.
- I gained a broader grasp of the banking sector and possible career possibilities inside Dhaka Bank thanks to mentorship.

This internship at Dhaka Bank provided me with valuable insights into the banking industry, which also helped me advance my technical and professional abilities. It was a great educational experience that has equipped me for a career in finance and banking.

CHAPTER-2

Company Profile

Chapter-2 Company Profile

2.1 Introduction

Dhaka Bank Limited, one of Bangladesh's top private financial banks, was founded on July 5, 1995, and is renowned for its client-focused philosophy. It has continuously provided excellent financial services that are suited for people, companies, and enterprises. The bank, which has its main office in Dhaka, now has 114 branches, 29 sub-branches, 3 SME service centers, 88 ATMs, and more. Dhaka Bank has a strong name in the financial industry because of its wide range of banking choices.

2.2 History and Evolution

Abdul Hai Sarker served as the bank's first chairman when Dhaka Bank was founded by Mirza Abbas during a pivotal time in Bangladesh's banking industry. To support financial inclusion and economic growth, the company was founded to provide exceptional, customized banking services made possible by state-of-the-art technology.

2.3 Key Milestones

1. **1995:** Formed as a Public Limited Company under the provisions of the Companies Act of 1994.
2. **2003:** Publicly traded after being listed on the Dhaka and Chittagong Stock Exchanges.
3. **2011:** Published Dhaka Bank Securities Limited, a subsidiary dedicated to managing stockbroker and stock dealer activities.

Over the years, Dhaka Bank has strengthened its position as a major participant in Bangladesh's financial sector by growing its network and offering services.

2.4 Vision, Mission, and Values

The vision, purpose, and core values of Dhaka Bank serve as a roadmap for its business operations, demonstrating the bank's dedication to quality and client happiness.

Vision: Establishing itself as Bangladesh's most trustworthy and client-focused financial organization, renowned for its innovative financial services and top-notch customer support.

Mission: To offer complete financial services that benefit people, companies, and the country's economy. Dhaka Bank aims to promote financial inclusion and support long-term, steady economic growth.

Core Values:

- Innovation in service delivery.
- Customer satisfaction is the top priority.
- Transparent and moral banking procedures.
- Dedication to CSR (corporate social responsibility).

2.5 Products and Services

1. Retail Banking: A comprehensive range of retail banking services is offered by Dhaka Bank, including:

- **Fixed Deposit Accounts**: High-revenue term deposit options.
- **Personal Loans**: Home and car loans, tailored to individual needs.
- **Credit and Debit Cards**: Easy payment options both domestically and abroad.
- **Digital Banking**: Mobile and internet banking for seamless financial management.
- **Savings and Current Accounts**: Flexible, secure accounts with varying interest rates.

2. Corporate Banking: Dhaka Bank’s corporate services are designed for businesses of all sizes:

- **Business loans**: Financial support for expansion and working capital.
- **Trade finance:** Products like bank guarantees and letters of credit (LCs).
- **Services for Cash Management:** Effective handling of payables and receivables.
- **Syndicated Loans:** Significant funding is provided in collaboration with other institutions.

3 SME Banking: Medium-sized and small enterprises are assisted by Dhaka Bank's SME services, such as:

- **SME Loans**: Customized to meet cash flow and expansion needs.
- **Advisory Services**: Expert guidance for business growth and financial management.

4. Islamic Banking: For Shariah-compliant banking, Dhaka Bank offers:

- **Ijarah** (Leasing financing).
- **Murabaha** (Cost-plus financing).
- **Mudarabah** (Profit-sharing financing).

5. Treasury and Investment Banking: Advanced financial management services include:

- **Asset Management**: Institutional Investor Solutions.
- **Government Bonds and Securities**: Secure investing choices.
- **Foreign Exchange Services**: Individual and business currency trading.

2.6 Dhaka Bank Securities Limited (DBSL)

Operations for stockbrokers and dealers are managed by an entirely subsidiary called Dhaka Bank Securities Limited (DBSL). Since its founding in 2010, DBSL has grown to be a significant participant in the capital market, providing to both institutional and individual clients.

1. Permitted Capitalism: Tk. 500 crore.
2. Capital Paid Up: Tk. 204.60 crore.

2.7 Financial Performance

Dhaka Bank has demonstrated consistent financial growth, cementing its market position. Key financial highlights for 2023 include:

1. Total Assets: BDT 28,000 crore (USD 2.6 billion).
2. Net Profit: BDT 320 crore (USD 30 million).
3. Return on Equity (ROE): 15.25%.
4. Return on Assets (ROA): 1.5%.
5. Capital Adequacy Ratio (CAR): 12.5%, exceeding regulatory requirements.

These strong results have enabled the bank to invest in new technologies, expand its network, and enhance service offerings.

2.8 Digital Transformation

Dhaka Bank is committed to digital innovation, with several key initiatives:

1. Internet banking: All-inclusive services provided online.
2. ATMs and CRMs: An extensive system of recycling and cash withdrawal devices.
3. Mobile banking: A powerful app that provides access to accounts and transactions continuously.

These efforts are aligned with the bank's goal of improving financial accessibility and convenience.

2.9 Corporate Governance

According to the direction of its Board of Directors and many committees, including the Audit and Risk Management Committees, Dhaka Bank maintains robust corporate governance. Its activities are centered on ethical banking principles and transparency, which guarantee confidence with stakeholders, regulators, and consumers.

2.10 Corporate Social Responsibility (CSR)

Dhaka Bank takes its social responsibilities seriously, focusing on:

1. Healthcare: Providing medical facilities and hospitals.
2. Disaster Relief: financial support in the event of a natural disaster.
3. Education: Financial aid and scholarships for underprivileged students.
4. Environmental sustainability: offers conservation initiatives and green banking methods.

These initiatives demonstrate the bank's commitment to national development.

2.11 Challenges and Risks

Dhaka Bank faces several challenges:

1. Regulatory Changes: Adjusting to changing banking laws.
2. Market Competition: Competing outside against other banks, both public and private.
3. Technological Risks: Dealing with the dangers of cybersecurity in the digital age.
4. Economic Volatility: controlling the risks associated with shifts in interest rates and the economy.

In Bangladesh, Dhaka Bank Limited has a long history of offering top-notch financial services. The bank is ready for expansion because of its innovative products, strong financial performance history, and dedication to corporate social responsibility. Dhaka Bank's emphasis on client happiness, technical innovations, and ethical procedures will remain crucial to its success as it adjusts to a changing financial market.

CHAPTER-3

Evolution Through History

Chapter-3 Banking Sector: Evolution Through History

3.1 Ancient Civilizations

Banking has its roots in Mesopotamia and ancient Egypt, where the first financial institutions were housed in royal treasuries and temples. These entities stored valuables and lent money to merchants and farmers, facilitating trade and economic expansion.

3.2 Medieval Europe

Banking took a more formal structure in Europe during the Middle Ages, driven by families like the Medicis in Italy. Promissory notes and bills of exchange were widespread, facilitating long-distance trade and boosting the economy of European city-states like Florence and Venice.

3.3 16th–18th Centuries: The Foundation of Modern Banking

A pivotal point in the history of banking was the creation of central banks, most notably the Bank of England in 1694. Central banks oversaw the management of national debt and introduced paper money. Furthermore, the emergence of joint-stock firms made it possible for investors to combine their funds, which fueled the expansion of commercial banks.

3.4 Nineteenth-century Innovations

Throughout this time, many banking models emerged and expanded throughout Europe and the Americas, including commercial, savings, and investment banks. Many countries adopted the gold standard, ensuring monetary stability by pegging currencies to stocks of gold.

3.5 The Twentieth Century and Beyond

The great debt in the 1930s reshaped the banking landscape, leading to the U.S. Glass-Steagall Act, which split both investing and commercial banking. Afterwards in the 20th century, global banking, credit cards, and computerized financial services all became popular.

3.6 The 21st Century: Digital Transformation

The 21st century revolutionized banking with digital innovations. Besides, blockchain technology, mobile banking, and online-only banks have completely changed how consumers engage with financial institutions. Decentralized financial systems have been made possible by cryptocurrencies like Bitcoin, and central banks are now investigating digital currencies to stay up with the latest developments in technology.

3.7 An Overview of Bangladesh's Banking Industry

The banking sector in Bangladesh, a developing country, is beset by difficulties, especially with government-run banks that provide few products and services. Private banks, such as Dhaka Bank, have made an effort to modernize in recent years by implementing systems from more developed countries. However, Bangladesh Bank's inefficient or politically motivated practices frequently thwart these initiatives. This has led to a system that helps the wealthy and powerful engage in illicit activities like money laundering, while ordinary residents and students find it difficult to obtain services and make international transactions.

With nine international banks, three specialty banks ruled by the government, and six centralized commercial banks, the financial situation in the Bangladeshi system got off to a great start after independence. The industry underwent a dramatic change in the 1980s with the entry of privately held banks like Dhaka Bank. Financial organizations (banks) in Bangladesh are now divided into two main categories:

3.7.1 The Banking Sector's Structure

1. Scheduled Banks: Banks governed by the Bank Order of Bangladesh (1972), divided into.
2. Non-Scheduled Banks: Banks with a clear purpose and legal authority to function under particular statutes but not listed as Scheduled Banks. Due to their constraints, these banks are unable to carry out all of the tasks that traditional banks can. The Bank Companies Act of 1991 and the Bangladesh Bank Order of 1972 both appoint the Bangladesh Bank as the only regulator of the 61 scheduled banks in the nation. The following categories include Bangladesh's scheduled banks:

1. State-Owned Commercial Banks (SOCBs): The government is primarily served by six banks.
2. Specialized Banks (SDBs): Three government-owned banks with a focus on particular industries, such as manufacturing and agriculture.
3. Private Commercial Banks (PCBs): 43 PCBs, including:
    a) Conventional PCBs: 33 banks operating under traditional interest-based systems.
    b) Islamic PCBs: Ten Shariah-compliant banks that use a profit-loss sharing scheme rather than interest.
    c) Foreign Commercial Banks (FCBs): Nine foreign banks help create a competitive atmosphere in Bangladesh.

Currently, Bangladesh has **5 non-scheduled banks**, including:
1. Jubilee Bank
2. Palli Sanchay Bank
3. Ansar VDP Unnayan Bank
4. Grameen Bank
5. Karmashangosthan Bank

3.7.1.1 Financial Institutions

The 1993 banking system take action governs how Bangladesh's financial institutions (FIs) conduct business. At the moment, there are 35 FIs, which include:

1. 19 private domestic institutions.
2. 13 joint ventures.
3. 2 state-controlled.
4. 1 subsidiary of a SOCB.

3.7.1.2 Key Differences Between Banks and Financial Institutions (FIs)

1. Deposit Acceptance: Demand deposits are accepted by banks but not by FIs.
2. Operational Scope: Banks are allowed to offer a greater range of services than financial institutions (FIs), including foreign currency funding.
3. Financing Methods: While FIs employ a variety of techniques like leasing, private placements, and securitization, banks mostly rely on deposits and loans.

3.7.2 Commercial Bank Operations in Bangladesh

The Bangladesh Bank Order of 1972 and the Banking Companies Act of 1991 both regulate commercial banks. Their main objectives consist of:

1. Obtaining and allocating funds.
2. Issuing credit letters and doing foreign exchange business (not currency trading).
3. Dealing with financial instruments like bonds and promissory notes.
4. Supplying safe storage for money and assets.

To be categorized as scheduled banks, institutions need backups and paid-up capital of at least Tk 200 million, guaranteeing a strong financial foundation for their activities.

CHAPTER-4

Letter of Credit

Chapter-4 Letter of Credit

4.1 Introduction to Letters of Credit: A Crucial Tool via International Trade

International trade is important for financial growth because the nation because it proposes cooperation, accelerates growth & makes cross-border exchanges of products and services possible. Securing payments and guaranteeing that items are delivered as promised can be a difficult undertaking, though, because trade crosses several legal frameworks, political environments, and financial systems. The L/C which ensures settlement and reduces risks in cross-border transactions, has become a vital tool for navigating these complications.

Essentially, A Letter of Credit is a guarantee that the provider will receive payment from the buyer's bank. as long as the seller aligns with the conditions mentioned in the credit. The purchaser's bank secures this payment, which is contingent upon the seller presenting specific documentation, including invoices, certificates, and evidence of shipment. Thus, the L/C serves as a middleman for the purchaser and vendor, ensuring the objectives of each party are secure.

4.2 Key Features of a Letter of Credit

Letter of Credit managing fundamental problems of international trade by performing as a safety net for both importers and exporters:

- **Payment Assurance for the Seller:** Apart from the case of a buyer by failure, the seller is assured payment as soon as soon as the L/C's conditions are maintained.
- **Effectiveness for the Buyer:** The purchaser is guaranteed that money will only be transferred once the seller's fulfillment of the conditions specified in the contract (delivering the products, for example).
- **Bank's Role:** The bank serves as an impartial third party, ensuring that the procedure is safe and transparent for all participants.

4.3 SWOT Analysis of Letter of Credit

An essential financial tool in international business, a Letter of Credit (LC) assures safe transactions by promising to pay sellers once they meet predetermined terms. It eliminates risks in international trade and promotes confidence when issued by banks. Although LCs offer protection, their procedures can be expensive and complicated. The advantages, disadvantages, opportunities, and dangers related to letters of credit are highlighted in this SWOT analysis.

1. Strengths:

- **Reliable Transfers:** Provides that vendors get payment after all terms and conditions have been met.
- **Developing faith:** Deals stability to both sides in global commerce.
- **Bank Activity:** Because banks serve as middlemen, they lend authority.
- **Risks Minimization:** Lowers political and credit risks in international trade.

2. Weaknesses:

- **Expensive:** Includes opening, counseling, and verifying LC expenses.
- **The structure Information:** Necessitates extensive documentation, which may cause activities to be delayed.
- **Time-intensive:** It might take a long time to verify and process LCs.
- **Reliance on Banks**: The efficacy of banks is crucial to the process.

3. Opportunities:

- **Expanding International Industry:** LC usage may rise together with growth in international commerce.
- **Virtual LC Solutions:** The procedure may be made simpler by implementing blockchain technology and electronic LCs.
- **Rising Markets:** Has the potential to help companies in emerging nations engage in safe commerce.

4. Threats:

- **Fraud Risks:** Include Built documents that can lead to financial losses.
- **Monetary instability:** LC reliability may be affected by exchange rate swings and world crises.
- **Pressure from Alternatives:** The use of LC may be decreased by other trade finance techniques like escrow or open accounts.
- **Regulatory Changes:** LC procedures may be impacted by modifications to banking and trade regulations.

One important instrument in international trade that promotes trust and lowers risks for both buyers and sellers is a **Letter of Credit (LC)**. However, the complexity and expenses provide difficulties, developments such as digital LCs and expanding trade present chances for enhancement. Companies need to evaluate these elements and adjust to changing trade laws.

4.4 Process of Payment and Issuance in Letters of Credit

4.4.1 Payment by Letter of Credit

In foreign trade, a Letter of Credit (L/C) acts as a financial guarantee, guaranteeing that the seller will be paid after the credit's terms are fulfilled. The purpose of L/C's payment procedure is to reduce risks for both the customer and the seller. This is how it operates:

- **Seller's Assurance of Payment:** If the seller accepts the conditions of an L/C, they will be paid as long as they fulfill the conditions specified in the credit. Usually, these requirements involve supplying particular records (such as shipping receipts, inspection certifications, etc.) attesting to the items' delivery.
- **Payment Terms:** The seller must deliver the necessary paperwork to their bank (advising or confirming bank) for the payment to be made. To avoid any inconsistencies, the seller must make sure that these documents agree to the situations of the L/C. The issuing bank is in charge of the seller's payment if the paperwork meets the necessary standards.
- **Bank's Responsibility:** The bank in issue is in charge of making sure the money is transferred. The underlying trade agreement between the buyer and seller has no bearing whatsoever on the bank's responsibility to pay. As a result, the L/C becomes an "abstract" payment method, with the bank's duty to pay being only based on the document and independent of any other variables, including the buyer's financial capacity or inclination to pay.
- **Payment Types:** The L/C can be set up to accommodate various payment plans:
    1. **Sight Payment**: As soon as the bank receives the appropriate paperwork, payment is made.
    2. **Deferred Payment:** after the seller provides the necessary paperwork, payment is made later. This can happen anywhere from 30 to 180 days following the shipping.
    3. **Acceptance Credit:** Following the shipment of the products and the submission of the necessary paperwork, a later payment date is agreed upon by the buyer's bank.

In addition to ensuring that the buyer only pays after confirming that the seller has delivered the products by the agreed terms, this approach secures the seller by guaranteeing payment.

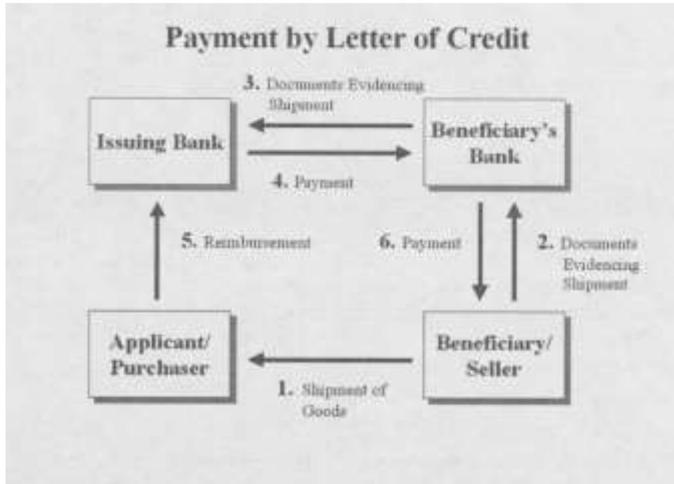

Figure-1

4.4.2. Issuing a Credit Letter

To issue a Letter of Credit, the buyer must first ask their bank to open an L/C in the seller's favor. The steps are as follows:

- **Starting the L/C:** The importer/buyer visits their bank (the issuing bank) and queries a Letter of Credit to be opened. The phrases and conditions for payment are specified by the buyer. This includes describing the necessary paperwork like bills of lading, invoices & certificates of origin, that the seller must provide to be paid.

- **Issuing Bank's Role:** The issuing bank evaluates the buyer's credit in the L/C. After agreeing on the terms, the buyer's bank provides the L/C, ensuring that the seller would receive payment provided the credit's conditions are fulfilled. The issuing bank is required to make the payment once the seller submits the required documentation.

- **Notifying the retailer:** The seller's bank, also known as the suggestion bank, is notified by the publishing bank. The recommendations bank has no further financial duties if it only notifies the seller of the L/C. However, the assistance bank becomes a co-guarantor of the payment if it verifies the L/C, encouraging it to reimburse the seller even though the issuing bank is unable to do so.

- **Vendor's Compliance:** After receiving the L/C, the seller is responsible for meeting the statements and conditions outlined in the credit. This entails fulfilling the terms of the contract, delivering the items on schedule, and supplying the necessary paperwork.

- **Document Submission:** Following the shipment of the items, the seller provides their bank with the necessary paperwork. The advising (or confirming) bank examines these documents to ensure they meet the Letter of Credit's conditions. If everything is in order, the documents are sent to the issuing bank.
- **Payment Processing:** The transaction is finalized whenever the trader gets paid by an issuance bank once the paperwork has been validated.

Overall, before payment is given to the seller, a thorough procedure of setting terms, confirming creditworthiness, and overseeing document verification is required when issuing an L/C. In international trading, this procedure establishes a safe system for both buyers and sellers.

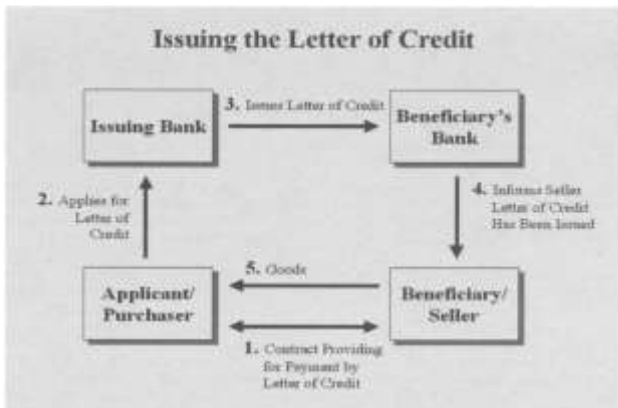

Figure-2

4.5 Types of Letters of Credit

According to its features and application in global trade transactions, letters of credit (L/Cs) can be divided into several forms. For both the buyer and the seller, each option offers varying degrees of security and flexibility. The main types of L/Cs are as follows:

4.5.1 Revocable and Irrevocable Letters of Credit

- **Revocable L/C:** A changeable Letter of Credit may be canceled or modified at any time by the issuing bank or the buyer without prior notification to the seller. The seller has less protection because the conditions of this type of L/C might change at any time throughout the transaction.

- **Implications for the buyer:** The buyer can change the terms at any time.
- **Implications for the seller:** The seller is exposed to risks since the L/C may be withdrawn or modified at any time, this could undermine confidence in the deal.

- **Irrevocable L/C:** An irrevocable L/C cannot be altered or canceled without the consent of the buyer, seller, and issuing bank. The seller has greater security because the terms of this type of L/C are predetermined.

- **Implications for the buyer**: The terms are difficult to modify once they are issued.
- I**mplications for the seller:** The seller is assured that the conditions and payment will not be altered without permission.

4.5.2. Confirmed and Unconfirmed Letters of Credit

- **Confirmed L/C:** In addition to the issuing bank, a second bank—usually the seller's bank—that guarantees payment is also involved in a verified L/C. The confirming bank ensures that the seller will be paid even if the issuing bank is unable to make payments. With this type of L/C, the seller is further protected.
- **Implications for the buyer:** Although the transaction is more secure for both sides, the buyer may have to pay more because the second bank is involved.
- **Implications for the seller:** If the confirming bank provides the seller with extra protection if the issuing bank fails.

- **Unconfirmed L/C:** In this specific, the issuing bank has all responsibility for payment. The seller's bank assumes no obligation for the payment. This type of L/C is less safe for the vendor.
- **Implications for the purchase:** Since just one bank is involved, the buyer may incur lower costs.
- **Implications for the sale:** Without any further assurance from a confirming bank, the seller is in danger that the issuing bank would default.

4.5.3. Standby Letter of Credit

A standby letter of credit is a type of L/C that can be utilized as an alternative payment option. If one party violates the conditions of the contract (non-performance), it often serves as a guarantee. If the vendor does not deliver the goods or the buyer defaults on the payment, the L/C acts as a safety net to ensure that the non-performing party gets compensated.

- **Implications for the buyer:** To be sure the vendor will deliver the products or services as agreed, the buyer may use a standby L/C.
- **Implications for the seller:** If the buyer defaults, sellers can employ standby L/Cs to ensure they will be paid.

4.5.4. Transferable and Back-to-Back Letters of Credit

- **Transferable L/C:** This type of L/C enables the seller, who is the beneficiary, to assign all or a portion of the credit to a third party, like a supplier or middleman. When the seller must source goods from another supplier or serve as a middleman in a transaction, this function is especially helpful.
- **Implications for the buyer:** Although it offers flexibility in trade, the buyer may encounter complications if the credit is transferred more than once.
- **Implications for the seller:** The seller can facilitate trade by transferring the L/C to another party, s: By giving the L/C to a third party, such as a supplier, the seller can promote commerce and guarantee a seamless transaction.

4.5.5. Back-to-Back L/C

In a back-to-back L/C, the buyer's bank issues one L/C to the first vendor, and the first seller's bank issues another L/C to a second seller, usually a supplier. This type of transaction is common when a first seller has to use a third party's products to fulfill an order.

- Implications for the buyer: The buyer pays the bank of the first seller, who after that handles the payment to the second seller.
- Implications for the seller: Although the first seller serves as a middleman, managing several L/Cs adds another level of complexity and risk.

4.5.6. A commercial letter of credit (LC)

As long as the seller complies with specific conditions, such as providing goods or services on schedule, the buyer will pay the seller, according to a commercial letter of credit (LC), a financial instrument that a bank gives to a seller. It is commonly used in international trade to provide secure payments between parties who may not have confidence.

4.5.7. Circular Letter of Credit

A circular letter of credit is provided by a bank upon a client's request to ensure payment to several third parties, usually retailers or service providers. It ensures that the payees receive their payments on time by serving as general permission for the consumer to withdraw funds within a certain limit.

4.6 Understanding the Workflow of Letters of Credit

4.6.1 Process Flow

1. Agreement Between the client and the vendor:

- The buyer (importer) and seller (exporter) agree on the terms of the transaction, including the use of a Letter of Credit as a payment mechanism.

2. Buyer Requests L/C:

- By specifying the terms, such as the amount of payment, required documentation, and deadlines, the buyer requests that their bank (issuing bank) issue an L/C to the seller.
- In advance of issuing the L/C, the issuing bank assesses the buyer's solvency.

3. The Issuing Bank Creates the L/C:

- The bank that issued the L/C transmits it to the seller's bank (advising or verifying the bank) after preparing it and ensuring that it conforms with the terms agreed upon.

4 Seller's Bank Advises or Confirms the L/C:

- The seller is informed after the seller's bank confirms the legitimacy of the L/C.
- The seller gains further protection if the L/C is verified and the seller's bank provides their assurance of payment.

5. Seller Ships Goods:

- By the agreement, the seller sends the goods and prepares the required documentation, including the bill of lading, invoice, and insurance certificate.

6. Seller Submits Documents to Their Bank:

- The vendor gives their bank the required paperwork for validation. These records certify the fulfillment of the L/C's requirements.

7. Documents Sent to Issuing Bank:

- The advising or confirming bank delivers the papers to the issuing bank for further verification.

8. Verification and Payment:

- The documents are checked by the issuing bank against the L/C's terms. Payment is released to the seller's bank by the bank if everything is in order.
- The transaction completes when the seller is paid by the seller's bank.

9. Buyer Reimburses Issuing Bank:

- When the buyer receives the products from the issuing bank, they utilize the paperwork to claim them. The buyer then reimburses the issuing bank

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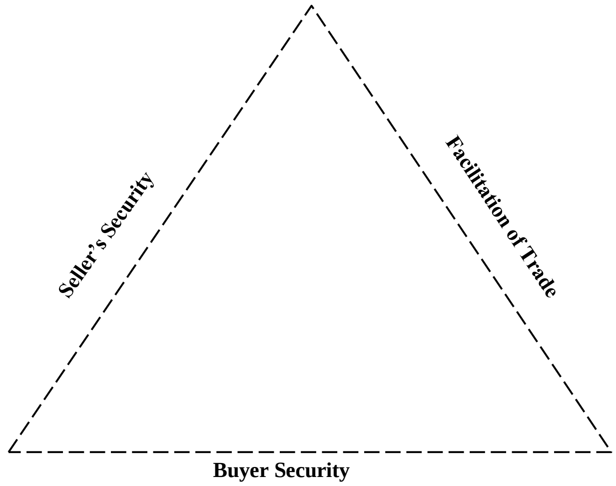
4.7 Documentary Requirements

For an L/C transaction to be completed smoothly, accurate and comprehensive paperwork is essential. Commonly needed papers include:

1. **Commercial Invoice:** lists the products sold, their cost, and the conditions of settlement.
2. **Bill of Lading:** provides proof that the products have been sent out.
3. **Packing List:** lists the items that will be shipped.
4. **Insurance Certificate:** protects the consignment from any dangers.
5. **Certificate of Origin:** attests to the place of manufacturing of the products.
6. **Inspection Certificate:** attests to the caliber and amount of the transported items.

Every document needs to be exactly in line with the L/C's provisions. Any inconsistencies may cause the payment to be delayed or canceled.

4.8 Advantages of Using Letters of Credit (LCs)



1. Seller's security

As long as the other party fulfills the conditions of the contract, which include delivering the goods and submitting the required documentation (such as the invoice, packing list, or bill of lading), a letter of credit gives them a certain assurance that they will be paid. This reduces the likelihood that buyer disputes or defaults may result in insufficient payment.

Example: A Bangladeshi producer ships clothing to a US shop. With an LC, even if the buyer doesn't pay right away, the Bangladeshi manufacturer will still get paid when they produce the items and give the bank the necessary paperwork.

2. Buyer Security:

Because money is only released if the seller achieves the precise terms and conditions specified in the LC, such as delivering items of the agreed-upon quality and quantity, buyers profit from an LC. This guarantees that customers won't be charged for shipments that are inadequate or lacking.

Example: A French furniture store imports wooden furniture from Vietnam. By employing an LC, the French retailer guarantees that payment will only be issued if the Vietnamese supplier delivers furniture that satisfies the agreed-upon requirements and is on schedule.

3. Facilitation of Trade:

Through the involvement of banks from both the buyer's and seller's nations, letters of credit assist in overcoming trust concerns and legal impediments in international trade. Even when the parties operate in separate nations or have never done business together before, this makes transactions simpler and more dependable.

Example: A German machinery provider consents to sell equipment to a Brazilian customer. The Brazilian buyer employs an LC since there is no previous trading link between the two firms. The Brazilian customer is guaranteed that the equipment will fulfill the agreed terms, and the German supplier is certain about getting paid.

Additional Advantages:

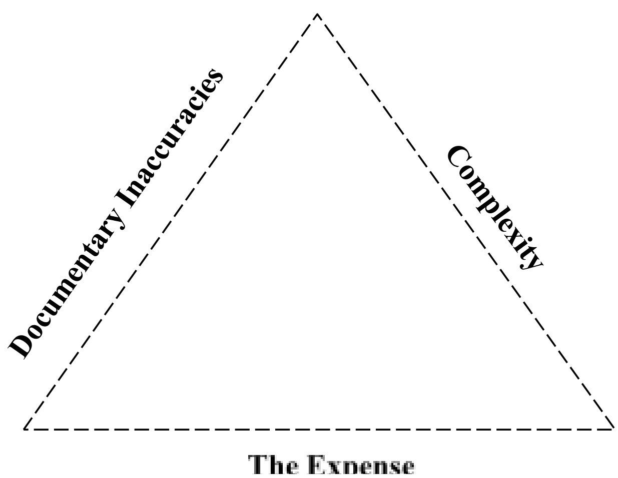
1. Lowers Currency Risk: By allowing letters of credit to select a stable currency, payment terms can lower the risk of exchange rate swings.
2. Improves Credit Access: By acting as a type of credit, LCs allow the buyer to complete the transaction without having to pay cash right away.
3. Improves Business Relationships: LCs encourage international trade and new alliances by reducing risks.

For the advantage of both buyers and sellers, letters of credit are essential instruments for ensuring safer, more seamless international transactions.

Challenges include:

1. being aware of complicated LC terms and processes.
2. Making sure all paperwork requirements are met.
3. addressing any disagreements on the meaning of LC terms.

4.9 Risks and Challenges of Letters of Credit (LCs)



1. Documentary Inaccuracies:

Differences in the seller's presented documentation are among the most frequent dangers relating to LCs. Due to banks' strict compliance policies, even little mistakes, such as misspelled names, incorrect dates, or mismatched amounts, may result in payment rejection or delays.

Example: When a textile exporter from India ships fabric to a client in Europe, an LC is utilized. The LC specifies the cloth's parameters and delivery window. However, the exporter's bill of lading displays a slightly different shipment date than the invoice. If the bank rejects the documents because of this discrepancy, payment to the exporter can be delayed.

The results:

1. Obstacles in payment or the issuing bank's rejection.
2. In addition, managerial expenses to correct errors.
3. commercial partners' lost confidence in one another.

2. The expense:

There are major costs associated with using LCs, such as expenses for issuing, consulting, verifying, and negotiating. These expenses might be costly, especially for smaller companies with little funding.

Example: A small Ethiopian coffee producer sells coffee to a US importer via an LC. For processing the LC, the issuing bank costs $300, the advising bank charges $200, and there are

other expenses for managing the documents. These expenses might account for a sizeable amount of the exporter's profit margin for a $10,000 cargo.

Breakdown of typical costs:

1. Fees for issuing (1–2% of the LC value).
2. Fees for confirmation (for further assurances).
3. Modification fees (should the LC need to be modified).
4. Documents delivery courier costs.
5. LCs may become less appealing for low-value transactions because of their high expenses.

3. Complexity:

The LC procedure is quite technical and necessitates accurate document preparation and submission while strictly adhering to the LC criteria. The complexity of the system may be difficult for smaller companies, particularly those who are new to international trading.

Example: A Chinese start-up electronics firm consents to sell to an Australian customer. A packing list, quality inspection report, and certificate of origin are among the documentation specified by the LC. The manufacturer causes delays and extra administrative difficulties by submitting inaccurate or incomplete documentation since they are not familiar with LC processes.

4.10 Bank Activities

1. The buyer's bank's (issuing bank's) role:

- **Provides the L/C:** Provides the seller of payment upon satisfaction of all conditions.
- **Assesses Documents:** Ascertains if the seller's records correspond to the conditions of the L/C.
- **Ensures Payment:** When demands are met, it pays the seller on behalf of the buyer.

Example: To guarantee payment to a Japanese supplier upon delivery, a Canadian buyer's bank offers an L/C.

2. Function of the Seller's Bank (Confirming/Advising Bank)

- **Provides L/C advice:** Informs the seller of the terms of the L/C.
- **Verifies Documents:** aids the vendor in fulfilling criteria.
- **Verifies Payment:** guarantees payment even if the buyer's bank (if it's a confirming bank) fails.

Example: A Ghanaian exporter depends on their bank to ensure that a US customer would pay them.

4.11 Worldwide Norms & Policies

Letters of Credit (L/Cs) are essential tools for international trade because they give buyers and sellers from other nations security and confidence. Defined norms and guidelines regulate its worldwide use to guarantee consistency, equity, and transaction efficiency. The International Chamber of Commerce (ICC) and the Uniform Customs and Practice for Documentary Credits (UCP 600) are two important components of these international practices.

1. UCP 600: UCP 600: The Standardized Rules and Practices for Documentary Credits

The International Chamber of Commerce (ICC) created the widely accepted Uniform Customs and Practice for Documentary Credits (UCP 600) set of guidelines. The purpose of these rules is to guarantee efficiency, consistency, and dependability when using Letters of Credit (L/Cs) for international commercial operations. key features are -

- **Descriptive Biology:** UCP 600 highlights that papers, not products or services, represent the foundation of Letters of Credit. Banks just handle paperwork; they have no control over the real caliber or functionality of the products.

- **Uniformity:** It reduces misunderstandings and conflicts by giving all parties—buyers, sellers, and banks—a common framework.
- **Acceptance Demands:** Documents have to conform exactly to the terms outlined in the L/C for banks to make payments. Discrepancies may lead to failure to pay.
- **Versatility for Adjusting:** The regulations can be modified for particular transactions, which allows them to be adjusted to meet the demands of international trade.

Worldwide importance:

- **Threat Cutting:** By ensuring that payment conditions and paperwork needs are clear, UCP 600 lowers the financial risks for both buyers and sellers.
- **Simplicity of Trading:** UCP 600 streamlines international trade by establishing procedures, particularly in intricate markets with disparate legal frameworks.
- **Logical Assurance:** It offers a structure accepted by judges and mediators, ensuring legal clarity in the event of disputes.

For example, the UCP 600 ensures that a European exporter and a Bangladeshi importer follow the same set of guidelines when starting a Letter of Credit, regardless of different national banking laws. This offers a safe payment method and equitable treatment for both parties.

2. ICC: The International Chamber of Commerce's Role

The UCP 600 is a set of guidelines and standards for international trade created and endorsed by the International Chamber of Commerce (ICC), a worldwide organization. The ICC, which was founded in 1919, is essential to encouraging international trade and settling conflicts.

Trade Finance Roles of the ICC:

- **Development of Global Standards:** To ensure relevance and efficacy in addressing changes in global trade patterns, the ICC creates and revises regulations such as UCP 600.
- **Learning & Workshops:** To teach bankers, traders, and legal professionals the best practices for utilizing Letters of Credit, the ICC offers seminars, certifications, and training programs.
- **Conflict Settlement:** The ICC offers objective and knowledgeable decision-making in the resolution of disputes that may emerge in trade transactions through its International Court of Arbitration.
- **Development of Business Support:** The ICC promotes the removal of obstacles to global trade and the development of more effective trade financing systems.

The ICC's Principal Assistance:

- Trade Practices Regulations: The ICC has supplemented the UCP 600 with other recommendations, such as the International Standard Banking Practice (ISBP) and Incoterms, to create standardized banking and trade terms to facilitate international trade.

- Getting Used to Innovation: To ensure that international standards keep up with changing technological trends, the ICC has included provisions for the use of electronic records in Letters of Credit in recognition of the improvements in digital banking.

While the UCP 600 ensures stability and confidence in Letter of Credit operations, the ICC provides a structure for global trade norms. When combined, they improve safety and efficiency for companies and economies around the world by streamlining international trade.

4.12 Current Patterns in the Use of L/C

1. The effect of recent challenges

- **Worldwide Monetary Volatility:** Because Letters of Credit (L/Cs) offer safe payment methods in volatile markets, their demand has grown as a result of trade wars, inflation, and currency fluctuations.
- **Governance Concerns:** Due to geopolitical tensions and sanctions, L/Cs are a popular option for importers and exporters who deal with politically problematic areas to reduce risks.
- **Supply Chain Obstacles:** The significance of L/Cs in guaranteeing payment security in the face of delays and disruptions in the movement of products has been brought to light by COVID-19 and other international crises.

2. Growth of Digital L/Cs:

- **Combination of Innovation:** The introduction of digital or electronic Letters of Credit (eL/Cs), which enable faster processing and less paperwork, is transforming trade finance.
- **Expense Performance:** By automating document verification and facilitating communication between parties, eL/Cs reduce transaction costs.
- **Decreased risks:** Technology can improve security, reduce mistakes, and increase adherence to global standards.
- **Use of the system:** Based on L/Cs provide efficiency and transparency while guaranteeing safe and impenetrable transactions.

These patterns show how L/Cs are becoming more robust and effective for international trade by adjusting to contemporary issues and technological breakthroughs.

CHAPTER-5

My Internship Role at Dhaka Bank

Chapter-5: Discovering Letter of Credit Processing: My Internship Role at Dhaka Bank

5.1 Case 1: Handling an Import Letter of Credit for the Procurement of Leather Goods

I got the chance to help process an import Letter of Credit (L/C) for a customer in the leather sector while I was an intern at Dhaka Bank. For the production of leather items, the client was importing $400,000 worth of premium leather from Italy. Due to the client's commitment to fulfill an order for a large retail store, the shipment was urgent.

Task and Actions Performed-

1. Analysis of Material and Consulting with Clients

- The customer came to us and asked for an import L/C. Together with my coworkers, I examined the client's L/C request, proforma invoice, and import registration certificate (IRC).
- It was my task to confirm that the client's financial situation was suitable for the transaction and to make sure the required paperwork complied with international requirements as well as internal Dhaka Bank policies. I also worked with the customer to make sure they were aware of the conditions and the supporting paperwork needed for the L/C.

2. The Letter of Credit is imposed.

- I assisted in developing the conditions of the L/C after the documents were examined and authorized internally, making sure that all relevant information was included, including the shipment terms, the payment timeline, and the details of the products.
- I took steps to make sure all terms were correct and conveyed when working with the foreign currency department to start the SWIFT transfer of the L/C to the supplier's bank in Italy.

3. Verification and Material Acceptance

- The supplier delivered the bill of lading, commercial invoice, and insurance documents collectively with the leather goods when they were shipped.
- It was my duty to verify that every document complied with the provisions of the L/C and that there were no inconsistencies. After speaking with the supplier's bank, a small problem with the insurance certificate was fixed. We verified that to satisfy the L/C requirements, the insurance coverage was expanded.

4. Settlement and the Payment Process

- I helped process the payment to the supplier's bank after confirming that all the documentation complied with the L/C. As the issuing bank, Dhaka Bank made the payment transfer and made sure the customer received the products on time.
- To facilitate the transaction's seamless settlement, I also assisted in making sure that the foreign currency rates were applied correctly.

The transaction was made rapidly, and the clothing was delivered to the US shop on time. The exporter reported satisfaction with the way the L/C was handled, especially the prompt agreement of any problems in the documents. This case made clear how crucial it is for international trade to submit documents on time and with attention to detail.

5.2 Case 2: Enabling the Garment Industry to Receive an Export Letter of Credit

Dhaka Bank was asked to help an exporter in the apparel sector with a $350,000 export Letter of Credit (L/C). To guarantee payment security, Dhaka Bank verified that the L/C was issued by an accredited US bank. The clothing had a tight seasonal delivery schedule and was meant for a well-known US shop.

Task and Actions Performed-

1. Assessing and reviewing the export L/C terms

- I started by looking through the export L/C's terms and conditions to make sure they conformed with international trade standards and the exporter's goals. It was my responsibility to confirm that all terms were understood by looking over the shipment information, payment instructions, and documentation requirements.
- I made sure the exporter knew the significance of strictly adhering to the L/C rules because any inconsistencies could lead to denials or delayed payments.

2. Collecting and Creating Records

- I prepared the necessary paperwork, such as the commercial bill of sale, certificates of origin, which are assessment qualifications, and packing list, in close collaboration with the exporter as the shipment date drew near.
- A problem occurred when the exporter's receipt of the inspection certificate was delayed because of the inspection agency's logistical problems. I helped by getting in touch with

the organization and accelerating the procedure, guaranteeing that the document was issued and delivered on schedule.

3. Examination and Records Discussion

- The exporter sent documentation to Dhaka Bank for verification after the shipment of the clothing. I checked that the bill of lading, inspection certificates, and other necessary paperwork complied with the requirements of the L/C.
- When the packing list and the invoice description did not match, there was a small inconsistency. Working with the exporter, I promptly fixed the problem by resubmitting the updated paperwork and revising the packing list to reflect the invoice.

4. Identification and Settlement of Funds

- Dhaka Bank assumed responsibility for guaranteeing payment to the exporter following a successful document verification process as the confirming bank. To guarantee prompt payment, I worked with the US issuing bank.
- The payment was completed when the documents were approved by the issuing bank, and the exporter received the money on schedule.

The transaction was made promptly, and the clothing was delivered to the US shop on time. The exporter reported satisfaction with the way the L/C was handled, especially the prompt settlement of any problems in the documents. This case made clear how crucial it is for international trade to submit documents on time and with attention to detail.

CHAPTER-6

Conclusion

Chapter-6 Conclusion

My internship at Dhaka Bank PLC provided a valuable opportunity to bridge my academic knowledge with practical, hands-on experience. During my internship, I concentrated on comprehending and supporting the Letter of Credit (L/C) procedure, which is essential to international trade financing. My knowledge of the financial instruments and systems that support international trade has increased as a result of this experience, especially the function of L/Cs in guaranteeing safe transactions between importers and exporters.

The issue of the L/C, examination of documents, payment settlement, and conformity to international trade norms are all steps in the complex and well-organized L/C procedure. During my internship, I actively participated in document verification to ensure that the terms and conditions outlined in the L/C were being adhered to. This involved verifying that bills of lading, documents of origin, invoices, and other crucial papers were correct and compliant with the previously established parameters. This stage is crucial because incomplete documentation can cause payments to be delayed or the trade process to be disrupted.

Assisting with the payment settlement procedure was a big part of my job. This involved transferring payments to the exporter's bank, making sure computations were accurate, and confirming foreign exchange rates. I saw how Dhaka Bank handled these transactions with care, protecting the buyer's and seller's interests while following global guidelines like the Uniform Customs and Practice for Documentary Credits (UCP 600). The bank's dedication to precision and effectiveness in these activities showed how crucial it is to enable safe and easy business dealings.

The challenges that come with managing L/Cs were also brought to light by my experience. Currency exchange fluctuations, regulatory compliance, and document conflicts are frequent problems that need to be resolved quickly and efficiently. I discovered throughout my internship that Dhaka Bank handles these issues by upholding stringent operational norms and keeping lines of communication open with all stakeholders. These procedures guarantee that the trade process stays reliable and effective, which benefits customers and improves the bank's standing.

The internship offered a singular chance to witness how a financial institution such as Dhaka Bank facilitates enterprises involved in global commerce. It showed the importance of partnership, close attention to detail, and conformity to international norms are in trade financing. I also discovered how important banks are to their customers' risk mitigation, including making sure payments are made on schedule, controlling currency rates, and adhering to global trade regulations.

This internship improved my social and professional abilities in addition to my technical ones. I worked deeply with the bank's trade finance division, learning from their experience and seeing how they approached problems. I learned from this conversation how crucial customer service, clear communication, and teamwork are to providing financial solutions successfully.

In short, my internship has been a rewarding experience that has been helpful in both my professional and personal development. I was able to learn about the vital role L/Cs play in enabling international trade and have practical experience in the ever-evolving world of international trade finance. I am certain that the knowledge and skills I have acquired throughout this period will serve as a strong foundation for my future endeavors in the financial sector. I am grateful to Dhaka Bank PLC for this opportunity, and I was able to make the most of it thanks to the guidance of my academic mentors.

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