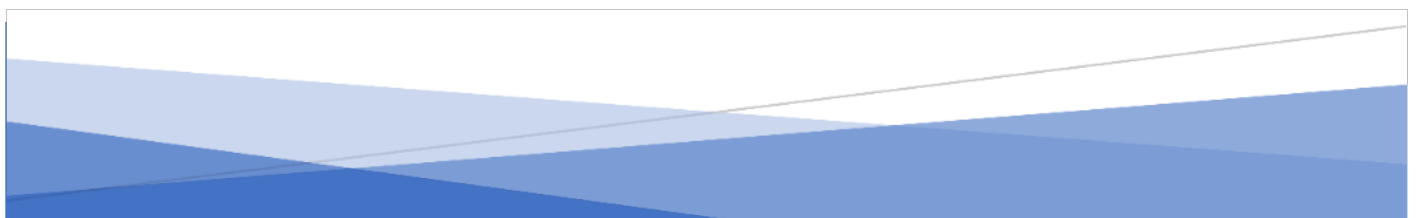


INTERNSHIP REPORT

on

**Retail Banking Credit Risk Management Division of
The City Bank Limited**





INTERNSHIP REPORT

BUS 699

Retail Banking Credit Risk Management Division of The City Bank Limited

Prepared For:

Mr. Mahmudul Haq
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BRAC Business School

Submitted By:

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Date of Submission: 19th January, 2019

Letter of Transmittal

19th January, 2019

To

Mr. Mahmudul Haq
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Subject: Submission of Internship report

I would like to submit my report titled 'Retail Banking Credit Risk Management Division of The City Bank Limited' prepared as a part of the requirement for MBA program of BRAC Business School.

I have been working in the banking industry for 6 years and 7 months. I started my career as a Management Trainee in BRAC Bank Limited in 2012. Currently I am a Manager in the Retail Credit Risk Department of The City Bank Limited. I have worked on this internship report which will be based on the department I am working in. Working on this report was a good learning experience for me. I hope you will find the report to be acceptable and reliable.

I would like to take this opportunity to thank you for all the support and guidelines that you have provided, which I hope to continue getting in the future.

Sincerely yours,

Abrar Abdullah Saif
Id: 16364014
BRAC Business School

Acknowledgement

The internship program is very helpful to bridge the gap between the theoretical knowledge and real-life experience as part of Master of Business Administration (MBA) program. I have done a previous internship report for my BBA program in 2011 when I was an intern in BRAC Bank Limited. I currently work in The City Bank Limited and this report will be based on my experiences there. I am thankful to be doing this report for my current organization.

I am thankful that I have received sincere guidance, supervision and co-operation from various persons while compiling this report. Many people have helped unconditionally in making this report.

First of all, I would like to thank my Supervisor for this internship report, Sir Mahmudul Haq of BRAC Business School, for giving me the opportunity to prepare this report & effortful supervision.

Secondly, I also indebted to my line manager Mr. Minhaz Rashid (AVP) who helped me and given me his valuable time and advice. He has provided me a good deal of support and helped me with the report.

Finally, this report would not have been possible without the dedication and contribution of all my colleagues who has helped me by teaching all the works. I express my sincere gratitude to all of them. Their valuable contribution is what made this Term Paper possible.

Executive Summary

City Bank Ltd. deals with four different and significant banking divisions which are the driving force of the bank such as Retail Banking, Corporate Banking, SME Banking and Treasury Banking. Here the report has been prepared on Retail banking Credit Risk Management of CBL and it covers detail about credit retail banking activities performs by the bank. Besides it also consists of general information of CBL, financial information, learning points, findings, and recommendations.

Retail banking refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other banks. Services offered include: savings and checking accounts, mortgages as well as personal loans, debit cards, credit cards, and so forth. Under retail banking City bank provides three different types of loan for better convenience of the customers such as Personal Loan, Home Loan and Auto Loan.

This report will be helpful for the person who has intention to learn about loan products of retail banking and guidelines for availing such products from The City Bank Ltd or other banking institutions.

In this report, first of all I've discussed about the objectives, scopes, limitations and the methodology containing the sources of data I've collected from. Secondly, in the organizational part I have provided detailed information about the organization with its company profile, Corporate Vision and Mission, product & service and resources.

Thirdly I've discussed about the overall credit processes and risk management of CBL which starts with the branch and other business units and done fully under head office's

credit department. Finally, I tried to give some suggestion to the base of my knowledge and experience which I have achieved during my job tenor in CBL, for further growth in credit and convenience in credit risk management. The whole system has been described elaborately keeping in mind the most important segments.

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Organizational Overview

History

The emergence of The City Bank Limited in the private sector is an important history in the banking arena of Bangladesh. During 1981-83, when the nation was in the grip of severe recession, the government declared and gave permission for the establishment of banks in the private sector with the vision to make money supply more volatile and to reactivate the economy. In that fateful moment twelve valiant and foresighted businessmen came forward to uphold the charge of establishing the bank that would one day take its rightful place among the stars. These extraordinary people were,

Mr. Monowar Ali

Mr. Deen Mohammad

Mr. Ibrahim Mia

Mr. A.B.M. Feroz

Mr. Abdul Hadi

Mr. Md. Ali Hossain

Mr. M. A. Hashem

Mr. Azizul Haque Chowdhury

Mr. Anwar Hossain

Mr. N. A. Chowdhury

Mr. Abdul Barik Choudhury

Mr. A. K. Mehmood

Their objective was to serve the community with general banking practice but with the passing of time the bank started to present some unique, demanding and timely packages to the public.

The journey of this bank started with only BDT 34 million worth of capital in an office at B.B. Avenue in Motijheel. The startup capital was obtained from the promoters but subsequently the argument of issuing share capital arose and through formal registration as a schedule bank the organization commenced at the latter phase of first quarter of 1983. Taka 100 million was authorized to the company as capital of which 14 million was paid up back then and after that the path to greatness never went dark.

At genesis the bank used to follow traditional and orthodox banking methods, formally known as the decentralized banking model. However, it underwent massive restructuring in 2007 and implemented centralized business model with a new management team taking over under the leadership of its new CEO Mr. Mahmood Sattar, serving its customers through 4 distinct business divisions namely,

- Corporate & Investment Banking
- Retail Banking
- SME Banking
- Treasury and Market Risks

The focus of this transformation project was on improving the overall quality of assets, relaunching the brand anew, leveraging the technology potential, improving the quality of products offered and placing higher benchmarks for customer service. Mr. Sattar spearheaded several innovative initiatives to turn the bank into a modern financial supermarket using the latest technologies. Consequently, under his watchful eyes the bank won the 'Best Bank in Bangladesh for 2012' award by FinanceAsia for adopting global best practices by doing away with age-old traditional decentralized banking model and culture. That was the first year of FinanceAsia's extending the award into local bank category in Bangladesh. Besides winning that prestigious award, City Bank also received "The Strongest Bank in Bangladesh award" in 2010 from The Asian Banker, "American Express Marketing Award" for Outstanding New Card launch in 2010 from American Express, "MoneyGram International's Best Corridor Collaboration – South Asia" award in 2011 recognizing the inward remittance growth and the ISO 9001:2008 certification from Moody International, for its entire back end and technology operations. Later on the Bank went through rigorous checks and due diligence undertaken by IFC which made it an IFC (International Finance Corporation) client, ensuing it to become the fourth of its kind in the entire banking industry of the nation.

The Board of Directors of the City Bank Limited in an Extraordinary General Meeting held on 17th November, 2011 elected its Director Rubel Aziz as Chairman of the bank

who took up charge from 1st December of the same year. Rubel Aziz is Managing Director of a number of Partex Group companies including Partex Beverage, Partex Jute Mills, Partex Plastics, Partex Accessories and Director of Amber Cotton Mills, Partex Sugar Mills, Partex Denim Ltd. Among many other leadership positions held by him in the corporate sector, he is also the Chairman of Janata Insurance Company Ltd., Director of IDLC Finance Ltd., Vice Chairman of ITCL (QCash) Ltd. He was also the President of Gulshan Club. Under his leadership the bank opened eight new branches up to date, received the "FinanceAsia's Best Local Bank 2012 award", offered home loan service, signed several new profitable business agreements, took part in reasonable CSR activities and inaugurated a whole new range of services like city gems priority banking service, city touch internet banking service and so on.

On the 3rd of November year 2013, Sohail R. K. Hussain took charge in City Bank as Managing Director & CEO. His contribution can be justly articulated from the 4 awards won by the organization during 2014 namely, ACCA's Achievement Award, 'Best Bank in Bangladesh' award from Euromoney, second time 'Best Commercial Bank in Bangladesh' award from FinanceAsia and 'Best Consumer Internet Bank in Bangladesh' award from Global Finance.

Since the very inception The City Bank Limited is working with the philosophy of serving the nationals as an ideal and unique financial house. The golden pages of history give testimony of that very truth.

Current Situation

City Bank is one of the oldest private Commercial Banks operating in Bangladesh. It is a top bank among the oldest five Commercial Banks in the country which started their operations in 1983. The Bank started its journey on 27th March 1983 through opening its first branch at B. B. Avenue Branch in the capital, Dhaka city. It was the visionary entrepreneurship of around 12 local businessmen who braved the immense uncertainties and risks with courage and zeal that made the establishment & forward

march of the bank possible.

City Bank is among the very few local banks which do not follow the traditional, decentralized, geographically managed, branch-based business or profit model. Instead the bank manages its business and operation vertically from the head office through 5 distinct Units namely

- Business Unit
- Branch Banking
- Risk Unit
- Operations Unit
- Support

Under a real-time online banking platform, these 5 distinct Units are supported at the back by a robust service delivery or operations setup and also a smart IT Backbone. Such centralized business segment-based business & operating model ensure specialized treatment and services to the bank's different customer segments.

The bank currently has online branches and SME service centers and SME/Agri branch spread across the length & breadth of the country that include a full-fledged Islami Banking branch. Besides these traditional delivery points, the bank is also very active in the alternative delivery area. It currently has 369 ATMs of its own; and ATM sharing arrangement with partner banks that has more than 1150 ATMs in place; SMS Banking; Interest Banking and so on. It has its Customer Call Center operation which is very efficient.

City Bank is the first bank in Bangladesh to have issued Dual Currency Credit Card. The bank is a principal member of VISA international and it issues both Local Currency (Taka) & Foreign Currency (US Dollar) card limits in a single plastic. VISA Debit Card is another popular product which the bank is pushing hard in order to ease out the queues at the branch created by its astounding base of retail customers. The launch of VISA

Prepaid Card for the travel sector is currently underway.

City Bank is the local caretaker of American Express and is responsible for all operations supporting the issuing of the new credit cards, including billing and accounting, customer service, credit management and charge authorizations, as well as marketing the cards in Bangladesh. These are international cards and accepted by the millions of merchants operating on the American Express global merchant network in over 200 countries and territories including Bangladesh. City Bank also has exclusive privileges for the card members under the American Express Selects program in Bangladesh. This entitles any American Express card members to enjoy fantastic savings on retail and dining at some of the finest establishments in Bangladesh. It also provides incredible privileges all over the globe with more than 13,000 offers at over 10,000 merchants in 75 countries.

City Bank prides itself in offering a very personalized and friendly customer service. It has in place a customized service excellence model called CRP that focuses on ensuring happy customers through setting benchmarks for the bank's employees' attitude, behavior, readiness level, accuracy and timelines of service quality.

City Bank is one of the largest corporate banks in the country with a current business model that heavily encourages and supports the growth of the bank in Retail and SME Banking. The bank is very much on its way to opening many independent SME centers across the country within a short time. The bank is also very active in the workers' foreign remittance business. It has strong tie-ups with major exchange companies in the Middle East, Europe, Far East & USA, from where thousands of individual remittances come to the country every month for disbursements through the bank's large network of branches and SME service centers.

The current senior management leaders of the bank consist of mostly people from the multinational banks with superior management skills and knowledge in their respective "specialized" areas. This will surely prove to be fruitful in the years to come.

City Bank has recently been named the 'Best Consumer Digital Bank in Bangladesh 2018' by Global Finance. This is for the 4th time, the Bank has received such accolade from this North America based top financial publications known for recognizing fintech innovations worldwide. Nearly 300 individual banks from around the world were considered for the awards. The final selections were made by Global Finance's editors in collaboration with Infosys, a global leader in consulting, technology and outsourcing solutions.

Facts and Figures

Infrastructure

Branches across the Country	130
Employees	3,230+
Total Customers	16,00,000+
Digital Banking Customers	100,000+
ATMs + CDMs	369+
Priority Centers	7
Airport Lounges & Amex Service Centers	2+5
No. of Cards Issued	923,495+
No. of POS Machines	17,500+
No. of onboarded Merchants	9,000+

Footprint

Deposits BDT	183,493 M
Loans and Advances BDT	196,596 M
Revenue BDT	14,916 M
Imports USD	1,231 M
Imports USD	1,840 M
Dividend Declared	24%

Achievements in Year 2017

Agent Banking Deposits mobilized	BDT 70.8 M
New Customers enrolled in Citytouch	App 83,445
service TAT	3-4 Days
International Financial Partners	482
New Micro-credit Loan Portfolio BDT	600 M
New Employees Recruited	442

Objectives and Goals of CBL

CBL always ready to maintain the highest quality of services by upgrading banking technology prudence in management and by applying high standard of business ethics through its established commitment and heritage.

CBL is committed to ensure its contribution to national economy by increasing its profitability through professional and disciplined growth strategy for its customer and by creating corporate culture in international banking arena.

- The objective of CBL is not only to earn profit but also to keep the social commitment and to ensure its co-operation to the person of all level, to the businessman, industrialist specially who are engaged in establishing large scale industry by consortium and the agro-based export oriented medium & small-scale industries by self-inspiration.
- CBL as the first and the largest private bank is committed to continue its endeavour by rapidly increasing the investment of honourable shareholders into assets.
- CBL believes in building up strong based capitalization of the country.
- CBL is committed to continue its activities in the new horizon of business with a view to developing service-oriented industry and culture of morality and its maintenance in banking.
- CBL has been working from its very beginning to ensure the best use of its creativity, well disciplined, well managed and perfect growth.
- CBL is always preoccupied to encourage the investors for purchasing its share by creating the opportunity of long-term investment and increasing the value of share through prosperity as developed day by day.
- CBL is playing a vital role in Socio-economic development of Bangladesh by way of linkage with rest of the world by developing worldwide network in domestic and international operations.

Mission

- Offer wide array of products and services that differentiate and excite all customer segments

- Be the “Employer of choice” by offering an environment where people excel and leaders are created
- Continuously challenge processes and platforms to enhance effectiveness and efficiency
- Promote innovation and automation with a view to guaranteeing and enhancing excellence in service
- Ensure respect for community, good governance and compliance in everything we do

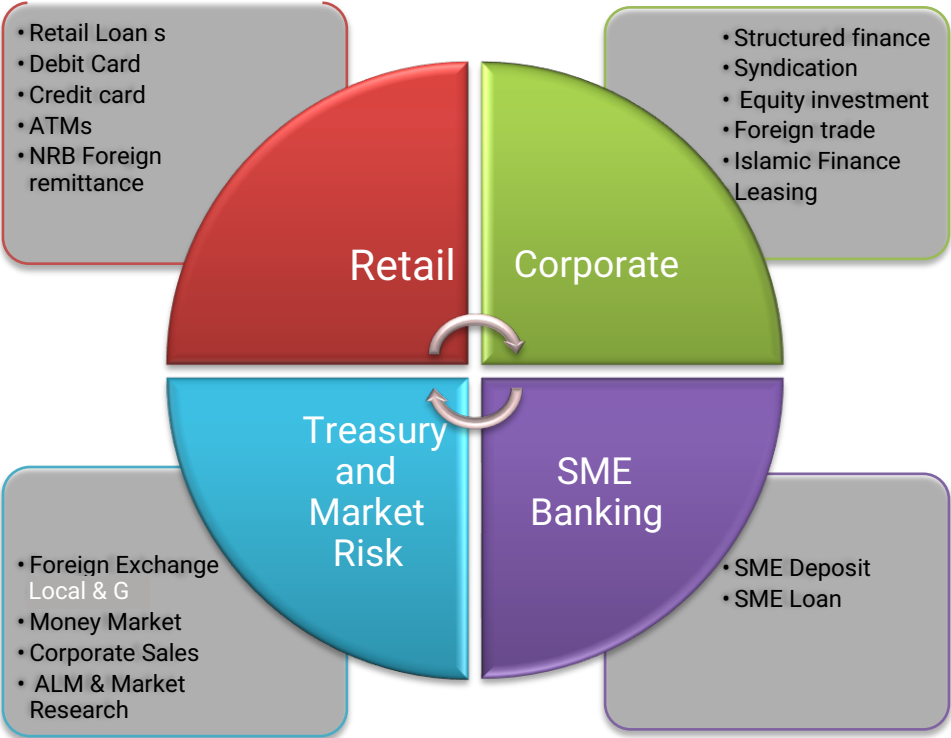
Values

- Result Driven
- Accountable & Transparent
- Courageous & Respectful
- Engaged & Inspired
- Focused on Customer Delight

Services of CBL

The principal activities of the Bank are to provide all kinds of commercial banking, consumer banking trade services, custody and clearing to its customers through its branches in Bangladesh. City Bank is among the very few local banks which do not follow the traditional, decentralized, geographically managed, branch based business or profit model. Instead the bank manages its business and operation vertically from the head office through 4 distinct business divisions.

- Corporate & Investment Banking
- Retail Banking (including Cards)
- Treasury & Market Risks
- SME Banking



Under a real-time online banking platform, these 4 business divisions are supported at the back by a robust service delivery or operations setup and also a smart IT Backbone. Such centralized business segment-based business & operating model ensure specialized treatment and services to the bank"s different customer segments

Corporate Banking

This division of CBL mostly deals with deposits and loans from corporations or large businesses, as opposed to normal individual members of the public (retail banking). The functions of the corporate division may include the following tasks:

- Working Capital Finance
- Trade Finance
- Short/Mid-Term Finance
- Project Finance
- Islamic Banking

City Manarah - Islamic Banking was introduced to guide and manage finances in a fully Islamic Shariah Compliant way. It offers a wide variety of deposit and investment products. Each account is designed to meet financial needs with best value of money.

City Manarah includes services such as,

- Manarah Current Account
- Manarah Savings Account
- Manarah Term Deposit Receipt
- Manarah Hajj Deposit Scheme
- Structured Finance
- Cash Management
- Investment Banking

Retail Banking

Retail banking includes the tasks for the following purposes-

Deposits

- Current Account
- Savings Account
- Student Saving Account School Plan
- FDR

Loans

- Personal Loan
- Home Loan
- Auto Loan
- Two-Wheeler Loan

Cards- Debit Card, Credit Card etc.

Visa Debit Card

- Master Card
- Amex Credit Card
- Visa Card

NRB- Foreign Remittance

- Medical File
- Student File
- Remittance

SME Banking

The philosophy of extending banking services to SME's of the country is to meaningfully push every one of them up to the next level of respective business operations. The upward push would be meaningful as they would be business wise competitive for a sustainable future. The bank has named it City Business - for taking SME's to the next level. CBL SME-S banking is engaged of servicing for the following facilities

- City Muldhan
- City Munafa
- City Shulov
- City Sheba- Service Purpose
- City Nokshi
- City Long Term Against Mortgage Loan
- City Khamar
- City Livestock
- City Jantrapati

City Bank Treasury and Market Risk Division

City Bank has a dedicated Treasury team who is capable of providing all treasury Solutions. Through our foreign correspondent business partners CBL is providing a wide range of Treasury products. In CBL Treasury, there are four teams who are specialized in their own area to ensure the best possible solution to our customer requirement. CBL has following teams in the Treasury:

- Foreign Exchange
- Money Market
- Corporate Sales
- ALM & Market Research

Introduction to the Report

Rationale of the Study

Always a research is designed considering some requirements. Though this research is conducted as a part of MBA program but this study might be useful for banks especially in the present banking environment. Now every bank has some competitive objectives of their own style. All banks are now facing more competition now than ever before. This study tries to show CBL's goals and achievements in the Retail Sector and the job of the Credit Risk Management Division.

Scope of the Study

The field of my study is the Credit Risk Management of The City Bank Limited. For conducting this study an overall knowledge of the total banking system is necessary because the departments of banking are linked with each other. This report is focused of the Credit Risk Management of The Retail Banking Division of The City Bank Limited.

Objective of the Study

The objective of the report is to give an overall idea of how the Retail Banking CRM process is conducted with the organizational working environment and this report is a result of such organizational involvement. The broad objective of this study is to analyze the evaluation on risk management practices of The City Bank Limited.

- To give an overview on City Bank and its Risk Management System.
- Finding out the shortcomings of the Bank in operations and providing some

suggest remedial measures for its development.

Methodology

Methodology is a process through which a researcher gathering data and analyze the data to get some information and at last able to chalk out the result of the related study. Since this is a descriptive study, the qualitative method is used. So, the scope for using statistical tools and testing of hypothesis is very limited. A chronological description of the assigned topic is presented in the report. In order to make it meaningful and presentable, some significance methods and strategy has been used. In this part we try to clearly show the method we used spontaneously in this report. Two sources of data and information have been used widely:

Primary Sources

- Working directly at the Retail Credit Risk Division the The City Bank Limited as a Manager over the years has allowed me insight which I will use in this report.
- Discussing with the officers working in the Retail Credit Risk Division.
- Discussing with several retail sales team and several Branch members.
- Discussing with my Line Manager, Mr. Minhaz Rashid (AVP).

Secondary Sources

- "Annual Report 2017" of the City Bank Limited.
- Information about delinquency data of MIS department.
- Various circulars of the collection department, articles, compilations etc.
- Prudential Regulations Consumer Finance by Bangladesh Bank.
- Instruction circular of Head Office, brochures of different banks, newspapers and magazines regarding banking issues and so on.

Limitations

There were certain limitations while conducting the study. These are summarized below:

- The main obstacle while preparing this report was time. As I am a full-time employee of an organization who is doing the regular MBA program and the tenure of the internship program was short, it was not possible to highlight everything deeply.
- Work pressure in the office was another limitation restricting this report from being more detailed or analytical.
- Sufficient records, publications were not available as per my requirement.
- Confidentiality of information was another barrier that hindered the study. Every organization has its own secrecy that is not revealed to someone outside the organization. As an employee of this organization myself, I cannot disclose confidential data.

Overview of Risk Management

Risk Management in Banks

An efficient and healthy banking system is a prerequisite for sustainable economic growth of a country. In this context, effective risk management practices enable the banking industry to build public trust and confidence in the institutions which is necessary for mobilizing private savings for investment to facilitate economic growth. On the flip side, inadequate risk management practices in the banking industry would result in bank failures leading to erosion of public confidence in the industry having adverse implications for the economic growth. Therefore, an effective risk management framework is a prerequisite for banks to achieve their own business objectives and also

play their role in the economic growth of the country.

Risk Areas

Risks are considered warranted when they are understandable, measurable, controllable and within a banking company's capacity to readily withstand adverse results. Sound risk management systems enable managers of banking companies to take risks knowingly, reduce risks where appropriate and strive to prepare for a future, which by its nature cannot be predicted with absolute certainty.

Risk management is a discipline at the core of every banking company and encompasses all activities that affect its risk profile. Banks should attach considerable importance to improve the ability to identify measure, monitor and control the overall risks assumed. Risk management is very important especially when the banks are dealing with multiple activities, involving huge funds having both local and international currency exposure.

Banking companies in Bangladesh, while conducting day-to-day operations, usually face the following major risks:

Credit risk

The risk of loss arising from a borrower's probable failure to repay loan is called credit risk. This risk arises whenever a borrower considers paying current debt with future cash flow. In organizations credit risks are evaluated in two ways. These are discussed below,

Individual client wise

Credit Risk Management Division considers the risk on a case to case basis. Their sole purpose is to measure the weighted risk of individual clients and disburse loans accordingly.

Portfolio wise

The credit section of Risk Management Division considers the risk on a sector to sector basis or on industry to industry basis. This is what is referred to as portfolio wise credit risk management.

Market risk

The possibility of experiencing losses due to the factors that affect the overall performance of the financial markets is called market risk. Market risk, also called "systematic risk," cannot be eliminated through diversification, nevertheless it can be evaded. The risk that a major natural disaster will cause a decline in the market as a whole is an example of market risk. Other sources of market risk include recessions, political turmoil, changes in interest rates and terrorist attacks. This sort of risk is evaluated by the market risk section of the Risk Management Department.

Market risk can be divided into 3 types. These are discussed below,

Interest rate risk

The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship is called interest rate risk. Such changes usually affect securities inversely and can be reduced by diversifying or hedging.

Foreign exchange risk

The risk of an investment's value changing due to changes in currency exchange rates is called Foreign Exchange Risk. This type of risk is also known as "currency risk" or "exchange-rate risk".

Capital market investment risk

The risk associated with investment in shares. This type of risk can be defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment in the capital market.

Operational risk

Operational risk is the risk that is not inherent in financial, systematic or market-wide risk. It is the risk remaining after determining financing and systematic risk, and includes risks resulting from breakdowns in internal procedures, people and systems. This risk is dealt by the operational risk section of the RMD.

Documentation risk

The probability of loss that arises from a legal agreement being incomplete, insufficient, or otherwise unenforceable is called documentation risk. This risk is dealt by the operational risk section of RMD, CAD and RFC.

Concentration risk

Probability of loss arising from heavily irregular exposure to a particular group of counterparties is called concentration risk. This type of risk is calculated and dealt by capital risk section of RMD.

Liquidity risk

The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss is called liquidity risk. This type of risk is maintained by market risk section of RMD, Finance Department and the Treasury Department.

Reputational risk

A threat or danger to the good name or standing of a business or entity is called reputational risk.

This risk is managed by the operational risk section of RMD.

Strategic risk

A possible source of loss that might arise from the pursuit of an unsuccessful business plan is called strategic risk. This is a part of the risk governance incorporated with top level management.

Environmental risk

Actual or potential threat of adverse effects on living organisms and environment by effluents, emissions, wastes, resource depletion, etc., arising out of an organization's activities is called environmental risk. This risk is managed by Credit Risk Management and the Green Banking Cell.

Risk Management Practice in Bangladesh

Risk management in banking sector of Bangladesh is a relatively newer practice, but has already shown to increase efficiency in governing of these banks as such procedures tend to increase the corporate governance of a financial institution. After implementation of Basel committee, it is guiding the world's banking sector regarding risks issue. Like other countries central banks, Bangladesh is following various Basel pact viz. Basel-I, Basel-II and others core risk guide-lines implemented by Bangladesh Bank.

Subsequent implementation of core risk management guidelines by Bangladesh Bank, all banks of Bangladesh are following these guidelines properly and many of our banks has already established separate division namely RMD (Risk Management Division) headed by CRO (Chief Risk Officer). Some banks have tightened their risk management policy especially credit risk establishing through setting up CRM (Credit Risk Management) Division. Some banks are following centralized banking model from Branch based banking model and separated their business unit from credit approval unit. Though some of our foreign banks like, SCB, HSBC, Citi NA has been following these tighten risk management system from earlier.

We can say that our economy in comparison with banking sector has become large. Some large size scam has been taking place so Risk Management tools and techniques of our banking sector needs to be tightened further and revisited carefully so that our banking sector can remain unharmed in the times ahead.

Credit Risk Management

Credit Risk

Credit risk is a risk due to uncertainty in counterparty's ability to meet its obligation. There are many types of counterparty's obligations ranging from individuals to sovereign governments. Risk is inherent in all aspects of commercial operation. However, for banks and financial institution, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the banks dealing with or lending to corporate, individuals and other banks or financial institutions.

Credit Risk Management

The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Bank need to manage the credit risk exposure inherent in the entire portfolio as well as the risk in individual credit or transactions. Bank should consider the relationship between credit risk and other risk. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. Assessing credit risk an institution must consider three issues:

- Default Probability
- Credit Exposure
- Recovery Rate

Principal of credit Risk management

The management of credit risk is essential to a sound credit management process, the basic principles a bank has to follow in its credit risk management are:

- Background, Character and ability of the borrowers
- Purpose of the facility
- Term of facility
- Safety and Security
- Profitability
- Source of repayment
- Diversity of loan portfolio

Tools used in Credit Risk Management

The quality of the credit portfolio of banks depends to large extent on the quality of its borrower.

To judge the quality of a borrower the banks takes into consideration the following:

- a) Character: It refers to the willingness of the customers to pay.
- b) Capacity: The customer's ability to meet credit obligations.
- c) Capital: The customer's financial reserves
- d) Collateral: Adequate net worth to support for the loan
- e) Conditions: (economic) Recent trends in borrower line of credit
- f) Compliance (law & regulations)

Retail Banking (Lending) in CBL

Retail banking consumer-oriented service that means dealing with the customers directly. Through retail banking customers can get financial services such as savings and transactional accounts, corporate loans, personal loans, debit cards, and credit cards and so on. Retail banking is the division of a bank which deals with retail customers which defined as the process of identifying individual needs and satisfying them accordingly.

Objective of Retail Banking

- To improve living standard of limited income segment by providing collateral free easy credit
- To take part in the Scio- economic development of the country
- To ensure access to credit by mass people
- To diversify loan portfolio to minimize risk
- To maximize bank profit as well as to minimize pressure on liquidity through

quicker recycling but higher yielding loan operation

Types of Retail Loan Credit Facilities

- **Personal Loan:** A personal loan is a type of unsecured loan and helps clients meet their current financial needs. Clients don't need to pledge any security or collateral while availing a personal loan and the bank provides clients with the flexibility to use the funds as per your need.
- **Mortgage Loan:** A mortgage is a loan in which property or real estate is used as collateral. The borrower enters into an agreement with the lender (usually a bank) wherein the borrower receives cash upfront then makes payments over a set time span until he pays back the lender in full.
- **Auto Loan:** A personal loan to purchase an automobile. The bank will have to the right to confiscate and sell the vehicle in an auction if the client defaults on his payments.

Personal Loan

This report will focus on Personal Loan since this is the segment, I am currently working in.

Personal Loan as a product was launched in 2008 under the product name “City Solution” and in 2014 the nomenclature was changed to “Personal Loan” to make the product recall easier for customers. The product is the largest chunk of Retail Assets and has grown significantly over the last few years.

The country is growing rapidly, and a recent World Bank report (Bangladesh Development Update) has forecast a 6.4% GDP growth for Bangladesh in 2018. Political stability, growing employment opportunities and the increasing aspirations of a growing middle and affluent middle segment is driving the growth of the Personal Loan segment. Bangladesh Bank vide its BRPD Circular No-04, dated April 03, 2017, has raised the limit for Personal Loans to BDT 20 Lac from BDT 10 Lacs. While this allows for larger loan

ticket sizes, it also comes with the attendant higher risks.

Target Customer

- A/C payee Salaried executives
- Self-Employed Professionals
- Landlord/Land Lady
- Businessman
 - Proprietor
 - Partnership business minimum 20% ownership
 - Private limited company minimum 10% ownership.
 - Director of Public limited company
- Bundle (Auto Loan + PL) and (Home Loan + PL) or any other product supported security for all customer segment irrespective of above condition

Purpose of the Loan

This loan product will be issued for any legitimate personal purpose; Includes: House renovation, Interior decoration, Marriages in the family, Advance rental payments, Trips abroad etc. This loan cannot be taken for solely business purposes like working capital and industrial machinery purchase or purchase of land. However, self-employed professionals, who have private practices can avail this loan to buy their office equipment, machines, and accessories or premise renovation.

Other Requirements

Loan Limit	Minimum BDT 100,000/-and Maximum BDT 2,000,000/- against acceptable security.
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Tenure	Minimum- 12 months Maximum- 60 months
Nationality & minimum Stay	Bangladeshi (Resident minimum 6 months at present address, exempted if family owned or family-owned)
Age	Mimimun 22 years Maximum 60 years or retirement age whichever is earlier at the time of maturity of the loan
CIB/CIB Status	Clean CIB is to be obtained by C&C before final approval/ Disbursement
Loan Documents	<ul style="list-style-type: none"> • Common documents for all types of customer: <ul style="list-style-type: none"> - A complete LAP - NID copy - 3 copies of recent studio photographs. - TIN related documents/E-TIN (as applicable) - KYC - Price Quotation - CIB enquire & CIB undertaking form - Residence utility bill copy/Residence address proof - Self-Declaration of correct information • Others (Specific segments): <ul style="list-style-type: none"> - Bank Statement - Loan Detail docs - Professional Certificate - Loan Takeover Documents - Trade license - etc

Parameters for evaluating Proposed Loan Amount

Parameters	Maximum DBR	Loan Multiplier
------------	-------------	-----------------

Sal BDT 15k<28k	30%	6
Sal BDT 28k<54k	50%	9
Sal BDT 55k< 1.2L	55%	12
Sal BDT 1.2L +	60%	14

Multiplier

Multiplier is used to evaluate how much loan will be proposed to the client based on his income. Income multiplier will be calculated based on net salary (for salaried customers) and derived business income (for other segment of customer). For example, A salaried person with net a/c payee income of BDT 32,000 will be able to avail maximum loan of BDT 288,000 from CBL as long as DBR parameters are also met.

DBR

Debt burden ratio is the ratio of total monthly instalment of credit card or loan and total income of the customer. Debt burden ratio = (Total monthly instalment of card or loan/ Total Income)*100 It is very important for assessing customer payment ability . For example, if a customer's income is BDT 32,000 but his existing DBR ratio is 52%, he will not be able to avail any personal loan from CBL as he may be possibly overburdened.

Credit Risk Grading

According to Bangladesh Bank guidelines, all Banks should adopt a credit risk grading system. Therefore, CBL has duly implemented a credit risk grading policy in its credit risk assessment program. The system defines the risk profile of borrowers to ensure that account management, structure and pricing are commensurate with the risk involved.

Risk grading is a key measurement of a Bank's asset quality. All facilities are assigned a

risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities are immediately changed. A copy of the CRG is attached with the Appendix.

Loan Process

Application for the loan

The loan process starts with the submission of loan application by the borrower. The borrower submits the loan application to the branch manager. In the loan application the borrower provides following information.

- Personal detail of applicant
- Nature of business
- Amount and duration of the loan
- Purpose of the loan
- Details of the collateral, if any

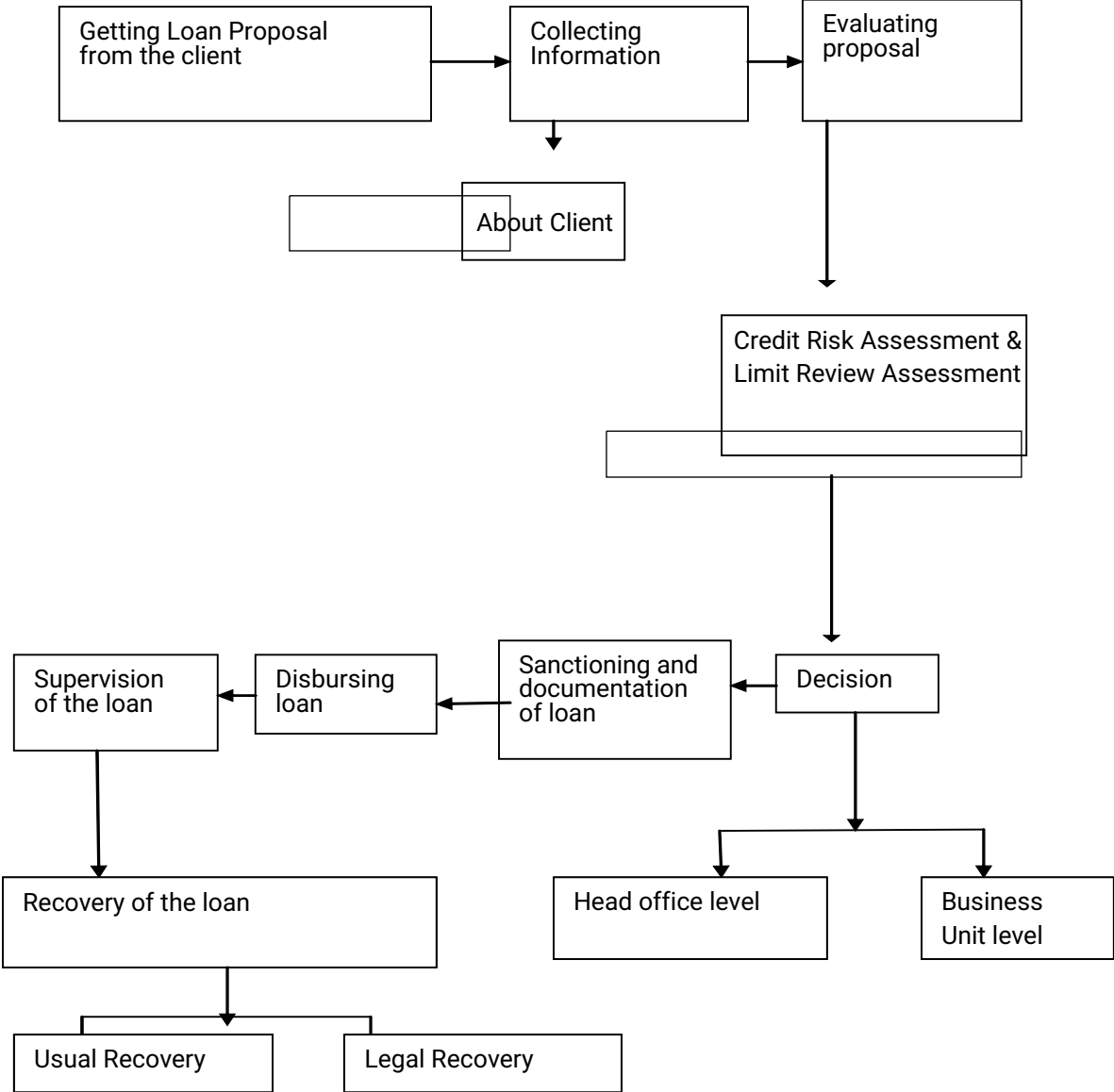
Preparation of loan proposal

Based on financial and management analysis and need of the client and his capability of operating the business, RM shall design the credit keeping in mind on the following issues:

- Purpose of the credit
- Experience in the similar business
- Risk, Remuneration
- Ancillary business
- Validity Loan Period & Business Profitability
- Debt Equity Ratio

- Repayment capacity & Production capacity
- Market demand of the product

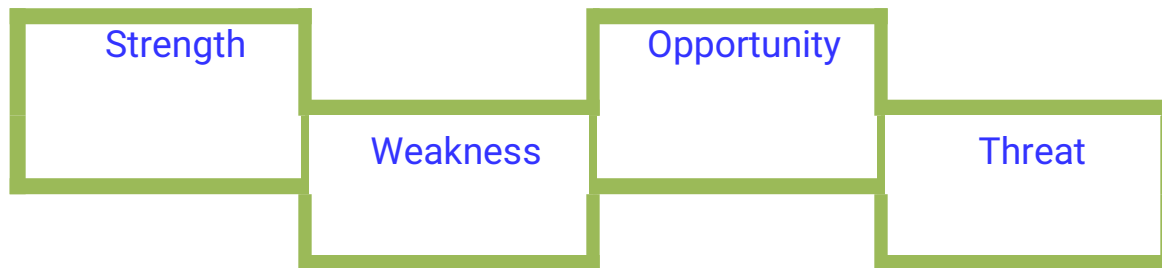
Loan Procedure



SWOT Analysis

SWOT Analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. It helps the organization to identify how to evaluate its performance and scan the macro environment, which in turn would help the organization to navigate in the turbulent ocean of competition.

The acronym for SWOT stands for:



Strengths

- **Company Reputation:** CBL has already established a favourable reputation in the banking industry of the country particularly. CBL has established a firm footing in the banking sector having acceptable growth in the profits and deposits. All these have led it to earn a reputation in the banking field.
- **Facilities and Equipment:** CBL has adequate physical facilities and equipment to provide better services to the customers. The bank has computerized banking operations under the software. Counting machines in the teller counters have been installed for speedy service at the cash counters. Computerized statements for the customers as well as for the internal use of the banks are also available. The branches of CBL are equipped with telex, SWIFT and fax facilities.

- Team work at midlevel and lower level: At CBL midlevel and lower level management, there are often team works. Many jobs are performed in-groups of two or three in order to reduce the burden of the workload and enhance the process of completion of the job. People are eager to help each other and people in general are devoted to works.
- Invest Opportunity: There is a great opportunity to take new dimension of banking such as Islamic banking Unit. Because a large portion of our population is Muslims and they prefer Islamic Banking to Conventional Banking. Otherwise, there are many sectors where this can give special privileges.
- Well Organized: CBL is a well-organized Centralized bank. It follows all rules and regulations. Their management is very strict to maintain their systems and activities.

Weaknesses

- Centralized Decision-Making: At CBL, corporate decisions, the CEO, DMD and other top management officials craft policies and strategies and then they are cascaded down. At times the Board of Directors is also engaged in making corporate decisions. As a result of this practice there is only a top down flow of communication at CBL. The scope for bottom up communication is limited.
- Turnaround time slower than top competitors. Top branded retail focused banks include SCB, CBL, EBL and BBL. SCB is particular is well ahead in Turnaround time. CBL needs to catch up to compete.

Opportunities

- Diversification: CBL can pursue a diversification strategy in expanding its current line of business. By expanding their business portfolio, CBL can reduce their

business risk.

- ATM: There are enough ATM booths of CBL but it should increase more ATMs.
- Reduces Charges & Grow up Customers: Bangladesh has a huge consumer base for maintaining several accounts. So CBL has the opportunity to keep these customers by reducing its current fees and charges.

Threats

- Other Banks: The emergence of the other multinational banks and local commercial banks and their rapid expansion poses a potential threat to the CBL. Moreover, the already existing banks such as Prime Bank, MTBL, UCBL, BRAC Bank, Eastern Bank, Standard Chartered Bank, Dhaka Bank are now pursuing an aggressive retail focused strategy.
- Contemporary Banks: The contemporary banks of CBL such as BRAC Bank, Eastern Bank are Standard Chartered Bank are its major rivals in terms of Retail Banking. CBL and others are carrying out aggressive campaign to attract lucrative corporate clients as well as big time depositors. CBL should remain vigilant about the steps taken by these banks as these will in turn affect CBL strategies.
- The Central Bank changing the interest rates: In Bangladesh the Central Bank decides the interest rates. They give a range and within that range the banks have to maintain the interest rates they offer. So, the result is that all the banks end up having very similar interest rates. It is not up to the banks to decide what interest rate they will offer on the deposits. In fact it is the Central Government that makes that decision for them whether the banks like it or not. Also, if the Central Government comes up with additional regulations that will mean more costs for the banks to maintain them.

Findings of Study

CBL must ensure faster services by removing the problems. From my study on the performance and activities of CBL Retail Loan Portfolio, I have got some major findings, which are given below:

- Bangladesh bank credit management policies requires bank to set lending guideline which CBL does and reviews on annual basis.
- Modern banking service like online Banking, wide range of ATM service, and one stop banking service are available. CBL also recognizes there new avenues and are strongly pursuing them.
- The Bank is too centralized. For each and every move, branch office has to go for permission from the Head Office. The Head Office tightly controls each and every branch office. This helps in managing the risk efficiently but puts colossal pressure on the head office. It also blurs the customer needs as a risk manager in head office has limited idea of customer preferences.

Recommendations

The recommendations given below are not decisions; rather they are only suggestions to improve the customer's service in order to fulfil the customer's satisfaction so that customers give more preference to CBL. The recommendations are given below:

- Develop more customized parameters for credit approval process under the general guideline of BB to increase its market. Even if income range is the same, the different organizations they work for offer different employee facilities and benefits which may reduce their monthly costs and reduce their debt burden.

- There are many well reputed organizations in Bangladesh where we can increase or multiplier and DBR parameters for their employees as they are very well reputed and very structured in terms of time salary payments.
- CBL should increase more Consumer Banking activity. Their Consumer banking activity is quite satisfactory but it will be better if they can put attention on individual customers. RM based services have shown good achievements in Medium Business and Corporate Segments, the same should be possible in the Retail Segment.
- Emphasize on more advertisements should be made. Brand value is vital in this limited market space and more banks are entering it.
- Continuous improvement should be made in the lending procedure which would reduce the default risk of the bank and increase profitability.
- CBL should recruit more capable & experienced employees to spread the products all over the country.
- Employees should get proper knowledge on products & facilities to deliver the customer regarding right time, right facilities as per their requirements.
- To deal with clients, employee should have increased negotiating power, convincing power, motivation power which is very important to avail new clients and also during time of loan collection. Employees should be given training for better customer service.
- The Bank has to expose the Risk Managers to customer preferences by letting them interview the customers before lending out loans.
- Steps to decentralize the risk functions up to some level. This will lead to reduce TAT and make us more competitive against SCB. Other ways are to further streamline the process for availing Personal Loans, which is possible for high profile clients and existing clients who want to renew/increase their existing loans.

Conclusion

Amongst the Scheduled Banks in Bangladesh, City Bank is one of the top 3 banks in terms of the size of the Personal Loan portfolio. Standard Chartered and BRAC Bank are the top two respectively and Lanka Bangla has the highest personal loan portfolio amongst the finance companies. The fact that CBL is able to compete with BBL, SCB and EBL in Retail Banking segment is a great achievement.

CBL has shown great enthusiasm in maintaining its reputation in the banking sector since the inception. It has constantly undergone changes complying with the changing environment. After the introduction of the Risk Management Practice it has undergone massive restructuring and coped up with the prevailing environment. All of these together have made it the top-notch organization it is today.

Banking is the backbone of national economy. Banking sector no more depends on only on a traditional method of banking. Banking industry has been treated as a prospective financial sector in Bangladesh. Bangladesh's banking system is heavily affected by bad loans. It discourages investment. As a result, the growth of the economy is impeded. One major reason for default loan is banks ineffectiveness of assessing credit risk of a proposed investment. With time Bangladesh bank has set rules and general guidelines to help banks assess risk and mitigate their credit risk. In spite of that many banks fail to attract good credit and run profitably. Thus, it is not only the guidance provided by the Bangladesh bank that a commercial lending institution need to follow own lending policies should be in place to ensure maximum effectiveness of credit assessment.

Credit risk management is becoming more and more important in today's competitive business world. It is all the more important in the context of Bangladesh. The tools for improving management of consumer credit risk have advanced considerably in recent years. Therefore, as a responsible and reputed commercial bank, CBL has instituted a contemporary credit risk management system. It is evident that the bank is quite sincere in their approach to managing the consumer credit risk though there are rooms for improvement.

CBL is well prepared to and capable of meeting the demand for a broad range of banking services. It has got adequate resources, both human and physical, to provide the customers with the best possible services. CBL has already developed goodwill among its client by offering its good services. This success has resulted from the dedication, commitment and dynamic leadership of its management over the periods. But they must concentrate more on customer-oriented services and provide better technological advancement relating to banking activities.

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APPENDIX

ACRONYMS

- CBL: City Bank Limited
- BB: Bangladesh Bank
- A/C: Account
- CD: Current Account
- SB: Savings Account
- PO: Pay Order
- CIB: Credit Information Bureau
- NID: National Identity Card
- AL: Auto Loan
- PL: Personal Loan
- HL: Home Loan
- OD: Over Draft
- PDC: Post-dated Cheque
- UDC: Undated Cheque

Credit Risk Grading Score Sheet Sample:

CREDIT RISK GRADING SCORE SHEET			
Reference No.:		Date:	5-Feb-xx
Borrower	XYZ Company		
Group Name (if any)		Aggregate Score:	77
Branch:	Large Corporate		
Industry/Sector	Spinning	Risk Grading:	Acceptable
Date of Financials	30-Jun-16		
Completed by			
Approved by	CRM		
Number	Grading	Short	Score
1	Superior		Fully cash secured, secured by government guarantee/international bank guarantee
2	Good	SUP GD	85+

3	Acceptable	ACCPT	75-84	
4	Marginal/Watchlist	MG/WL	65-74	
5	Special Mention	SM	55-64	
6	Substandard	SS	45-54	
7	Doubtful	DF	35-44	
8	Bad/Loss	BL	<35	
Criteria Weight	Parameter	Score	Actual Parameter	Score Obtained
A. Financial Risk 50%				
1. Leverage: (15%)	Less than 0.25x	15	1.08	11
Debt Equity Ratio (x) - Times	0.26x to 0.35 x	14		
Total Liabilities to Tangible Net worth	0.36x to 0.50 x	13		
	0.51x to 0.75 x	12		
All calculations should be based on	0.76x to 1.25 x	11		
annula financial statements of the	1.26x to 2.00 x	10		
borrower (audited preferred)	2.01x to 2.50 x	8		
	2.51x to 2.75 x	7		
	More than 2.75x	0		
2. Liquidity: (15%)	Greater than 2.74x	15	1.03	10
Current Ratio (x) -Times	2.50x to 2.74 x	14		
Current Assets to Current Liabilities	2.00x to 2.49 x	13		
	1.50x to 1.99 x	12		
	1.10x to 1.49 x	11		
	0.90x to 1.09 x	10		
	0.80x to 0.89 x	8		
	0.70x to 0.79 x	7		
	Less than 0.70x	0		
3. Profitability: (15%)	Greater than 25%	15	21.06%	14
Operating Profit Margin (%)	20% to 24%	14		
(Operating Profit/Sales) X 100	15% to 19%	13		
	10% to 14%	12		
	7% to 9%	10		
	4% to 6%	9		
	1% to 3%	7		
	Less than 1%	0		
4. Coverage: (5%)				
Interest Coverage Ratio (x) - Times				

Earning before interest & tax (EBIT)	More than 2.00×	5	1.41	3
Interest on debt	More than 1.51× Less than 2.00×	4		
	More than 1.25× Less than 1.50×	3		
	More than 1.00× Less than 1.24×	2		
	Less than 1.00×	0		
Total Score- Financial Risk		50		38
B. Business/ Industry Risk 18%				
1. Size of Business (in BDT crore)	> 60.00	5	302.00	5
	30.00 – 59.99	4		
The size of the borrower's business	10.00 – 29.99	3		
measured by the most recent year's	5.00 - 9.99	2		
total sales. Preferably audited numbers.	2.50 - 4.99	1		
	< 2.50	0		
2. Age of Business	> 10 Years	3	36	3
	> 5 - 10 Years	2	Noman Group is in business for 34 years in business	
The number of years the borrower	2 - 5 Years	1		
engaged in the primary line of business	< 2 Years	0		
3. Business Outlook	Favorable	3	Stable	2
Critical assesment of medium term	Stable	2		
prospects of industry, market share	Slightly Uncertain	1		
and economic factors.	Cause for Concern	0		
4. Industry Growth	Strong (10%+)	3	Good (>5% - 10%)	2
	Good (>5% - 10%)	2		
	Moderate (1%-5%)	1		
	No Growth (<1%)	0		
5. Market Competition	Dominant Player	2	Dominant Player	2
	Moderately Competitive	1		
	Highly Competitive	0		
6. Entry/Exit Barriers	Difficult	2	Difficult	2
	Average	1		
	Easy	0		
Total Score- Business/Industry Risk		18		16

C. Management Risk 12%				
1. Experience	More than 10 years in the related line of business	5	More than 10 years in the related line of business	5
Quality of management based on total	5–10 years in the related line of business	3		
# of years of experience of the senior	1–5 years in the related line of business	2		
management in the Industry.	No experience	0		
2. Second Line/ Succession	Ready Succession	4	Ready Succession	4
	Succession within 1-2 years	3		
	Succession within 2-3 years	2		
	Succession in question	0		
3. Team Work	Very Good	3	Very Good	3
	Moderate	2		
	Poor	1		
	Regular Conflict	0		
Total Score- Management Risk		12		12
D. Security Risk 10%				
1. Security Coverage (Primary)	Fully Pledged facilities/substantially cash covered / Reg. Mortg. for HBL	4	Simple hypothecation/Negative lien on assets	1
	Registered Hypothecation (1 st Charge/1st Pari passu Charge)	3		
	2nd charge/Inferior charge	2		
	Simple hypothecation/Negative lien on assets	1		
	No security	0		
2. Collateral Coverage (Property Location)	Registered Mortgage on Municipal corporation/Prime Area property	4	No collateral	0
	Registered Mortgage on Pourashava/Semi-Urban area property	3		
	Equitable Mortgage or No property but Plant and Machinery as collateral	2		

	Negative lien on collateral	1		
	No collateral	0		
3. Support (Guarantee)	Personal Guarantee with high net worth or Strong Corporate Guarantee	2	Personal Guarantee with high net worth or Strong Corporate Guarantee	2
	Personal Guarantees or Corporate Guarantee with average financial strength	1		
	No support/guarantee	0		
Total Score- Security Risk		10		3
E. Relationship Risk				
10%				
1. Account Conduct	More than 3 years Accounts with faultless record	5	More than 3 years Accounts with faultless record	5
	Less than 3 years Accounts with faultless record	4	With Group	
	Accounts having satisfactory dealings with some late payments.	2		
	Frequent Past dues & Irregular dealings in account	0		
2. Utilization of Limit	More than 60%	2	50.00%	1
(actual/projection)	40% - 60%	1		
	Less than 40%	0		
3. Compliance of Covenants / Conditions	Full Compliance	2	Full Compliance	2
	Some Non-Compliance	1		
	No Compliance	0		
4. Personal Deposits	Personal accounts of the key business Sponsors/ Principals are maintained in the bank, with significant deposits	1	No depository relationship	0
	No depository relationship	0		
Total Score- Relationship Risk		10		8
Grand Total - All Risk		100		77