Bank and their activites are generally subject to much closer official supervison than other kinds of activities of businesses because they play a crucial role in the economic and financial life of country. Banks occupy a central place in the payments system for Government, business and households. Banks accept money in the form of deposits which constitute part of society financial assets, and intermediate between depositors and borrowers who are in need of funds. Primary justification for Bank supervision is to limit the risk and loss to depositors and thus maintain public confidence.

Supervision, while focusing on individual banks, is also alive to the need to prevent systematic risk and collapse of the banking system. Despite diversity to supervisor’s role and practices the world over, their objectives and their judgements appear very much to be the same. Supervision seeks to ensure financially sound and well managed banks, not posing any threat to the interest of depositors. In pursuing these objectives mainly three judgements are formed; how much risk each bank undertakes, what resources are available to manage that risk and whether the available resources are adequate to balance the risk. The risk to which banks are exposed may be broadly categorized as credit risk, market risk, and operational risk.