

Internship Report
On
"An Empirical Study on Bangladesh Bank's On-site & Off-site
Supervision"

An internship report submitted to the Department of Business and Technology
Management in partial fulfillment of the requirements for the degree of BBA in
Business and Technology Management

By
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Department of Business and Technology Management
Islamic University of Technology
April 2022



"An Empirical Study on Bangladesh Bank's On-site & Off-site Supervision"

Submitted to

Islamic University of Technology

**In partial fulfillment of the requirements for the degree of
BBA in Business and Technology Management (BTM)**

Submitted by:

I understand that my final report will become part of the permanent collection of the Islamic University of Technology BBA in Business and Technology Management Program. My signature below authorizes the release of my final report to any reader upon request.

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Boardbazar, Gazipur

Subject: Internship Report on “An Empirical Study on Bangladesh Bank’s On-site & Off-site Inspection”

Respected Sir,

As per the requirement by BBA in Technology Management program, under the Department of Business and Technology Management at IUT, I have completed my credited internship at Bangladesh Bank, and based on that experience I have prepared a report titled, “**An Empirical Study on Bangladesh Bank’s On-site & Off-site Inspection**”. My internship period in that organization was about three months which was from 26th December 2021 to 16th March 2022. I sincerely hope that this report satisfies the overall objectives directed to completing the internship program successfully and gets your kind attention for acceptance. I did my best to finish the report using the relevant data in the most efficient and feasible manner.

I appreciate your invaluable assistance and kind cooperation in every aspect of my work on this report. I will remain extremely grateful to you forever if you could please take some time to read through the report and evaluate my work.

Sincerely yours,

Md. Mahir Kamal

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Department of Business and Technology Management

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Acknowledgment

This report would have been difficult to finish had I not received aid and encouragement from some people along the way. Let me begin by expressing gratitude to Almighty Allah for all that he has provided for me thus far in my life. This report would not have been possible without the participation, unwavering collaboration, and support of everyone who has contributed to its timely and effective completion. I am eternally grateful to all of you who have been and continue to be an inspiration to me.

As a human being, it is normal to forget some things, and just a few names should be spoken without thinking. Please accept my apologies for any lapse in my concentration. In this letter, I convey my heartfelt thanks and respect to Fazle Kabir, Governor of the Bangladesh Bank, for providing me with the chance to finish my internship report while working under the Department of Banking Inspection-3 at the country's central bank.

I'd like to express my gratitude to Naznin Akther who's the Assistant Professor of the Department of Business and Technology Management (BTM) at the Islamic University of Technology for her guidance and assistance in supervising this report. She has been quite helpful in putting together the entire report and has taken the time to review the draft report. She has provided her feedback on the various chapters of the report as well and helped me to refine it over the days. A detailed report would have been difficult to compile without her assistance, which she generously provided. The Deputy General Manager of The Department of Banking Inspection-3, Md. Asadul Mustafa, has also provided me with all the direction and inspiration to make the whole process as smooth as possible.

Executive Summary

My internship was a three-month program that began in the last week of December 2021 and ended in the third week of March 2022. The report was composed fully based on my internship experience in the Department of Banking Inspection-3 at Bangladesh Bank. The experience was fantastic for me, and I gained a great deal of information about the numerous sorts of monitoring instruments used by the country's central bank. All the staff in this department have been quite helpful, and they have welcomed me with open arms. My academic supervisor and my supervisor at the Bangladesh Bank helped me choose the topic, "An Empirical Study on Bangladesh Bank's On-site and Off-site Supervision".

To ensure the safety of depositors, the central bank monitors all the enlisted banks of the nation. The Bangladesh Bank's primary role is to monitor the banking sector through off-site and on-site monitoring which are essential components of the most effective financial supervision system. The first bank in Bangladesh to create an on-site supervision department was Bangladesh Bank. However, it was not sufficient for adequate monitoring, which is why it was required to establish Off-site supervision under the supervision of completely other departments.

Throughout the section on analysis and interpretation, you'll find flowcharts depicting the progress of various projects, internship examples, visual representations, and other technical details. To provide the reader with a clear picture of how the supervision department functions, the paper outlines the whole process in detail. For the last three months, I've gained a great deal of insight into the banking sector and the workings of the whole corporation. The central bank's supervision activities are well-covered in this paper.

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List of Abbreviations

BB	Bangladesh Rank
BDBL	Bangladesh Development Bank Limited
BIBM	Bangladesh Institute of Bank Management
BOD	Board of Director
BPC	Bangladesh Petroleum Corporation
BRPD	Banking Regulatory and Policy Department
CAR	Capital Adequacy Ratio
CIB	Credit Information Bureau
CL	Classified Loan
CRR	Cash Reserve Ratio
DBI	Department of Banking Inspection
DFI	Development Financial Institution
DOS	Department of Off-site Supervision
EC	Executive Committee
EDW	Enterprise Data Warehouse
EWS	Early Warning System
FC	Foreign Commercial Bank
ICAAP	Internal Capital Adequacy Assessment Process
IMF	International Monetary Fund
P&L Account	Profit & Loss Account
PCB	Private Commercial Bank
ROA	Return on Assets
RWA	Risk Weighted Asset
SCB	State owned Commercial Bank
SLR	Statutory Liquidity Reserve
SMA	Special Mentioned Account
SME	Small & Medium Enterprise
TRWA	Total Risk Weighted Asset

Chapter 1

Introduction

1.1 Introduction

The internship report is a must-read for anybody hoping to obtain a detailed experience on the supervision protocols of the country's central bank. Internships offer students a fantastic opportunity to learn, gain experience, and prepare for their future jobs. In life, experience is highly valuable since it teaches us how to be brave in the face of hardship. I've faced a range of challenges and impediments throughout my working career. Thanks to Allah's blessings and the help of close friends or family members, I was able to overcome my troubles. Moreover, it supports me in regulating and growing my attitude and conduct while engaging with a range of individuals and situations. The internship program aims to fill the knowledge gap between academia and the real world. Our school and university years are completely dissimilar from our professional years. Working life is extremely challenging since it demands a great deal of effort, devotion, and talent, all of which I must be well-prepared for.

1.2 Objective of Study

The primary goal is to learn more about the Bangladesh Bank's supervision departments' roles, regulations, & methods for inspecting the country's scheduled banks. My primary goal was to learn about the procedures, policies, and practices that they employ while reviewing the scheduling banks.

The specific objectives of the report

- It is required to evaluate Bangladesh Bank's current supervisory role.
- To determine the reasons for bank collapse and the long-term impacts of bank failure.
- To research the techniques of supervision utilized in industrialized nations, and also risk-based supervision techniques.
- To evaluate the Bangladesh Bank's oversight of the banking industry.

1.3 Rationale of Study

When it comes to a country's economic system, Bangladesh Bank is known as the "center of the system." All countries need to have a well-functioning central banking system in order for their

banking systems to be competitive, efficient, sophisticated, and well endowed. Bangladesh Bank performs a precious role in the country's economic development. I completed this report to earn my BBA degree because it is a requirement of the program. Through our bookish education, we already have a foundation in theoretical knowledge. However, for us, this theoretical understanding is insufficient. There is a significant disparity between academic knowledge and practical expertise in this field. The internship program is playing an important role in closing this gap. My major aim in doing this internship is to learn more about the supervision system of the central bank of Bangladesh and to acquire a feel for the culture of the organization.

1.4 Scope of Study

No one in our nation has ever worked on an efficient monitoring system. Hence the current status of the supervision system of Bangladesh Bank piqued my interest consequently.

I've done my best to explain the Bangladesh Bank's Department of Banking Inspection-3. I concentrated on the banking supervision practice and reporting mechanism of the Department of Banking Inspection-3. My interest in this topic was sparked by some related research. I can give examples of some of the projects I've worked on, such as Bank Supervision and CAMELS rating.

1.5 Limitations of Study

I have made every effort to gather pertinent material from a variety of sources even though I am working under severe time limitations. For example, all of the data is secondary. Visiting commercial banks to observe how supervisory measures were implemented was not an option for the researcher because of time constraints. Time management, group organization and development, and technology obstacles were all challenges for me. I needed knowledge about the activities of the banking inspection and off-site supervision departments, therefore I went to a real-life scenario to find it. I went to the appropriate place to obtain information, but they refused to provide any information because banking inspection is a highly confidential topic.

- One of the really limiting elements in our investigation was a lack of adequate information in the manner necessary.
- The Bangladesh Bank's On-site and Off-site departments, which are independent institutions, do not make public CAMELS' component and composite ratings. Some pieces of information are so sensitive and secret that they are only known by the appropriate officials from the On-site and Off-site sections, as well as the appropriate banks.

However, I was able to complete my report using the information supplied by my respected course teacher and the organization's supervisor, which was adequate. Because I believe that I have conquered all of the problems and completed my report. I am pleased with my efforts and am happy with my accomplishment.

Chapter 2

Description of the Organization

2.1 Historical Background

The liberation of Bangladesh necessitated the establishment of the State Bank of Pakistan and then according to the Bangladesh Bank Order of 1972, the country's central bank was founded as a business. The office of the Deputy Governor of the State Bank of Pakistan was where the organization's headquarters were housed in Dhaka. Following the country's liberation fight and eventual independence, Bangladesh's government renamed it the Bangladesh Bank. The restructuring was completed on December 16, 1971, and the Bangladesh Bank was created on that day.

2.2 The vision of Bangladesh Bank

The Bangladesh Bank's primary goal is to support Bangladesh's fast broad-based inclusive and sustainable growth, employment generation, and social equity by ensuring fiscal sustainability, stable growth, and banking system resilience.

2.3 The mission of Bangladesh Bank

- Formulation of financial and monetary policy is one of the primary responsibilities of the Bangladesh Bank.
- Regulating the payment method & currency issuance
- Management of forex reserves as well as the supervision of the currency market.

2.4 Members of the Board of Directors

Mr.Fazle Kabir	Chairman
Mr. Abu Hena Md. Rahmatul Muneem	Director
Mr. Abdur Rouf Talukder	Director
Mr. Sheikh Mohammad Salim Ullah	Director
Mr. Mahbub Ahmed	Director
Dr.Jamaluddin Ahmed,FCA	Director
Mr. A.K. M Aftab ul Islam,FCA	Director
Mr. Md. Nazrul Huda	Director
Ahmed Jamal	Director
Mohd. Humayun Kabir	Secretary

2.5 Glance of Bangladesh Bank

Website: www.bb.org.bd

SOVEREIGN RATINGS OF BANGLADESH

1. **MOODY'S**
2. **FITCH RATINGS**
3. **STANDARD & POORS**

Sovereign ratings of Bangladesh

Bangladesh achieves Ba3(Moody's) and BB-(Standard and Poor's) with stable outlook for the 11th consecutive years . Fitch Ratings affirmed BB- with stable outlook for the 8th time.

HONORABLE GOVERNOR

MR. FAZLE KABIR
HONORABLE GOVERNOR OF BANGLADESH BANK
[more....](#)

POLICY RATE		RESERVE RATIO			EXCHANGE RATE		
Repo Rate	4.75%		SLR	CRR	CURRENCY	BUY	SELL
Special Repo Rate	7.75%	Traditional Banking	13%	4.0%	USD	86.0000	86.0000
Rev Repo Rate	4.00%	Islamic Banking	5.5%	4.0%	GBP	113.2190	113.2878
Bank Rate	4.00%	Deposit Taker FIs	5%	1.5%	EUR	94.7204	94.7548
		Non Deposit Taker FIs	2.5%				

**Last update: 22nd March, 2022*

2.6 Current Executive Staff

Name	Executive Director		Md. Shazzad Hossoin	Executive Director
Governor	Name	Designation	A F M Shahinul Islam	Executive Director
Mr. Fazle Kabir	A.K.M.Fazlul Haque Mia	Executive Director (Statistics)	Mohammad Khurshid Wahab	Executive Director
Deputy Governor	Mohd. Humayun Kabir	Executive Director	Md. Abul Bashar	Executive Director
Ahmed Jamal	Md. Serajul Islam	Executive Director	Md. Anwar Hossain	Executive Director
Kazi Sayedur Rahman	Joarder Israil Hossain	Executive Director	Md. Habibur Rahman	Executive Director
A.K.M Sajedur Rahman Khan	Md. Mosharraf Hossain Khan	Executive Director	Shaikh Md. Salim	Executive Director
Abu Farah Md. Nasser	Debdulal Roy	Executive Director (Programming)	Md. Shahin ul Islam	Executive Director
	Nurun Nahar	Executive Director	Jiban Krishno Roy	Executive Director
	Asish Kumar Dasgupta	Executive Director (Research)	Parimal Chandra Chakraborty	Executive Director
	Md. Awlad Hossain Chowdhury	Executive Director	Md. Nurul Amin	Executive Director
	Muhammad Zakir Hasan	Executive Director (Maintenance)	Nirmal Kumar Sarker	Currency Officer (Executive Director)
	Md. Obaidul Hoque	Executive Director	Dr. Md. Kabir Ahmed	Executive Director
	Mohammad Ahmed Ali	Executive Director	Md. Nazrul Islam	Executive Director
	Md. Khurshid Alam	Executive Director	S.M. Hasan Reza	Executive Director
	Main Uddin Ahmed	Executive Director	Kazi Aktarul Islam	Executive Director
	Md. Shafiqul Islam	Executive Director	Mohammad Mamunul Hoque	Executive Director
			Md. Mehedi Hasan	Chief Information Security Officer

2.7 Branch Offices

1.Barishal	6. Mymensingh
2.Bogura	7. Rajshahi
3.Chattogram	8. Rangpur
4.Khulna	9.Sadarghat
5.Motijheel	10.Sylhet

2.8 Bangladesh Bank's Departments

Accounts & Budgeting Department	Agricultural Credit Department
Bangladesh Bank Library	Bangladesh Bank Training Academy
Bangladesh Financial Intelligence Unit	Bankers' Selection Committee Secretariat
Banking Regulation and Policy Department	Chief Economist's Unit
Common Services Department-1	Common Services Department-2
Credit Information Bureau	Cyber Security Unit
Debt Management Department	Department of Banking Inspection 1
Department of Banking Inspection 2	Department of Banking Inspection 3
Department of Banking Inspection 4	Department of Banking Inspection 5
Department of Banking Inspection 6	Department of Banking Inspection 7
Department of Banking Inspection 8	Department of Communications and Publications
Department of Currency Management	Department of Financial Institutions and Markets
Department of Foreign Exchange Inspection	Department of Off-Site Supervision
Deposit Insurance Department	Equity and Entrepreneurship Fund Unit
Expenditure Management Department-1	Expenditure Management Department-2
Financial Inclusion Department	Financial Institutions Inspection Department
Financial Integrity and Customer Services Department	Financial Sector Support and Strategic Planning Department
Financial Stability Department	Foreign Exchange Investment Department
Foreign Exchange Operation Department	Foreign Exchange Policy Department

2.9 Bangladesh Bank's Objectives

In order to achieve these objectives, the Bangladesh Bank serves as the nation's central bank.

- To manage Bangladesh's financial and monetary processes in order to sustain the nation's monetary value as a stable unit of currency.
- To maintain the Bangladesh Taka's par value.
- To keep all of the bank's rights.

2.10 Bangladesh Bank's Functions

The followings are deemed to be the primary function of the bank:

- Monetary and credit policy formulations and implementations
- The international reserves of Bangladesh are being managed.
- Currency notes are issued.
- Serving as a banker for the government of Bangladesh's payment system regulations and oversight.
- Anti-money laundering measures
- The Foreign Exchange Regulation Act (FERA) is currently in effect.
- Credit information is gathered and provided.

2.11 Legal and Other Empowerment of Bangladesh Bank

Bangladesh Bank has been able to carry out its responsibilities as a central bank thanks to the various acts, statutes, ordinances, and guidelines that have been developed and issued since its foundation. Legislations that are relevant to the Bangladesh Bank include the following:

<ul style="list-style-type: none"> • Bangladesh Bank Order, 1972 • Bank Company Act, 1991 • Bank Company (Amendment) Act, 2013 • The Negotiable Instruments Act, 1881 • The Bankers' Book Evidence Act, 1891 • Foreign Exchange Regulations (Amendment) Act, 2015 • Foreign Exchange Regulations Act, 1947 • Financial Institutions Act, 1993 	<ul style="list-style-type: none"> • Financial Reporting Act, 2015 • Bank Deposit Insurance Act, 2000 • Money Loan Court Act, 2003 • Micro Credit Regulatory Authority Act, 2006 • Money Laundering Prevention (Amendment) Act, 2015 • Money Laundering Prevention Act, 2012 • Anti-Terrorism (Amendment) Act, 2013 • Anti-Terrorism Act, 2009.
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2.12 Bangladesh Bank's Organogram



Chapter 3

Banking Supervision Analysis

3.1 Bangladesh Bank's Supervision Act

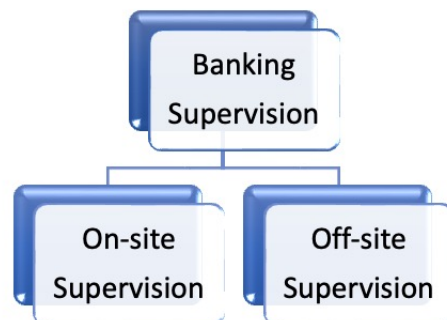
With the Bangladesh Bank Order-1972, Bangladesh's banking system entrusted the Bangladesh Bank with oversight of commercial banks and financial institutions (FIs) (Amendments up to 10th March 2003). When it comes to determining the financial strength and portfolio quality, the Bangladesh Bank is authorized to conduct an examination of its books of accounts, associated documents, and records of banks and financial institutions. The primary goal of this examination is to protect depositors' interests. The goal of supervision is to protect depositors' interests while also promoting and maintaining the financial sector's soundness, solvency, and systemic stability.

3.2 Supervision System

The operational and financial health of the credit union is monitored on a regular basis by the appropriate authorities. To ensure that their credit unions are operating effectively, examiners conduct on-site and off-site audits of their appointed credit unions, along with periodical trend analysis of chosen ratios. Suspension may also entail a follow-up examination and ongoing assessment of financial trends and metrics in credit unions with much more significant financial difficulties.

3.3 Different Types of Supervision

The Bangladesh Bank oversees banks and non-bank organizations in two different ways.



3.4 Departments of On-Site Supervision

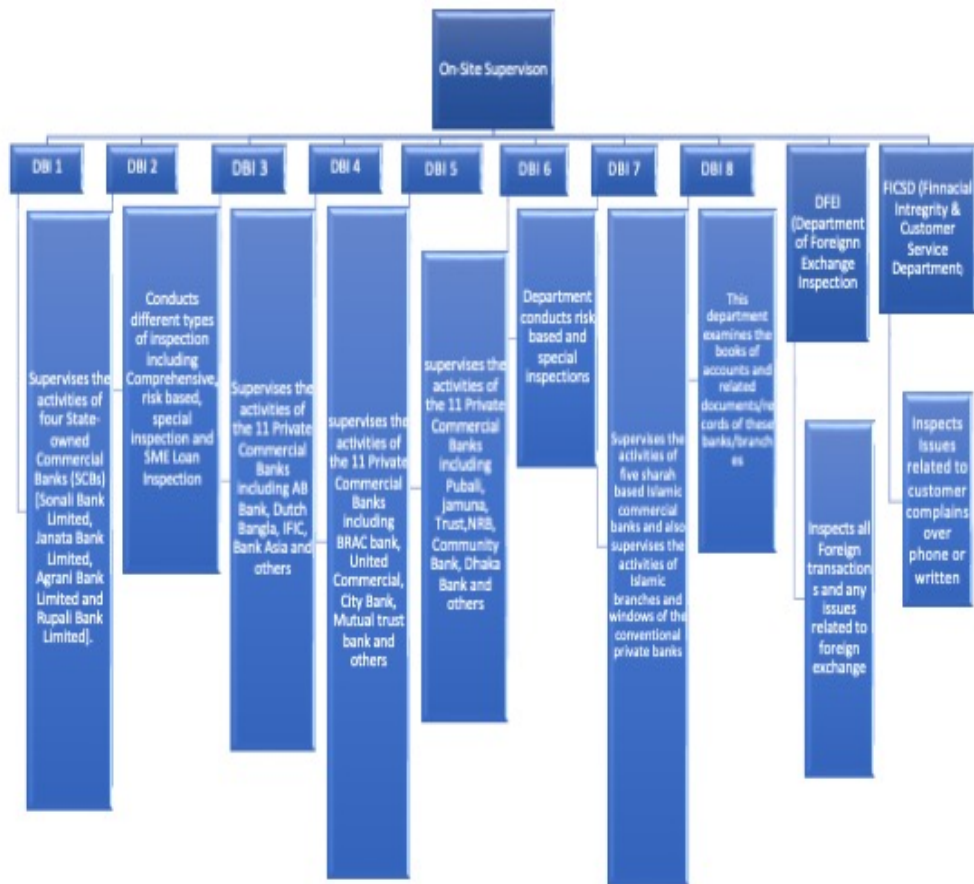


Figure-4:Supervisory Functions Related Departments of BB

3.4.1 Department of Banking Inspection-1

This department keeps a tab on four state-owned banks namely Rupali Bank Ltd, Janata bank Ltd, Sonali Bank Ltd., and Agrani Bank Ltd. Around 984 inspections, and 232 core risk audits, including 663 comprehensive inspections for 29 banks were completed by DBI-1 in the financial year 2018. At least one branch of the bank, as well as the head office and regional offices, took part in the core risk analysis. Additionally, DBI-1 keeps tabs on bank security risks both on and off-site. The Supervisory Committee, which is chaired by the Deputy Governor in charge of inspection, meets twice a month to discuss a wide range of planning and legislative problems pertaining to the oversight of financial institutions. Before submitting their annual financial

reports, banks subject to DBI-1's authority must hold a three-way meeting with their management committees, Bangladesh Bank's audit group, and independent auditors.

3.4.2 Department of Banking Inspection-2

Around 123 major branches, and 753 small branches were inspected by the DBI-2 in FY18, with 883 complete inspections, 123 big branches, and 753 minor branches. This department keeps a tab on the scheduled specialized banks in Bangladesh which are Probashi Kalyan Bank, Bangladesh Krishi Bank, and Rajshahi Krishi Unnayan Bank. Three non-scheduled banks, one private commercial bank, and one state-owned financial institution also fall under the jurisdiction of this department.

3.4.3 Department of Banking Inspection-3

Many banks, as well as small and medium-sized enterprises (SMEs), were investigated by the Department of Financial Services (DFS) in Bangladesh. Between 2018 and 2020, 533 branches would be assessed in accordance with this provision. The year 2018 had a total of 34 routine audits being out. Currently, this department supervises eleven private commercial banks. At any given time, this division conducts a large number of inspections.

01	AB Bank Limited	02	Bengal Commercial Bank Limited	03	Bank Asia Limited
04	Dutch-Bangla Bank Limited	05	IFIC Bank Limited	06	National Credit & Commerce Bank Limited
07	NRB Commercial Bank Ltd	08	Premier Bank Limited	09	Prime Bank Limited
10	South Bangla Agriculture and Commerce Bank Limited	11	Uttara Bank Limited		

3.4.4 Department of Banking Inspection-4

It is DBI-4 that ensures the depositor's monies are protected by regularly or as-needed checking on accounts and related papers at the banks' headquarters and branches. This includes a review of the bank's financial health, portfolio quality, managerial efficiency, investment risk, and other relevant papers and records in order to guarantee that the bank's activities do not compromise the

interests of its customers or the economy at large. The results of the inspection and any abnormalities are documented in an assessment report. The following eleven banks are under the jurisdiction of this department

01	United Commercial Bank Limited	07	Eastern Bank Limited
02	BRAC Bank Limited	08	The City Bank Ltd.
03	Mercantile Bank Limited	09	Modhumoti Bank Ltd.
04	Southeast Bank Limited	10	Meghna Bank Limited
05	Mutual Trust Bank Limited	11	Padma Bank Limited
06	One Bank Limited		

3.4.5 Department of Banking Inspection-5

Performs similar responsibilities as DBI 4 but for 11 other banks.

01.	Pubali Bank Limited	07.	Bangladesh Commerce Bank Limited
02.	National Bank Limited	08.	Midland Bank Limited
03.	Jamuna Bank Limited	09.	Shimanto Bank Limited
04.	NRB Bank Limited	10.	Community Bank Bangladesh Limited
05.	Trust Bank Limited	11.	Citizens Bank PLC
06.	Dhaka Bank Limited		

3.4.6 Department of Banking Inspection-6

This department supervises the five Islamic banks in the country which are First Security Islami Bank Ltd, Islami Bank Bangladesh Ltd; Standard Bank, ICB Islamic Bank, and Global Islamic Bank. These banks are regularly visited by this organization for on-site audits. This organization also keeps an eye on the Islamic banking operations of the local banking system.

3.4.7 Department of Banking Inspection-7

In addition to five shariah-compliant Islamic commercial banks, the DBI-3,4,5 keep an eye on Islamic branches and offices of traditional private banks. A sample of these financial institutions' account books and associated financial data is examined by this division for the purpose of ensuring that their actions do not affect depositors' goals or the industry at large.

3.4.8 Department of Banking Inspection-8

This department is responsible for the supervision of twelve foreign commercial banks, two state-owned banks, and one non-scheduled bank.

Foreign Commercial Banks		State Owned Commercial Banks (SOCBs)	Non-Scheduled Bank
1. Standard Chartered Bank	6. Habib Bank Ltd.	1. BASIC Bank Ltd.	1. Grameen Bank
2. The Hongkong and Shanghai Banking Corporation (HSBC) Limited	7. State Bank of India	2. Bangladesh Development Bank Ltd.	
3. Commercial Bank of Ceylon PLC	8. National Bank of Pakistan		
4. Bank Alfalah Limited	9. Citibank, N.A.		
5. Woori Bank			

3.4.9 Department of Foreign Exchange Inspection

This department examines international trade finance & treasury operations, as well as currency risk monitoring and transactions involving banks and money exchanges. This year, the agency performed 68 extensive audits of a bank authorized dealer branches, 102 special audits on international commerce and foreign currency management, and 57 bank forex management audits. After uncovering 64 money lenders with anomalies, authorities conducted 64 inspections. Ethics, standards of conduct, and good corporate governance are all respected in the banking business, as per BB research. Customers' concerns and disputes have been satisfactorily resolved by BB's FICSD. It is part of the department's customer/public consciousness operations that it has tried to enhance media coverage. Aside from ATM card theft, the FICSD has also made steps to

combat check fraud using MICR technology and internet banking fraud using PIN codes. Over the year, the FICSD undertook extensive investigations into the field of banking, trade, and currency activities of several banks, and as a response, took significant action.

3.4.10 Financial Integrity and Customer Services Department

In 2014, the government developed a "Guideline on Customer Service and Complaint Processing" for banks to follow. When it comes to the institutions it oversees, the FICSD pays close attention to what's going on. In order to protect the interests of banking customers, banks must now warn them when the interest rate on a term loan increase before one month has passed and allow them to quit the bank without incurring a premature set-off penalty. If a constant or demand loan is repaid before its maturity date, no early payment fee will be charged. As a result of FICSD's efforts to educate the wider populace and respond to consumer concerns, customers may have faith in the system.

3.4.11 Bangladesh Financial Intelligence Unit

These laws, as well as the Embezzlement Prevention and Counter-Terrorism Financing Prevention Act of 2009, mandate that several banks being investigated for any questionable activity. Fund transfer data can be falsified, money laundering data can be falsified, and terrorist acts can be threatened by foreign agencies or other parties. Other options are available to entities charged with enacting laws. Information exchange with overseas colleagues is another responsibility of the BFIU. Embezzlement and immoral activities linked to the spread of weapons of mass destruction are the primary goals of the BFIU.

3.4.12 Financial Stability and Macro-Prudential Supervision

FSD is tasked with developing a stable macroprudential framework to protect the financial system from negative movements during a country's economic and financial downturn. Using a variety of instruments and indicators, the department examines analyses and evaluates potential financial system risks and vulnerabilities, as well as estimates their likelihood. The department also conducts global studies on challenges of temporary and permanent stability.

Additionally, banks are subjected to stress tests every quarter to assess their ability to absorb credible financial shocks on an individual and collective level. FSR and QFSAR provide aggregate stress test data on a regular basis, which is used to forecast the financial market changes. The model forecasts various areas of the banking business over the next 12 (twelve) quarters. To create

assumptions and stressful situations, historical microdata is combined with present and future financial sector and macroeconomic events. It boosts BB's ability to analyze risk for individual banks. The FPM report is released every six months. Another instrument used to track banks' and financial institutions' liquidity management in order to anticipate possible market liquidity difficulties is the Interbank Transaction Matrix (ITM). Every three months, the ITM report is released. Apart from that, the Bank Health Index is an excellent resource. Aside from that, the Bank Health Index (BHI) and HEAT map are used on a semi-annual basis to provide a dynamic examination of the banks' health in order to gauge their liquidity, solvency, and earnings.

3.5 Departments of Off-site Supervision

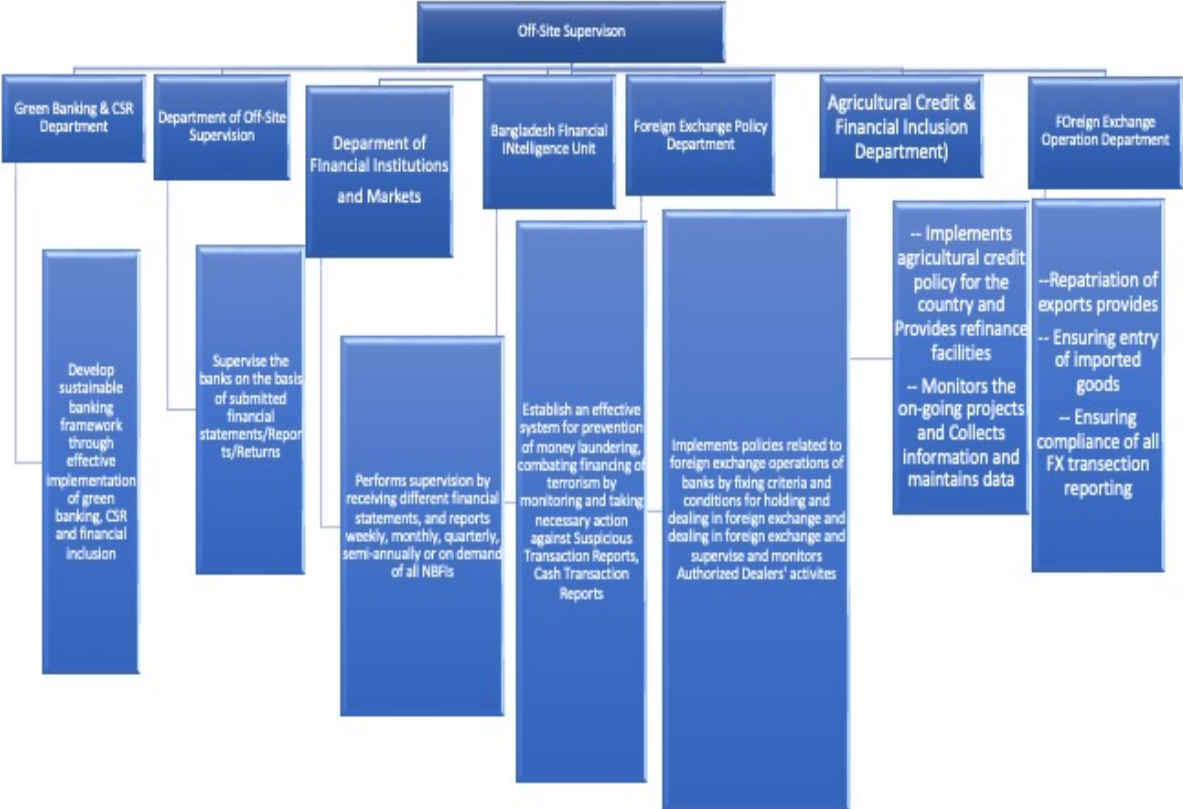


Figure-5: Supervisory Functions Related Departments of BB

3.6 Offsite Bank Inspections

Off-site monitoring has recently been shown to be an important part of any bank's control. Off-site monitoring, with its varied instruments and procedures for a full and timely assessment of the

banking sector's financial health, remained an important addition to on-site inspection in FY17. The Department of Off-Site Supervision has taken a number of distinctive steps in support of the stated goals.

3.6.1 Banking Supervision Specialists

A Banking Supervision Specialist's job is quite analytical. For the banks to whom they are assigned, BSSs act as early warning systems. They are aware of the institutions' current state, performance, risks, corporate governance, and corporate structure. They create executive summaries of comprehensive inspection reports from the Banking Inspection Departments and take action as needed. They are aware of the institutions' current state, performance, risks, corporate governance, and corporate structure. They create executive summaries of comprehensive inspection reports from the Banking Inspection Departments and take action as needed. They stay up to date on the latest regulatory developments by keeping in touch with their audit divisions on a regular basis. At all times, junior banking supervisors are on the alert for such problems.

3.6.2 Formation of Observer Cell

"Observer Cell" was established in 2017 by the Department of Off-Site Supervision to deploy observers to all organizations, not only BSSs. It is possible to have a board of observers selected by the central bank in order to maintain appropriate governance practices, and credit policies, as well as to defend the rights of consumers.

3.7 Bank Supervision in Bangladesh-Function and Structure

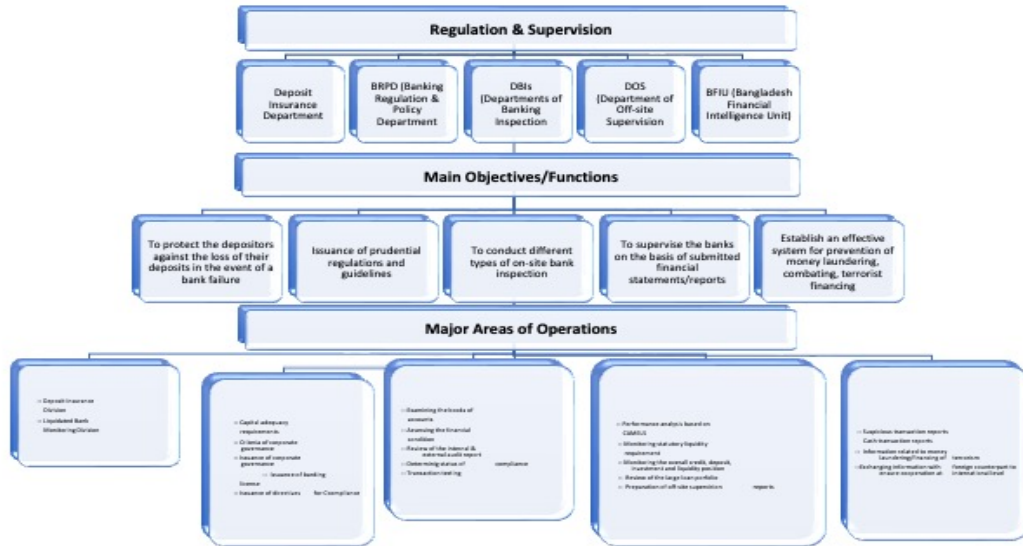


Figure -6 Regulation and Supervision Related Department of BB

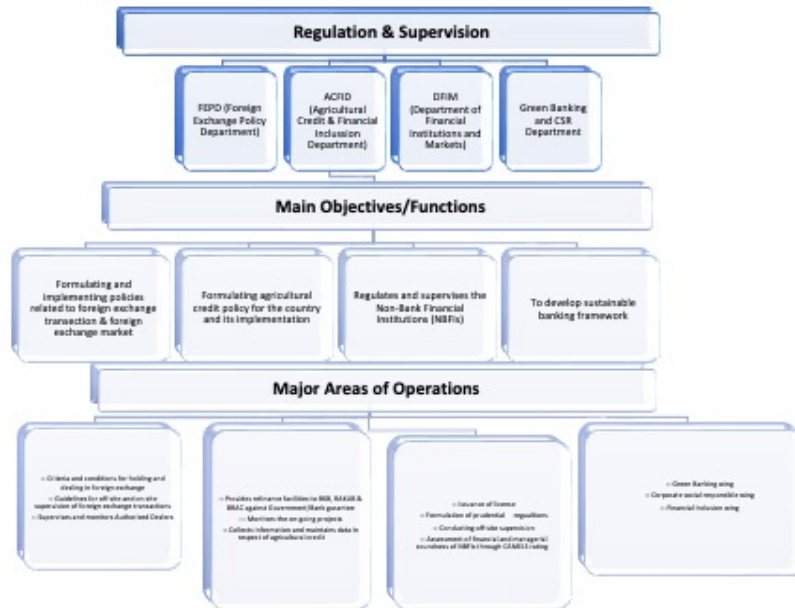


Figure -7 Regulation and Supervision Related Department of BB

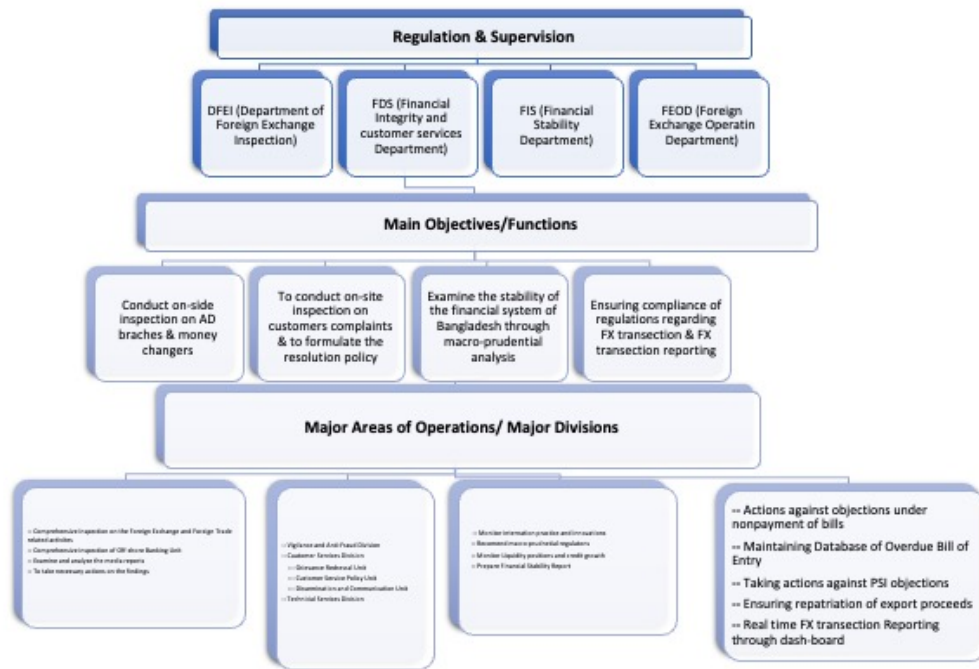


Figure -8 Regulation and Supervision Related Department of BB

3.8 Bangladesh Bank's Supervisory Initiatives in the Recent Years

The need of ensuring that the circulars and suggestions are published for greater risk management in banks has been emphasized. By employing cutting-edge tech in the financial sector, the central bank intends on ensuring that the banking industry is governed with honesty, transparency, and effectiveness. The Bangladesh Bank has taken numerous key steps to improve banking supervision in the country, which are noted below.

3.8.1 International Best Practices have been introduced to strengthen prudential supervision.

In recent years, the banking industry has placed a great priority on improving the effectiveness of bank supervision and maintaining stringent surveillance. The regulatory framework is being tightened, as is internal cooperation both on and off-site oversight. Prudent regulations are being designed in accordance with worldwide best practices. International best practices are offered to provide effective monitoring & targeting, develop a risk management framework, prevent money laundering and terrorist funding, and reduce bank risks. With the aid of the World Bank,

Bangladesh Bank is creating a Financial Projection Model to better project financial risk supervision.

3.8.2 Launch of Integrated Supervision

Every Bangladeshi bank & non-bank financial entity may now be remotely supervised thanks to the introduction of the Integrated Supervision System. The Central Bank can now examine the financial status of banks and financial institutions throughout the country digitally owing to the system's implementation. As long as he can access the bank's financial records online, an officer at Bangladesh Bank in Dhaka may now keep tabs on a bank in a different region. Analytical data, statistics, and diagrams in the new system are multifaceted, as well as a mechanism for dynamically identifying hazards. As per the Central Bank sources, the integrated system would also allow banks & non-bank financial institutions to oversee their respective branch offices across the nation.

3.8.3 Coordination of supervision has improved

The Bangladesh Bank has devised a scheme to evaluate data provided by banks and observe on the ground. This type of collaboration could be crucial in the fight against bank fraud. All inspection reports have now been compiled into one comprehensive inspection framework. Special inspection teams have been spotting anomalies and acting quickly in response to the reports.

3.8.4 NBFIs have a better supervisory structure now

In recent years, the Bangladesh Bank did some novel efforts for strengthening its supervisory oversight over NBFIs activities. One of the most important tasks is to develop and apply stress testing procedures that classify NBFIs into three levels based on their weighted average resilience (WAR) and weighted insolvency ratio (WIR). Financial institutions with strong financial positions are rated "Green," while those with supervisory difficulties are rated "Yellow," and those with high-risk levels are rated "Red." The Department of Financial Institutions and Markets (DFIM) has established a 'Cost of Fund Index' that shows the weighted average cost of funds of NBFIs, making it easier to monitor NBFIs and ensuring a spread of less than 5%. Because NBFIs loan portfolios include a significant percentage of large loans, DFIM is focused on large loan risk more than in the past. The Financial Institutions Act of 1993 is also being changed in order to improve the corporate governance and prudential standards of NBFIs.

Chapter 4

Responsibilities of internship

4.1 Description of main duties / Breakdown of activities.

I was appointed to the Department of Banking Inspection-3. In order to guarantee that banks' activities do not hurt customers or the industry as a whole, this department's primary tasks include conducting sample examinations of banks' accounting books, associated papers, and archives. The DBI-3 in 11 private commercial banks conduct on-site inspections to monitor their activities and detect any fraudulent behaviour. Each Institution is given an examiner who inspects it. and monitoring financial trends and ratios. As an intern, I did not get any direct access to conduct the activities. But being the assistive hand, I got to know the results and process of many activities. My core duty was:

- To know how an inspection takes place and how an inspection report is prepared.
- To learn about DBI-3's policy section's activities. It normally writes inspection policies, schedules meetings with the relevant teams, and advises the department on how to conduct effective inspections.
- To learn about the department's supervisory system. There are two forms of supervision: on-site and off-site.
- There are 3 sections in this department and my core duty was to interact with these three and gather knowledge.
- Some paperwork regarding the analysis.
- To conduct documentation about regular inspections.
- Excel work – data entry operation
- Help to transfer data or information from one section to another.
- To prepare general meetings.
- To observe all the activities passively for academic purposes.

Chapter 5

Analysis

5.1 Analysis of duties at the internship site

I discovered that there are three different forms of on-site supervision —

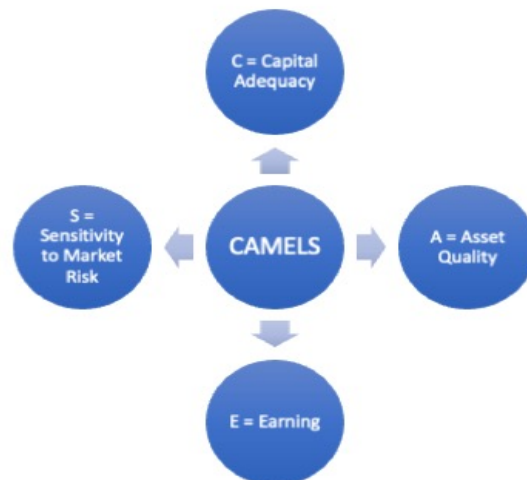
- Detailed, uncertain, & distinctive audits. If a bank has a CAMELS rating of 3 to 5, it is audited annually, whereas institutions with CAMELS ratings of 1 to 2 are audited once every two years.
- Banks / FIs are evaluated on their financial capabilities through CAMEL rating based on the reports submitted by them.

I have already discussed the core activities of on-site and off-site departments in the banking supervision analysis part therefore in this section I have explained the evaluation criteria of banking that I learned during my internship period.

5.2 What are CAMEL ratings

It's a tool for determining a bank's financial stability. This is a widely known rating system that uses six criteria to assess banks. On a scale of one to five, with one being the best and five being the worst, each bank is given a score ranging from one to five.

5.2.1 CAMELS Rating Components



Capital Adequacy

When it comes to a bank's overall capital, the phrase "capital adequacy" is used to describe it. It ensures that depositors are safeguarded from the bank's potential losses. Financial managers guarantee that the company's capitalization is adequate by sticking to it. It's an important factor for keeping proper capitalization levels.

Asset Quality

A financial institution's capacity to resist the drop in value in its resources is determined by the quality of its assets. Across all commercial banks, there is a noticeable concentration of loans as a percentage of overall assets. It's clear that assets are at danger from default risk because of the heavy concentration of loans as well as the high rate of non-performing assets.

Management Soundness

Capital sufficiency, quality of assets, long-term planning, profits, liquidity, and reaction to market fluctuations are among the factors considered when evaluating a financial institution's management. In accordance with established norms, planning capacity, ability to respond to changing circumstances, technical expertise, leadership, and administrative quality were all factors. The most critical prerequisite for any financial institution's strength and growth is sound management.

Earnings & Profitability

Financial institutions' primary sources of capital expansion are earnings and profitability. The ability of a bank to fund current and future activities is reflected in its profits and profitability profile. Increased profits ensure that the company has enough capital to withstand any losses and pay adequate dividends to shareholders.

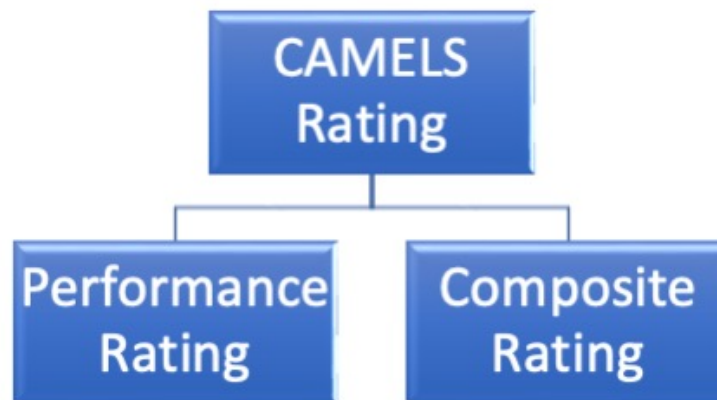
Liquidity

A financial organization is in a good liquidity position if it can quickly and cheaply extend commitments or transform assets. Access to assets and liabilities is available. For example, a proportion of total liabilities is used as a measure of liquidity. In this context, it denotes a bank's demand & time obligations as a percentage of its liquid funds.

5.2.2 Weight of the Components

Components	Weight
Capital Adequacy	18%
Assets	18%
Management	30%
Earnings	16%
Liquidity	09%
Sensitivity to Market Risk	60%

5.3 CAMELS Rating Types



5.3.1 Performance Rating

Six unique ratings are derived from CAMELS' six different components that make up the Performance Rating.

5.3.2 Composite Rating

"1" is the highest score, while "5" represents the lowest. To maintain the authenticity of the rating, the scores must be kept confidential and only known to the bank and BB supervisory authorities. Ratings cannot be used in bank marketing or promotional efforts, nor can they be discussed with other entities, if they are to get a good rating. All BB personnel must be extremely cautious while discussing the ratings. Confidentiality is therefore maintained in this.

5.4 CAMELS Measurement Scale

Ratings	Meaning
1	Strong
2	Satisfactory
3	Fair
4	Marginal
5	Unsatisfactory

5.5 Findings

Banking Inspection Departments and Off-Site Inspection Departments To keep track of the banking system, supervision is crucial. After three months of working under DBI-1, I've come to the following conclusions:

- Take a step backward

- Data accuracy is reliant on banks.
- Unavoidable postponement in the production of the Banking Supervision Report
- Publication restrictions
- Government meddling or political pressure
- A lack of legal recourse
- Bureaucracy is a constant presence in the proceedings.
- There is a lot of turmoil in the political climate.
- State-owned banks' reluctance to provide information
- Numerous financial institutions consider the size of the economy.
- The reluctance of state-owned financial institutions to obey orders
- The use of internet technologies is restricted.

Chapter 6

Conclusion & Recommendations

6.1 Conclusion

Additional banking institutions are available. This assessment is critical since it determines the financial soundness of the bank's assets. Any departures from banking standards and norms, as well as infractions of rules and regulations, can be found during this inspection. These serious issues are brought to the attention of upper management so that essential actions can be taken at the appropriate time. When a bank's performance deteriorates, the Bangladesh Bank's supervision sections help the bank get back on track by assisting it in implementing appropriate banking procedures, even if they don't appear to be satisfactory. Commercial banks are assisted by the Bangladesh Bank in meeting these requirements. Supervisory tactics such as on-site and off-site oversight, on the other hand, are utilized. Bangladesh Bank is currently undertaking both routine and risk-based inspections or system audits. The current state of supervision in industrialized countries such as the G-7 and Bangladesh is examined in this article. The state of monitoring in industrialized countries differs from that in Bangladesh in some ways. Given the preceding chapters, we may conclude that Bangladesh Bank's supervision is wide; nonetheless, it cannot be described as "up to grade." There are still numerous improvements that can be made, and certain initiatives should be undertaken. As a result, the following suggestions are offered. The authority of the Bangladesh Bank is not fully utilized. A central bank's strong management of scheduled banks is absolutely necessary. As a result, significant steps should be done to give the Bangladesh Bank more independence. Changes to the Bangladesh Bank Order, 1972, maybe required if necessary.

6.2 Recommendations

It is necessary to collect current outstanding loans owed to directors of private commercial banks. The central bank is obligated to take legal action as a result of a recent change to the Banking Company Act 1991. Bank supervisory units in Bangladesh are obliged to improve on-site inspections. These divisions will require an increasing number of employees as the bank's network (branch) grows. Supervisors at banks must also be appropriately trained and updated.

Defaulters are taking advantage of the ineffectiveness of current banking rules. Bank supervisory units in Bangladesh are obliged to improve on-site inspections. These divisions will require an increasing number of employees as the bank's network (branch) grows. Supervisors at banks must also be appropriately trained and updated. Defaulters are taking advantage of the ineffectiveness of current banking rules. As a result, Artho Rin Adalat Ain 2003 must be replaced as soon as possible.

Selecting exclusive, qualified, and experienced judges to hear the case is likewise crucial in each district. The capital adequacy system guidelines must be adjusted to Bangladesh's financial system and economic context. The relative importance of various risk categories should be examined in light of the circumstances in Bangladesh. Several circulars had been issued by this time, with significant modifications to the risk weight. On the other hand, other industries, such as private and public sector investments, may require greater restructuring.

The entire world has come together to form a global community. Foreign direct investment and public-private partnerships have increased capital flows. More international companies are expanding their operations in our country. As a result, the volume of foreign trading activities has soared to unprecedented levels. That's why we need a fresh look at the Foreign Exchange Regulation Act of 1947.

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