The Camel Rating Based Assessment of the Performance of Nigerian Banks in the Post Consolidation Era (2005-2014)

Oyedele Oloruntoba Stephen[1], Emerah Ajevata Apollos[2*], Adegoke.J.E[3]
[1]Department of Banking and Finance,
Bowen University, P .M. B. 284, Iwo. Osun State, Nigeria.
[2]Department of Business Studies,
Edwin Clark University, Kiagbodo.P.M.B.101.Ughelli
Delta State. Nigeria.
[3]Department of Banking and Finance,
Bowen University,
P.M. B. 284,Iwo. Osun State, Nigeria.
*.E-mail: apollosemera@gmail.com

ABSTRACT
CAMEL rating has become a concise and indispensable tool for examiners and regulators. Its purpose is to provide an accurate and consistent evaluation of a bank's financial condition and operations in the areas such as capital, asset quality, management, earning ability and liquidity. This study examined the performance of selected Nigerian Deposit Money banks in the post consolidation era, using the CAMEL rating system.

Primary data were obtained through the administration of structured questionnaire on respondents in order to assess their opinions about the performance of selected Nigerian deposit money banks in the post consolidation era while secondary data were also sourced from the annual reports of these banks. CAMEL rating system was used to analyze relationship between the study variables.

The study concluded that mergers and acquisitions have significant impact on performance of the emerging banks and that the policies have led to an increase returns on investment to the Nigerian banking system with greater financial intermediation. Based on these findings, the study recommended that bank regulatory agents should emphasis monitoring of such bank performance variables as capital adequacy, liquidity, bank deposit and growth rate so as to ensure future sustainable gains.

KEYWORDS: *Camel Rating, Assessment, Performance, Banks, Post Consolidation.*

INTRODUCTION

The Concept of Camel Rating

Camel Rating has been considered as one of the widely used tools for judging capital adequacy, asset quality, earnings ability and liquidity of the financial institutions including commercial banks by the principal regulators all around the world.

Banking supervision has been increasingly concerned due to significant loan losses and bank failures from the 1980s till now. In the light of the banking crisis in recent years worldwide, CAMEL is a useful tool to examine the safety and soundness of banks, and help mitigate the potential risks which may lead to bank failures Soludo, (2004). A Performance measure is the specific quantitative representation of a capacity, process, or outcome deemed relevant to the assessment of performanc*e.*

CAMEL is a rating system generally used by the government policy circle, regulating bodies regulating commercial banks, that is, central banks and non-governmental policy research centers for the purpose of assessing the soundness of a savings association or a bank. As regards to the background of introducing CAMEL, it was originally adopted by the regulators of North American Commercial banks and it covers five areas of performance, namely, Capital Adequacy, Asset quality, Management quality, Earning ability and Liquidity. In the early 1970s; federal regulators of the US developed CAMEL rating system to appraise the performance of the Commercial banks. Later in 1979, the uniform financial institution's rating system was adopted to provide federal regulatory agencies with a framework for rating financial condition and individual banks (Siems and Barr, 1998). Since then, the application of CAMEL has spread up dramatically in respect of examining the financial strengths of one of the basic constituents of money market i.e. commercial banks.Currently, financial ratios are often used to measure the overall soundness of a bank and the quality of bank management. Thus, bank regulators may use financial ratios to help evaluate a bank's performance as part of CAMEL rating system**.**

Furthermore, criteria for the performance of all the commercial banks under CAMEL Ratings include capital adequacy, asset's quality, management standard, earnings and liquidity maintenance (CAMEL). In some countries it is called CAMELS; because in addition to above mentioned five areas, system and sensibility is also considered as a barometer to judge a bank's success or failure.

The application of CAMEL rating system for evaluating financial strengths of commercial banks have been growing both local and internationally. At international level, several academic studies examined whether and to what extent private supervisory information is useful in supervisory monitoring of banks. With respect to predicting banks failure, Barker and Holdsworth find evidence that CAMEL ratings are useful, even after controlling a wide range of publicly available information about the condition and performance of banks (Barker, D., and Holdsworth, D., 1993). Cole and Gunther examined a similar question and found that CAMEL ratings contain useful information (Cole, R.A. and Gunther, J.W., 1998). Hirtle and Lopez also inquired into the worth of CAMEL ratings in assessing banks current condition. While comparing to past CAMEL ratings to current CAMEL ratings, they found that the private supervisory information contained in the past CAMEL ratings provides further insight into bank current conditions.

2.2.21.1 What is the CAMEL rating system?

The Uniform Financial Institution Rating system, commonly referred to the acronym CAMEL rating, was adopted by the Federal Financial Institution Examination Council on November 13 1979, and then adopted by the National Credit Union Administration in October 1987. It has proven to be an effective internal supervisory tool for evaluating the soundness of a financial firm, on the basis of identifying those institutions requiring special attention or concern.

Barr, Killgo, Siems and Zimmel (2002) states that "CAMEL rating has become a concise and indispensable tool for examiners and regulators". This rating ensures a bank's healthy conditions by reviewing different aspects of a bank based on variety of information sources such as financial statement, funding sources, macroeconomic data, budget and cash flow. Nevertheless, Hirtle and Lopez (1999) stress that the bank's CAMEL rating is highly confidential, and only exposed to the bank's senior management for the purpose of projecting the business strategies, and to appropriate supervisory staff. Its rating is never made publicly available, even on a lagged basis. CAMEL is an acronym for five components of bank safety and soundness:

Significance of the study

Various studies relating to the financial performance of banks have been conducted by researchers. Sanni (2009) took a look at the 2005 consolidation of banks exercise in Nigeria with a view of finding out the short term effect of increase in the minimum paid-up capital of banks on their performance. After an examination of thirteen banks, Sanni had a mixed result for his selected banks. Prasad and Chari (2011) conducted a study to evaluate financial performance of public and private sectors banks in India. In this study they compared financial performance of top four banks in India viz., SBI, PNB, ICICI and HDFC and concluded that on overall basis HDFC rated top most position.

Nimalathasan, (2008) highlighted comparison of financial performance of banking sector in Bangladesh using CAMELS rating system. Accordingly CAMELS rating system shows that 3 banks was 01 or strong, 31 banks were rated 02 or satisfactory, rating of 7 banks was 03 or fair, 5 banks were rated 4 or marginal and 2 banks got 05 or unsatisfactory rating. 1 NCB had unsatisfactory rating and other 3 NCBs had marginal rating.

Based on the above literature, it can be inferred that there are some studies about banks in various countries. However, a detailed study (through the CAMEL rating system) has not yet been conducted for post-2005 bank consolidation in Nigerian banking sector. Through the CAMEL Rating System'' using all the 15 quoted banks on Nigerian Stock Exchange as at April, 2012. This study adopts the CAMEL approach to evaluate the performance of banks and to determine their soundness/safeness. The CAMEL parameters are predicted by using the ratios tabulated in table below.

The ratios used for CAMEL parameters are calculated based on the annual reports of the individual bank. The calculation is done separately for each of the parameters and the ratios related to each parameter are taken on an average over the seven years period (2006 – 2012) for each bank. The average values are used to rank the banks. Higher average value of the ratios got ranked higher. The best ratios got rank one followed up to rank fifteen with an interval of one. In case of equal average ratio, the average rank was assigned to the banks. All the average ratios having higher value got higher rank. The averages of all the parameters rankings are used for the final ranking of the banks.

Table 1: Ratio Used For the Five Elements of CAMEL Analysis

Parameter	**Ratio**
Capital Adequacy	Shareholders' fund to Total Assets
Assets Quality	Total loans and Advances to Total Assets
Earning Ability	Net Interest income to Total Assets
Liquidity	Liquid Asset to Total Assets

Source: Designed by Author (2013)

Capital Adequacy(C)

Capital Adequacy is a measure of the financial strength of a bank, usually express as a ratio of its shareholders' fund to total assets. The ratio reflects the ability of bank to withstand the unanticipated losses. This ration has a positive relationship with the financial soundness of the bank.

Asset Quality (A)

Asset quality is an important measure of the strength of banks. The ratio of total loans and advances to total assets is utilized to measure the extent of deployment of assets in earning assets.

Earning Ability (E)

To assess the earnings ability of banks under study, interest income to total assets was used. The ratio had positive relationship with the financial performance of the bank and negative relationship the risk of bank failure.

Liquidity (L)

Ratios employed in this study to assess the liquidity level of the banks was total liquid assets to total assets.

Results and Discussion of the CAMEL Analysis

Group Ranking of the Banks Understudy on the CAMEL Parameters

The group ranking on the CAMEL parameters is exhibited in Table 2, Table 3, Table 4, and Table 5 below. Each parameter is ranked based on the average of individual bank's sub-parameter ranks.

Table 2 shows the capital adequacy ratio by type of banks and the rank position of banks. As it is evident from the Table, Bank 4 has the highest Capital Adequacy Ratio and topped the table. Bank 4 is followed by Bank 5, Bank 9, and Bank 1 occupying the second, third, and fourth position respectively. The last position is occupied by Bank 14.

Table 2: Group Ranking on Capital Adequacy

Bank	Rank
FCMB Plc (BANK 4)	1
FIDELITY BANK Plc (BANK 5)	2
STANBIC BANK Plc (BANK 9)	3
ACCESS BANK Plc (BANK 1)	4
ZENITH BANK Plc (BANK 15)	5
FIRST BANK Plc (BANK 6)	6
DIAMAND BANK Plc (BANK 2)	7
GTB Plc (BANK 7)	8
SKYE BANK Plc (BANK 8)	9
STERLING BANK Plc (BANK 10)	10
ECOBANK Plc (BANK 3)	11
UBA Plc (BANK 11)	12
UNITY BANK Plc (BANK 13)	13
UNION BANK Plc (BANK 12)	14
WEMA BANK Plc (BANK 14)	15

Source: Author's Compilation, 2014.

Table 3 Bank 7 demonstrated excellent assets management capability and topped the Table in the parameter of assets quality followed Bank 8 and Bank 6. Bank 12 is ranked last in the group on the parameter of quality.

Table 3: Group Ranking on Asset Quality Parameter

Bank	Rank
FCMB Plc (BANK 4)	5
FIDELITY BANK Plc (BANK 5)	10
STANBIC BANK Plc (BANK 9)	8
ACCESS BANK Plc (BANK 1)	7
ZENITH BANK Plc (BANK 15)	11
FIRST BANK Plc (BANK 6)	3
DIAMAND BANK Plc (BANK 2)	4
GTB Plc (BANK 7)	1
SKYE BANK Plc (BANK 8)	2
STERLING BANK Plc (BANK 10)	9
ECOBANK Plc (BANK 3)	6
UBA Plc (BANK 11)	13
UNITY BANK Plc (BANK 13)	14
UNION BANK Plc (BANK 12)	15
WEMA BANK Plc (BANK 14)	12

Source: Author's Compilation 2014.

Table 4. shows the Earning ability by type of banks and the rank position of banks Bank 3 demonstrated excellent ability to generate income on its assets and thus commands the first position amongst the group. Bank 5, Bank 1, and Bank 4 were not so successful in generating income on their assets and thus ranked 13, 14, and 15 respectively.

Table 4.: Group Ranking on Earning Quality Parameter

Bank	Rank
FCMB Plc (BANK 4)	15
FIDELITY BANK Plc (BANK 5)	13
STANBIC BANK Plc (BANK 9)	8
ACCESS BANK Plc (BANK 1)	14
ZENITH BANK Plc (BANK 15)	2
FIRST BANK Plc (BANK 6)	6
DIAMOND BANK Plc (BANK 2)	9
GTB Plc (BANK 7)	3
SKYE BANK Plc (BANK 8)	5
STERLING BANK Plc (BANK 10)	7
ECOBANK Plc (BANK 3)	1
UBA Plc (BANK 11)	4
UNITY BANK Plc (BANK 13)	10
UNION BANK Plc (BANK 12)	12

WEMA BANK Plc (BANK 14)	11

Source: Compiled by the Author (2014)

Table5 under group ranking on liquidity parameter, Bank 15 demonstrated first rate ability to manage its liquidity thus commands the first position amongst the group. Bank 4 is ranked last in the group on the parameter of liquidity management.

Table 5: Group Ranking on Liquidity Quality Parameter

Bank	**Rank**
FCMB Plc (BANK 4)	15
FIDELITY BANK Plc (BANK 5)	2
STANBIC BANK Plc (BANK 9)	13
ACCESS BANK Plc (BANK 1)	7
ZENITH BANK Plc (BANK 15)	1
FIRST BANK Plc (BANK 6)	9
DIAMOND BANK Plc (BANK 2)	3
GTB Plc (BANK 7)	4
SKYE BANK Plc (BANK 8)	6
STERLING BANK Plc (BANK 10)	14
ECOBANK Plc (BANK 3)	12
UBA Plc (BANK 11)	8
UNITY BANK Plc (BANK 13)	5
UNION BANK Plc (BANK 12)	10
WEMA BANK Plc (BANK 14)	11

Source: Compiled by the Author (2014)

Overall Ranking Based on the CAMEL Parameter

The overall capital adequacy, asset, managerial earning, and liquidity performance of the banks for the study period (2006-20012) are exhibited in Table 6 based on the CAMEL parameters.
Bank 7 ranked first for the overall ranking, Bank 6, Bank 8, and Bank 15 are ranked second, third, and forth respectively. Bank 13, Bank 14 and Bank 12 were not so successful based on the overall CAMEL parameters and thus ranked 11.4, 12.2, and 12.8 respectively for the period 2006 – 2012.
This study has analyzed the performance of the Nigeria banking sector in the Post 2005 consolidation through the CAMEL rating system. The study revealed that,

- Bank 4 is the most capitalized bank (shareholders' fund/total assets) while Bank 14 Depicted the least rating of capital adequacy during the study period.
- Bank 7 outperformed other banks in assets quality perspective.
- Bank 9 performed better than any other bank in term of management quality.
- Bank 3 proved to be the best bank in utilizing assets to generate return
- Bank 15 excelled over other banks in protecting the short- term creditors
- Bank 14 and Bank 12 were not successful in financial performance by consistently ranked among the last 7 performing banks based on all the Group Ranking on the CAMEL parameters for the study period (2006 – 2012)

- The study also reveals that Bank 7 rated top on the basis of overall performance.

Influence of Mergers and Acquisitions on the Performance of the emerging Banks.
Table 7: Overall Ranking Based on the CAMEL Parameters

	Capital Adequacy Ranking	Asset Quality Ranking	Management Quality Ranking	Earnings Quality Ranking	Liquidity Ranking	Average	Rank
BANK 7	8	1	2	3	4	3.6	1
BANK 6	6	3	3	6	9	5.4	2
BANK 8	9	2	6	5	6	5.6	3
BANK 15	5	11	10	2	1	5.8	4
BANK 2	7	4	7	9	3	6	5
BANK 9	3	8	1	8	13	6.6	6
BANK 5	2	10	9	13	2	7	7
BANK 1	4	7	5	14	7	7.4	8
BANK 3	11	6	8	1	12	7.6	9
BANK 4	1	5	4	15	15	8	10
BANK 10	10	9	11	7	14	10.2	11
BANK 11	12	13	14	4	8	10.2	11
BANK 13	13	14	15	10	5	11.4	12
BANK 14	15	12	13	11	10	12.2	13
BANK 12	14	15	12	12	11	12.8	14

Source: Computed by the Author (2014)

Conclusion

Based on the CAMEL rating, Bank 7 was ranked first for the overall ranking; Bank 6, Bank 8, and Bank 15 are ranked second, third, and forth respectively. Bank 13, Bank 14 and Bank 12 were not so successful based on the overall CAMEL parameters and thus ranked 11.4, 12.2, and 12.8 respectively for the period 2006 – 2012.

Recommendations

1. There is a need for the regulators to intensify more efforts in their banking examination responsibility to ensure thorough cross checking of books and accounts of banks so that corporate governance principles could be strictly adhered to by the banks.
2. Regulatory authority should be firm in imposing sanctions on erring banks as some of them were not successful in financial performance by consistently ranked among the last seven

performing banks based on all the group ranking on the CAMEL parameters for the study period.

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