AN EVALUATION OF CAMEL RATING SYSTEM AS A MEASURE OF BANK PERFORMANCE:

A STUDY OF SELECTED BANKS

BY

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DECLARATION

I hereby declare that this project has been written by me. To the best of my knowledge no other project of this nature has been presented for any other Degree prior to this research. That all information used from other sources have been dully acknowledged.

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CERTIFICATION

This project titled AN EVALUATION OF CAMEL RATING SYSTEM AS A MEASURE OF BANK PERFORMANCE, A STUDY OF SELECTED BANKS by GARBA ILIYASU SHABUL meets the regulations governing the award of the degree of Master of Business Administration (MBA) of AHMADU BELLO UNIVERSITY Zaria (ABU) and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

To my Mum, Dad and Late elder brother Sha'aibu who died when I was about to start this programme.

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I am most grateful to Almighty Allah for giving me the strength and wisdom to undergo this course.

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ABSTRACT

This project is meant to evaluate CAMEL Rating system as a measure of Bank performance of seven (7) selected Banks over a period of time from 1994-1998.

The Banks chosen are first Bank of Nigeria Plc, Intercity Bank Plc, United Bank for Africa Plc, Savannah Bank of Nigeria Plc, Lion Bank of Nigeria Plc, Bank of the North Limited and Cooperative Bank Plc. The choice of the seven Commercial Banks with similar Operations was to compare the performance of one against another for the period under review.

The CAMEL Rating system actually showed the performance of the Banks over period and comparism was made of the performance of the peer group within the Industry. To a greater extent all the seven Banks performed very sound throughout the period under consideration.

Finally, conclusion and recommendations have been drawn based on the discoveries made in the study.

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CHAPTER ONE

1.0 INTODUCTION

1.1 BACKGROUND OF THE STUDY

The Governor of Central Bank of Nigeria (CBN) in exercise of his power under section 12 of the Banks and other financial institutions Decree (BOFID) No. 25 of 1991 (as amended) revoked the banking licences of twenty-six (26) terminally distressed Banks (13 commercial and 13 Merchant) in 1998 and appointed the Nigeria Deposit Insurance Corporation (NDIC as the liquidator. Thus the total number of Banks under liquidation increased from 5 to 31 during the review period (1994 – 1998). This action together with the lifting of the holding actions imposed on these distressed banks reduced the number of distressed Banks from 47 in 1997 to 22 as at 31st December, 1998.

Against this background, with the approval of the Federal Government of Nigeria and in consonance with the provision of Section 9(1) of the Banks and other financial institutions Decree, 1991 as amended, the minimum paid up capital requirement of Commercial/Merchant Banks was raised to a uniform level of N500m with effect from 1st January, 1997, with compliance deadline of December 31st, 1998.

In line with the directives of CBN, Banks adopted the following approaches to shove up their paid-up capital:

i. Fresh injection of funds through rights issue, private placements and public issues;

ii. Capitalization of reserves and

iii. Conversion of deposits, long term loans and debenture into equity

The procedure adopted by Banking Supervision Department of CBN to process Banks' re-capitalization claims included scrutiny of documents and authentication in line with the procedure approved by the management of the Banks.

The financial sector of Nigeria economy needs to be very prudent in its business dealings in order to reduce, if not to totally eradicate cases of Bank distress and also to meet the difficulties posed by changing environment like government regulations, needs of customers, competition, economic conditions and technological advancements. This research work attempts to look at An Evaluation of CAMEL Rating System as a measure of Bank Performance. Some selected Commercial Banks are used in the study. These Banks are as follows:

i. First Bank of Nigeria PLC

ii. Intercity Bank PLC

iii. United Bank for Africa PLC

iv. Savannah Bank of Nigeria PLC

v. Lion Bank of Nigeria PLC

vi. Bank of the North Limited

vii. Cooperative Bank PLC

In this Chapter, statement of the research problem, objective of the study, significance of the study, scope of the study, brief background of the selected Banks, Limitations and plan of the study will be discussed.

1.2 STATEMENT OF THE RESEARCH PROBLEM

Of recent, the financial sector of the country's economy faced a lot of crisis. Most Banks went through thick and thin of the Bank Distress years. Many Banks were liquidated. This was as result of many factors ranging from; non compliance with laws and regulations guiding Banks operation in Nigeria. Mismanagement of funds by the management of those organizations and perhaps inadequate supervision by the apex financial institution i.e. the Central Bank of Nigeria (CBN). All these problems raised, necessitated this study of An evaluation of CAMEL Rating System as a Measure of Bank Performance in Nigeria.

1.3 OBJECTIVE OF THE STUDY

Every research work embarked upon must have it's aims and objectives. The objective of this study is to evaluate the CAMEL Rating System as a measure of Bank Performance with particular reference to Commercial Banks during the period under review 1994 – 1998.

1.4 SIGNIFICANCE OF THE STUDY

The success of any organization depends on availability of funds for necessary operations. As such, funds need to be obtained either by borrowing from friends and relations or through the Capital Market, that is by issuing out

new shares, debentures, bonds and loans from other financial institutions or even capitalization of reserves.

The providers of these finances can be individuals or corporate bodies, e.g. financial institutions or government would like to know the financial position of the organization they tied up their Capital with, such as its ability to pay return on investment and pay back the principal amount and future prospects. Therefore, in order to get information on such important matters, the individual investor /customer has to analyse the financial activities of the Banks he/she wants to invest his Capital with right from the beginning. This process is referred to as analysis. Knowing financial position is important to the financiers because it will enable organization analyse the risk and cash flow associated with the business in view. Customers of the Bank would like to have dealings with a Bank that would not liquidate so easily. Likewise, present and potential labours would use the information to evaluate the Banks ability to pay higher wages and benefits. In addition, the government can also use the information to promulgate regulations and rates based upon Banks financial position. Management can assess itself with respect to strengths and weaknesses of the organization it manages.

More importantly, the rating system would permits evaluation of a Bank's current condition, it's performance trend over time and comparisons with the performance of its peer group within the industry.

In a nutshell, the Bank Rating System is not meant to be used by Bank Supervisors in evaluating the performances of Banks only, it can be used by

other parties as well. These parties include; trade creditors, employees, bond-holders, shareholders, government, current and potential investors and the ultimate customers of the Banks.

1.5 SCOPE OF THE STUDY

The study was confined to Bank rating system only to compare, evaluate, analyse and interprets the activities, conditions and performance of some selected Banks over the period of five years 1994 – 1998. The study was narrowed to seven (7) selected Commercial Banks.

The Banks selected were First Bank of Nigeria PLC, Intercity Bank PLC, United Bank for Africa PLC (UBA), Savannah Bank PLC, Lion Bank of Nigeria PLC, Bank of the North Limited and Co-operative Bank PLC. The analysis was on yearly basis. Subsequently, comparison of the result was made for each of the Bank over the period under review and with the other Banks under consideration.

The study covered 5 years (1994 – 1998) to show the performance of the seven (7) Commercial Banks at different economic conditions. As such there was no alternative but to use the published financial statements of the seven banks for each year during the period under review. Result and analysis for an individual bank was compared for the period and also comparison was made between the Banks over the period of time.

Lastly, the study was conducted by using a qualitative and quantitative approach of evaluating the factors that materially affect the condition and development of Banks. The quantitative approach was undertaken by

evaluating Capital Adequacy, asset Quality, Management, Earnings and Liquidity (CAMEL parameters). Qualitative factors that were considered are compliance with laws and regulations and other fundamental factors.

1.6 BRIEF BACKGROUND OF THE SELECTED BANKS

FIRST BANK OF NIGERIA PLC.

The establishment of first Bank of Nigeria PLC, predates the birth of the Nigerian nation as a sovereign entity. The Bank was registered as Bank of British West Africa in 1894, and was not known as the First Bank. Actually, the Bank was the first successful Bank to operate in Nigeria.

Therefore, the name "First Bank" which was eventually adopted in 1979, is appropriate, having been conferred on the Bank by history. Being truly the first Bank to be successfully set up and managed in the Nigeria soil, it also has endured a steady but tough banking terrain (Eddy CN) Like a mustard seed, however, sown in a good soil, the bank naturally germinated and grew into a giant tree, spreading its numerous branches throughout the Nigerian Landscape. Nigeria, and indeed the former British West Africa was the fertile soil.

The Bank came into Lagos in 1890s as a result of the need of a private British Shipping magnate to have a Banking office in Lagos. Sir Alfred Jones founded the Bank in order to create an institution to manage the supply of specie money, to facilitate trade which his shipping industry was engaged in.

The Bank's branch network is one source of its strength and for which the bank has not had an equal in the Nigeria banking system. Arising from its historical development and its desire to reach out to various parts of former British West Africa and later of the Federation of Nigeria, the Bank in the past pursued its branch network development policy earnestly. Government policy also contributed to the bank's derive for large branch network through the rural banking programme.

With the first branch opened in Lagos in 1894, the Bank has remained a pace setter in Nigeria's bank branch network. In 1910, the Bank had 14 branches and 17 agencies located in the far West African Countries of Nigeria, former Gold Coast (Now Ghana), Sierra Leone and the Gambia.

Currently (1998), First Bank of Nigeria PLC has a total of 301 branches/agencies in the Federation of Nigeria. Its total number of staff is eight thousand seven hundred and eighty-five (8,785). Some of its branches participate in Saturday Banking service.

INTERCITY BANK PLC

Intercity Bank PLC was incorporated in April, 1987 and commenced operations in October, 1988. Its main business is commercial Banking but with special focus on treasury activities. Although promoted by Niger State Government, the Bank's share holding structure has changed over the years such that currently the promoter has became a minority owner. Majority of shares are owned by corporate bodies, including International Merchant Bank PLC and individual investors.

Initially, First Bank of Nigeria PLC undertook the provision of technical management services of Intercity Bank PLC under an agreement. This was in place until December, 1990 when International Merchant Bank PLC took over this function following the termination of the first agreement with First Bank of Nigeria PLC. The International Merchant Bank PLC agreement subsequently expired on 3rd December, 1995. The Bank has seven branches, an agency and two cash centers as at 30th June, 1998. The Bank has a total number of staff of three hundred and eighty (380).

UNITED BANK FOR AFRICA PLC

The United Bank for Africa (UBA) PLC has its antecedents in the British and French Bank Limited. The British and French Bank itself metamorphosed from BNCI Paris, Banque Nationale Pour Le Commerce et L' Industrie established in 1952.

UBA PLC was incorporated on February 23, 1961 and was the first of the international banks operating in Nigeria at the time to be registered under Nigerian Law.

The Bank undertook a voluntary public issue in 1970, the first of such public issue to be undertaken by a Bank in Nigeria. This voluntary issue came years before the requirement by the authorities for 60% Nigeria equity participation in local banks. With the introduction of this requirement, the Federal Government in 1973 and 1976 acquired a stake in the Bank. UBA PLC became a private entity in1994 with the full divestment of the government's 46% shareholding.

The Bank has 201 branches and cash offices in Nigeria's major commercial centers, State capitals and Federal Capital Territory with two off-shore branches in New York and Grand Cayman Island. UBA PLC retains the unique status of being the only Nigerian Bank with a presence in the United States of America. The New York branch acts as one of UBA's overseas correspondent banks. Other Major correspondent banks are Bankers Trust (USA) and Banque Nationale de Paries (UK and France). The Bank has a total of 4,305 employees as at 31st March, 1998.

SAVANNAH BANK OF NIGERIA PLC

Savannah Bank of Nigeria PLC is a public limited liability company incorporated in accordance with the provisions of the Company and Allied matters Decree, 1990 and is licensed to carry on all classes of commercial banking business in accordance with the provisions of the banks and other financial institutions Decree, 1991.

The shares of the Bank which are listed in the Nigeria Stock Exchange are owned as to 23.20% by the Lebanese – African Finance and Trading Company (Holding) S.A, 69.80% by Nigerian citizens and 7% by the Bank of America N.T. and S.A.

Savannah Bank of Nigeria PLC has branches of eighty-five (85) spread across the country. Its total number of employees is one thousand nine hundred and eighty-five (1,985).

LION BANK OF NIGERIA PLC

Lion Bank of Nigeria PLC is a public limited liability company incorporated in 1982. Its operation commenced on the 19th January, 1987 and today can boast of three billion, Seven hundred and four million, Nine hundred and twelve thousand Naira (₦3,704,912,000) asset base. The Bank's shareholding constitute; Plateau State Government 10%; Nassarawa State Government 10.5%; Abuja Investment and Property Development Company Ltd. 10% and Nigerian Citizens and associations 69.5%.

The Bank has a total of twelve (12) Branches and cash centers across Nigeria. Lion Bank of Nigeria PLC has a total staff strength of four hundred and twenty four (424).

BANK OF THE NORTH LIMITED

Bank of the North Limited was established in 1958 and has been operating since then. Today the Bank has climbed the highest peak with the total assets of over seventeen billion Naira (N17b) and an after tax profit of over five hundred and fifty four million Naira (N554m) as at the end of 1998.

Bank of the North Limited has a network of over Eighty (80) branches nation-wide. The Bank's total number of staff as at 31st December, 1998 stands at three thousand three hundred and sixty-five (3,365).

CO-OPERATIVE BANK PLC

Co-operative Bank PLC formerly co-operative Bank Limited was established in 1953 as a financing agency for the cooperative movement of the former Western Region. At that time, it was called Co-operative Bank of

Western Nigeria Limited, and it was around that time that its counterparts were established for former Eastern and Northern Nigeria. The Bank however opened its doors to the general public and in order not to operate against the laws, it was registered as a commercial bank in 1962 following the promulgation of the Banking Ordinance in 1961.

The Bank's sole owner was the Cooperative movement of former Western Region later represented by the Cooperative Investment and Trust Society Limited, an apex cooperative organization which serves as a holding company for cooperative unions and Apex Cooperative bodies in the Western Area of the country.

Although it is a cooperative establishment, it has always opened its doors wide for all and sundry in places where its branches are located. In any case, it has to answer the call of customers generally, since it got registered as a Commercial Bank, the cooperative ownership structure not withstanding. On 18th may, 1993, the bank was converted to a public company and now (1998) has 58 branches nationwide. Its total staff strength stands at One thousand three hundred and fifty-three (1,353) as at 31st March, 1998.

1.7 LIMITATIONS OF THE STUDY

All research work embarked upon have their limitations. The prominent limitation on this study was lack of adequate time because of the deadline given by the University Authority.

All the organizations used as samples, felt very reluctant to allow me access to some vital information important for this research work, being the

kind of corporate bodies they are. This created a problem in the execution of this study.

There was also lack of adequate publications relating to the CAMEL Rating System of Evaluating Bank performance. However, the data collected from both Primary and Secondary sources were sufficient for the study to envisage the importance of Bank rating system used by bank supervisors in evaluating the performance of banks in Nigeria with a view to making appropriate recommendations.

1.8 PLAN OF THE STUDY

In this study, Chapter one covered introduction of the research work. The background of the study showed how Banks were distressed in the recent past in Nigeria and how the Central Bank of Nigeria raised the minimum paid up Capital requirement of Commercial/Merchant Banks to a uniform level of N500m to ensure strong financial bases for all Commercial/Merchant Banks. Statement of the research problem, objective, significance and scope of the study constitute part of chapter one. A brief background of each of the Commercial Banks selected; First Bank of Nigeria PLC, Intercity Bank PLC, United Bank for Africa PLC, Savannah Bank of Nigeria PLC, Lion Bank of Nigeria PLC, Bank of the North Limited and Cooperative Bank PLC would be touched here.

Chapter two would cover literature review, where the meaning of CAMEL Rating System of Evaluating Bank performance would be fully explained. The concept of CAMEL is Capital adequacy, Asset Quality,

Management, Earnings and Liquidity which is the quantitative approach is explained in this chapter. Qualitative factors like compliance with laws and regulations and other fundamental factors are also considered here.

Chapter three would look at Research methodology. In this chapter, population, collection of data, methods of data collection and sampling method used in the study would be discussed in detail.

Chapter four would cover presentation and analysis of data. In this chapter the various financial statements of the selected banks would be analysed over the period under review (1994 – 1998) in evaluating the CAMEL Rating System as a measure of Bank Performance in Nigeria.

Lastly, Chapter five would consider summary, conclusion and Recommendations which is the greatest result obtained after the study.

CHAPTER TWO

2.0 LITERATURE REVIEW:

2.1 INTRODUCTION:

The Bank rating system is designed to be used by Bank supervisors in evaluating the performance of banks. It serves as an "early warning device" to detect emerging problems of banks. The rating system provides a more scientific basis for supervisory actions such as preliminary management discussions and priority scheduling of on-site examinations. It is a qualitative and quantitative approach of evaluating the factors that materially affect the condition and development of banks. The quantitative approach is undertaken by evaluating Capital adequacy, Asset quality, Management, Earnings and Liquidity (CAMEL) parameters). Qualitative factors that are to be considered are compliance with laws and regulations and other fundamental factors.

In evaluating the CAMEL parameters, weights have been allocated to each parameter as shown in section 2 of this chapter. Each parameter has been subdivided into components (or ratios) and credit points assigned based on the comprehensiveness of the ratio as a measure of the parameter. The procedure for evaluating each parameter is shown under section 2.3. A composite rating of all the parameters is worked out in Section 2.4, it determines whether a bank is to be rated very sound, satisfactory, marginal or

unsound. A bank rating could be reduced from "sound" to "unsound" if certain judgmental factors observed so dictate. This is shown in section 2.5.

It is expected that the rating would permit evaluation of bank's current condition, its performance trend over a period and comparisons with the performance of its peer group within the industry.

This chapter explains the valuation factors and procedures, composite rating and judgmental factors.

2.2 VALUATION FACTORS AND WEIGHTS

As stated in the introduction, the rating of a bank is mainly assessed through evaluation of factors considered to have material impact on the condition of banks. The factors and components recommended are given weights commensurate with their impact on the condition of the bank. The recommended weight allocation is shown in Table 1

TABLE 1

S/NO	FACTOR	COMPONENT	COMPONENT WEIGHT %	TOTAL WEIGHT %
1.	Capital	a) Capital to Risk weighted Assets Ratio	15	
		b) Adjusted Capital Ratio	5	
		c) Capital Growth Rate	5	25
2.	Asset Quality	a) Non-performing Risk Assets to Total Risk Assets	15	
		b) Reserve for losses to Non-Performing Risk Assets	5	
		c) Non-Performing Risk Assets to Capital and Reserves	5	25
3.	Management	a) *CAEL/85	5	

		b) Compliance with Laws and Regulations	10	15
4.	Earnings	a) Profit After Tax to Total Assets	5	
		b) Total Expenses to Total Income	5	
		c) Net Interest Income to Total Earning Assets	5	
		d) Interest Expense to Total Earning Assets	5	20
5	Liquidity	a) Liquidity Ratio	10	
		b) **Net Loans and Advances to Total Deposits	5	15
		TOTAL		**100**

SOURCE: SUPERVISION DEPARTMENT - CBN

* CAEL is the weighted sum of the composite scores for: Capital, Assets, Earnings and

Liquidity

** Net of interest in suspense.

2.3 VALUATION PROCEDURES

2.3.1 EVALUATION OF CAPITAL

Capital is evaluated based on the minimum required Capital to risk weighted assets ratio, adjusted capital ratio and capital growth rate.

a) Capital to Risk Weighted Assets Ratio:

i. If the Capital to risk weighted assets ratio is zero or negative, then the credit point is zero

ii. If the ratio is greater then or equal to 16 percent, the credit point is 100.

iii. If the ratio is greater than zero but less than 16 percent, then the credit point is prorated uniformly from zero to 100, that is it is computed as the ration divided by 0.16.

Note: The Bank of International settlement, Basle, set the minimum standard for capital to risk weighted assets ratio as 8%. If a bank meets this standard it is decided to be given 50 credit points since what it achieved is only minimum desired ratio. Hence by allocating points uniformly 16% attracts 100 points.

b) Adjusted Capital Ratio

This is the most popular measure of Capital adequacy before the adoption of the Capital to risk weighted ratio. It is better measure of over trading by banks in comparism with the Capital ratio, hence it complements it. The standard Adjusted Capital Ratio for the current monetary policy period is 1:10 hence this ratio is regarded as satisfactory.

i. If the Adjusted Capital Ratio is zero or negative, then the credit point is zero.

ii. If the ratio is greater than or equal to 20 percent, then the credit point is 100.

iii. If the ratio is greater than zero but less than 20 percent then the credit point is prorated uniformly from zero to 100, that is it is computed as the ratio divided by 0.20

c) Capital Growth Rate

This ratio measures the rate at which capital grows or deteriorates. It should be noted that both the denominator and numerator for this ratio can be positive or negative. Hence the absolute value of the denominator is used. This will ensure that a change in shareholders fund from N120 million to N40 million is not computed as a deterioration or a change from N12 million to N48 million is not computed as a growth in capital as will obviously result. A proxy for this ratio which is currently used in the CAMEL programme is to use Total Assets as the denominator.

The problem with this ratio is that it can only be computed once a year, that is it will be the same throughout an accounting year. This is because banks appropriate statutory, General and other reserves, as well as determine their Retained Earnings only at the end of the accounting year. Hence if shareholders funds is the denominator, the ratio will be fixed within a year, but if total assets is used it will change monthly.

Another problem is that a bank that used N20 million shareholders fund and N80 million depositors' funds to earn and retain N20 million will have a ratio of 100 percent while a bank that used N80 million shareholders' fund and N20 million depositors funds to earn and retain N40 million will have a ratio of 50 percent, which is obviously unfair to the latter Bank.

The standard for capital growth rate currently being used is 2 percent. Note that Total assets is used as the denominator and only the retained

income is used as the numerator. Hence if retained income and reserves, and shareholders funds are used to compute the ratio a higher standard is advised.

i. If the Capital Growth Rate is zero or negative, then the credit point is zero.

ii. If the ratio is greater than or equal to 2 percent, then the credit point is 100.

iii. If the ratio is greater than zero but less than 2 percent then the credit point is prorated uniformly from zero to 100, that is, it is computed as the ratio divided by 0.02.

2.3.2 EVALUATION OF ASSET QUALITY

Here three ratios are to be used for evaluation of this factor as follows:

a) Ratio of Non-performing Risk Assets to Total Risk Assets

Although there is no any desirable level of non-performing risk assets for any Bank, in reality banks cannot avoid having them. The standard for this ratio should therefore be the maximum level that could be tolerated. Going by the condition of banks in the industry, a standard maximum ratio of 20 percent is used. Hence:

i. If the ratio is greater than 20 percent, the current point is zero.

ii. If the ratio is less than or equal to 20 percent, then the credit point is prorated uniformly from 100 to zero. I.e. the credit point is computed as: 100 (ratio divided by 0.2).

b) Reserve for losses to Non-performing Risk Assets

The ratio attempts to measure a bank's compliance with guidelines on provision. It can be shown, however, that it is not very suitable for that purpose. For example, a Bank with all of its non-performing loans in the sub-standard category which are fully provided for will have a ratio of 10% and will be given a credit point of 1.25 instead of 100. Whereas a similar bank with all of it's non-performing loans in the lost category which have been fully provided for will have a ratio of 100 and will be given 100 credit points.

i. If the ratio is greater than or equal to 80 percent a credit point of 100 is given

ii. If the ratio is less than 80 percent, then the credit point is computed as: Ratio divided by 0.8.

c) Non-performing Risk Assets to Adjusted Capital

Non performing risk assets include non-performing loans and advances, leases, other assets and off balance sheet engagements as defined by the Prudential Guidelines on assets classification.

i. If adjusted Capital is negative, then the credit point is zero. Likewise, if the ratio is greater than 100% then the Credit point is zero.

ii. If ratio is greater than zero and less than 100%, then the credit point is computed as: 100 – Ratio.

2.3.3 EVALUATION OF MANAGEMENT

The quantitative evaluation of management is based on compliance with rules and regulations and CAEL divided by four. The credit points for compliance is determined as: 100 – (points lost for non-compliance with rules, regulations and guidelines). The rules, regulations and guidelines are given certain credit points. If a bank does not comply with any rule, it will loose the credit points allocated to the rule. If a bank refuses to comply even after it has been specifically urged to comply, it will loose twice the credit points assigned to the rule, regulation or guideline contravened.

The credit point for CAEL is computed as the sum of the weighted credit points for Capital, Assets quality, Earnings and Liquidity divided by 85.

2.3.4 EVALUATION OF EARNINGS

Under this four ratios are considered as follows:

a) Profit After Tax to Total assets

i. If ratio is zero or negative, then the credit point is zero.

ii. If the ratio is equal to or greater than 2 percent, then the credit point is 100.

iii. If the ratio is greater than zero but less than 2 percent then the credit point is prorated uniformly from zero to 100, i.e. it is computed as: The ratio divided by 0.02.

b) Ratio of Total Expenses to Total Income (Efficiency Ratio)

i. If the ratio is greater than or equal to 100% then the credit point is zero.

ii. If the ratio is equal to or less than 80%, then the credit point is 100.

iii. If the ratio is greater than 80% and less than 100%, then the credit point is computed as: (100 – Ratio) divided by 0.2.

Here, Total expenses is defined as all expenses excluding depreciation and provision for bad and Doubtful debts incurred by the Bank for the twelve months period under review.

c) Ratio of Net Interest Income to Total Earning Assets

i. If the ratio is zero or negative, then the credit point is zero.

ii. If the ratio is greater or equal to 12%, then the credit point is 100.

iii. If the ratio is greater than zero and less than 12%, then the credit point is prorated uniformly from zero to 100, i.e. computed as: the Ratio divided by 0.12.

d) Ratio of Interest Expenses to Average Earning Assets

i. If the ratio is greater than or equal to 24%, then the credit point is zero

ii. If the ratio is less than 24%, then the credit point is computed as: 100 – (Ratio divided by 0.24).

2.3.5 EVALUATION OF LIQUIDITY

Two ratios for evaluating liquidity are considered as follows:

a) Liquidity

This is per monetary and credit policy guidelines issued by the Central Bank of Nigeria (CBN):

i. If the Ratio is zero or negative, then the credit point is zero.

ii. If the ratio is greater or equal to 60% then the credit point is 100.

iii. If the ratio is greater than zero and less than 60%, then the credit point is prorated uniformly from zero to 100, that is it is computed as: the ratio divided by 0.6.

b) Net Loans and Advances to Total deposit Ratio

This ratio measures cash availability. It is assumed that cash raised through deposits is not given as loans then it is invested in more liquid assets.

i. If the ratio is greater than or equal to 70%, then the credit point is zero.

ii. If the ratio is less than 70%, then the credit point is prorated uniformly from zero to 100. i.e. it is computed as: (70 – Ratio) divided by 0.7.

2.4 CALCULATING THE COMPOSITE RATING

For each component part, the points earned are multiplied by the weight and divided by 100. This equals the component – weighted credit point. The sum of the component – Weighted credit points equals the banks total rating score.

$$\text{Weighted Credit points} = \frac{\text{Component points x weights}}{100}$$

Composite Rating = Sum of Weighted Credit points.

TABLE 2

2.4.1 COMPUTATION OF COMPOSITE RATING

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTEI CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	15	80	12
	b) Adjusted Capital Ratio	5	80	4
	c) Ratio of Capital growth rate to Asset Growth Rate	5	80	4
2	Asset Quality			
	a) NPRA / TRA	15	60	9.0
	b) Reserve for losses to Non-Performing Risk Assets	5	60	3.0
	c) Non-Performing Risk Assets to Adjusted Capital	5	60	3.0
3	Management			
	a) Compliance	10	80	8
	b) CAEL / 85	5	80	4
4	Earnings			
	a) NPAT/Total Assets	5	90	4.5
	b) Total Expenses to Total Income	5	90	4.5
	c) Net Interest income to Total Earning Asset	5	90	4.5
	d) Ratio of interest expense to Average Earning Assets	5	90	4.5
5	Liquidity			
	a) Liquidity Ratio	5	50	5.0
	b) Net Loans/Deposits	5	50	2.5
	c) Volatile Liability-Depending Ratio	5	50	2.5
	Total Weighted Credit Points			75

Source: *Supervision Department - CBN*

* $\frac{\text{Volatile Liabilities - Liquid Assets}}{\text{Loans and Leases and Investments}} = \frac{\text{Volatile Liability}}{\text{Dependency Ratio}}$

2.4.2 TRANSLATING COMPOSITE SCORES INTO RATINGS

TABLE 3

a) Ratings are then assigned to Banks based on the composite score as shown below:

	TOTAL SCORE	RATING
A	86 - 100	Very Sound
B	71 - 85	Sound
C	56 - 70	Satisfactory
D	41 - 55	Marginal
E	0 - 40	Unsound

Source: Supervision Department - CBN

b) Explanatory notes

i) Rating A - Very Sound

This is the highest rating. It is an indication that the institution is sound in all respects. Routine examination should be able to reveal any weaknesses that might arise from time to time. And these could be adequately handled as they arise.

ii) Rating B - Sound

This rating indicates that the institution is sound in almost every respect. Any adverse findings are insignificant and could be handled in a routine manner.

iii) Rating C - Satisfactory

This rating indicates the institution to be fundamentally sound and stable and able to withstand business fluctuations. Adverse findings are of minor nature with supervisory concern limited to the extent that findings are corrected.

iv. Rating D - marginal

An institution rated in this category is likely to have some serious financial weaknesses with unsafe and unsound conditions existing but not being satisfactorily addressed. Close supervision and definite plan of correcting deficiencies must be evolved to prevent further determination of the situation that is likely to impair future viability and lead to high risk of failure.

v. Rating E - Unsound

An institution rated in this category has high immediate probability of failure. Weaknesses are severe and critical requiring urgent aid from the owners or other financial sources. Without immediate corrective actions, such an institution will likely require liquidation, merger or acquisition.

2.5 JUDGEMENTAL FACTORS

As earlier mentioned in the introduction of this chapter, the quantitative results obtained through the evaluation of CAMEL parameters must be further analysed and tested with other components not included or that can not be quantified. Where there is inconsistency in the results or the soundness of the

bank is materially affected by these other qualitative factors, the result of the composite rating must be modified to reflect the actual soundness of the bank.

The rating of a Bank will be materially affected as to necessitate it being reduced to 'unsound' if certain circumstances exist in the bank. A bank will have its rating reduced to 'unsound' where any of the following is found:

a) Internal conflicts that may result in difficulties in the Bank e.g. Boardroom quarrels.

b) Involvement of external parties (third parties) in the management of the bank, including uncommon cooperation such that one or several officers of the bank are independent.

c) Window dressing in the book keeping and reporting that materially affect the financial condition of the bank and results in a wrong evaluation of the bank, e.g. false or wrong information or return.

d) Financial difficulties that result in temporary revocation or withdrawal from the clearing participation or foreign exchange market.

In this research the composite rating score will be shown with the rating itself to indicate whether the 'Unsound' rating resulted from the existence of the above situations.

2.6 COMPLIANCE WITH LAWS AND REGULATIONS

The information in this section will be derived from the monetary and credit policy guidelines. Where a bank violates any law, the associated mark is deducted from a total of 100 to arrive at the bank credit score.

i) A - Excess Credit growth

Non-compliance, deduct 10 points if complied nothing is done.

ii) B - Small Scale Credit allocation

Non compliance, deduct 10 points, if complied do nothing

iii) C - Sectoral Credit Allocation

Non-compliance, deduct 10 points, if complied do nothing.

iv. D - Legal lending limit

For concentration deduct 10 points. For unsecured loans to insiders deduct 20 points.

For lack of timeliness deduct 5 points

For lack of accuracy deduct 10 points

For lack of completeness deduct 5 points

Provision for Risk Assets:

For failure to provide up to banks own computation deduct 10 points

For failure to provide up to examiners recommendation deduct 20 points

For other violations:

Minor deduct 5 points

Moderate deduct 10 points

Major deduct 20 points

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

As one looks at the world around him, one discovers that there are a lot of questions that surrounds him or her and problems seeking for solutions. Research is increasingly used to find answers to man's problems. Thus research is a problem induced activity. According to Osuala (1993), research can be defined as the process of arriving at dependable solutions to problems through the planned and systematic collection, analysis and interpretation of data.

The selection of a primary method of investigation of a given problem is a key consideration for any researcher. The method used is the conceptual framework in which the whole research is based. Obioma (1988). The method chosen will depend on the level of the research, the aim and the resources available to the researcher. This chapter forms an important part of the study. It explains the methods used in investigating the statistical tools, the sample and the type of data used.

3.2 POPULATION

The population represents the entire units of interest for a particular study. Mills, (1979).

For the purpose of this study, the researcher chose Commercial Banks as the entire units of interest. The sample selected for the study consist of the following:

i. First Bank of Nigeria PLC

ii. Intercity Bank PLC

iii. United Bank for Africa (UBA) PLC

iv. Savannah Bank of Nigeria PLC

v. Lion Bank of Nigeria PLC

vi. Bank of the North Limited

vii. Cooperative Bank PLC

3.3 COLLECTION OF DATA

There are basically two types of data used for this research project, namely

i. Primary data and

ii. Secondary data

3.3.1 PRIMARY DATA

Primary data are those collected from the field in their original state, Meekyaa, (1992). This type of data are usually collected for the first time concerning the research under study. In this study, the primary data was obtained from interview and general observation of situations.

3.3.2 SECONDARY DATA

Secondary data may be defined as information collected by other agencies but with utility for the researcher in his studies. In this research, secondary data consist of information obtained from Books, Annual Financial reports of the (7) seven Banks, Financial bulletin, Journal of finance and other relevant publications.

3.4 METHODS OF DATA COLLECTION

The data used in this research was collected using the following methods:

i. Interview

ii. Observations

3.4.1 INTERVIEW

This method was used to obtain information on the areas not covered by the Secondary method of data collection. Its use was necessitated because of the following reasons:

i. It's flexibility in that questions can be paraphrased if they are not clear to the respondent;

ii. the chance of establishing a rapport is present which will help the respondent to feel at ease when answering questions thereby providing reliable information;

iii. It saves time since it is a direct way of collecting data.

3.4.2 OBSERVATION

The researcher during the course of the study carried out an examination of how laws and regulations are complied with in the banks used as sample.

3.5 SAMPLING METHOD

According to Shao (1976), the items of a sample may be selected in two different manners:

i. Based on judgment of a person (judgmental sampling) and

ii. Selection at random (Random sampling)

The two different methods above could also be classified into:

i. Non-probability sampling (Judgement sampling) and

ii. Probability sampling (Random sampling).

In random sampling each element in the set has an equal chance of being selected. In this study however, the researcher used non-probability sampling method because of problem of cost and time.

CHAPTER FOUR

4.0 PRESENTATION AND ANALYSIS OF DATA:

4.1 INTRODUCTION

Data becomes useful when it has been analysed. Chisnall (1981) Observed that "the raw material of the research process (data) has to be processed by tabulation, analysis and interpretation so that the research findings can be communicated to clients and readily understood".

Data analysis attempts to organize and clarify data so that they become more comprehensive. This chapter is concerned with presentation and analysis of data obtained from the seven banks. An evaluation of the CAMEL Rating system as a measure of Bank performance would be conducted here using the annual financial statement of the selected banks – First Bank of Nigeria PLC, Intercity Bank PLC, United Bank for Africa (UBA) PLC, Savannah Bank of Nigeria PLC, Lion Bank of Nigeria PLC, Bank of the North Limited and Cooperative Bank PLC respectively. It is expected that the rating would permit evaluation of a bank's current condition, its performance trend and comparison with the performance of its peer groups. These analysis would be made on yearly basis and comparison between years and also between banks. The valuation factors and procedures, composite rating and judgmental factors explained earlier in chapter two would be used. However, the analysis are conducted in the light of the economic and other factors revealed in the various statements of accounts of the banks under consideration.

4.2.1 COMPUTATION OF COMPOSITE RATING OF FIRST BANK OF NIGERIA PLC – 1994

TABLE 1

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	14.24	89.00	12.67
	b) Adjusted Capital Ratio	4.5	22.50	1.01
	c) Ratio of Capital growth rate to Asset Growth Rate	3.76	100	3.76
2	Asset Quality			
	a) NPRA / TRA	38.99	0	0
	b) Reserve for losses to Non-Performing Risk Assets	99.38	100	99.38
	c) Non-Performing Risk Assets to Adjusted Capital	12.83	87.17	11.18
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.8	0
4	Earnings			
	a) NPAT/Total Assets	2.05	100	2.05
	b) Total Expenses to Total Income	88.58	57.10	50.57
	c) Net Interest income to Total Earning Asset	7.6	63.33	4.81
	d) Ratio of interest expense to Average Earning Assets	5.56	85.17	3.03
5	Liquidity			
	a) Liquidity Ratio	102.00	100	102.00
	b) Net Loans/Deposits	24.63	64.81	15.96
	c) Volatile Liability-Depending Ratio	196	0	0
	Total Weighted Credit Points			309.25

Source: *Computed by the researcher*

The Bank is considered very sound hence Rating 'A' is given to it. This is an indication that the Bank was very sound in all respects.

4.2.2 COMPUTATION OF COMPOSITE RATING OF FIRST BANK OF NIGERIA PLC - 1995

TABLE 2

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	18.59	100	18.59
	b) *Adjusted Capital Ratio*	6.15	30.75	1.89
	c) Ratio of Capital growth rate to Asset Growth Rate	8.32	100	8.32
2	Asset Quality			
	a) NPRA / TRA	27.66	0	0
	b) Reserve for losses to Non-Performing Risk Assets	99.08	100	99.08
	c) Non-Performing Risk Assets to Adjusted Capital	8.83	91.17	8.05
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85		3.79	0
4	Earnings			
	a) NPAT/Total Assets	15.80	100	15.80
	b) Total Expenses to Total Income	89.57	53.15	46.71
	c) Net Interest income to Total Earning Asset	6.28	53.33	3.28
	d) Ratio of interest expense to Average Earning Assets	33.12	0	0
5	Liquidity			
	a) Liquidity Ratio	103.89	100	103.89
	b) Net Loans/Deposits	29.14	58.37	17
	c) Volatile Liability-Depending Ratio	90.45	0	0
	Total Weighted Credit Points			322.61

Source: *Computed by the researcher*

Rating 'A' is given to the Bank indicating that the Bank was very sound in it's transaction.

The Bank is considered very sound hence Rating 'A' is given to it. This is an indication that the Bank was very sound in all respects.

4.2.2 COMPUTATION OF COMPOSITE RATING OF FIRST BANK OF NIGERIA PLC - 1996

TABLE 3

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	18.23	100	18.23
	b) Adjusted Capital Ratio	5.97	29.85	1.78
	c) Ratio of Capital growth rate to Asset Growth Rate	6.62	100	6.62
2	Asset Quality			
	a) NPRA / TRA	25.80	0	0
	b) Reserve for losses to Non-Performing Risk Assets	95.03	100	95.03
	c) Non-Performing Risk Assets to Adjusted Capital	8.79	91.21	8.02
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.77	0
4	Earnings			
	a) NPAT/Total Assets	1.56	78.00	1.22
	b) Total Expenses to Total Income	64.19	100	64.19
	c) Net Interest income to Total Earning Asset	5.72	47.68	2.73
	d) Ratio of interest expense to Average Earning Assets	3.91	83.70	2.44
5	Liquidity			
	a) Liquidity Ratio	103.12	100	103.12
	b) Net Loans/Deposits	29.39	58.01	17.05
	c) Volatile Liability-Depending Ratio	136.09	0	0
	Total Weighted Credit Points			320.43

Source: *Computed by the researcher*

Rating 'A' is given to the Bank indicating that the Bank was very sound in every respect.

4.2.4 COMPUTATION OF COMPOSITE RATING OF FIRST BANK OF NIGERIA PLC - 1997

TABLE 4

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	16.82	100	16.82
	b) Adjusted Capital Ratio	7.74	38.70	2.99
	c) Ratio of Capital growth rate to Asset Growth Rate	2.68	100	2.68
2	Asset Quality			
	a) NPRA / TRA	81.72	0	0
	b) Reserve for losses to Non-Performing Risk Assets	17.68	22.1	3.91
	c) Non-Performing Risk Assets to Adjusted Capital	39.02	60.98	23.79
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.66	0
4	Earnings			
	a) NPAT/Total Assets	19.79	100	19.79
	b) Total Expenses to Total Income	80.44	97.80	78.67
	c) Net Interest income to Total Earning Asset	95.48	100	95.48
	d) Ratio of interest expense to Average Earning Assets	25.00	0	0
5	Liquidity			
	a) Liquidity Ratio	105.06	100	105.06
	b) Net Loans/Deposits	40.21	42.26	17.11
	c) Volatile Liability-Depending Ratio	120	0	0
	Total Weighted Credit Points			366.3

Source: *Computed by the researcher*

The Bank is rated 'A' because the composite rating indicated so, showing that the Bank was very sound.

4.2.5 COMPUTATION OF COMPOSITE RATING OF FIRST BANK OF NIGERIA PLC - 1997

TABLE 5

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	17.27	100	17.27
	b) Adjusted Capital Ratio	7.43	37.15	2.76
	c) Ratio of Capital growth rate to Asset Growth Rate	2.57	100	2.57
2	Asset Quality			
	a) NPRA / TRA	78.82	0	0
	b) Reserve for losses to Non-Performing Risk Assets	25.13	31.41	7.89
	c) Non-Performing Risk Assets to Adjusted Capital	55.99	44.01	24.64
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.01	0
4	Earnings			
	a) NPAT/Total Assets	2.43	100	2.43
	b) Total Expenses to Total Income	84.01	79.95	67.17
	c) Net Interest income to Total Earning Asset	9.57	79.75	7.63
	d) Ratio of interest expense to Average Earning Assets	2.22	90.75	2.01
5	Liquidity			
	a) Liquidity Ratio	104.13	100	104.13
	b) Net Loans/Deposits	37.46	46.49	17.41
	c) Volatile Liability-Depending Ratio	110	0	0
	Total Weighted Credit Points			255.91

Source: *Computed by the researcher*

The Bank is rated very sound as such rating 'A' is given to it. No any weakness is shown going by the calculation of the total weighted credit points.

First Bank of Nigeria PLC has been performing very well through out 1994 – 1995. The total weighted credit points of 309.25, 322.61; 320.43; 355.31 and 255.91 for 1994, 1995, 1996, 1997 and 1998 respectively indicated the good performance of the Bank during the period under review. The mean composite rating of first Bank of Nigeria PLC for the period under review is 314.90.

4.3.1 COMPUTATION OF COMPOSITE RATING OF INTERCITY BANK PLC - 1994

TABLE 6

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	16.00	100	16.00
	b) Adjusted Capital Ratio	6.03	30.15	1.82
	c) Ratio of Capital growth rate to Asset Growth Rate	2.00	100	2.00
2	Asset Quality			
	a) NPRA / TRA	20.52	0	0
	b) Reserve for losses to Non-Performing Risk Assets	80.00	100	80.00
	c) Non-Performing Risk Assets to Adjusted Capital	6.53	93.47	6.10
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	2.98	0
4	Earnings			
	a) NPAT/Total Assets	2.00	100	2.00
	b) Total Expenses to Total Income	25.31	100	25.31
	c) Net Interest income to Total Earning Asset	4.00	33.33	1.33
	d) Ratio of interest expense to Average Earning Assets	26.00	0	0
5	Liquidity			
	a) Liquidity Ratio	101.34	100	101.34
	b) Net Loans/Deposits	34.3	51	17.49
	c) Volatile Liability-Depending Ratio	112	0	0
	Total Weighted Credit Points			253.39

Source: *Computed by the researcher*

In 1994, Rating 'A' is given to Intercity Bank PLC indicating that the Bank was very sound financially and otherwise.

4.3.2 COMPUTATION OF COMPOSITE RATING OF INTERCITY BANK PLC - 1995

TABLE 7

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	16.53	100	16.53
	b) Adjusted Capital Ratio	5.00	25.00	1.25
	c) Ratio of Capital growth rate to Asset Growth Rate	2.58	100	2.58
2	Asset Quality			
	a) NPRA / TRA	26.51	0	0
	b) Reserve for losses to Non-Performing Risk Assets	55.00	68.75	37.81
	c) Non-Performing Risk Assets to Adjusted Capital	3.51	96.49	3.39
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	2.45	0
4	Earnings			
	a) NPAT/Total Assets	15.00	100	15.00
	b) Total Expenses to Total Income	25.51	100	25.51
	c) Net Interest income to Total Earning Asset	5.54	46.17	2.56
	d) Ratio of interest expense to Average Earning Assets	27.00	0	0
5	Liquidity			
	a) Liquidity Ratio	104.00	100	104.00
	b) Net Loans/Deposits	80	0	0
	c) Volatile Liability-Depending Ratio	103	0	0
	Total Weighted Credit Points			208.63

Source: *Computed by the researcher*

Rating 'A' is shown here depicting that the Bank performed very sound in 1995

4.3.3 COMPUTATION OF COMPOSITE RATING OF INTERCITY BANK PLC - 1996

TABLE 8

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	20.00	100	20.00
	b) Adjusted Capital Ratio	35.00	100	35.00
	c) Ratio of Capital growth rate to Asset Growth Rate	1.53	76.5	1.17
2	Asset Quality			
	a) NPRA / TRA	18.26	8.7	1.58
	b) Reserve for losses to Non-Performing Risk Assets	80.53	100	80.53
	c) Non-Performing Risk Assets to Adjusted Capital	75.00	25.00	18.75
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	4.04	0
4	Earnings			
	a) NPAT/Total Assets	1.08	54.33	0.59
	b) Total Expenses to Total Income	90.00	50.00	45.00
	c) Net Interest income to Total Earning Asset	13.52	100	13.52
	d) Ratio of interest expense to Average Earning Assets	26.00	0	0
5	Liquidity			
	a) Liquidity Ratio	110.26	100	110.26
	b) Net Loans/Deposits	39.57	43.47	17.2
	c) Volatile Liability-Depending Ratio	115	0	0
	Total Weighted Credit Points			343.60

Source: *Computed by the researcher*

The Bank is rated 'A' in 1996. This is an indication that the Bank was very sound.

4.3.4 COMPUTATION OF COMPOSITE RATING OF INTERCITY BANK PLC - 1997

TABLE 9

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	15.00	93.75	14.06
	b) Adjusted Capital Ratio	19.00	95.00	18.05
	c) Ratio of Capital growth rate to Asset Growth Rate	1.75	87.65	1.53
2	Asset Quality			
	a) NPRA / TRA	30.93	0	0
	b) Reserve for losses to Non-Performing Risk Assets	16.24	20.30	3.30
	c) Non-Performing Risk Assets to Adjusted Capital	20.00	80.00	16.00
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	2.53	0
4	Earnings			
	a) NPAT/Total Assets	2.50	100	2.50
	b) Total Expenses to Total Income	47.62	100	47.62
	c) Net Interest income to Total Earning Asset	6.30	52.50	3.31
	d) Ratio of interest expense to Average Earning Assets	22.50	6.25	1.41
5	Liquidity			
	a) Liquidity Ratio	107.73	100	107.73
	b) Net Loans/Deposits	75	0	0
	c) Volatile Liability-Depending Ratio	100	0	0
	Total Weighted Credit Points			215.51

Source: *Computed by the Researcher*

Rating 'A' is obtained in 1997 showing that the Bank was very sound.

4.3.5 COMPUTATION OF COMPOSITE RATING OF INTERCITY BANK PLC - 1998

TABLE 10

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	18.00	100	18.00
	b) Adjusted Capital Ratio	19.50	97.50	19.01
	c) Ratio of Capital growth rate to Asset Growth Rate	0.11	5.50	0.006
2	Asset Quality			
	a) NPRA / TRA	0.32	98.39	0.31
	b) Reserve for losses to Non-Performing Risk Assets	22.82	28.53	6.51
	c) Non-Performing Risk Assets to Adjusted Capital	35.00	65.00	22.75
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.16	0
4	Earnings			
	a) NPAT/Total Assets	1.68	84.08	1.41
	b) Total Expenses to Total Income	50.15	100	50.15
	c) Net Interest income to Total Earning Asset	4.63	38.61	1.79
	d) Ratio of interest expense to Average Earning Assets	25.68	0	0
5	Liquidity			
	a) Liquidity Ratio	131.09	100	131.09
	b) Net Loans/Deposits	37.61	46.27	17.4
	c) Volatile Liability-Depending Ratio	101	0	0
	Total Weighted Credit Points			268.43

Source: *Computed by the researcher*

The Bank is rated 'A' showing that the Bank meets the requirement of being very sound. Intercity Bank PLC has been performing very sound throughout the period under review (1994 – 1995). The total weighted credit points of 253.39; 235.14; 343.60; 215.51 and 268.43 for 1994; 1995; 1996; 1997 and 1998 respectively showing the good performance of the Bank during the period under review. The mean composite rating of Intercity Bank PLC for the period considered is 263.21.

4.4.1 COMPUTATION OF COMPOSITE RATING OF UNITED BANK FOR AFRICA PLC - 1994

TABLE 11

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	25.18	100	25.18
	b) Adjusted Capital Ratio	30.00	100	30.00
	c) Ratio of Capital growth rate to Asset Growth Rate	1.95	97.50	1.90
2	Asset Quality			
	a) NPRA / TRA	18.52	7.40	1.37
	b) Reserve for losses to Non-Performing Risk Assets	91.00	100	91.00
	c) Non-Performing Risk Assets to Adjusted Capital	55.00	45.00	24.75
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	4.54	0
4	Earnings			
	a) NPAT/Total Assets	0.54	27.38	0.14
	b) Total Expenses to Total Income	80.00	100	80.00
	c) Net Interest income to Total Earning Asset	11.00	91.67	10.08
	d) Ratio of interest expense to Average Earning Assets	12.51	47.88	5.99
5	Liquidity			
	a) Liquidity Ratio	100.08	100	100.08
	b) Net Loans/Deposits	23.53	66.39	15.62
	c) Volatile Liability-Depending Ratio	100	0	0
	Total Weighted Credit Points			386.11

Source: *Computed by the researcher*

The Bank is rated 'A' in 1994 showing that the Bank was very sound.

4.4.2 COMPUTATION OF COMPOSITE RATING OF UNITED BANK FOR AFRICA PLC - 1995

TABLE 12

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	26.18	100	26.18
	b) Adjusted Capital Ratio	32.00	100	32.00
	c) Ratio of Capital growth rate to Asset Growth Rate	1.85	92.50	1.71
2	Asset Quality			
	a) NPRA / TRA	19.00	5.00	0.95
	b) Reserve for losses to Non-Performing Risk Assets	80.00	100	80.00
	c) Non-Performing Risk Assets to Adjusted Capital	50.00	50.00	25.00
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	4.42	0
4	Earnings			
	a) NPAT/Total Assets	0.80	39.99	0.32
	b) Total Expenses to Total Income	79.00	100	79.00
	c) Net Interest income to Total Earning Asset	11.50	95.83	11.02
	d) Ratio of interest expense to Average Earning Assets	22.50	6.25	1.41
5	Liquidity			
	a) Liquidity Ratio	104.54	100	104.54
	b) Net Loans/Deposits	18.76	73.2	13.73
	c) Volatile Liability-Depending Ratio	100	0	0
	Total Weighted Credit Points			375.86

Source: *Computed by the researcher*

The Bank is rated 'A' in 1995 indicating that the Bank's performance was very sound.

4.4.3 COMPUTATION OF COMPOSITE RATING OF UNITED BANK FOR AFRICA PLC - 1996

TABLE 13

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	40.12	100	40.12
	b) Adjusted Capital Ratio	39.00	100	39.00
	c) Ratio of Capital growth rate to Asset Growth Rate	1.92	96.00	1.84
2	Asset Quality			
	a) NPRA / TRA	18.00	10.00	1.80
	b) Reserve for losses to Non-Performing Risk Assets	75.00	93.75	70.31
	c) Non-Performing Risk Assets to Adjusted Capital	50.00	50.00	25.00
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	4.29	0
4	Earnings			
	a) NPAT/Total Assets	0.20	9.87	0.02
	b) Total Expenses to Total Income	58.00	100	58.00
	c) Net Interest income to Total Earning Asset	8.58	71.5	6.13
	d) Ratio of interest expense to Average Earning Assets	2.33	90.30	2.10
5	Liquidity			
	a) Liquidity Ratio	103.19	100	103.19
	b) Net Loans/Deposits	34.38	50.89	17.5
	c) Volatile Liability-Depending Ratio	101	0	0
	Total Weighted Credit Points			365.01

Source: *Computed by the researcher*

UBA PLC is rated 'A' in 1996 indicating the very sound performance of the Bank.

4.4.4 COMPUTATION OF COMPOSITE RATING OF UNITED BANK FOR AFRICA PLC - 1997

TABLE 14

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	38.51	100	38.51
	b) Adjusted Capital Ratio	41.00	100	41.00
	c) Ratio of Capital growth rate to Asset Growth Rate	1.39	69.50	0.97
2	Asset Quality			
	a) NPRA / TRA	15.50	22.5	3.49
	b) Reserve for losses to Non-Performing Risk Assets	71.00	88.75	63.30
	c) Non-Performing Risk Assets to Adjusted Capital	48.00	52.00	24.96
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	4.29	0
4	Earnings			
	a) NPAT/Total Assets	1.54	76.93	1.18
	b) Total Expenses to Total Income	60.41	100	60.41
	c) Net Interest income to Total Earning Asset	7.98	66.54	5.31
	d) Ratio of interest expense to Average Earning Assets	3.33	86.13	2.87
5	Liquidity			
	a) Liquidity Ratio	106.00	100	106.00
	b) Net Loans/Deposits	27.23	61.1	16.64
	c) Volatile Liability-Depending Ratio	100	0	0
	Total Weighted Credit Points			364.64

Source: *Computed by the researcher*

Rating 'A' is given to the Bank in 1997 because it performed very well and sound.

4.4.5 COMPUTATION OF COMPOSITE RATING OF UNITED BANK FOR AFRICA PLC - 1998

TABLE 15

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	40.12	100	40.12
	b) Adjusted Capital Ratio	39.00	100	39.00
	c) Ratio Capital growth rate to Asset Growth Rate	1.92	96	1.84
2	Asset Quality			
	a) NPRA / TRA	18.00	10.00	1.80
	b) Reserve for losses to Non-Performing Risk Assets	75.00	93.75	70.31
	c) Non-Performing Risk Assets to Adjusted Capital	50.00	50.00	25.00
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85.	-	4.29	0
4	Earnings			
	a) NPAT/Total Assets	0.20	9.87	0.02
	b) Total Expenses to Total Income	58.00	100	58.00
	c) Net Interest income to Total Earning Asset	8.58	71.5	6.13
	d) Ratio of interest expense to Average Earning Assets	2.33	90.30	2.10
5	Liquidity			
	a) Liquidity Ratio	103.19	100	103.19
	b) Net Loans/Deposits	34.38	50.89	17.5
	c) Volatile Liability-Depending Ratio	101	0	0
	Total Weighted Credit Points			365.01

Source: *Computed by the researcher*

The Bank is rated 'A' showing that it's performance was very sound.

United Bank for Africa PLC has been performing very sound showing the period under review (1994 – 1998). The total weighted credit points of 386.11; 375.86; 362.41; 364.64 and 365.01 for 1994, 1995, 1996, 1997 and 1998 respectively showing the excellent performance of the Bank during the period under consideration. The mean composite rating of United Bank for Africa (UBA) PLC for the period under review is 370.81.

4.5.1 COMPUTATION OF COMPOSITE RATING OF SAVANNAH BANK OF NIGERIA - 1994

TABLE 16

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	19.00	100	19.00
	b) Adjusted Capital Ratio	23.12	100	23.12
	c) Ratio of Capital growth rate to Asset Growth Rate	5.51	100	5.52
2	Asset Quality			
	a) NPRA / TRA	25.00	0	0
	b) Reserve for losses to Non-Performing Risk Assets	50.51	63.13	31.89
	c) Non-Performing Risk Assets to Adjusted Capital	35.00	65.00	22.75
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.02	0
4	Earnings			
	a) NPAT/Total Assets	6.17	100	6.71
	b) Total Expenses to Total Income	35.52	100	35.52
	c) Net Interest income to Total Earning Asset	11.21	93.42	10.47
	d) Ratio of interest expense to Average Earning Assets	23.51	2.04	0.48
5	Liquidity			
	a) Liquidity Ratio	84.44	10.0	84.44
	b) Net Loans/Deposits	30.63	56.24	17.23
	c) Volatile Liability-Depending Ratio	101	0	0
	Total Weighted Credit Points			257.12

Source: Computed by the Researcher.

Savannah Bank of Nigeria PLC is rated 'A' in 1994 showing the good performance of the Bank.

4.5.2 COMPUTATION OF COMPOSITE RATING OF SAVANNAH BANK OF NIGERIA - 1995

TABLE 17

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	18.00	100	18.00
	b) Adjusted Capital Ratio	25.51	100	25.51
	c) Ratio Capital growth rate to Asset Growth Rate	1.81	90.5	1.64
2	Asset Quality			
	a) NPRA / TRA	17.52	12.40	2.17
	b) Reserve for losses to Non-Performing Risk Assets	71.25	39.06	63.46
	c) Non-Performing Risk Assets to Adjusted Capital	40.00	60.00	24.00
3	Management			
	a) Compliance	Complied		0
	b) CAEL / 85	-	3.18	0
4	Earnings			
	a) NPAT/Total Assets	3.29	100	3.29
	b) Total Expenses to Total Income	90.00	50.00	45.00
	c) Net Interest income to Total Earning Asset	10.00	83.33	8.33
	d) Ratio of interest expense to Average Earning Assets	22.51	6.21	1.39
5	Liquidity			
	a) Liquidity Ratio	60.00	100	60.00
	b) Net Loans/Deposits	31.68	54.74	17.34
	c) Volatile Liability-Depending Ratio	102	0	0
	Total Weighted Credit Points			270.13

Source: *Computed by the researcher*

In 1995 the Bank was rated 'A' indicating that the Bank was sound.

4.5.3 COMPUTATION OF COMPOSITE RATING OF SAVANNAH BANK OF NIGERIA - 1996

TABLE 18

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	16.00	100	16.00
	b) Adjusted Capital Ratio	14.51	72.55	10.53
	c) Ratio of Capital growth rate to Asset Growth Rate	1.02	51.00	0.52
2	Asset Quality			
	a) NPRA / TRA	19.51	2.45	0.48
	b) Reserve for losses to Non-Performing Risk Assets	89.51	100	89.51
	c) Non-Performing Risk Assets to Adjusted Capital	80.00	20.00	16.00
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.09	0
4	Earnings			
	a) NPAT/Total Assets	19.73	100	19.73
	b) Total Expenses to Total Income	55.12	100	55.12
	c) Net Interest income to Total Earning Asset	11.52	96.00	11.06
	d) Ratio of interest expense to Average Earning Assets	25.00	0	0
5	Liquidity			
	a) Liquidity Ratio	46.16	76.93	35.51
	b) Net Loans/Deposits	25.89	63.02	16.31
	c) Volatile Liability-Depending Ratio	102	0	0
	Total Weighted Credit Points			262.77

Source: *Computed by the researcher*

Rating 'A' is given to the Bank because the composite rating indicated it. This showed that the Bank was very sound.

4.5.4 COMPUTATION OF COMPOSITE RATING OF SAVANNAH BANK OF NIGERIA - 1997

TABLE 19

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	17.00	100	17.00
	b) Adjusted Capital Ratio	19.52	97.6	19.05
	c) Ratio of Capital growth rate to Asset Growth Rate	1.00	50.00	0.5
2	Asset Quality			
	a) NPRA / TRA	20.00	0	0
	b) Reserve for losses to Non-Performing Risk Assets	85.00	100	85.00
	c) Non-Performing Risk Assets to Adjusted Capital	35.00	65.00	22.75
3	Management			
	a) Compliance	Complied		0
	b) CAEL / 85	-	2.93	0
4	Earnings			
	a) NPAT/Total Assets	0.20	9.9	0.02
	b) Total Expenses to Total Income	80.00	100	80.00
	c) Net Interest income to Total Earning Asset	10.35	86.25	8.93
	d) Ratio of interest expense to Average Earning Assets	23.42	2.42	0.57
5	Liquidity			
	a) Liquidity Ratio	0.20	9.90	0.02
	b) Net Loans/Deposits	23.48	6.64	13.6
	c) Volatile Liability-Depending Ratio	100	0	0
	Total Weighted Credit Points			249.44

Source: *Computed by the researcher*

The Bank is rated 'A' in 1997 as indicated by the total credit points in the above table 19.

4.5.5 COMPUTATION OF COMPOSITE RATING OF SAVANNAH BANK OF NIGERIA - 1998

TABLE 20

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	15.52	97	15.05
	b) Adjusted Capital Ratio	38.00	100	38.00
	c) Ratio of Capital growth rate to Asset Growth Rate	1.95	97.50	1.90
2	Asset Quality			
	a) NPRA / TRA	15.51	22.45	3.48
	b) Reserve for losses to Non-Performing Risk Assets	95.00	100	95.00
	c) Non-Performing Risk Assets to Adjusted Capital	55.00	45.00	24.75
3	Management			
	a) Compliance	Complied		0
	b) CAEL / 85	-	4.31	0
4	Earnings			
	a) NPAT/Total Assets	0.68	34	0.23
	b) Total Expenses to Total Income	35.00	100	35.00
	c) Net Interest income to Total Earning Asset	56.00	100	56.00
	d) Ratio of interest expense to Average Earning Assets	23.51	2.04	0.48
5	Liquidity			
	a) Liquidity Ratio	80.00	100	80.00
	b) Net Loans/Deposits	26.32	62.4	16.42
	c) Volatile Liability-Depending Ratio	120	0	0
	Total Weighted Credit Points			366.31

Source: *Computed by the researcher*

Rating 'A' is given to the Bank in 1998 indicating that the Bank was very sound in that year.

Savannah Bank of Nigeria PLC has been performing very sound during the period under consideration i.e. 1994 – 1998. The total weighted credit points of 257.12; 270.13; 262.77, 249.44 and 366.31 for 1994; 1995; 1996; 1997 and 1998 respectively indicating the good performance of the Bank during the period under review. The mean composite rating of Savannah Bank of Nigeria PLC for the period under review is 281.15.

4.6.1 COMPUTATION OF COMPOSITE RATING OF LION BANK OF NIGERIA plc (1994)

TABLE 21

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	16.53	97.06	15.07
	b) Adjusted Capital Ratio	19.00	95.00	18.05
	c) Ratio of Capital growth rate to Asset Growth Rate	3.50	100.00	3.50
2	Asset Quality			
	a) NPRA / TRA	18.52	7.40	1.3
	b) Reserve for losses to Non-Performing Risk Assets	80.36	100	80.36
	c) Non-Performing Risk Assets to Adjusted Capital	45.51	54.49	25.98
3	Management			
	a) Compliance	Complied		0
	b) CAEL / 85	-	4.44	0
4	Earnings			
	a) NPAT/Total Assets	1.62	80.91	1.31
	b) Total Expenses to Total Income	70.53	80.91	70.53
	c) Net Interest income to Total Earning Asset	35.60	100	35.60
	d) Ratio of interest expense to Average Earning Assets	20.52	100	2.98
5	Liquidity		14.5	
	a) Liquidity Ratio	105.46	100	105.46
	b) Net Loans/Deposits	31.38	55.18	17.31
	c) Volatile Liability-Depending Ratio	99.98	0	0
	Total Weighted Credit Points			377.47

Source: *Computed by the Researcher*

Rating 'A' is given to Lion Bank of Nigeria PLC in 1994 showing that the Bank was very sound.

4.6.2 COMPUTATION OF COMPOSITE RATING OF LION BANK OF NIGERIA plc (1995)

TABLE 22

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	16.00	100	16.00
	b) Adjusted Capital Ratio	15.65	78.25	12.25
	c) Ratio of Capital growth rate to Asset Growth Rate	1.95	97.50	1.90
2	Asset Quality			
	a) NPRA / TRA	25.50	0	0
	b) Reserve for losses to Non-Performing Risk Assets	86.71	100	86.71
	c) Non-Performing Risk Assets to Adjusted Capital	51.00	49.00	24.99
3	Management			
	a) Compliance	Complied		0
	b) CAEL / 85	-	4.13	0
4	Earnings			
	a) NPAT/Total Assets	0.38	18.78	0.07
	b) Total Expenses to Total Income	65.52	100	65.52
	c) Net Interest income to Total Earning Asset	10.51	87.58	9.21
	d) Ratio of interest expense to Average Earning Assets	20.00	83.33	16.67
5	Liquidity			
	a) Liquidity Ratio	101.66	100	101.66
	b) Net Loans/Deposits	23.7	66.14	15.68
	c) Volatile Liability-Depending Ratio	97	0	0
	Total Weighted Credit Points			350.66

Source: *Computed by the Researcher*

In 1995 the Bank is given rating 'A' showing that the Bank was very sound.

4.6.3 COMPUTATION OF COMPOSITE RATING OF LION BANK OF NIGERIA PLC (1996)

TABLE 23

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	17.00	100	17.00
	b) Adjusted Capital Ratio	18.53	92.65	17.17
	c) Ratio of Capital growth rate to Asset Growth Rate	1.51	75.50	1.14
2	Asset Quality			
	a) NPRA / TRA	18.52	7.4	1.37
	b) Reserve for losses to Non-Performing Risk Assets	88.00	100	88.00
	c) Non-Performing Risk Assets to Adjusted Capital	65.12	34.88	22.71
3	Management			
	a) Compliance	Complied		0
	b) CAEL / 85	-	4.04	0
4	Earnings			
	a) NPAT/Total Assets	-40.94	0	0
	b) Total Expenses to Total Income	80.00	100	80.00
	c) Net Interest income to Total Earning Asset	11.12	92.67	10.30
	d) Ratio of interest expense to Average Earning Assets	18.53	22.79	4.22
5	Liquidity			
	a) Liquidity Ratio	97.50	100	97.60
	b) Net Loans/Deposits	65	7.14	4.64
	c) Volatile Liability-Depending Ratio	99	0	0
	Total Weighted Credit Points			344.15

The Lion Bank of Nigeria PLC is rated 'A' this year 1996 indicating that the Bank's performance was very sound.

4.6.4 COMPUTATION OF COMPOSITE RATING OF LION BANK OF NIGERIA PLC (1997)

TABLE 24

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	17.82	100	17.82
	b) Adjusted Capital Ratio	14.00	70.00	9.8
	c) Ratio of Capital growth rate to Asset Growth Rate	1.81	90.50	1.63
2	Asset Quality			
	a) NPRA / TRA	20.00	0	0
	b) Reserve for losses to Non-Performing Risk Assets	40.00	50.00	20.00
	c) Non-Performing Risk Assets to Adjusted Capital	45.00	55.00	24.75
3	Management			
	a) Compliance	Complied		0
	b) CAEL / 85	-	2.96	0
4	Earnings			
	a) NPAT/Total Assets	0.11	5.5	2.006
	b) Total Expenses to Total Income	88.00	60	52.80
	c) Net Interest income to Total Earning Asset	10.00	83.33	8.33
	d) Ratio of interest expense to Average Earning Assets	23.51	2.04	0.48
5	Liquidity			
	a) Liquidity Ratio	98.35	100	98.35
	b) Net Loans/Deposits	37.39	46.61	17.42
	c) Volatile Liability-Depending Ratio	101	0	0
	Total Weighted Credit Points			251.39

Source: *Computed by the Researcher*

Rating 'A' is given to the Bank in 1997 as indicated by the total weighted credit points in the table above. The bank performed very sound.

4.6.5 COMPUTATION OF COMPOSITE RATING OF LION BANK OF NIGERIA PLC (1998)

TABLE 25

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	15.52	97.00	15.05
	b) Adjusted Capital Ratio	21.20	100	21.20
	c) Ratio of Capital growth rate to Asset Growth Rate	1.61	80.50	1.30
2	Asset Quality			
	a) NPRA / TRA	13.50	32.50	4.39
	b) Reserve for losses to Non-Performing Risk Assets	86.00	100	86.00
	c) Non-Performing Risk Assets to Adjusted Capital	66.00	34.00	22.44
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	4.26	0
4	Earnings			
	a) NPAT/Total Assets	2.77	100	2.77
	b) Total Expenses to Total Income	87.00	65.00	56.55
	c) Net Interest income to Total Earning Asset	16.50	100	16.50
	d) Ratio of interest expense to Average Earning Assets	23.51	2.04	0.47
5	Liquidity			
	a) Liquidity Ratio	119.06	100	119.06
	b) Net Loans/Deposits	44.05	37.07	16.33
	c) Volatile Liability-Depending Ratio	101	0	0
	Total Weighted Credit Points			362.06

Source: *Computed by the Researcher*

Rating 'A' is given to the Bank in 1998 showing that the Bank performance was very sound.

Lion Bank of Nigeria PLC has been performing very sound during the period under review i.e. 1994 – 1998. The total weighted credit points of 377.47; 350.66; 344.15; 251.39 and 362.06 for 1994, 1995, 1996, 1997 and 1998 respectively were computed indicating the very sound performance of the bank during the period under consideration. The mean composite rating of Lion Bank of Nigeria PLC for the period considered is 337.15.

4.7.1 COMPUTATION OF COMPOSITE RATING OF BANK OF THE NORTH LIMITED (1994)

TABLE 26

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	18.25	100	18.25
	b) Adjusted Capital Ratio	25.00	100	25.00
	c) Ratio of Capital growth rate to Asset Growth Rate	1.12	56	0.63
2	Asset Quality			
	a) NPRA / TRA	20.00	0	0
	b) Reserve for losses to Non-Performing Risk Assets	85.51	100	85.51
	c) Non-Performing Risk Assets to Adjusted Capital	55.21	44.79	24.73
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	4.23	0
4	Earnings			
	a) NPAT/Total Assets	-1.22	0	0
	b) Total Expenses to Total Income	80.00	100	80.00
	c) Net Interest income to Total Earning Asset	11.25	93.73	10.55
	d) Ratio of interest expense to Average Earning Assets	12.00	50.00	6.00
5	Liquidity			
	a) Liquidity Ratio	91.72	100	91.72
	b) Net Loans/Deposits	37	47.14	17.44
	c) Volatile Liability-Depending Ratio	103	0	0
	Total Weighted Credit Points			359.83

Source: *Computed by the Researcher*

Bank of the North Limited is rated 'A' in 1994 showing that the Bank's performance was very sound.

4.7.2 COMPUTATION OF COMPOSITE RATING OF BANK OF THE NORTH LIMITED (1995)

TABLE 27

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	17.52	100	17.52
	b) Adjusted Capital Ratio	18.51	92.55	17.13
	c) Ratio of Capital growth rate to Asset Growth Rate	0.82	41.00	0.34
2	Asset Quality			
	a) NPRA / TRA	15.83	20.85	3.30
	b) Reserve for losses to Non-Performing Risk Assets	66.00	82.5	54.45
	c) Non-Performing Risk Assets to Adjusted Capital	50.00	50.00	25.00
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.17	0
4	Earnings			
	a) NPAT/Total Assets	2.40	100	2.40
	b) Total Expenses to Total Income	80.00	100	80.00
	c) Net Interest income to Total Earning Asset	6.00	50	3.00
	d) Ratio of interest expense to Average Earning Assets	20.00	16.67	3.33
5	Liquidity			
	a) Liquidity Ratio	91.85	100	91.85
	b) Net Loans/Deposits	42.85	38.79	16.62
	c) Volatile Liability-Depending Ratio	109	0	0
	Total Weighted Credit Points			314.94

Source: *Computed by the Researcher*

In 1995 rating "a' was recorded for Bank of the North Limited indicating that the Bank was very sound in that year.

4.7.3 COMPUTATION OF COMPOSITE RATING OF BANK OF THE NORTH LIMITED (1996)

TABLE 28

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	15.00	93.75	14.06
	b) Adjusted Capital Ratio	20.00	100	20.00
	c) Ratio of Capital growth rate to Asset Growth Rate	1.50	75.00	1.13
2	Asset Quality			
	a) NPRA / TRA	16.54	17.30	2.86
	b) Reserve for losses to Non-Performing Risk Assets	45.00	56.25	25.31
	c) Non-Performing Risk Assets to Adjusted Capital	56.52	43.48	24.51
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.35	0
4	Earnings			
	a) NPAT/Total Assets	0.19	9.5	0.02
	b) Total Expenses to Total Income	75.00	100	75.00
	c) Net Interest income to Total Earning Asset	8.51	70.92	6.04
	d) Ratio of interest expense to Average Earning Assets	18.21	24.13	4.39
5	Liquidity			
	a) Liquidity Ratio	93.75	100	93.75
	b) Net Loans/Deposits	34.19	51.16	17.49
	c) Volatile Liability-Depending Ratio	112	0	0
	Total Weighted Credit Points			284.62

Source: *Computed by the Researcher*

Rating 'A' is given to Bank of the North Limited in 1996 as indicated by the total weighted credit points in table 27 above. This rating indicated that the Bank was very sound in 1996.

4.7.4 COMPUTATION OF COMPOSITE RATING OF BANK OF THE NORTH LIMITED (1997)

TABLE 29

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	18.56	100	18.56
	b) Adjusted Capital Ratio	25.00	100	25.00
	c) Ratio of Capital growth rate to Asset Growth Rate	1.60	80.00	1.28
2	Asset Quality			
	a) NPRA / TRA	18.00	100	1.80
	b) Reserve for losses to Non-Performing Risk Assets	86.00	100	86.00
	c) Non-Performing Risk Assets to Adjusted Capital	37.00	63.00	23.31
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.78	0
4	Earnings			
	a) NPAT/Total Assets	3.19	100	3.19
	b) Total Expenses to Total Income	92.00	40.00	36.80
	c) Net Interest income to Total Earning Asset	11.50	95.83	11.02
	d) Ratio of interest expense to Average Earning Assets	21.00	12.50	2.63
5	Liquidity			
	a) Liquidity Ratio	94.35	100	94.35
	b) Net Loans/Deposits	39.98	42.88	17.14
	c) Volatile Liability-Depending Ratio	101	0	0
	Total Weighted Credit Points			321.08

Source: *Computed by the Researcher*

Rating 'A' is given to the Bank in 1997 showing that the Bank was very sound.

4.7.5 COMPUTATION OF COMPOSITE RATING OF BANK OF THE NORTH LIMITED (1998)

TABLE 30

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	20.00	100	20.00
	b) Adjusted Capital Ratio	19.21	96.05	18.45
	c) Ratio of Capital growth rate to Asset Growth Rate	1.42	71.00	1.01
2	Asset Quality			
	a) NPRA / TRA	15.00	25.00	3.75
	b) Reserve for losses to Non-Performing Risk Assets	85.00	100	85.00
	c) Non-Performing Risk Assets to Adjusted Capital	51.00	49.00	24.99
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.86	0
4	Earnings			
	a) NPAT/Total Assets	3.24	100	3.24
	b) Total Expenses to Total Income	87.00	65.00	56.55
	c) Net Interest income to Total Earning Asset	6.00	50.00	3.00
	d) Ratio of interest expense to Average Earning Assets	22.00	8.33	1.83
5	Liquidity			
	a) Liquidity Ratio	95.88	100	95.88
	b) Net Loans/Deposits	49.48	29.31	14.5
	c) Volatile Liability-Depending Ratio	101	0	0
	Total Weighted Credit Points			328.20

Source: *Computed by the Researcher*

The Bank of the North Limited is rated 'A' in 1998.

Bank of the North Limited has been performing very sound during the period under review (1994 – 1998). The total weighted credit points of 359.83; 314.94; 284.62; 321.08 and 328.20 for 1994; 1995; 1996; 1997 and 1998 respectively indicating the sound performance of the Bank during the period under review. The mean composite rating of Bank of the North Limited for the period considered is 321.73.

4.8.1 COMPUTATION OF COMPOSITE RATING OF COOPERATIVE BANK PLC (1994)

TABLE 31

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	17.00	100	17.00
	b) Adjusted Capital Ratio	16.25	81.25	13.20
	c) Ratio of Capital growth rate to Asset Growth Rate	1.25	62.50	0.78
2	Asset Quality			
	a) NPRA / TRA	18.52	7.4	1.37
	b) Reserve for losses to Non-Performing Risk Assets	80.00	100	80.00
	c) Non-Performing Risk Assets to Adjusted Capital	35.00	65.00	22.75
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.76	0
4	Earnings			
	a) NPAT/Total Assets	2.68	100	2.68
	b) Total Expenses to Total Income	87.51	62.45	54.65
	c) Net Interest income to Total Earning Asset	10.50	87.50	9.19
	d) Ratio of interest expense to Average Earning Assets	22.00	8.33	1.83
5	Liquidity			
	a) Liquidity Ratio	100.72	100	100.72
	b) Net Loans/Deposits	38.14	45.51	17.36
	c) Volatile Liability-Depending Ratio	103	0	0
	Total Weighted Credit Points			319.7

Source: *Computed by the Researcher*

Cooperative Bank PLC in 1994 is rated 'A' as shown in table 34 above.

4.8.2 COMPUTATION OF COMPOSITE RATING OF COOPERATIVE BANK PLC (1995)

TABLE 32

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	17.60	100	17.60
	b) Adjusted Capital Ratio	19.50	97.50	19.01
	c) Ratio of Capital growth rate to Asset Growth Rate	1.50	75.00	1.12
2	Asset Quality			
	a) NPRA / TRA	17.00	15.00	2.55
	b) Reserve for losses to Non-Performing Risk Assets	76.00	95.00	72.20
	c) Non-Performing Risk Assets to Adjusted Capital	55.00	45.00	24.75
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.97	0
4	Earnings			
	a) NPAT/Total Assets	3.51	100	3.51
	b) Total Expenses to Total Income	85.12	74.40	63.32
	c) Net Interest income to Total Earning Asset	12.00	100	12.00
	d) Ratio of interest expense to Average Earning Assets	16.00	33.33	5.33
5	Liquidity			
	a) Liquidity Ratio	99.93	100	99.93
	b) Net Loans/Deposits	43.91	37.27	16.36
	c) Volatile Liability-Depending Ratio	100	0	0
	Total Weighted Credit Points			337.68

Source: *Computed by the Researcher*

Rating 'A' is given to the bank showing that the Bank was very sound in 1995.

4.8.3 COMPUTATION OF COMPOSITE RATING OF COOPERATIVE BANK PLC (1996)

TABLE 33

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	14.50	90.63	13.14
	b) Adjusted Capital Ratio	20.00	100.00	20.00
	c) Ratio of Capital growth rate to Asset Growth Rate	5.00	100	5.00
2	Asset Quality			
	a) NPRA / TRA	18.00	10.00	1.80
	b) Reserve for losses to Non-Performing Risk Assets	80.00	100	80.00
	c) Non-Performing Risk Assets to Adjusted Capital	50.00	50.00	25.00
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	4.29	0
4	Earnings			
	a) NPAT/Total Assets	25.00	100	25.00
	b) Total Expenses to Total Income	85.00	75.00	63.75
	c) Net Interest income to Total Earning Asset	11.50	95.83	11.02
	d) Ratio of interest expense to Average Earning Assets	22.00	8.33	1.83
5	Liquidity			
	a) Liquidity Ratio	101.27	100	101.27
	b) Net Loans/Deposits	43.63	37.67	16.44
	c) Volatile Liability-Depending Ratio	103	0	0
	Total Weighted Credit Points			364.25

Source: *Computed by the Researcher*

Rating 'A' is given to the Bank in 1996.

4.8.4 COMPUTATION OF COMPOSITE RATING OF COOPERATIVE BANK PLC (1997)

TABLE 34

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	16.00	100	16.00
	b) Adjusted Capital Ratio	18.25	91.25	16.65
	c) Ratio of Capital growth rate to Asset Growth Rate	3.00	100	3.00
2	Asset Quality			
	a) NPRA / TRA	13.52	32.40	4.38
	b) Reserve for losses to Non-Performing Risk Assets	75.53	94.41	71.31
	c) Non-Performing Risk Assets to Adjusted Capital	46.00	54.00	24.84
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.69	0
4	Earnings			
	a) NPAT/Total Assets	3.95	100	3.95
	b) Total Expenses to Total Income	40.00	100	40.00
	c) Net Interest income to Total Earning Asset	10.00	83.33	8.33
	d) Ratio of interest expense to Average Earning Assets	20.00	16.67	3.33
5	Liquidity			
	a) Liquidity Ratio	111.47	100	111.47
	b) Net Loans/Deposits	57.10	18.43	10.53
	c) Volatile Liability-Depending Ratio	105	0	0
	Total Weighted Credit Points			313.78

Source: *Computed by the Researcher*

The Bank is rated 'A' in 1997 indicating that it was very sound in that year.

4.8.5 COMPUTATION OF COMPOSITE RATING OF COOPERATIVE BANK PLC (1998)

TABLE 35

S/NO.	FACTORS AND COMPONENTS	MAXIMUM WEIGHT %	CREDIT POINTS	WEIGHTED CREDIT POINTS
1	Capital			
	a) Capital to Risk weighted Asset Ratio	18.12	100	18.12
	b) Adjusted Capital Ratio	13.00	65	8.45
	c) Ratio of Capital growth rate to Asset Growth Rate	2.50	100	2.50
2	Asset Quality			
	a) NPRA / TRA	14.00	30.00	4.2
	b) Reserve for losses to Non-Performing Risk Assets	45.00	56.25	25.31
	c) Non-Performing Risk Assets to Adjusted Capital	50.00	50.00	25.00
3	Management			
	a) Compliance	Complied	-	0
	b) CAEL / 85	-	3.37	0
4	Earnings			
	a) NPAT/Total Assets	1.53	76.5	1.17
	b) Total Expenses to Total Income	80.00	100	80.00
	c) Net Interest income to Total Earning Asset	9.00	75.00	6.75
	d) Ratio of interest expense to Average Earning Assets	21.00	12.50	2.63
5	Liquidity			
	a) Liquidity Ratio	109.08	100	109.08
	b) Net Loans/Deposits	66.48	5.02	3.34
	c) Volatile Liability-Depending Ratio	101	0	0
	Total Weighted Credit Points			286.56

Source: *Computed by the Researcher*

Rating 'A' is given to the Bank in 1998 showing that the Bank was very sound.

Cooperative Bank PLC has been performing very sound during the period under review (1994 – 1998). The total weighted credit points of 319.70; 337.68; 364.25; 313.78 and 286.56 for 1994; 1995; 1996; 1997 and 1998 respectively recorded indicated that the Bank was very sound during the period considered. The mean composite rating of the Bank for the period under review is 324.39.

4.9.1 THE MEAN COMPOSITE RATING OF THE SEVEN BANKS

TABLE 35

S/NO	BANK	MEAN COMPOSITE RATING
1	First Bank of Nigeria PLC	314.9
2	Intercity Bank PLC	263.21
3	United Bank for Africa (UBA) PLC	370.81
4	Savannah Bank of Nigeria PLC	281.15
5	Lion Bank of Nigeria PLC	337.15
6	Bank of the North Limited	321.73
7	Cooperative Bank PLC	324.39

Source: *Computed by the Researcher.*

The above table is showing the mean composite Rating of the Seven Banks used. Within the peer group, United Bank for Africa (UBA) PLC has the highest mean composite rating of 370.81 followed by Lion Bank of Nigeria PLC with 337.15, Cooperative Bank PLC – 324.39, Bank of the North Limited – 321.33, First Bank of Nigeria PLC – 314.90, Savannah Bank of Nigeria PLC – 281.15 and lastly Intercity Bank PLC – 263.21.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY:

The purpose of this research was to evaluate the CAMEL Rating system as a measure of Bank performance. The rating system permitted the evaluation of banks current condition, its performance trend over time is 1994 – 1998 and comparisons with the performance of its peer group within the industry. Banks selected within the industry were First Bank of Nigeria PLC, Intercity Bank PLC, United Bank for Africa (UBA) PLC, Savannah Bank of Nigeria PLC, Lion Bank of Nigeria PLC, Bank of the North Limited and Cooperative Bank PLC

The study was conducted by using a qualitative and a quantitative approach of evaluating the factors that materially affect the condition and development of Banks. The quantitative approach was undertaken by evaluating Capital Adequacy, Asset Quality, Management, Earnings and Liquidity (CAMEL Parameters). Qualitative factors that were considered are compliance with laws and regulations and other fundamental factors.

The Bank Rating System is not only used by bank supervisors (Central Bank of Nigeria) in evaluating the performances of banks, but can also be used by trade creditors, employees, bond holders, shareholders, government, current and potential investors and the ultimate customers of the Banks.

5.2 CONCLUSION

The Bank rating system is designed to be used by bank supervisors in evaluating the performances of banks. It serves as an early warning device to detect emerging problems of banks. The rating system provides a more scientific basis for supervising actions such as preliminary management discussions and priority scheduling of on-site examinations. It is a qualitative and a quantitative approach of evaluating the factors that materially affect the condition and development of banks. In Nigeria, Central Bank, the apex financial institution is charged with the responsibility of supervising bank's performance. By so doing, CBN detects any emerging problem(s) that may lead to the distress of any bank so that correctional measures are taken immediately.

As a result of the stringent measures taken by Central Bank of Nigeria in supervising commercial banks, the number of distressed banks in Nigeria was reduced from 47 in 1997 to 22 as at 31st December, 1998.

During the course of this research work, it was discovered that CAMEL Rating System is a good measure of Bank performance.

5.3 RECOMMENDATIONS

The analysis made in this study has shown that the seven banks have been performing very sound during the period under review perhaps due to the close supervision by the Central bank of Nigeria (CBN) and the following recommendations are suggested:

i. The Central Bank of Nigeria (CBN) should continue with the laudable work of close supervision of the Banks in order to totally eradicate bank failure in Nigeria.

ii. The Central Bank of Nigeria should publish the result of it's supervision to the public on annual bases so that customers would know the best banks to transact business with.

iii. More publications on CAMEL Rating System should be released.

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