AN APPRAISAL OF CAMEL RATING SYSTEM AS A MEASURE OF PERFORMANCE IN UNITY BANK PLC

BY

MAHMOOD, Mohammed Musa
MBA/ADMIN/42523/2004-05
(G04BAMP7106)

BEING A PROJECT SUBMITTED TO THE POST GRADUATE SCHOOL OF AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (MBA).

DEPARTMENT OF BUSINESS ADMINISTRATION, FACULTY OF ADMINISTRATION, AHMADU BELLO UNIVERSITY

OCTOBER, 2006

DEDICATION

All praises due to Allah the lord of the world, and to the loving memory of my late father Alhaji Musa B. Mahmood (Ndejin Lapai) and to all those who are God fearing.

Lastly, this work is dedicated to my immediate family.

CERTIFICATION

This is to certify that this project titled "An Appraisal of CAMEL rating system as a measure of Performance, a case study of Unity Bank". Written by Mahmood, Mohammed Musa meets the partial regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria and it is therefore approved for its contributions to knowledge, and literary presentation.

Dr/Mal/Mr/Mrs. _____

_____	_____	_____
Chairman, Supervisory Committee	Signature	Date
_____	_____	_____
Head of Department	Signature	Date
_____	_____	_____
External Examiner	Signature	Date
_____	_____	_____
Dean Postgraduate School	Signature	Date

ACKNOWLEDGEMENT

All praises be to Allah for HIS constant guide and unflinching support during the course of this course and always.

The saying that *NO MAN IS AN ISLAND* has made it mandatory not end this work without sending my profound appreciation to some people for their support and understanding all through.

First is my major project supervisor in the person of Mallam S. M. Gegu for his too numerous to mention support and understanding. Then to my friends and course mates, Mallam Abdul Garba, Mallam Abdurrahman Abdullahi, Mustapha A. Yarima, Mallam Musa Mohammed Kandi for all the materials he provided fir this work. The Asst. Area Manager Unity Bank, Minna for his time and ideas. Mallam Garba Ilya Gindiri for all the materials he provided.

My special gratitude goes the followings, Alh. Abubakar Gimba (OFR), Alh. Muhammad Maude Lapai (Madamin Lapai), and to my wonderful and able brother Alh. Sani Mahmood, my sister Haj. Hassana Musa, Malama Amina Musa, and also to all the ladies and gentlemen of the MBA Class P/T (2004/2005). In fact, they are a wonderful lot that cannot be forgotten in a jiffy.

Finally, I pray that the Good Lord reward all my lecturers and course coordinator and all those who contributed directly or indirectly to making this MBA Programme a reality. I shall forever remain indebted.

Thanks,

DECLARATION

I declare that the work in the project entitled an appraisal of CAMEL rating system as a measure of Bank performance, a case study of Unity Bank has been performed by me in the Department of Business Administration. The information derived from the literature has been duly acknowledged by me in the text and a list of reference provided. No part of this project was previously presented for another degree or diploma at any university.

.

Musa M. Mahmood _____ _____
Name of Student Signature Date

TABLE OF CONTENTS

Title page i

Dedication ii

Certification / approval page iii

Acknowledgement iv

Declaration v

Table of contents vi

Abstract viii

CHAPTER ONE: Background of the study

1.1 Introduction 1

1.2 Statement of the research problems 2

1.3 Objective of the study 2

1.4 Significance o the study 3

1.5 Formulation of hypothesis 4

1.6 Scope of the study 4

1.7 Limitation of the study 5

CHAPTER TWO: Literature review

2.1 Introduction 7

2.2 Concept of Camel rating system 8

2.3 Valuation factors and weight 11

2.4 How to calculate the Composite rating 19

2.5 Other Judgmental factors 20

2.6 Compliance with laws and regulations 21

CHAPTER THREE: Research methodology

3.1 Introduction 23

3.2 Research methods 23

3.3 Population of the study 23

3.4 Methods of data collection 24

3.5 Instruments used 25

3.6 Sampling method 25

3.7 Profile of the case study 26

CHAPTER FOUR: Data Presentation and Analysis

4.1 Introduction 29

4.2 Data Presentation and Analysis 29

4.3 Test of hypothesis 50

4.4 Findings 55

CHAPTER FIVE: Summary, conclusion and recommendation

5.1 Summary 57

5.2 Conclusion 58

5.3 Recommendation 59

Bibliography 60

Appendix 62

ABSTRACT

The research attempts an appraisal of CAMEL rating system as a measure of Bank performance with Unity Bank as the fulcrum of the study over the periods of 2005 – 2006 i.e. the post consolidation era. However, since the CAMEL rating system as a tool to be used for measuring bank performance was not widely understood hence the need to set an objective of appraising the performance of unity bank The study will go on to formulate some hypothesis to determine the viability of the CAMEL rating system as a tool .In the course of which the method of survey research shall be used with the population as unity bank and the sample population to be selected at random among the banks that made up the unity bank.

Also in carrying out the research both the primary and secondary sources of data will be used .After which the data gathered will be presented and analysed such that it shall be found as to the state of viability of both the unity bank and the goodness of fit of the CAMEL rating system as a tool for measuring bank performance .The statistical tool chi-square shall be used to prove the hypothesis earlier formed to be able to conclude as to the viability of the CAMEL rating system and whether or not it will be further recommended for use as a good tool for measuring bank performance.

The choice of Unity Bank was to allow for a fair comparison using the judgemental factors for the CAMEL Rating System to actually show the performance of the bank over the period.

CHAPTER ONE: BACKGROUND OF THE STUDY

INTRODUCTION

The landscape of the Nigerian banking industry has been characterized by the need to strengthen the institutions and enhance their performance and developmental role in the economy. As key institution in the financial intermediation process, the banks are supposed to play a critical role in the mobilization of fund and the creation of wealth.

However, it became apparent that most banks can not sufficiently mobilize international and domestic capital for the development of investment especially in the oil and gas sector which is the backbone of the economy, and are not resident to shocks within the financial system.

At the point by which the distress signals became apparent at the doors of some banks, Unity bank inclusive there has been dwindling confidence in the banking system. This further aggravated by the high interest rates charged by banks, emphasis on short term tendering to the neglect of manufacturing, agriculture and other capital intensive projects.

The above scenario requires drastic actions if the banking system was to properly play its role as a catalyst to development. The prevailing situation in the industry is more or less a caricature of the system.

The financial sector of the Nigerian economy needs to be very prudent in its business dealing 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 appraisal of the CAMEL rating system as a measure of bank performance, the case of Unity Bank as basis for the study.

1.1 STATEMENT OF THE RESEARCH PROBLEM

There is that problem of the viability of the CAMEL rating system in assessing the performance of the banks. The banking sector of the country's economy faces a lot of crises. Most banks went through thick and thin of the bank distress years. Many banks were liquidated; this was a result of many factors ranging from non-compliance with laws and regulations guiding banking operations in Nigeria. Mismanagement of fund by the Board of Directors or Management of those Bank and perhaps inadequate supervision by the apex bank i.e. the Central Bank of Nigeria (CBN). Hence the fear of investing in banks became paramount in people's mind. And the need to determine how well is this CAMEL rating system as a tool for measuring bank performance. These problems raised necessitate this study of an appraisal of CAMEL rating System as a measure of bank performance in Nigeria.

1.2 OBJECTIVE OF THE STUDY

Every phenomenon has its aims and objective. The objective of this study is to appraise the performance of Unity Bank using the CAMEL Rating system, with reference to the years under review i.e. 2005 – 2006, the post-consolidation era.

Also, to be able to determine the goodness of fit of the CAMEL rating system as a tool for measuring bank performance. This is because not too many people understand the tool.

1.3 SIGNIFICANCE OF THE STUDY

An attempt to know the state of healthiness of the bank would only be complete if only the viability of the CAMEL rating system as a tool for such appraisal is determined. Hence, it is of significance to measure the performance of the bank under review and as well determine the goodness of the tool used for measuring such performance.

Most importantly, the rating system is not to be used by banks supervisor in appraising the performance of banks only it can be used by other parties as well. These parties include, trade creditors, employees, bondholders, shareholders, government and current and potential investors and the king' i.e. the customers of the bank.

1.4 FORMULATION OF HYPOTHESIS

The study would be anchored on some formulated hypothesis to be validated or otherwise. The researcher would attempt to prove the null (Ho) and the alternative (Ha) hypothesis using the statistical tools so as to be able to determine

the goodness of fit between the composite tool (CAMEL Rating System) and the performance of Unity Bank.

The hypotheses are as follows:

H_o The CAMEL Rating System is not a good tool for measuring the performance of Unity Bank.

H_a The CAMEL Rating System is a good tool for measuring the performance of Unity Bank.

1.5 SCOPE OF THE STUDY

The study would be confined to Unity Bank and the CAMEL Rating System would be used to appraise, analyse and interpret the activities, conditions and performance of Unity Bank over the pre-consolidation period of 1999 – 2003. The Unity Bank has nine banks coming together in consolidation. Most of the data used would come from the randomly selected three among the nine i.e. Bank of the North, Intercity Bank and First Interstate. The analysis would be on yearly basis. Subsequently, comparison of the result would be made over the period under review between the banks that make up the group.

The published financial statements for the banks would be used for the period under review to anchor the analysis.

Lastly, the study would be conducted using qualitative and quantitative approaches of evaluating the factors that actually affect the condition and development of the bank. The qualitative approach would be undertaken by

evaluating Capital Adequacy, Assets Quality, Management Earning & Liquidity (CAMEL parameters).

While the qualitative approach would consider the factors like, the compliance with law and regulations, and other fundamental judgmental factors.

1.6 LIMITATIONS OF THE STUDY

There is the need to categorically highlight as one of the limitation of this piece of work as to the problems of adequate kinds of data necessary for a work of this magnitude, this is because of the information gathered are necessarily limited to those made available by the authority and individuals concerned especially as far as the required statistics are concerned.

Another source of limitation of this piece of work can not be unrelated to bias as a human factor. As some people contacted in the cause of this work felt reluctant to allow me access to some vital information for this research work being the kind of corporate bodies they are.

Then also, the problems of lack of much publication relating to the CAMEL Rating System of appraising or measuring 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 the appraising of performance of Banks in Nigeria with a view of making the necessary and appropriate recommendations.

Also, came the most piercing constraints finance which did hindered the smoothness required during the journey's of gathering the needed materials for this research.

Finally, the constraints of natural imperfection as no expert and no novice.

CHAPTER TWO: LITERATURE REVIEW

INTRODUCTION:

The banking system has been designed such that banking supervisors use the bank rating system in the evaluation and appraisal of banks. It serves as an "early warning signals" to help detect emerging problems of banks. The rating system provides a more scientific basis for supervisory actions such as preliminary management discussions and priority schedule 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. While qualitative factors that are suppose to be considered are the compliance with laws and regulations and other fundamental factors.

However, in evaluating the CAMEL parameters, weight has been allocated to each parameter as would be shown subsequently in this chapter. Each parameter has been subdivided into components (or ratios) and credit point assigned based on the comprehensiveness of the ratio as a measure of the parameter. The procedure for measuring or evaluating each of the parameters would be shown. Then also, a composite rating of all the parameters would also be worked out, such that it will determine whether a bank is to be rated as either very sound, satisfactory, marginal or unsound. A bank rating could be reduced from "sound" to unsound" if certain judgemental factors observed so dictates. This would also be shown in this chapter. It is expected that rating would permit the appraisal and

evaluating of a banks, current conditions, and its performance trend over a period.

Basically, this chapter is out to explain the valuation factors and procedures, composite rating and judgemental factors.

2.1 CONCEPTS OF CAMELS RATING SYSTEM

According Sani (2006), the financial failures in banks and other financial institutions is said to occur when the banks or financial institution is unable to meet its obligation to its customers, the owners as well as the economy. Such obligations are usually used to test on the financial operational and managerial conditions of the institution. This is so because inability often results from weakness in these key areas which could render the institutions illiquid or completely insolvent. The situation could even degenerate into bankruptcy that is a condition where the value of total liabilities exceeds the value of total assets.

In the light of the foregoing and in order to determine the state of financial health of banks and other financial institutions an effective composite index based on the acronym CAMELS was developed. The composite index is simply the weighted average of CAMELS parameters in which:

C = Capital Adequacy: The capital should be able to support the liability the firm is carrying.

A = Asset quality: The proportion of performing assets to non-performing assets should be good enough to determine the assets quality

M = Management competency: The quality of the management team of the bank / institution in terms of their qualification, experience, skills and their performance in relation to other parameters within the CAMELS should be of high standard.

E = Earning Power or Earning's ability: The level of earnings should be able to justify the size of investment.

L = Liquidity sufficiency: This has to do with the ability to meet up or run its operations. That is, sufficient cash to meet customers demand as and when required.

: Ability of the bank or financial institution to meet all other obligations especially those of short term.

The weighted parameter of the CAMEL index adds (sum) up to unity as follows:

C = Capital Adequacy: 25%

A = Asset quality: 25%

M = Management competency: 15% this is shared in the following proportion:

: $\frac{\text{CAELS}}{85}$ - 5%

i.e. The result obtained when other elements of CAMEL (Excluding M) is divided by 85 will give the proportion of the 5% that will be allocated to the bank in question.

Then compliance with laws and regulation carries 10%

E = Earning power or earnings ability: 20%

L = Liquidity sufficiency: 15% or solvency level.

From the result, the rating is guided by the following:

CLASS	**COMPOSITE SCORE %**	**RATINGS**
A	86 – 100	Very sound
B	71 – 85	Sound
C	56 – 70	Satisfactorily
D	41 – 55	Marginally distress
E	0 – 40	Terminally distressed or (very unsound)

Source: Supervision department – CBN

The regulatory body (NDIC) comes into salvage banks at D level, by way of appointing new management, re-training some existing ones as well as assisting the banks in the recovery of outstanding loans that are due. When all these measures cannot safeguard the bank, then the last remedy is applied – distress.

It is also pertinent to mention here that according to international standard a banking industry is considered to be healthy when nearly all the banks in the system are profitable and their non-performing loans constitute less than 2% of the total assets.

On the other hand, a banking industry is considered to be in systemic (total) distress when up to 20% or more of all the banks operating in it are technically insolvent and have up to 25% of their assets under the non-performing category.

2.2 **VALUATION FACTORS AND WEIGHT**:

Inferring from 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 as shown below:

S/n	Factor		Component	Component weight %	Total weight %
1	Capital	A	Capital to risk weighted assets ratio	15	25
		B	Adjusted capital ratio	5	
		C	Capital growth rate	5	
2	Asset quality	A	Non performing risk assets to total risk assets	15	25
		B	Reserves for losses to non performing risk assets	5	
		C	Non performing risk assets to capital and reserves	5	

S/n	Factor		Component	Component weight %	Total weight %
3	Management	A	CAELS 85	5	15
		B	Compliance with laws and regulations.	10	
4.	Earnings	A	Profit after tax to total assets	5	20
		B	Total expenses to total income	5	
		C	Net interest income to total earning assets.	5	
		D	Interest expenses to total earning assets	5	
5.	Liquidity	A	Liquidity ratio	10	15
		B	Net loans and advances to total deposit	5	
			TOTAL		**100**

Source: Supervision Department CBN.

APPRAISAL PROCEDURES

1. **EVALUATION OF CAPITAL**:

This is evaluated base on the minimum required capital to risk weight assets ratio, adjusted capital ratio and capital growth rate.

a. **Capital to risk weighted asset ratio**:

If the capital to risk weighted assets ratio is zero or negative, then the credit point is zero. If the ratio is greater than or equals to 16% the credit point are 100.

If the ratio is greater than zero but less than 16%, then the credit point is prorated uniformly from zero to 100 that is it is computed as the ratio divided by 0.16. It is pertinent to note that the bank for

internal settlement, base, set the minimum standard for capital to risk weighted assets ratio as 8%. If a bank meets this standard it is 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 capital to risk weighted ratio. It is a letter measure of over trading by banks in comparison with the capital ratio, hence it complements it. The standard adjusted capital ratio for the period under review as contained in the monetary policy for that period is 1:10 hence this ratio is regarded as satisfactory.

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

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

If the ratio is greater than zero but less than 20% 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**:

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 ₦240 million to ₦80 million is not computed as a deterioration or a change from ₦4 million to ₦16 million is not computed as 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 years. This is because banks appropriate their statutory, general and other reserve as well as determine their retained earnings only at find 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 ban that used ₦20 million shareholders fund and ₦8 million depositor's Fund to earn and certain ₦20 Million will have a retain of 100% while a bank that used ₦80 million shareholder's fund and ₦20 million depositor's fund to ease and certain ₦40 million will have a ration of 50%, which is obviously unfair to the latter bank.

The standard for capital growth rate currently being used is 2% for the period under review. It is pertinent to note that total Assets as the denominator and only the retained income is used as the

numerator. Hence, if retained income, reserves and shareholders fund are used to compute the ration then a higher standard is advised. If the capital Growth rate is zero or negative then the credit point is zero. If the ratio is greater than or equal to 2% then the credit point is 100. If the ratio is greater than zero but less than 2% then the credit. Point is prorated uniformly from zero to 100, that is, it is computed as the ratio divided by 0.02.

2. **EVALUATION OF ASSETS QUALITY**:

We would use 3 ratios for the evaluation of asset quality as thus;

a **Ratio of Non – performing Risk Asset to Total Risk Assets**:

Although there is no any desirable level of non performing Risk assets for any bank, as banks can not avoid earning them in reality. The standard for this ratio should be the maximum that could be tolerated, going by the condition of the banks in the industry; a standard maximum ratio of 20% is used. Hence, If the ratio is greater than 20%, the current point is zero.

b **Reserve for losses**:

This ratio attempts to measure a bank's compliance with guidelines on provision. It can be shown that it is not very suitable for that purpose. For instance 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 in stead pf 100

and will be given 100 credit points. If the ratio is greater than or equals to 80% a credit point of 100 is given. If the ratio is less than 80%, then the credit point is computed as: Ratio divided by 0.8

c **Non performance Risk Assets to Adjusted capital**:

The non per forming loans and advances, leases, other assets and off balance sheet engagements as defined by prudential Guidelines on assets classification. If the adjusted capital is negative then the credit point is zero, likewise, if the ratio is greater than 100% then the credit point is zero. If the ratio is greater than zero and less than 100% then the credit point is computed as; 100

3. **EVALUATION OF MANAGEMENT**:

The quantitative evaluation of management is based on compliance with rules and regulations and CAEL divided by five. The credit points for 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 rules. If a bank does not still comply even after it has been specifically urged to comply, it will loose twice the credit points allocated to the rules, regulations and guidelines contravened.

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

4. THE EVALUATION OF EARNINGS

We shall discuss the four ratios considered under this as follows:

a Profit After Tax to Total Assets

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

If the ratio is equal or greater, than 2%, then the credit point is 100.

If the ratio is greater zero but less than 2%, then the credit point is prorated uniformly from 0 to 100. i.e. computed as the ratio divided by 0.02.

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

If the ratio is greater than or equals to 100%, then the credit point is zero.

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

If the ratio is greater than 80% and less than 100%, then the credit point is computed as: (100 – ratio) divided by 0.20.

Here total expenses is defined as all the expenses excluding depreciation, and provision for bad and doubtful debts of the bank for the 12 months period under review.

c. Ratio of Net Interest Income to Total Earning Assets.

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

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

If the ratio is greater than zero and less than 2%, then the credit point is prorated uniformly from 0 to 100. i.e. computed as the ratio divided by 0.12.

d. Ratio of Interest Expenses to Average Earning Assets

If the ratio is greater than or 24%equal, then the credit point is 0.

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

5. THE EVALUATION OF LIQUIDITY

There two ratios of evaluating liquidity:

a. Liquidity

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

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

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

If the ratio is greater than zero and less than 2%, then the credit point is prorated uniformly from 0 to 100. i.e. computed as the ratio divided by 0.12.

b. Net Loans and Advances to Total Deposit Ratio

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

If the ratio is greater or equal to 70%, then the credit point is 0.

If the ratio is greater than zero and less than 2%, then the credit point is prorated uniformly from 0 to 100. i.e. computed as the ratio divided by 0.12.

2.3 HOW TO CALCULATE THE COMPOSITE RATING

In the case of each component part, the points earned are multiplied by the weights and divided by 100. This equals the components minus weighted credit points equals the banks total rating score as:

$$\text{Weighted Credit Point} = \frac{\text{Component Points x Weights}}{100}$$

Therefore, Composite Rating = sum of weighted Credit Points.

S/n		Factor and Components	Maximum weight %	Credit Points	weighted Credit Points
1		Capital			
	a	Capital to risk weighted assets ratio	15	80	12
	b	Adjusted capital ratio	5	80	4
	c	Capital growth rate	5	80	4
2		Asset Quality			
	a	Non performing risk assets to total risk assets	15	60	9.0
	b	Reserves for losses to non performing risk assets	5	60	3.0
	c	Non performing risk assets to capital and reserves	5	60	3.0
3		Management			
	a	Compliance with laws and regulations.	10	80	8
	b	CAELS / 85	5	80	4
4.		Earnings			
	a	Net Profit after tax to Total Assets	5	90	4.5
	b	Total Expenses to Total Income	5	90	4.5
	c	Net interest income to total earning assets.	5		4.5
	d	Interest expenses to total earning assets	5		4.5

S/n	Factor and Components	Maximum weight %	Credit Points	weighted Credit Points
5.	Liquidity			
a	Liquidity ratio	5	50	5.0
b	Net loans and advances to total deposit	5	50	2.5
c	Volatile liability – Dependency ratio	5	50	2.5
	TOTAL weighted Credit Points			**75**

Source Supervision department of the CBN

Note:

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

2.4 OTHER JUDGEMENTAL FACTORS

Deducing from the introduction earlier in this chapter, the quantitative result 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 an inconsistency in the result 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 its being reduced to 'unsound' if certain circumstances exist in the bank. A bank will have its rating reduced to 'unsound' if any of the following is found:

a. Internal Conflicts that may result in some difficulties in the bank. E.g. Board room 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 booking and reporting that materially affects the financial position of the bank and result in a wrong evaluation of the bank, e.g. wrong or false information on returns.

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

In this research work, the composite rating score will be shown with the ratings itself to indicate whether the 'unsound' rating resulted from the existence of any of the above situation.

2.5 COMPLIANCE WITH LAWS AND REGUALTIONS

The information in this section is derived from the Monetary and Credit Policy guidelines. Where a bank violets any law, the associated mark is deducted from a total of 100 to arrived at the bank's credit score.

i. Excess Credit Growth:

For compliance nothing is done, while for non-compliance deduct 10 points.

ii. Small Scale Credit Allocation:

If complied nothing is done, while for non-compliance deduct 10 points.

iii. Sectorial Credit Allocation:

If complied nothing is done, while for non-compliance deduct 10 points

iv. Legal Lending Limit:

For concentration, deduct 10 points, but for unsecured loans to insiders, deduct 20 points.

Others in this category includes,

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

The Unity Bank shall be appraised in line with the explained CAMEL parameter as shown in this chapter.

CHAPTER THREE: RESEARCH METHODOLOGY

INTRODUCTION:

The concept of research comes about as a result of man's curiosity of wanting to find answers to the numerous questions surrounding him. Research has been used increasingly to find answers to the problems seeking solutions.

Thus, research is a problem induced activity. According to Osuala, (2006:2) research can be defined as the process of arriving at dependable solutions to problems through the planned and systemic collection, analysis and interpretation of data.

3.1 RESEARCH METHOD:

The method used is the conceptual framework in which the whole research is based, Obioma, (1988:16). The selection of a primary method of investigation of a given problem is a key consideration for any researcher. Hence, 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. The basic methodology used in this project or research work is the survey research method.

3.2 POPULATION OF THE STUDY:

By population we mean the entire unit of interest for a given study, Mills, (1979:21). For the purpose of this study the population chosen is the unity Bank

group. But it is also pertinent to note that the samples randomly selected for the study consist of the followings:

1. Bank of the North
2. Intercity Bank
3. First InterState

METHODS OF DATA COLLECTION:

In carrying out this research project the researcher made use of both primary and secondary sources of data

The information used in this study was gathered through the use of documentary analysis, questionnaires which was also supplemented by personal interview

DOCUMENTARY ANALYSIS

An extensive delving of the secondary sources of data was carried out for facts and figures so as to allow for in-depth analysis of the gathered data for onward processing into a meaningful and unambiguous information as well as comparison and application of statistics to the gathered data.

PERSONAL INTERVIEW

This method was used to obtain information on the areas not covered by the secondary method of data collection. It use was necessary because of the following advantages:

- Its flexibility, in such a way that questions can be reframed or paraphrased if not clear to the respondents.

- Also, the personal contact help ease the respondents when answering questions thereby providing reliable information.
- It also saves time, since it is a direct way of data collection.

INSTRUMENTS USED:

The researcher made use of questionnaires which was closely supported by interview.

Questionnaire: The questionnaire was designed and administered for responses from the targeted staff of Unity Bank.

Distribution of questionnaires: The administering of the questionnaires began with a brief covering letter to the respondents. It states the aim of the questionnaires, asked for sincere and valid information from them and assured them of the confidentiality of all the information and data obtained.

Collection of the questionnaires: The questionnaires were to be collected after information is provided by the targeted respondents.

SAMPLING METHOD:

According to Shao, (1976:14), the items of a sample may be selected in two different ways:

i. Based on judgement of a person (Judgemental Sampling)

ii. Selection at Random (Random Sampling)

However, the two ways above could also be classified into:

- Non-probability sampling (Judgemental Sampling) and

- Probability sampling (Random Sampling)

  In Random sampling each element in the set has an equal chance of being selected.

But in this piece of work the research used non-probability sampling method because of the problems of cost, time and lack of sufficient and accurate data on the part of some of the banks that make up the present Unity Bank.

PROFILE OF THE CASE STUDY:

The bank consists of the Board of Directors headed by the Chairman. The board considers the policy and strategy of the bank. The appointment of the top management staff is also considered by the Board.

The daily running of the bank is done by the management that is headed by the Managing Director closely assisted by the following Executive Directors. Executive Director Operations and Services, Executive Directors Corporate Banking and Treasury Management, Executive Director Risk Management and Control. Executive Director Business Development (North) and Executive Director Business Development (South).

The bank is divided into five divisions with each division been headed by one executive director. The first division i.e. operations and services takes charge of all matters affecting operations and the provision of services by the bank. The executive director here ahs under him some General Managers and Deputy General Managers who take charge of areas that includes, Admin and training. The second division i.e. Corporate Banking and Treasury Management, this

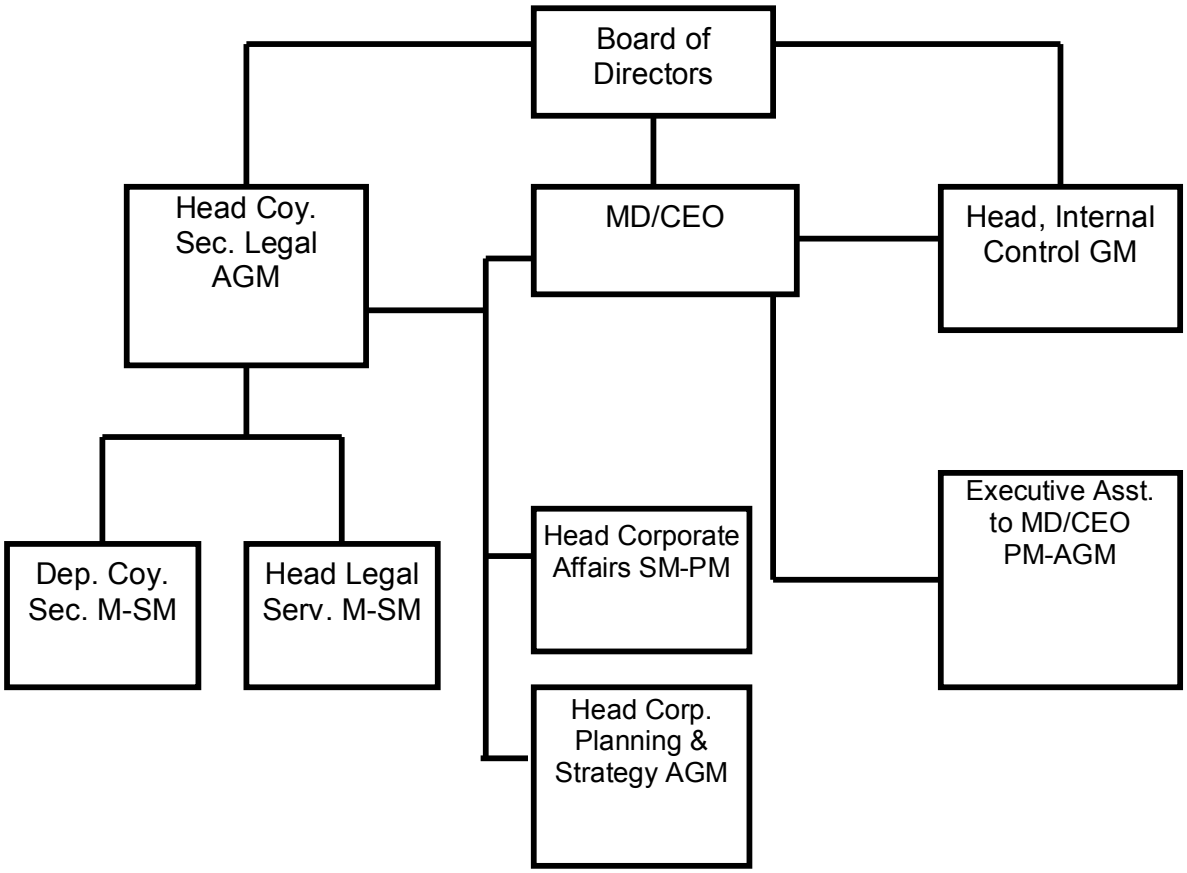
division takes charge of all banking and corporate matters of the bank. The executive director has some General Mangers and Deputy General Managers who in turn are in charge of areas that includes liability management, treasury management, corporate banking, investment banking, subsidiaries and wealth management.

The third division i.e. risk management and control and the function of this division is principally in the risk and portfolio management. The executive director ahs some general managers and deputy general managers who in turns take charge of areas that includes, credit administrative, risk management, credit risk, marketable & liquid risk,. Operations risk, financial consultancy and regulatory services.

The forth division i.e. Business development North, the executive director here is in charge of the following areas as it affects the Northern part of the country. These includes, retails and commercial banking north, retail and consumer banking north as well as take charge of all the northern region.

The fifth division i.e. Business Development South, the Executive Director here takes charge of the Business development as it pertains the southern region. Also just live his northern counterparts he also take charge of areas which includes; retail and commercial banking south, retail and consumer banking south, as well as take charge of all the southern region.

Top management organizational chart of Unity Bank



CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

INTRODUCTION

The usefulness of any data is when it has been analysed. Chisnall (1981:17) 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 should be readily understood.

4.1 DATA PRESENTATION AND ANALYSIS:

The aim of this chapter is to show how the researcher prepares and organized the sets of data collected so that it looks properly presented in a form that would be easily understood.

The first set of data to be presented are the ones collected for the computation of the composite rating from the bank's annual report / statement of account for each bank for the periods under review i.e. (1999 – 2003).

While the second set of data to be presented for analysis would be the responses from the administered questionnaires. However, the responses shall be tabulated, summarized and presented in the form of tables, while percentages may also be assigned to them in order to make them clearer.

The chi-square would be the tool for the analysis of the responses so as to either prove or validate the hypothesis as the case may be. The following data to be presented for analysis relates to the computation of the composite rating of the banks.

Table 4.1: Computation of composite rating of Bank of the North – 1999

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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 assets	11.00	91.67	10.08
	d. Ratio of interest expenses to average earning assets	12.51	47.88	5.99
5.	**Liquidity:**			
	a. Liquidity ratio	100.08	100	100.08
	b. Net loans / deposit	23.53	66.39	15.62
	c. Volatile liabilities – dependency ratio	100	0	0
	TOTAL WEIGHTED CREDIT POINTS			**386.11**

Source: Computed by the researcher

The bank is rated "A" in 1999, showing that the bank performed very sound.

Table 4.2: Computation of composite rating of Bank of the North – 2000

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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	30.00	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 assets	11.50	95.83	11.02
	d. Ratio of interest expenses to average earning assets	22.50	6.25	1.41
5.	**Liquidity:**			
	a. Liquidity ratio	104.54	100	104.5
	b. Net loans / deposit	18.76	73.2	13.73
	c. Volatile liabilities – dependency ratio	100	0	0
	TOTAL WEIGHTED CREDIT POINTS			**375.86**

Source: Computed by the researcher

The bank is rated "A" in 2000, showing that the bank's performance was very sound.

Table 4.3: Computation of composite rating of Bank of the North – 2001

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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	70.13
	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 assets	8.58	71.5	6.13
	d. Ratio of interest expenses to average earning assets	2.33	90.30	2.10
5.	**Liquidity:**			
	a. Liquidity ratio	103.19	100	103.19
	b. Net loans / deposit	34.38	50.89	17.5
	c. Volatile liabilities – dependency ratio	101	0	0
	TOTAL WEIGHTED CREDIT POINTS			**365.01**

Source: Computed by the researcher

The bank is rated "A" in 2001, it shows that the bank's performance was very sound.

Table 4.4: Computation of composite rating of Bank of the North – 2002

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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	22.50	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 assets	7.98	66.54	5.31
	d. Ratio of interest expenses to average earning assets	3.33	86.13	2.87
5.	**Liquidity:**			
	a. Liquidity ratio	106.00	100	106.00
	b. Net loans / deposit	27.23	61.1	16.64
	c. Volatile liabilities – dependency ratio	100	0	0
	TOTAL WEIGHTED CREDIT POINTS			**364.64**

Source: Computed by the researcher

The bank is rated "A" in 2002 because it has performed very sound.

Table 4.5: Computation of composite rating of Bank of the North – 2003

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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	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	58.02
	c. Net interest income to total earning assets	8.58	71.5	6.13
	d. Ratio of interest expenses to average earning assets	2.33	90.30	2.10
5.	**Liquidity:**			
	a. Liquidity ratio	103.19	100	103.19
	b. Net loans / deposit	34.38	50.89	17.5
	c. Volatile liabilities-dependency ratio	101	0	0
	TOTAL WEIGHTED CREDIT POINTS			**365.01**

Source: Computed by the researcher

The bank is rated "A" in 2003, this also goes to show that its performance was very sound. The performance of Bank of the North was very sound during the period under review that is, 1999 – 2003. The total weighted credit points of 386.11, 375.86, 362.41, 362.41, 364.64 and 365.01 for 1999, 2000, 2001, 2002 and 2003 show the excellent performance of the bank pre-consolidation. It then has a mean composite rating of 370.81 for the period under review.

Table 4.6: Computation of composite rating of Intercity Bank – 1999

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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 assets	4.00	33.33	1.33
	d. Ratio of interest expenses to average earning assets	26.00	0	0
5.	**Liquidity:**			
	a. Liquidity ratio	101.34	100	101.34
	b. Net loans / deposit	34.3	51	17.49
	c. Volatile liabilities – dependency ratio	112	0	0
	TOTAL WEIGHTED CREDIT POINTS			**253.39**

Source: Computed by the researcher

The bank is rated "A" in 1999, as the computation shows it was performing very sound in the year.

Table 4.7: Computation of composite rating of Intercity Bank – 2000

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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 assets	5.54	46.17	2.56
	d. Ratio of interest expenses to average earning assets	27.00	0	0
5.	**Liquidity:**			
	a. Liquidity ratio	104.00	100	104.00
	b. Net loans / deposit	80	0	0
	c. Volatile liabilities – dependency ratio	103	0	0
	TOTAL WEIGHTED CREDIT POINTS			**208.63**

Source: Computed by the researcher

The bank is rated "A", and this goes to show that the bank performed very sound.

Table 4.8: Computation of composite rating of Intercity Bank – 2001

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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 assets	13.52	100	13.52
	d. Ratio of interest expenses to average earning assets	26.00	0	0
5.	**Liquidity:**			
	a. Liquidity ratio	110.26	100	110.26
	b. Net loans / deposit	93.57	43.47	17.2
	c. Volatile liabilities – dependency ratio	115	0	0
	TOTAL WEIGHTED CREDIT POINTS			**343.60**

Source: Computed by the researcher.

The bank is rated "A" in 2001, which goes to show that the bank performed very sound.

Table 4.9: Computation of composite rating of Intercity Bank – 2002

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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 assets	6.30	52.50	3.31
	d. Ratio of interest expenses to average earning assets	22.50	6.25	1.41
5.	**Liquidity:**			
	a. Liquidity ratio	107.73	100	107.73
	b. Net loans / deposit	75	0	0
	c. Volatile liabilities – dependency ratio	100	0	0
	TOTAL WEIGHTED CREDIT POINTS			**215.51**

Source: Computed by the researcher.

The bank is rated "A" rating in 2002 which shows it performed very sound.

Table 4.10: Computation of composite rating of Intercity Bank – 2003

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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	1.41
	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 assets	4.63	38.61	1.79
	d. Ratio of interest expenses to average earning assets	25.68	0	0
5.	**Liquidity:**			
	a. Liquidity ratio	131.09	100	131.09
	b. Net loans / deposit	37.61	46.27	17.4
	c. Volatile liabilities-dependency ratio	101	0	0
	TOTAL WEIGHTED CREDIT POINTS			**268.43**

Source: Computed by the researcher.

The bank is rated "A" in 2003, which it depicts it had perform very sound. Intercity Bank had performed very sound during the period under review 1999 – 2003. The total weighted credit points of 253.39, 235.14, 343.60, 215.51 and 268.43 for 1999, 2000, 2001, 2002 and 2003 is an indication of very sound performances which further gave a mean composite rating of 263.21 pre-consolidation for the period under review.

Table 4.11: Computation of composite rating of First Inter State Bank – 1999

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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 assets	11.21	93.42	10.47
	d. Ratio of interest expenses to average earning assets	23.51	2.04	0.48
5.	**Liquidity:**			
	a. Liquidity ratio	84.44	10.0	84.44
	b. Net loans / deposit	30.63	56.24	17.23
	c. Volatile liabilities – dependency ratio	101	0	0
	TOTAL WEIGHTED CREDIT POINTS			**257.13**

Source: Computed by the researcher.

The bank is rated "A" in 1999 which means that the bank had performed very sound.

Table 4.12: Computation of composite rating of First Inter State Bank – 2000

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets ratio	18.00	100	18.00
	b. Adjusted capital ratio	25.51	100	25.51
	c. Ratio of 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 assets	10.00	83.33	8.33
	d. Ratio of interest expenses to average earning assets	22.51	6.21	1.39
5.	**Liquidity:**			
	a. Liquidity ratio	60.00	100	60.00
	b. Net loans / deposit	31.68	54.74	17.34
	c. Volatile liabilities – dependency ratio	102	0	0
	TOTAL WEIGHTED CREDIT POINTS			**270.13**

Source: Computed by the researcher.

The bank is rated "A" in 2000 and it shows its performance is very sound.

Table 4.13: Computation of composite rating of First Inter State Bank – 2001

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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 assets	11.52	96.00	11.06
	d. Ratio of interest expenses to average earning assets	25.00	0	0
5.	**Liquidity:**			
	a. Liquidity ratio	46.16	76.93	35.51
	b. Net loans / deposit	25.89	63.02	16.31
	c. Volatile liabilities – dependency ratio	102	0	0
	TOTAL WEIGHTED CREDIT POINTS			**262.77**

Source: Computed by the researcher.

The bank is rated "A" in 2001, this goes to show that the bank's performance is very sound.

Table 4.14: Computation of composite rating of First Inter State Bank – 2002

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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 assets	10.35	56.25	8.93
	d. Ratio of interest expenses to average earning assets	23.42	2.42	0.57
5.	**Liquidity:**			
	a. Liquidity ratio	0.20	9.90	0.02
	b. Net loans / deposit	23.48	6.64	13.6
	c. Volatile liabilities – dependency ratio	100	0	0
	TOTAL WEIGHTED CREDIT POINTS			**249.44**

Source: Computed by the researcher.

The bank is rated "A" in 2002, which also means that it's performance is very sound.

Table 4.15: Computation of composite rating of First Inter State Bank – 2003

S/N	FACTORS AND COMPONENTS	Max. weight %	Credit points	Weighted credit point
1.	**Capital:**			
	a. Capital to risk weighted assets 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 assets	56.00	100	56.00
	d. Ratio of interest expenses to average earning assets	23.51	2.04	0.48
5.	**Liquidity:**			
	a. Liquidity ratio	80.00	100	80.00
	b. Net loans / deposit	26.32	62.4	16.42
	c. Volatile liabilities-dependency ratio	120	0	0
	TOTAL WEIGHTED CREDIT POINTS			**366.31**

Source: Computed by the researcher.

The bank is rated "A" in 2003, an indication that it performed very sound. The total weighted credit points of 257.13, 270.13, 262.77, 249.44 and **DATA** 366.31 for the years, 1999, 2000, 2001, 2002 and 2003 respectively tend to depict the good and sound performance of the bank for the period under review pre-consolidation, hence its mean composite

rating for the period is 281.15. The second set of data relates to the opinion of the respondents to the various questions in the questionnaire as presented below:

A total of 300 hundred questionnaires were administered and 273 were returned and responded to which gives $\frac{273}{300} x100 = 91\%$.

Question 1: The CAMEL rating system is effective in measuring bank performance

Table 4.16: CAMEL rating system is effective in measuring bank performance

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	118	43.2%
AGREE	89	32.6%
UNDECIDED	12	4.4%
DISAGREE	44	16.1%
STRONGLY DISAGREE	10	3.7%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Majority of the respondents here strongly agree i.e. 43% that the CAMEL rating system is effective in measuring bank performance.

Question 2: Banks do get the required appraising from the CAMEL rating system.

Table 4.17: Appraising from the CAMEL rating system.

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	115	42.1%
AGREE	70	25.6%
UNDECIDED	15	5.5%
DISAGREE	60	22%
STRONGLY DISAGREE	13	4.8%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Inferring from table 4.17m 42.1% i.e. majority of the respondents strongly agree that banks do get the required appraising from the CAMEL rating system.

Question 3: Unity bank should be appraised on CAMEL rating system.

Table 4.18: Unity bank should be appraised on CAMEL rating system.

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	30	11.0%
AGREE	60	22.0%
UNDECIDED	62	22.75
DISAGREE	80	29.3%
STRONGLY DISAGREE	41	15.0%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Inferring from table 4.18 majority of the staff (29.3%) disagree that every bank should be apprised on CAMEL rating system.

Question 4: The CAMEL rating does give a true account of your bank's performance.

Table 4.19: CAMEL rating ive a true account of your bank's performance

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	128	46.88%
AGREE	80	29.30%
UNDECIDED	5	1.83%
DISAGREE	40	14.65%
STRONGLY DISAGREE	20	7.32%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Inferring from table 4.19 above (46.88%) of the staff strongly agree that the CAMEL rating system do give a true account of a bank's performance.

Question 5: The CAMEL rating system does not allow for bias.

Table 4.20: The CAMEL rating system does not allow for bias.

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	79	28.9%
AGREE	125	45.8%
UNDECIDED	17	6.2%
DISAGREE	40	14.7%
STRONGLY DISAGREE	12	4.4%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Inferring from table 4.20 above (45.8%) of the staff are in agreement that the CAMEL rating system does not allow for bias.

Question 6: CAMEL rating system shows the adequacy of unity bank's capital

Table 4.21: The adequacy of unity bank's capital

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	21	7.7%
AGREE	74	27.1%
UNDECIDED	70	25.6%
DISAGREE	73	26.7%
STRONGLY DISAGREE	35	2.8%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Inferring from table 4.21 above (26.7%) of the staff are seen to disagree that the CAMEL rating system shows the adequacy of unity bank's capital.

Question 7: CAMEL rating system gives a true position of a bank's asset quality.

Table 4.22: True position of a bank's asset quality

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	20	7.3%
AGREE	85	31.1%
UNDECIDED	40	14.7%
DISAGREE	90	33.0%
STRONGLY DISAGREE	38	13.9%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Inferring from table 4.22 (33%) of the respondents disagree that CAMEL rating system gives a true position of a bank's asset quality.

Question 8: CAMEL rating shows whether or not the bank has competent management.

Table 4.23: The bank has competent management.

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	3	1.1%
AGREE	63	23.1%
UNDECIDED	19	7.0%
DISAGREE	118	43.2%
STRONGLY DISAGREE	70	25.6%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Inferring from able 4.23 above, (43.3%) disagree that the CAMEL rating system is a good measure of bank's management competence.

Question 9: The CAMEL rating system does give a satisfactory position of a bank's earning.

Table 4.24: The position of a bank's earning.

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	70	25.6%
AGREE	130	47.6%
UNDECIDED	8	2.9%
DISAGREE	55	20.1%
STRONGLY DISAGREE	10	3.7%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Inferring from table 4.24 above, (47.6%) agree that the CAMEL rating system do give a satisfactory position of a bank's earning.

Question 10: The CAMEL rating system does no give satisfactory position of a bank's liquidity level.

Table 4.25: The position of a bank's liquidity level

OPTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
STRONGLY AGREE	78	28.6%
AGREE	120	44.0%
UNDECIDED	9	3.3%
DISAGREE	54	19.8%
STRONGLY DISAGREE	12	4.3%
TOTAL	**273**	**100%**

Source: Administered questionnaire, October, 2006.

Inferring from table 4.25 above, (44%) of the respondents agree that the CAMEL rating system does give a satisfactory position of a bank's liquidity.

4.2 HYPOTHESIS TESTING:

Hypothesis:

$\mathbf{H_O}$ The CAMEL rating system is not a good tool for measuring the performance of Unity Bank.

$\mathbf{H_a}$ The CAMEL rating system is a good tool for measuring the performance of Unity Bank.

Question 1 – 10 are used to test this hypothesis for acceptance or rejection.

Table 4.26 shows observed frequencies (o)

S/n	Question	Agree	Disagree	Total
1.	The CAMEL rating system is effective in measuring bank performance	207	54	**261**
2.	Banks do get the required appraising from the CAMEL rating system	185	73	**258**
3.	Every bank should be appraised on CAMEL rating system	90	121	**211**
4.	The CAMEL rating does give a true account of unity bank's performance	208	60	**268**
5.	The CAMEL rating system does not allow for bias	204	52	**256**
6.	CAMEL rating system shows the adequacy of unity bank's capital	95	108	**203**
7.	CAMEL rating system gives a true position of a bank's asset quality	105	128	**233**

S/n	Question	Agree	Disagree	Total
8.	CAMEL rating system shows whether or not the bank does competent management	66	188	**254**
9.	The CAMEL rating system does not give a satisfactory position of a bank's earnings.	200	65	**265**
10.	The CAMEL rating system does not give the satisfactory position of a banks liquidity level.	198	66	**264**
		1,558	**915**	**2, 473**

The above table shows the observed frequencies. The expected values can be calculated as thus:

$$E_{ij} = \frac{R_i C_i}{N}$$

Where R_i = Row Total, C_i = Column Total and N = Grand Total.

The results of E_{ij} represent the expected value in the corresponding cell; while the degree of freedom = (r – 1) (c – 1).

Therefore:

E_1 $\frac{261 \text{ x } 1558}{2473}$ = 164.4

E_2 $\frac{258 \text{ x } 1558}{2473}$ = 162.5

E_3 $\frac{211 \text{ x } 1558}{2473}$ = 132.9

E_4 $\frac{268 \times 1558}{2473} = 168.8$

E_5 $\frac{256 \times 1558}{2473} = 161.2$

E_6 $\frac{203 \times 1558}{2473} = 127.8$

E_7 $\frac{233 \times 1558}{2473} = 146.7$

E_8 $\frac{254 \times 1558}{2473} = 160.0$

E_9 $\frac{265 \times 1558}{2473} = 166.9$

E_{10} $\frac{264 \times 1558}{2473} = 166.3$

E_{21} $\frac{261 \times 915}{2473} = 96.5$

E_{22} $\frac{258 \times 915}{2473} = 95.4$

E_{23} $\frac{211 \times 915}{2473} = 78.0$

E_{24} $\frac{268 \times 915}{2473} = 99.1$

E_{25} $\frac{256 \times 915}{2473} = 94.7$

E_{26} $\frac{203 \times 915}{2473} = 75.1$

E_{27} $\frac{233 \times 915}{2473} = 86.2$

E_{28} $\frac{254 \times 915}{2473} = 93.9$

$$E_{29} \quad \frac{265 \times 915}{2473} = 98.0$$

$$E_{210} \quad \frac{264 \times 915}{2473} = 97.6$$

Table 4.27Shows Expected frequencies (E)

164.4	96.5	**261**
162.5	95.4	**258**
132.9	78.0	**211**
168.8	99.1	**268**
161.2	94.7	**256**
127.8	75.1	**203**
146.7	86.2	**233**
160.0	93.9	**254**
166.9	98.0	**265**
166.3	97.6	**264**
1,558	**915**	**2,473**

The chi-square is calculated below

Table 4.28 shows chi-square (x^2)

O	**e**	**O – e**	**(o – e)2**	**(o – e)2/e**
207	164.4	42.6	1814.76	11.03
185	162.5	22.5	506.25	3.11
90	132.9	-42.9	1840.41	13.84
208	168.8	39.2	1536.64	9.10
204	161.2	42.8	1831.84	11.36
95	127.8	-32.8	1075.84	8.41
105	146.7	-41.7	1736.89	11.85
66	160.0	-94	8836	55.22
200	166.9	33.1	1095.61	6.56
198	166.3	31.7	1004.89	6.04
54	96.5	-42.5	1806.25	18.71
73	95.4	-22.4	501.76	5.25
121	78.0	43	1849	23.70
208	99.1	108.9	11859.21	119.66
204	94.7	109.3	11946.49	126.15
95	75.1	19.9	396.01	5.27
105	86.2	18.8	353.44	4.10
66	93.9	-27.9	778.41	8.28
200	98.0	102	10404	106.16
198	97.6	100.4	10080.16	103.28
		TOTAL	**X^2**	**657.03**

From the above table, the chi-square calculated is **657.03** while from the chi-square table, the critical value at 0.05 level of significance and K = 10 – 1 or (r – 1) (K – 1) = 9 hence check the chi-square table for the equivalent value i.e.

$$\chi^{2(9)}_{0.05} = 16.919$$

DECISION RULE:

Reject the null hypothesis (Ho) for the alternate hypothesis (Ha) if the X^2 > critical value, else accept the null hypothesis.

DECISION:

Since the calculated X^2 (657.08) is greater than the alternate hypothesis reject the null (H_O) and accept the alternate hypothesis (H_a) and conclude that the CAMEL rating system do show a significant measure of the Unity Bank's performance.

4.3 FINDINGS:

In an attempt to find answers to the research question, first the composite score of Unity Bank was calculated using the data from the annual report and accounts as shown in the population of the 3 banks selected at random from the 9 that made up the Unity Bank and the composite mean shows that the bank was sound during the period under review (1999 – 2003).This is because for all the composite mean for each of the randomly selected sample bank did exceed the 100 points score as thus; Bank of the North has **370.81** ;Intercity Bank has **263.21;**and First interstate Bank had **281.15.**

It was also found that having formed and tested the hypothesis the result of the calculated chi-square X^2 which is **659.03** greater than the table value of the chi-square which is **16.919** translates to mean that the CAMEL rating system is a good tool for measuring the performance of unity bank. The following were discernable:

i. The capital of Unity Bank is adequate

ii. The bank has quality assets.

iii. The management of the bank is also competent

iv. The bank has satisfactory earnings

v. The bank also has a satisfactory liquidity level.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

In chapter one, the researcher highlighted on the background of the study where a general overview of the Nigerian banking industry was discussed up to where the problems of bank's become apparent and the need to appraise them intermittently. Also, hypothesis was formed to show the goodness of fit of this composite tool of appraising bank performance.

While the scope and limitation of this study was also discussed so as to show the areas that was covered by this research as well as the problems that were encountered during the course of this project work.

Chapter two started with the brief introduction and dealt with the review of literature. The study was conducted by using both the quantitative and qualitative approach of appraising the factors that affect the performance of banks. It discussed the concept of CAMEL rating system, how to calculate the composite score, valuation factors as well as the appraisal procedures.

Chapter three started with the introduction of research methodology. It went on to discuss method adopted for the research. It gave the population of the study, the method of data collection, instruments used, the sampling method used where three banks were selected at random out of the nine that made up the Unity Bank for the computation of the composite score. While lastly, it discussed the profile of the case study.

In chapter four, the work centred on the presentations and analysis of data, where the first set data that was presented was the one from the annual report and account of the three randomly selected sample for the period under review i.e. 1999 – 2003. This was then analyzed so as to determine the rating of Unity bank. While the second set of data presented for analysis was those opinions from the 273 responses from the administered questionnaires to the staff of Unity Bank. The Chi – square technique of data analysis was used to determine the validity or otherwise of the hypothesis. On testing the hypothesis, the decision rule was applied which led to the findings.

Lastly, chapter five of this project work dealt with the summary as well as the conclusion and recommendations of this study.

5.2 CONCLUSION

The Unity Bank just like many other banks in the Nigerian banking industry had quite a number of problems ranging from non – compliance with laws and regulations among others that necessitates their appraisal so as to determine and measure their performance.

However, to do this successfully an objective of appraising the bank using the CAMEL rating system was set for a given period of reference i.e. 1999 – 2003. This is to allow the stakeholders to have the required knowledge of the well being of the bank i.e. whether it was sound or unsound as was later on shown through the computation of its composite score.

Also it was possible to ascertain the viability of the CAMEL rating system as a tool for measuring bank performance as was later on proved by the research that it is a good tool for measuring of Unity Bank's performance.

5.3 **RECOMMENDATION**:

In line with the result of our findings of this work, it becomes pertinent to make the following recommendations:

1. That even though the Unity Bank was found to be 'very sound' during the period under review, there is still the need for the banking supervisors to intensify more efforts as regards the state of affairs of this bank.
2. The CAMEL rating system is also recommended for better and stringent banking examinations. As it has been proven to be a good tool for measuring bank performance.
3. The Central Bank and all the relevant stakeholders should strive to have more publications on this veritable tool of appraising bank performance.
4. Finally, the management of Unity Bank should avail themselves with the opportunities provided by the banking industry and try to fulfil its strategic role of stimulating economic growth and financial intermediation.

BIBLIOGRAPHY

CHISNALL, P. M. (1981), Marketing research analysis and measurement; U. K. McGraw Hills Books publishing

JAMES, C. V. (2002): 13th Edition "Financial Management and Policy Prentice Hall of India, Private Limited

MEEKYAA, U. J. (1992), 'The Preparation and Presentation of Research Project', Jos: Planning research Publications.

MILLS R. L. (1979): Statistics for Applied Economics and Business, New York: McGraw Hills Inc.

OSUALA E. C. (2005): 3rd Ed. 'Introduction to research Methodology, Onitsha Nigeria: Africana – First Publishers Ltd.

PARK I. & Barth. O. (1998): Practical Guide to Theses and project Work, King and Queens System Limited.

SHAO S. P. (1976); 'Statistics for Business and Economics USA: Charles E. Merrill publishing Company.

CIRCULAR (1990). 'To all licensed banks and their Auditors on prudential guidelines for license banks, 7th November

Federal Ministry of Information and National Orientation (2005):Obasanjo Reforms: Banking Sector, Abuja: Production, Publication and Documentation Department.

CENTRAL BANK OF NIGERIA (1999): 'Banking Supervision Annual Report.

Annual Report and Accounts (1999 - 2003) Bank of the North Ltd.

Annual Report and Accounts (1999 - 2003) Intercity Bank Plc

Annual Report and Accounts (1999 - 2003) First InterState Bank Plc

Unity Bank Digest (November 2005), Volume 1 No 1

Unity Bank Digest (February 2006), Volume 2 No 1

AHMADU BELLOW UNIVERSITY, ZARIA

QUESTIONNAIRE

THIS QUESTIONNAIRE IS DESIGNED FOR UNITY BANK STAFF ONLY.

COURSE: MASTERS IN BUSINESS ADMINISTRATION

TO WHOM IT MAY CONCERN

This research project is purely an academic exercise and therefore all information given is to be exclusively used for the subject matter of the research. It has been guaranteed that the information that would be given shall be treated as confidential.

INSTRUCTION:

Please endeavour to tick (✓) the appropriate option among the five (5) options provided against each questions.

S/N	QUESTIONS	STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE
1.	The CAMEL Rating System is effective in measuring bank performance.					
2.	Banks do get the required appraising from the CAMEL rating System.					
3.	Every bank should be appraised on CAMEL Rating System.					

S/N	QUESTIONS	STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE
4.	The CAMEL Rating System does give a true account of unity bank's performance					
5.	The CAMEL Rating System does not allow for bias					
6.	The CAMEL Rating System shows the adequacy of unity bank's capital					
7.	The CAMEL Rating System gives a true position of the bank's asset quality.					
8.	The CAMEL Rating System shows whether or not the bank has competent management.					
9.	The CAMEL Rating System does give the satisfactory position of a bank's earnings.					
10.	The CAMEL Rating System does give the satisfactory position of a bank's liquidity level.					

Thanks for your responses.