EVALUATING THE PERFORMANCE OF GCC BANKS USING CAMEL FRAMEWORK

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OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS

UNIVERSITI UTARA MALAYSIA

2014

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811057

A Thesis Submitted to Othman Yeop Abdullah Graduate School of Business

In Partial Fulfillment of the Requirement for the Degree

Master of Science (Finance)

Universiti Utara Malaysia

2014

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ABSTRACT

The economic importance of banks to developing countries may be viewed as promoting capital formation, monetization, influencing economic activity, encouraging innovation and facilitator of monetary policy. Banking sector performance evaluation is an effective measure and indicator to check the soundness of economic activities of an economy. This study attempts to evaluate bank's performance of the GCC region using CAMEL framework. The study examines 12 conventional banks in six GCC countries where year-end financial data from the years 2008 until 2012 were gathered from the banks' annual reports and Thomson Reuters, Data stream in the library of Universiti Utara Malaysia. The study finds that capital adequacy parameters of GCC banks are above the minimum requirement, while asset quality in the GCC countries affected the bank's performance except in Saudi Arabian banks. Management quality affects banks performance in all GCC countries except in Saudi Arabian banks. Earning ability is efficient with the banks performing well during the five years under investigation. Liquidity stood in the top position for all the 12 banks in GCC countries. The GCC countries could further improve the performance of their asset quality and management quality, using CAMEL framework as it is the best model and useful in evaluating banks performance.

Keywords: bank performance, capital adequacy, asset quality, management quality, earning ability and liquidity.

ACKNOWLEDGMENT

In the name of Allah most gracious, most merciful.

First of all, I praise and thank Allah for giving me the strength, blessings, guidance and knowledge to complete this dissertation. I would like to express my special appreciation and thanks to my supervisor, Associate Professor Mohamed Nasser Bin Katib, for his guidance, understanding, attention, kindness, encouragement and assistance. I have learned much from him and I highly appreciate his continuous help and support in all stages of this thesis.

My highest and most sincere appreciation goes to my beloved parents, uncles, my brothers and sisters, who have always encouraged and guided me to be independent and never try to limit my aspirations.

I would like to express my high appreciation to all my friends and lecturers of Universiti Utara Malaysia for their guidance and knowledge given to me.

Mohammed Ali Ahmed Al-Musai

January, 2014

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LIST OF ABBREVIATIONS

Abbreviation	Description of Abbreviation
UUM	Universiti Utara Malaysia
GCC	Gulf Cooperation Council
CAMEL	Model of Rating System Analysis
CAR	Capital Adequacy
AQ	Asset Quality
MQ	Management Quality
ROE	Return On Equity
ROA	Return on Assets
LR	Liquidity Risk
NPLs	Non-performing loans
GDP	Gross Domestic Product
UAE	United Arab Emiratis
KSA	Kingdom Saudi Arabia
UFIRS	Uniform Financial Institution Rating System
AIA	American International Assurance
IMF	International Monetary Fund
NBK	National Bank of Abu Dhabi
CAD	Commercial Bank of Dubai
RD	Riyadh Bank
ARB	Arab National Bank
GBK	Gulf Bank of Kuwait
NBK	National Bank of Kuwait
BM	Bank Muscat
NBO	National Bank of Oman
CBQ	Commercial Bank of Qatar
DB	Doha Bank
NBB	National Bank of Bahrain
BBK	Bahrain Bank and Kuwait

CHAPTER ONE

INTRODUCTION

1.0 Background of Study

Currently banks play an important role in our society and it is difficult to imagine the growth of the economy without banks. The banking sectors acts as the life blood of modern trade in our economy. The working of the banking system assist governments to stimulate the economy of any specific country, also through the banks all of business and finance transactions are being involved (Faizulayev, 2011).

Banks are a significant part of the financial system which plays an important role in a country's economic development. A country's economy will be affected if the banking industry is not performing well. The economy will experience slow growth or if the performance is not efficient, that may also slow affect the growth of the global economy as banks profitability is a predictor for any financial crises in the future. Banks performance becomes an important parameter which could help banks and give them an idea about the current condition of the banking industry (Barros, Ferreira and Williams, 2007).

Ratios such as capital adequacy, asset quality, management, earnings and liquidity risk, are used as parameters to measure bank's performance. In the beginning of 1970, federal regulators in USA developed the CAMEL rating system to evaluate the structure of bank examination process. A CAMEL framework is useful in investigating and evaluating the soundness of the banking safety and reduces the possible risks which may cause bank

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