EVALUATING THE PERFORMANCE OF GCC BANKS USING CAMEL FRAMEWORK

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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.
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Mohammed Ali Ahmed Al-Musai

January, 2014
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<td>UUM</td>
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<td>GCC</td>
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<td>CAMEL</td>
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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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REFERENCES


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