

INTERNSHIP REPORT



**CAMELS Rating System Analysis of
Bangladesh Bank in Accordance with BRAC
Bank Limited**

CAMELS Rating System Analysis of Bangladesh Bank in
Accordance with BRAC Bank Limited

Internship Report on
CAMELS Rating System Analysis of Bangladesh Bank in
Accordance with BRAC Bank Limited

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Letter of Transmittal

19 January, 2012

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Subject: **Submission of Internship Report**

Dear Sir,

It is my great pleasure that I submit the report on “CAMELS Rating System Analysis of Bangladesh Bank in Accordance with BRAC Bank Limited”.

I have tried my best to follow your guidelines in every aspect of planning and preparing my report. I have collected what I believe to be most important information to make my report as specific & coherent as possible. I enjoy the challenge of preparing the report as it has provided me with an opportunity to increase my understanding about CAMELS Rating System. I earnestly thank you for your guidance during the preparation of this report. I will be grateful to you if you accept the report. Your support in this regard will be highly appreciated.

Thanking You.



Rahul Kanti Datta

ID: 08104163

Acknowledgement

I would like to express my deep sense of gratitude to all those who are always a source of inspiration for their involvement, unconditional cooperation and support in the successful and timely preparation of this report. Without their encouragement, I could not stand in pride as having done some academic work. I am indebted to all of them. As being a human being, it is natural to forget and few names may not be mentioned unmindfully. I would like to apologize for my forgetfulness.

I take the opportunity to express my sincere gratitude and respect to Mr. Parvez Sajjad, Financial Controller of BRAC Bank Ltd., as well as Mr. Mohammad Kamal Uddin, Senior Manager, BRAC Bank Ltd. for accepting me to work in this renowned Bank. My heartfelt thanks go to Mr. Mohammad Kamal Uddin, Senior Manager, Regulatory Reporting of Finance Department, for his constant support, guidance and supervision on my work in BRAC Bank Ltd.

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Finally, I express my special gratitude to my honorable teacher, Mr. Probal Dutta, Assistant Professor of BRAC University for his supervision in preparing the report. He has guided me in coordinating the whole report. He has spend time to check the draft report and given his suggestions on different chapters of the report. Without his help, it would have been difficult to prepare a comprehensive report.

Executive Summery

The internship report is completely based on my internship program in BRAC Bank Limited. I have successfully completed my internship program from BRAC Bank Ltd. under Finance Division. It was twelve months long internship program which I started from 7th September, 2011 to 5th December, 2011. I did this internship program because it is a requirement for the BBA program in BRAC University.

In my internship period, I worked in Regulatory Reporting of Finance Division. It was a great experience to me that I achieved much knowledge about the different types of banking reports. All employees of Regulatory Reporting were very helpful and they accept me cordially and prefer me as a part of their team member. My faculty advisor and the on-site supervisor helped me choose the topic- “CAMELS Rating System Analysis of Bangladesh Bank in Accordance with BRAC Bank Limited”.

CAMELS Rating System is an international bank-rating system where bank supervisory authorities rate institutions according to six factors. It is encountered by six components named capital adequacy, asset quality, management competence, earnings, liquidity and sensitivity to market risk. It is used for banking companies to know about their financial condition, overall soundness of the banks, and predict different risk factors that may contribute to turn the bank into a problem. CAMEL first founded in 1979 and in 1996 CAMEL became CAMELS with the addition of a component grade for the Sensitivity of the bank to market risk. In Bangladesh, the five components of CAMEL have been used for evaluating the bank's operations that reflect in a complete institution's financial condition, compliance with banking regulations and statutes and overall operating soundness since the early nineties. In 2006, Bangladesh Bank has upgraded the CAMEL into CAMELS and included 'Sensitivity to market risk' or 'S' which make CAMEL into CAMELS. It has 1 through 5 rating for each of these components and a composite rating where the rating of 1 indicates strong performance or best rating, 2 reflects satisfactory performance, 3 represents performance that is flawed to some degree, 4 refers to marginal performance and is significantly below average and 5 is considered as unsatisfactory or worst rating.

In Bangladesh, CAMELS rating is followed by all commercial as a recommendation of Bangladesh Bank. BRAC Bank Ltd. also makes report on CAMELS rating internally and externally. Bangladesh Bank evaluates CAMELS rating where BBL issue all necessary reports. BBL is a 'B' category bank in Bangladesh according to CAMELS rating system of Bangladesh Bank. It is in satisfactory position in 2010 by holding rating 2. Although it is in strong position in capital adequacy and earnings, but it is not in good position in asset quality, management quality and liquidity. So, it is 'B' category bank in Bangladesh. Now BBL is planning to include CAMELS's new component named sensitivity to market in their CAMELS rating system which will make their rating system more efficient and effective. They do not yet use any quantitative factors to evaluate the new components of CAMELS rating system named sensitivity to market.

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List of Acronyms

| Abbreviation | Full Form |
|---------------------|-----------------------------------|
| BB | Bangladesh Bank |
| BBL | BRAC Bank Limited |
| CAR | Capital Adequacy Ratio |
| DBI | Department of Bank Inspection |
| CIB | Credit Information Bureau |
| SME | Small & Medium Enterprise |
| CL | Classified Loan |
| ROA | Return On Assets |
| RWA | Risk Weighted Asset |
| TRWA | Total Risk Weighted Asset |
| T-1 | Tier 1 (Core Capital) |
| T-2 | Tier 2 (Supplementary Capital) |
| T-3 | Tier 3 (Additional Supplementary) |

INTRODUCTION



The tree and its fruits depend on the seeds that are planted. At BRAC Bank, our people ensure our services, our commitments, our success stories.

1. INTRODUCTION

The report is all about BRAC Bank Ltd. It is discussed about the CAMELS rating system in accordance with BRAC Bank Ltd. The report is focused on about the overview of company, overview of the CAMELS rating system and also analysis of the CAMELS rating system of BRAC Bank Limited. It is a comparison report on CAMELS rating system of BBL in between the year of 2010 and 2009.

1.1 OBJECTIVE OF THE REPORT

There are two types of objectives of this report. One is general objective and another is specific objective:

1.1.1 General Objective:

The general objective of this report is to cover the degree requirement of BRAC University and is to discuss about the CAMELS rating system of Bangladesh Bank in accordance with BRAC Bank Ltd.

1.1.2 Specific objective:

- ❖ To explore about CAMELS frame work
- ❖ To know about the origin of CAMELS rating system
- ❖ To learn about the process of CAMELS reporting
- ❖ To analyze the comparison of BBL's CAMELS rating system in between the year of 2010 and 2009

1.2 SCOPE OF THE REPORT

The report is all about the CAMELS rating system of Bangladesh Bank in accordance with BRAC Bank Ltd. The report has been prepared using highest concern, but the complexity of CAMELS rating system is very well known. It is a report which can be easy for all that a primary reader do not face any problem to know about the banking industry or about regulatory requirement or about the CAMELS rating system. This report can be absolute alternative for anyone who wants to know the ins and outs of CAMELS rating system of BBL and common rules and regulation of BB about CAMELS rating system. Graphical analysis and different chart of this report makes it easier and more acceptable to all.

1.3 METHODOLOGY

The report is based on primary and secondary sources. To make this report, I have neither attended any seminar/training regarding CAMELS Rating System nor worked with the reporting unit for CAMELS Rating. My own research and few practical knowledge has been used in this report what I understood from my primary sources.

Primary sources are collected through:

- ❖ Conducted face to face interview
- ❖ General discussion with reporting unit officers

Secondary sources are collected through:

- ❖ Bangladesh Bank capital adequacy guideline
- ❖ Bangladesh Bank CAMELS rating system guideline
- ❖ Websites
- ❖ Articles
- ❖ BRAC Bank Ltd. Annual Report 2010 & 2009
- ❖ Many Research Report on CAMELS rating system

1.4 LIMITATIONS OF THE REPORT

The report has few limitations. The limitations are raised from different reasons which are given below:

- ❖ In this report, I only use my own practical and researching knowledge because I did not attend any seminar or training session regarding CAMELS Rating System and even I did not work with the reporting unit for CAMELS Rating in BBL. So, it was impossible to me to represent the absolute details about CAMELS Rating System.
- ❖ Employees were always busy with routine work and making reports. In the period of my internship, the Bangladesh Bank DBI Auditing was running in BRAC Bank Ltd. So, all officers were too much busy about it. That is why I cannot gather vast knowledge about the critical issues.
- ❖ There some information which are confidential for collecting the data. So, some data could not been collected for confidentiality or secrecy of management.

COMPANY PROFILE



2. COMPANY PROFILE

BRAC Bank is one of country's fastest growing banks. With 151 branches, 250 ATMs, 421 SME Unit Offices and 8,306 (as on 31st May 2011) human resources, BRAC Bank's operation now cuts across all segments and services in financial industry. With more than 1 Million Customers, the bank has already proved to be the largest SME financier in just 9 years of its operation in Bangladesh and continues to broaden its horizon into Retail, Corporate, SME, Probashi and other arenas of banking. In the year: 2010, BRAC Bank has been recognized as Asia's most Sustainable Bank in Emerging Markets by the Financial Times and IFC.

BRAC Bank is a financial hypermarket that offers financial solutions for all strata – be it retail, SME, wholesale banking, capital market, or remittance; but it always had a focus on SME. This bank was actually founded on a philosophy of keeping trust on the hopes and dreams of Bangladeshi entrepreneurs – and majority of these entrepreneurs have been beyond the conventional banking reach. The bank was the PIONEER to get into this segment of SME. Established in 2001, BRAC Bank is now ten years old and it has pioneered the small and medium enterprise (SME) banking. In the financial pyramid, there are corporate institutions (local and multinational) at the top of the pyramid and there are low income individuals at the bottom. Those at the top are served by banks and other financial institutions while those at the bottom are served by Micro Finance Institutions (MFIs), e.g. NGOs. But SME sector in the middle were missing access to necessary banking services and that's where BRAC Bank has filled the gap.

2.1 CORPORATE VISION

Building profitable and socially responsible financial institution focused on Market and Business with Growth potential, thereby assisting BRAC and stakeholders to build a just, enlightened, healthy democratic and poverty free Bangladesh.¹

2.2 CORPORATE MISSION

Corporate Missions are given below¹:

- Sustained growth in Small & Medium Enterprise sector
- Continuous low-cost deposit Growth with controlled growth in retail assets.
- Corporate Assets to be funded through self-liability mobilization. Growth in Assets through syndications and investment in faster growing sectors.
- Continuous endeavor to increase non-funded income
- Keep our debt charges at 2% to maintain a steady profitable growth
- Achieve efficient synergies between the bank's branches, SME unit offices and BRAC field offices for delivery of remittance and Bank's other products and services
- Manage various lines of business in a full controlled environment with no compromise on service quality
- Keep a diverse, far flung team fully controlled environment with no compromise on service quality
- Keep a diverse, far flung team fully motivated and driven towards materializing the bank's vision into reality

¹BRAC Bank Ltd., 2011, *Corporate Vision & Corporate Mission* Available at: <<http://www.bracbank.com/vision.php?drgn=1>> [Accessed 14 November 2011]

2.3 CORE VALUES

Our Strength emanates from our owner - BRAC. This means, we will hold the following values and will be guided by BRAC as we do our work¹.

- Value the fact that one is a member of the BRAC family
- Creating an honest, open and enabling environment
- Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- Strive for profit & sound growth
- Work as team to serve the best interest of our owners
- Relentless in pursuit of business innovation and improvement
- Value and respect people and make decisions based on merit
- Base recognition and reward on performance
- Responsible, trustworthy and law-abiding in all that we do.

¹BRAC Bank Ltd., 2011, *Core Value* Available at: <<http://www.bracbank.com/vision.php?drgn=1>> [Accessed 14 November 2011]

2.4 ACHIEVEMENTS

- BRAC Bank has achieved the International award for “Excellence in Retail Financial Services”
- BRAC Bank awarded prestigious FT Sustainable Bank of the Year 2010
- DHL–Daily Star Bangladesh Business Awards 2008
- BRAC Bank received National Award as the Highest VAT payer for the financial year 2007-2008
- BRAC Bank received ICAB National Award

2.5 STRENGTHS

- Fastest growing bank in the country for the last two years
- Leader in SME financing through 350 offices
- Biggest suit of personal banking & SME products
- Large ATMs (Automated Teller Machine) & POS (Point of Sales) network
- Shareholding Structure

2.6 SHAREHOLDING STRUCTURE

Table 1: Shareholding Structure (As on December 31, 2010)

| Name of Shareholder | % of Shareholding |
|-----------------------------------|-------------------|
| BRAC | 43.77% |
| International Finance Corporation | 5.36% |
| Shore Cap Limited | 0.86% |
| Non-Resident Bangladeshi | 0.43% |
| Mutual Funds | 3.22% |
| Institutions and General Public | 46.36% |

2.7 EXECUTIVE COMMITTEE MEMBER

1. Mr. Syed Mahbubur Rahman, Managing Director & CEO
2. Mr. Mohammad Mamdudur Rashid, Deputy Managing Director
3. Mr. Rais Uddin Ahmad, Company Secretary & Head of Legal, Regulatory & Internal control
4. Mr. Nabil Mustafizur Rahman, Chief Credit Officer
5. Mr. Nawed Iqbal, Chief Technology Officer
6. Mahmoodun Nabi Chowdhury , Head of Corporate Banking
7. Mr. Syed Faridul Islam, Head of SME Banking
8. Ms. Tahniyat Ahmed Karim, Head of Human Resources Division
9. Mr. Firoz Ahmed Khan, Head of Retail Banking
10. Mr. Mohammed Rahmat Pasha, Head of Treasury & Financial Institutions
11. Mr. Khwaja Shahriar, Head of Cash Management Custodial Services Probashi Banking
12. Mr. Shah Alam Bhuiyan, Head of Operations & Operational Risk Management
13. Mr. Md. Sarwar Ahmed, Head of IAM – SME & Retail Banking
14. Mr. Zeeshan Kingshuk Huq, Head of Corporate Affairs
15. Mr. Zeeshan Kingshuk Huq Head of Corporate Affairs

2.8 ORGANIZATION CHART

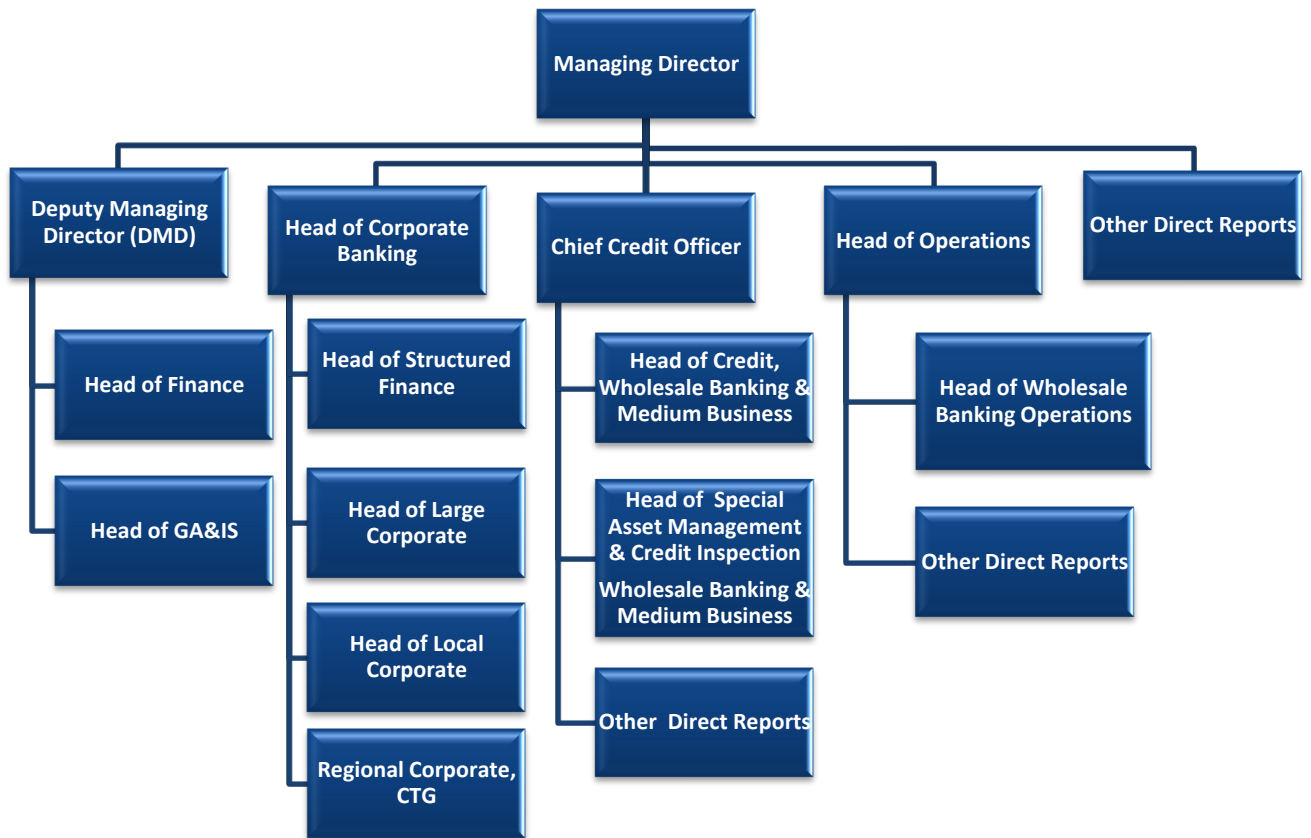


Figure 1: Company Organogram

2.9 DIVISIONS OF BRAC BANK

Table 2: BRAC Bank Divisions

| | |
|--------------------------------------|-----------------------------------|
| SME Banking | Operations |
| Retail Banking | Company Secretariat |
| Corporate Banking | Regulatory & Internal Control |
| Probashi Banking | Operational Risk Management |
| Cash Management & Custodial Services | Treasury & Financial Institutions |
| Human Resources | Information Technology |
| Finance | Program Management |
| Credit Risk Management | Research & Development |
| Corporate Affairs | |

2.10 PRODUCTS & SERVICES

2.10.1 SME PRODUCTS

BRAC Bank Limited is the largest SME Bank in the country and 4th largest SME Bank in the world in terms of outstanding loan amount. SME Banking Division holds highest asset volume among the business divisions of the Bank. The division has designed different products based on customer need and lifecycle (small loan/large loan, secured loan/unsecured loan, repayment arrangement – term loan/single payment/overdraft, purpose – working capital/fixed asset purchase/import-export, assessment – bank statement based/no bank statement).

Table 3: SME Products

| Types of SME Products | Name of Products |
|-----------------------|-------------------------|
| Unsecured Products | ANONNO |
| | PROTHOMA |
| | DURJOY |
| Secured Products | APURBA |
| | SHAKTI |
| | SHAMPAD |
| | SOHOJ |
| Agriculture Product | SHAMOLIMA |
| Trade Product | SHOMRIDDHI |
| Deposit Products | PRAPTTI CURRENT ACCOUNT |
| | PRACHURJO |

2.10.2 RETAIL BANKING PRODUCTS

BRAC Bank offers a wide range of financial solutions to meet everyday need of our guests with 151 branches, 250 ATMs, 421 SME Unit Offices and 8,306 staffs (as on 31st May 2011).

Be it home loan, car loan, or simply a quick loan – simply the guest would drop an application and we shall do the rest to make him enjoy his life.

Table 4: Retail Banking Products

| Types of Retail Products | Name of Products |
|--|--|
| Retail Lending | Salary Loan |
| | Quick Loan |
| | Home Loan |
| | Car Loan |
| | Secured Assets |
| Liability & Non Funded Business (Savings Account) | Savings Classic |
| | Triple Benefits Savings |
| | Aporajita |
| | Future Star |
| Liability & Non Funded Business (Current Account) | Current Classic |
| | Current Plus |
| | Ezee |
| | Campus Account |
| | Salary account |
| | Local VISA Card |
| Credit Cards | Universal VISA Card |
| | Master Card |
| | Fixed Deposit General |
| Fixed Deposits | Freedom Fixed Deposit |
| | Abiram Fixed Deposit |
| | Interest First Fixed Deposits |
| | Flexi Fixed Deposits |
| | Resident Foreign Currency Account (RFCD) |
| Non-Resident Foreign Currency Account (NFCD) | |

2.10.3 Probashi Banking

When you send your hard-earned money from abroad to dear ones at the farthest end of Bangladesh, ask them to collect it from over 3,500 pay out locations of BRAC Bank.

Every month, Probashi Banking executes around 150,000 transactions; which has made BRAC Bank one of the largest players among private commercial banks in channelizing inward remittance in the country.

And with ELDORADO, now you can withdraw money from any of the Eldorado member banks in addition to BRAC Bank outlets - that's too, instantly.

Table 5: Probashi Banking Products

| Types of Probashi Products | Name of Products |
|----------------------------|--------------------------|
| Probashi | Probashi Savings Account |
| | Probashi Current Account |
| | Probashi Fixed Deposit |
| | Probashi Abiram |
| | Probashi DPS |
| | Foreign Currency Account |
| Bond | |
| Probashi Card | |

2.10.4 Expanding horizon

- ❖ **EPL (Equity Partners Ltd) & EPSL (Equity Partners Securities Ltd)** - BRAC Bank completed its acquisition of 51 percent stakes in EPL, a merchant bank & EPSL, a brokerage house operating in DSE & CSE.
 - Subsidiaries are contributing substantial profits from the very first year,
 - It has been expanded in to other districts.

- ❖ **bKash Limited** – a joint venture company between BRAC Bank Limited, Bangladesh and Money in Motion LLC, USA. It is working to provide an electronic platform to increase the access to a broader range of financial services for both banked and unbanked people of Bangladesh.
 - It provides mobile Banking facilities to bring the mass people under banking network

- ❖ **BRAC Saajan Exchange Ltd**

New subsidiary of BRAC Bank, a reputed money exchange company at Birmingham, UK.

- ❖ **ELDORADO**

An automated Remittance & Payment System led by BRAC Bank.

- ❖ **OMNIBUS**

OMNIBUS, a platform of shared ATM (Automated Teller Machine) and POS (Point of Sales) networks led by BRAC Bank Limited.

- ❖ **Online Shopping**

BRAC Bank launches the facility to all Bangladeshis who have an internet access can now shop online if they have a Visa card.

2.11 OUR GREEN BANKING INITIATIVES

- ❖ BRAC Bank introduces Planet Card – first time in the industry. It is not usual Debit Card. You can contribute to create a Green Fund from your standard Debit Card Fee by simply subscribing for a PLANET CARD.
- ❖ At SME, BRAC Bank Ltd has Solar Powered Unit Offices.
- ❖ BBL supported Renewable Energy Sector by financing the first ever Bio-Gas Project in Bangladesh by Paragon Agro Limited.

2.12 OVERVIEW OF FINANCE DEPARTMENT

Finance Division is performing the key roles of controllership, budgeting, forecasting, financial analysis, business performance monitoring, decision support, procurement, fixed asset management, insurance management and also looking into the functions of General Administration and Infrastructure Services (GA&IS).

There are several functional areas of Finance are given below:



Figure 2: Several functional areas of Finance

❖ Financial Control:

1. Payment Processing and Compliance - The major activities of Payment Processing and Compliance wing of Finance Department are to check & process all vendors bills, all staff related bills (Travel, Local conveyance, various Reimbursement, Car allowance etc) and utility Bills for payment. The wing also prepares & processes CRO, ZM bills (Travel, Local conveyance, Staff welfare, Mobile, Fixed assets bill, etc) for payment, tracks and monitors CapEx budget of the whole bank.
2. Asset Management & Payments Settlement: Asset Management & Payments Settlement is the central gate way of all kinds of financial payments, Fixed Asset Management and Insurance Management by proper accounting with the proper approval.
3. GL & Cost Center Management - This wing is involved in the Maintenance of Office Accounts & Cost Center; development of new product/ parameter; providing advise/support of mapping COA and setup of transactions of new development/projects; identify, monitor & resolve mismatches of Office Accounts, Trial Balances and reconciliation of Sundry and Suspense Accounts.
4. Regulatory Reporting - Regulatory Reporting wing is the central gate way of all kinds of reporting like BASEL II, Stress Testing, CAMELS, Capital Market Exposure, SBS I, II & III, DBI-35, CIB, CL 1-6, Recovery, ForEx Reporting etc. to Bangladesh Bank.
5. Financial Reporting, Budgeting & Taxation – In Financial Reporting, focus is given on the core financial reports like Balance Sheet and Profit and Loss statements by business and of the entire bank.

❖ Business Planning and Analysis:

1. Business Reporting-SME - The main function of this wing is to prepare different types of analytical & static Reports and maintain MIS for SME Banking Division.
2. Business Finance -Retail - Main objective of this wing is to provide Business Reports/Information to Retail Banking Team and management to keep them update with latest information about Retail banking position as well as decision making.
3. Business Finance - Wholesale Banking - The main focus of this wing is to help management in making decisions by imparting the critical business facts and figures. This wing provides financial MIS reports related to Corporate Banking, Cash Management and Custodial Service, Probashi Banking Services.

❖ Procurement

This team manages relationships with Vendors regarding CapEx and other items, negotiate and establish contract for the supply of goods, maintain a transparent and efficient procurement policy, maintain cost to the optimal level, maintain efficiency of the procurement process through faster execution of the process and settlement of the bills.

❖ GA & IS

This department is responsible to ensure the smooth operation of all service related, premises maintenance and all kind of logistics support services across the Bank in all over Bangladesh. They ensure the physical security of Bank's premise and assets, employees and customers, the safe custody of Bank's assets including repair and maintenance, and provide support in transport management.

MY EXPERIENCE IN BRAC BANK LTD.

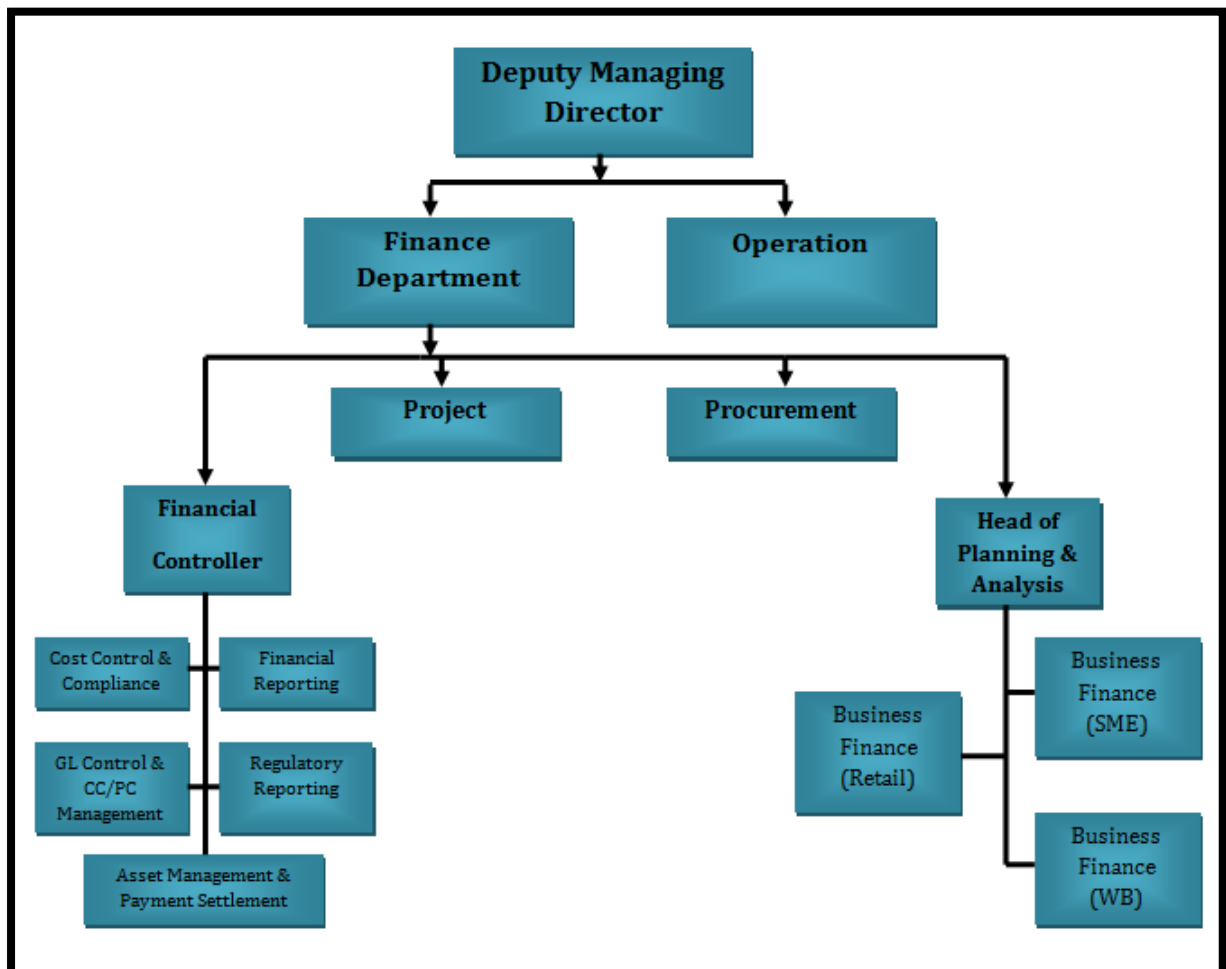


The plant bears fruits with new seeds which will grow into more trees. At BRAC Bank, our financial achievements inspire us to grow more.

3. MY EXPERIENCE WITH FINANCE DEPARTMENT OF BRAC BANK

I worked in finance division of BRAC Bank. It is a vital part of BRAC Bank’s operations. The Deputy Managing Director (DMD) is the head of finance. There are many wings under the department. A diagram can show this better:

Figure 3: Finance Department Organogram



I worked in Regulatory Reporting. It was a great experience for me because I achieved a lot of practical and professional knowledge. The office environment is very pretty and friendly. All employees are very friendly and helpful. They always like to help me to learn much knowledge. In this regulatory reporting, I saw that all employees were doing their job as a team. They help one another in any complex situation. They accepted me cordially and treated me as a team member. I was very lucky that I have passed my internship period in BBL when the cost cutting period was running. So, I know how a bank reduces its extra cost. In the cost cutting period, all employees were very concerned about it. They did not waste any equipment which may cause extra cost. Even, they printed their information by using raff paper or paper in both side. The major task of Regulatory Reporting is to submit many financial reports to Bangladesh Bank. They have many weekly, monthly and yearly reports. Regulatory Reporting is in head office. So they also have to submit of all branches and SME centres' financial reports to BB. Moreover, the department also submit the Department of Bank Inspection (DBI) audit report of all branches and SME centres including head office to BB. In this department I have prepared many reports. My supervisor and big brothers and sister (employee) helped me to make many reports. They gave me much practical knowledge about these reports. Actually I prepared all report by using Microsoft office. I have learned many things about MS Excel from them. I prepared Classified Loan Report (CL Report), SME Disburse & Outstanding Report, Top deposit report (Above 10 million) etc. I also helped them in DBI Audit Report, Credit Information Bureau (CIB) report & Basel II. I prepared many Basel II presentations. I gave data input in MS Access about ForEx Reporting and also checked many Travel & Miscellaneous form. In BBL, I also earned another great experience that sometimes I had to submit many reports in Bangladesh Bank. This was a great experience because I learned how to submit any report in BB. Every report must have two copies including the signature of bank manager. One copy is known as original copy and other one is known as office copy. I had to submit the original copy and office copy to BB officer and to collect the office copy for my bank with the signature of BB officer and BB official seal. Finally only original copy had to be submitted. All in all, it was a great time when I was doing my internship in BRAC Bank Ltd. It was a great official environment. Really, I achieved much knowledge from this bank and the employees. I think this experience will make my future career path more suitable and easy.

OVERVIEW OF CAMELS RATING SYSTEM




“আমার ব্যাংক আমার সুবিধায় বিশ্বাস করে”
হালিমা বেগম; রাজৈর, মাদারিপুর

“আমার স্বামী মাননপ্রশিয়া থেকে প্রতি মাসে আমার নতুন টিকল পঠানেন। সেই মাদারিপুর সরকারি ব্যাংক থেকে টিকল অনন্তে যেতাম — ব্যাংক থেকে মোটে চকিখ মাইল দূর। কত সরকারি পড়তাম বইয়ে, স্বপ্নে। কিন্তু আমার বাড়ির কাছের ব্যাংক যে আর অত তাতুসাতু টিকলও নিতে পারতো না। একদিন সেই ব্যাংক থেকে বন্দনা, এত কষ্ট করে আসতে হবে না; তার নলি ELDORADO নামে এক সুবিধা চালু করেছে — এমন ব্যাংক থেকে বইল থেকে খাটোটা টিকল প্রায় সাথে সাথেই আমার প্রান্তর ব্যাংকে নিয়ে যাবে। কষ্টটা ব্যাংক এনে কত আমাদের সুবিধার কথা জবে, ‘বন্দনা?’

সবর দেশের প্রত্যন্ত অঞ্চলে ছড়িয়ে ছালা এমন ছাত্রের হালিমা বেগমের প্রয়োজনের সমাধানে আমরা প্রতিদিন বিশ্বাস রেখে চলে। কলশ, আমরা চাই তারা সবাই আমাদের ব্যাংকিং সেবারে কাজে লাগিয়ে সফলতার পথে এগিয়ে যাক।

এদেশের মানুষের স্বপ্ন আর স্বাধীনতার আমাদের আত্মা অফিল।



4. OVERVIEW OF CAMELS RATING SYSTEM

Camels rating system is a common phenomenon for all banking system all over the world. It is used in all over the country in the world. It is mainly used to measure a ranking position of a bank on the basis of few criteria. Camels rating system is an international bank-rating system where bank supervisory authorities rate institutions according to six factors.

The six factors are represented by the acronym "CAMELS".

The six factors examined are as follows:

C - Capital adequacy

A - Asset quality

M - Management quality

E - Earnings

L - Liquidity

S - Sensitivity to Market Risk

Bank supervisory authorities assign a score on a scale of one (best) to five (worst) for each factor to each bank. If a bank has an average score less than two it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

4.1 ORIGIN OF CAMELS RATING SYSTEM

There were many banks rating system available in the world. However, Camels rating system is the most successful bank rating system in the world. The ‘Uniform Financial Institutions Rating System (UFIRS)’ was created in 1979 by the bank regulatory agencies. Under the original UFIRS a bank was assigned ratings based on performance in five areas: the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings and the adequacy of Liquidity. Bank supervisors assigned a 1 through 5 rating for each of these components and a composite rating for the bank. This 1 through 5 composite rating was known primarily by the short form CAMEL.

A bank received the CAMEL rate 1 or 2 for their sound or good performance in every respect of criteria. The bank which exhibited unsafe and unsound practices or conditions, critically deficient performance received the CAMEL rate 5 and that bank was of the greatest supervisory concern.

While the CAMEL rating normally bore close relation to the five component ratings, it was not the result of averaging those five grades. Supervisors consider each institution’s specific situation when weighing component ratings and review all relevant factors when assigning ratings to a certain extent. The process and component and composite system exist similar for all banking companies.

In 1996, the UFIRS was revised and CAMEL became CAMELS with the addition of a component grade for the Sensitivity of the bank to market risk. Sensitivity is the degree to which changes in market prices such as interest rates adversely affect a financial institution. The communication policy for bank ratings was also changed at end of 1996. Starting in 1997, the supervisors were to report the component rating to the bank. Prior to that, supervisors only reported the numeric composite rating to the bank.

CAMELS’ ratings in the Ninth District as of the third quarter of 1998 reflect the excellent banking conditions and performance over the last several years. Comparison between the distribution of ratings in the most recent quarter and 10 years ago during the height of the

national banking crisis is illustrative (221 banks failed nationally in 1988 while 3 banks failed in 1998). Nearly 100 percent of Ninth District banks currently fall into the top two ratings with 40 percent receiving the top grade. Ten years ago one-third of Ninth District banks fell into the bottom three ratings and only about one of 10 banks received the highest grade.

4.2 SIX FACTORS OF CAMELS RATINGS SYSTEM

❖ Capital Adequacy

Capital adequacy focuses on the total position of bank capital. It assures the depositors that they are protected from the potential shocks of losses that a bank incurs. Financial managers maintain company's adequate level of capitalization by following it. It is the key parameter of maintaining adequate levels of capitalization.

❖ Asset Quality

Asset quality determines the robustness of financial institutions against loss of value in the assets. All commercial banks show the concentration of loans and advances in total assets. The high concentration of loans and advances indicates vulnerability of assets to credit risk, especially since the portion of non-performing assets is significant.

❖ Management Soundness

Management quality of any financial institution is evaluated in terms of Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to market risk. Moreover, it is also depended on compliance with set norm, planning ability; react to changing situation, technical competence, leadership and administrative quality. A Sound management is the most important pre-requisite for the strength and growth of any financial institution.

❖ Earnings and Profitability

Earning and profitability is the prime sources of increasing capital of any financial institution. Strong earnings and profitability profile of a bank reflect its ability to support present and future operations. Increased earning ensure adequate capital and adequate capital can absorb all loses and give shareholder adequate dividends.

❖ **Liquidity**

An adequate liquidity position refers to a situation, where an institution can obtain sufficient funds, either by increasing liabilities or by converting its assets quickly at a reasonable cost. It access in terms of asset and liability management. Liquidity indicators measured as percentage of demand and time liabilities (excluding interbank items) of the banks. It means that the percentage of demand and time liabilities gets a bank as per its liquid assets.

❖ **Sensitivity to Market Risk**

The sensitivity to market risk is evaluated from changes in market prices, notably interest rates; exchange rates, commodity prices, and equity prices adversely affect a bank’s earnings and capital.

4.3 PROCESS OF CAMELS REPORTING

The reporting process of CAMELS rating is given below:

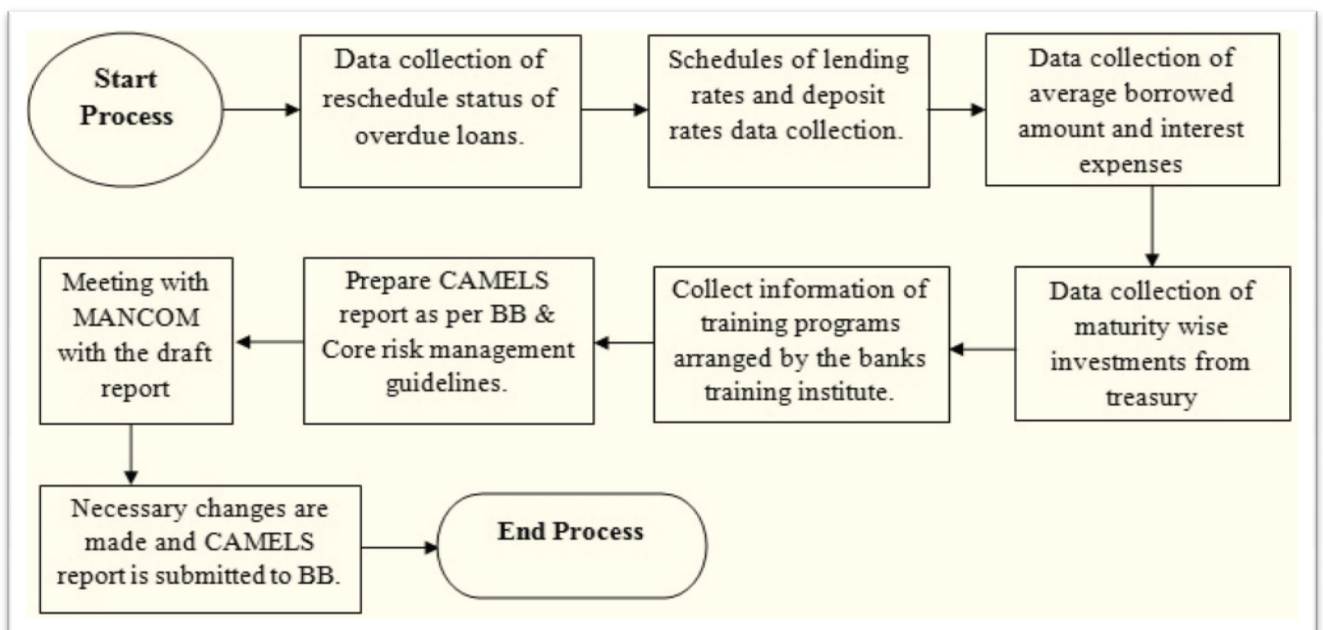


Figure 4: Reporting Process of CAMELS rating

Process:

1. Data collection of reschedule status of overdue loans from CRM, Retail, SME and Ops.
2. Data collection of lending rates and deposit rates from Treasury.
3. Data collection of average borrowed amount and rate of interest expenses from Treasury.
4. Data collection of maturity wise investments from Treasury.
5. Collect information of training programs arranged by the Bank's training institute from Human Resources Division.
6. Collection of other required reports and statements from other divisions.
7. Preparation of CAMELS report as per guideline of BB & Core Risk Management Guidelines.
8. Meeting arranged with MANCOM.
9. Necessary changes are made and report is submitted to BB.

4.4 LIMITATIONS OF THE CAMEL RATING SYSTEM

The CAMELS rating system suffers from some limitations, although it identified most failed banks that had examinations within two years of failure. The limitations are given below:

- ❖ First, the ratings can not necessarily capture the seriousness of the situation of banks which may be another cause of failure.
- ❖ Second, CAMEL ratings only consider the internal operations. They measure only the current financial condition of a bank. They do not consider regional or local economic developments that may pose future problems which CAMELS rating fail to reflect as bank's condition.

- ❖ Third, CAMEL ratings are not forward looking and do not systematically track long-term risk factors that may cause losses several years later. For example, many banks during the period under review engaged in risky behaviors that in the past had been associated with failures, like excessive asset growth, high ratios of commercial real estate loans and total loans to total assets, or a heavy dependence upon volatile deposit liabilities, yet if the bank was performing satisfactorily, these risk factors were generally not captured or weighted in the current examination ratings.
- ❖ Fourth, because of having last three limitations such as lack of seriousness of the bank situation, considering only internal operation not external operation and having no forward looking ability, it causes a great problem for bank. Unexpected problem from this limitation, sometimes a bank have to pay a lot of money to solve this problem. Not only wastage of money but also giving wrong path to the bank causes wastage of time.

4.5 CAMELS RATING FOR BANKING COMPANIES

CAMELS rating system is encountered by six components named capital adequacy, asset quality, management competence, earnings, liquidity and sensitivity to market risk. It is used for banking companies to know about their financial condition, overall soundness of the banks, and predict different risk factors that may contribute to turn the bank into a problem. To review the different aspects of the banks such as adequacy of risk-based capital, future sources of capital and dividend payment ratio, asset growth rate, loan growth rate, non-performing loan trends, provision for loan loss and bad assets, maturity profile of assets, their classification-wise weightage, performance of off balance sheet items, return on assets, level and composition of earnings, volatility of deposits base and reliance position on the borrowed funds and its sources, technical competence in the rise of financial globalization and deregulation, uses of financial innovations, leadership ability, administrative and control ability, compliance with the rules and regulations and standard management information system etc CAMELS rating system is very important. It also recommends on which sector it should improve.

4.6 CAMELS RATING SYSTEM OF BANGLADESH

All over the world, CAMELS rating is a common figure to all banking industry. Like all other countries, it is also used in Bangladesh. In Bangladesh, the five components of CAMEL have been used for evaluating the five crucial dimensions of a bank's operations that reflect in a complete institution's financial condition, compliance with banking regulations and statutes and overall operating soundness since the early nineties. In 2006, Bangladesh Bank has upgraded the CAMEL into CAMELS. 'Sensitivity to market risk' or 'S' is the new rating component which is included in CAMEL and make it into CAMELS. The new rating component makes the system more effective and efficient. The new system needs bank's regular condition and performance according to predetermined stress testing on asset and liability and foreign exchange exposures, procedures, rules and criteria and on the basis of the results obtained through risk-based audits under core risk management guidelines. A bank's single CAMELS rating has come from off-site monitoring, which uses monthly financial statement information, and an on-site examination, from which bank supervisors gather further "private information" not reflected in the financial reports. The development of "credit points" examination result is ranging from 0 to 100. The six key performance dimensions – capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk – are to be evaluated on a scale of 1 to 5 in ascending order.

Following is a description of the graduations of rating:

Rating 1 indicates strong performance: **BEST rating.**

Rating 2 reflects satisfactory performance.

Rating 3 represents performance that is flawed to some degree.

Rating 4 refers to marginal performance and is significantly below average and

Rating 5 is considered unsatisfactory: **WORST rating.**

4.6.1 CAMEL Numerical Rating: Rating Description

1. **STRONG:** It is the highest rating and is indicative of performance that is significantly higher than average.
2. **SATISFACTORY:** It reflects performance that is average or above; it includes performance that adequately provides for the safe and sound operation of the banks.
3. **FAIR:** Represent performance that is flawed to some degree. It is neither satisfactory nor unsatisfactory but is characterized by performance of below average quality.
4. **MARGINAL:** Performance is significantly at below average; if not changed, such performance might evolve into weaknesses or conditions that could threaten the viability of the bank.
5. **UNSATISFACTORY:** Is the lowest rating and indicative of performance that is critically deficient and in need of immediate remedial attention. Such performance by itself, or in combination with other weakness, threatens the viability of the institution.

Table 6: Composite CAMELS and their Interpretation

| Rating | Composite range | Description | Rating Analysis interpretation |
|--------|-----------------|----------------|--|
| 1 | 1 to 1.4 | Strong | Sound in every respect, no supervisory responses required. |
| 2 | 1.5 to 2.4 | Satisfactory | Fundamentally sound with modest correctable weakness, supervisory response limited. |
| 3 | 2.5 to 3.4 | Fair | Combination of weaknesses if not redirected will become severe. Watch category. Requires more than normal supervision. |
| 4 | 3.5 to 4.4 | Marginal | Immoderate weakness unless properly addressed could impair future viability of the bank. Needs close supervision. |
| 5 | 4.5 to 5 | Unsatisfactory | High risk of failure in the near term. Under constant supervision/cease and desist order. |

ANALYSIS ON “CAMELS RATING SYSTEM” OF BANGLADESH BANK IN ACCORDANCE WITH BRAC BANK LTD.



“আমার ব্যাংক, আমার সুবিধায় বিশ্বাস করে”
আয়েশা রেহমান; খানমাদি, ঢাকা*

“বিত্তের দুশ্কন্ডের সম্ভাব্য আয়েশিকা প্রকৃষ্ণী ছাড়া আমার নিজে যাবার ব্যবস্থা কখনো। সবকিছু ঠিকঠাক, কিন্তু শেষ মুহুর্তে ভিসা অফিসার চাইলে আমার ছাড়াই রেজিস্ট্রেশন পরামর্শের সার্টিফিকেট। হাতে সমস্ত নগর একদিন। বিতেন ওঠায় ছুটি পেনাল ব্যাংক ব্যাংকে। কাহকিং-এর সময় প্রায় শেষ। কচুইয়ার সার্ভিস অফিসের সাইক্ল সাবে জানলেই এই সার্টিফিকেট ইস্যু হয়ে সাধারণত ৩ দিন সময় লাগে। আমি তার চেয়েও পানি খয়ে যাবতে পরলাম না। আমার প্রয়োজনের শুরুতে সুবে সাইক্ল সাবে নিজেই উঠে পেনাল - সব কেবল শেষ হয়েছিল কাগজের নিজে নিজেই চলে পেনাল হেড অফিসে। দিন শেষের আগে আমার হাতে ফরম সার্টিফিকেটটি পিনে, মনে হলে অসম্ভব প্রয়োজনের মুহুর্তে পরিচিতি উর্ধ্ব গিয়ে আর কে এটা কত্তা।”

অনেক আমি, মানুষের প্রয়োজনেরই বাসকিং। অফিশ (অফিসের মতো) আমারের সদন গ্রহণের প্রায় অসম্ভব প্রয়োজনের সমাধানে আমার প্রতিদিন বিশ্বাস রেখে চলি।

ঢাকা, এখানের মানুষের ষ্ট্রু বার স্বাধীনতায় আমারের সাথে অফিল।



5. ANALYSIS ON “CAMELS RATING SYSTEM” OF BANGLADESH BANK IN ACCORDANCE FOR BRAC BANK LTD.

5.1 CAPITAL ADEQUACY

Capital adequacy focuses on the total position of bank capital. It focuses on the risk weighted assets which proposed to protect from the potential shocks of losses that a bank might incur. It is assessed according to: the volume of risk assets, the volume of marginal and inferior assets, bank growth experience, plans, and prospects; and the strength of management in relation to all the above factors (Sundarajan and Errico, 2002)². The major financial risk like credit risk, interest rate risk and risk involved in off-balance sheet operations are absorbed by it. The CAMELS components are also required for Basel Committee of Bangladesh Bank. As regards the capital adequacy, they grouped the factors like a) size of the bank, b) volume of inferior quality assets, c) bank’s growth experience, plans and prospects, d) quality of capital, e) retained earnings, f) access to capital markets, and g) non-ledger assets and sound values not shown on books (real property at nominal values, charge-offs with firm recovery values, tax adjustments) (Sahajwala and Bergh, 2000)³. Capital to Risk-Weighted Assets ratio (CRWA) is the most widely used indicator for capital adequacy ratio. According to Bangladesh Bank, a bank has to maintain a minimum capital adequacy ratio (CAR) of not less than 10 percent of their risk weighted assets (RWA, with at least 5 percent in core capital) or Taka 2 billion, whichever is higher.

²Sundarajan, V. and L. Errico (2002). Islamic Financial Institutions and Products in the Global Financial System: Key Issues in Risk Management and Challenges Ahead. IMF Working Paper No. WP/02/192, November.

³Sahajwala, R and P. V. D. Bergh (2000). Supervisory Risk Assessment and Early Warning Systems. Basel Committee on Banking Supervision Working Papers No. 4, Bank for International Settlements (BIS). Basel, Switzerland, December.

❖ **Basel II**

Basel II is a capital adequacy management framework for banks. Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision; adopted by Bangladesh Bank⁴.

The main objectives of Basel II are as follows:

- ❖ Promote safety and soundness in the financial systems
- ❖ Constitute a more comprehensive and more sensitive approach to addressing risks
- ❖ Better alignment of regulatory capital to underlying risk
- ❖ Encourages banks to improve risk management

These guidelines are structured on following three aspects:

- a) Minimum capital requirements to be maintained by a bank against credit, market, and operational risks.
- b) Process for assessing the overall capital adequacy aligned with risk profile of a bank as well as capital growth plan.
- c) Framework of public disclosure on the position of a bank's risk profiles, capital adequacy, and risk management system.

❖ **Regulatory Capital is composed of:**

1. T-1 or **Core Capital** comprises of highest quality capital elements
2. T-2 or **Supplementary Capital** represents other elements which fall short of some of the characteristics of the Core capital but contribute to the overall strength of a bank
3. T-3 or **Additional Supplementary Capital** consists of short-term subordinated debt (original/residual maturity less than or equal to five years but greater than or equal to two years) would be solely for the purpose of meeting capital requirements for market risk

⁴BRAC Bank Limited, 2011. *Basel II Report*, June 2011, Dhaka: BRAC Bank.

❖ Eligible Regulatory Capital

To measure capital base, regulators divided qualifying capital in three tiers. The tiers with their constituents (BB, 2010, pp.1-2)⁵ are shown in the table below:

Table 7: Capital Tiers and their constituents

| Tier | Constituents |
|--|--|
| Tier 1: Core Capital | <ol style="list-style-type: none"> 1. Paid up capital 2. Non-repayable share premium account 3. Statutory reserve 4. General reserve 5. Retained earnings 6. Minority interest in subsidiaries 7. Non-cumulative irredeemable preference shares 8. Dividend equalization account |
| Tier 2: Supplementary Capital | <ol style="list-style-type: none"> 1. General provision (Unclassified loans, Special Mention Account loans and off Balance Sheet exposures) 2. Revaluation reserves for fixed assets, securities and equity instruments 3. All other preference shares 4. Subordinated debt |
| Tier 3: Additional Supplementary Capital (for Market Risk only) | <ol style="list-style-type: none"> 1. Short term subordinated debt (2 years<= maturity<= 5 years) |

⁵Bangladesh Bank, 2010. *Guidelines on Risk Based Capital Adequacy: Revised Regulatory Capital Framework for banks in line with Basel II* [pdf] Available at :<<http://www.bangladesh-bank.org/mediaroom/baselii/dec2910brpd35rbca.pdf>> [Accessed 18 October 2011]

❖ **Conditions for Maintaining Regulatory Capital**

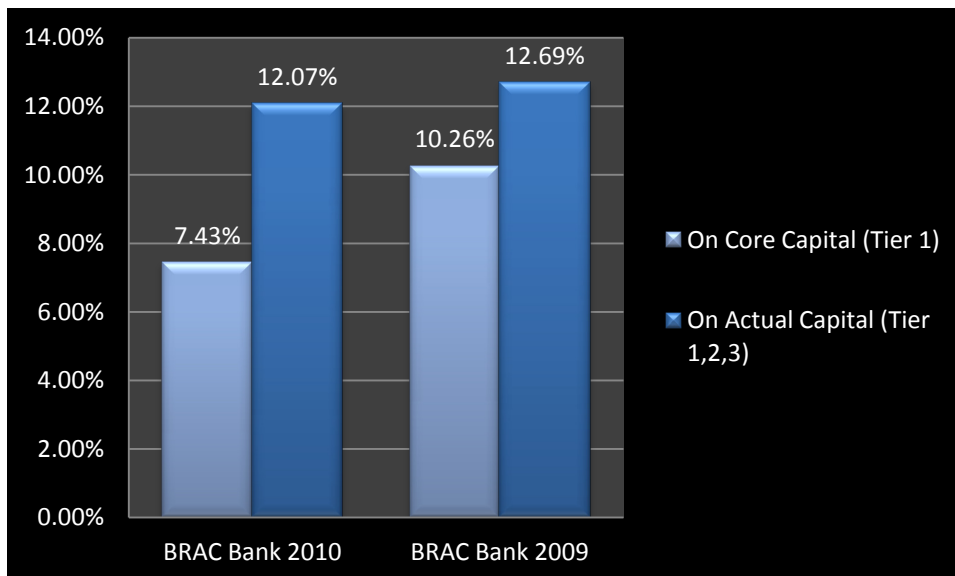
- 1) T-2 + T-3 can not exceed T-1
- 2) 50% of asset and security revaluation reserve shall be eligible for T-2
- 3) At least 30% market risk to be supported by T-1
- 4) T-3 is limited to 250% of T-1 after meeting credit risk
- 5) General provisions is limited to maximum 1.25% of TRWA
- 6) Subordinated debt shall be limited to maximum 30% of T-1

In capital adequacy, BRAC Bank Ltd. maintained adequate capital of 12.07% where the current regulatory requirement was 10.00%. In 2010, the bank’s core capital and total capital base were 7.43% and 12.07% respectively.

Table 8: Historical CAR ratio of BBL

| Capital Adequacy Ratio (CAR) | Requirement under Basel II | BRAC Bank 2010 | BRAC Bank 2009 |
|--------------------------------|----------------------------|----------------|----------------|
| On Core Capital (Tier 1) | 5% | 7.43% | 10.26% |
| On Actual Capital (Tier 1,2,3) | 9% | 12.07% | 12.69% |

Figure 5: Yearly change of CAR ratio of BRAC Bank



❖ **Financial Position of BBL regarding Requirements**

BBL Basel II Quantitative disclosure (BBL, 2009)⁶, (BBL, 2010)⁷ is shown below:

Table 9: Quantitative disclosure of BRAC Bank

| BRAC Bank Basel II Quantitative Disclosure | | |
|---|----------------------|----------------------|
| Particulars | 2010 Solo | 2009 Solo |
| Tier 1 (Core Capital) | 7,391,629,279 | 6,074,410,944 |
| Fully paid up capital/ Capital deposited with BB | 2,676,960,000 | 2,059,200,000 |
| Statutory reserve | 1,920,598,872 | 1,337,479,877 |
| Non repayable share premium account | 1,406,000,000 | 1,406,000,000 |
| Retained Earnings | 1,687,394,554 | 1,271,731,067 |
| Tier 2 (Supplementary Capital) | 4,619,304,728 | 1,434,869,102 |
| General Provision | 1,590,674,026 | 927,474,510 |
| Asset revaluation reserve | 610,466,065 | 7,349,592 |
| Preference shares | 500,000,000 | 500,000,000 |
| Perpetual Subordinated debt | 2,217,488,784 | 0 |
| Exchange Equalization fund | 0 | 45,000 |
| Tier 3 (eligible for market risk only) | 0 | 0 |
| Short term subordinated debt | 0 | 0 |

⁶BRAC Bank Limited, 2010. Annual Report 2009, Dhaka: BRAC Bank.

⁷BRAC Bank Limited, 2010. Annual Report 2010, Dhaka: BRAC Bank.

Figure 6: Core capital composition of BBL, 2010

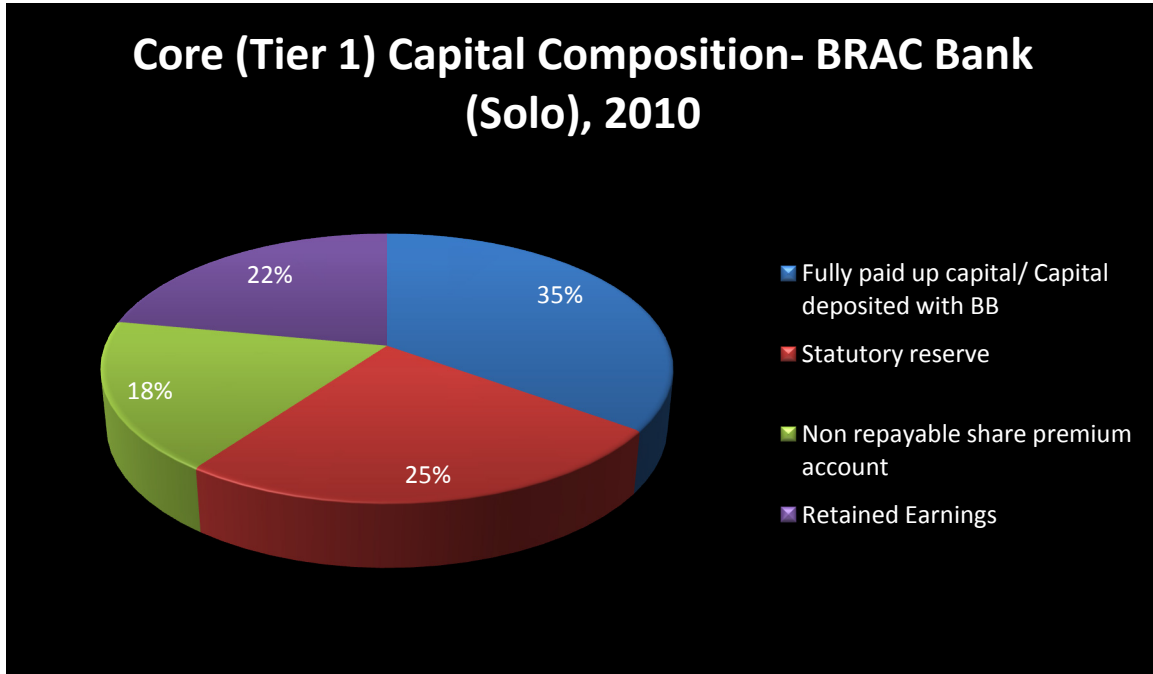


Figure 7: Core capital composition of BBL, 2009

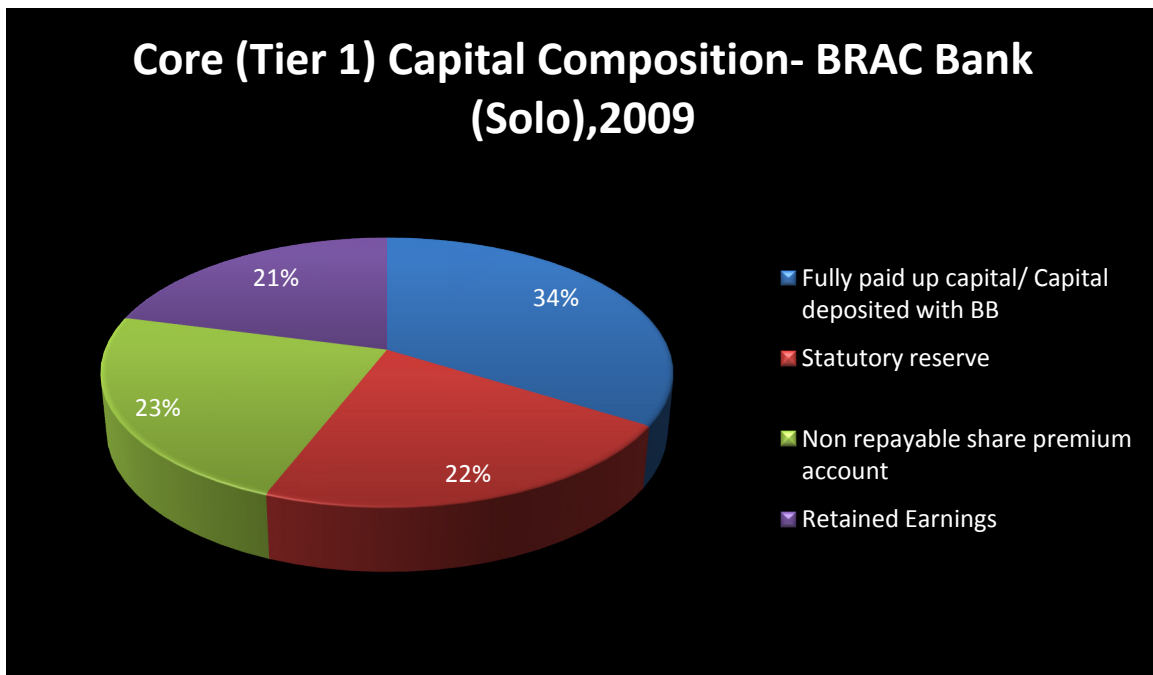


Figure 8: Supplementary capital composition of BBL, 2010

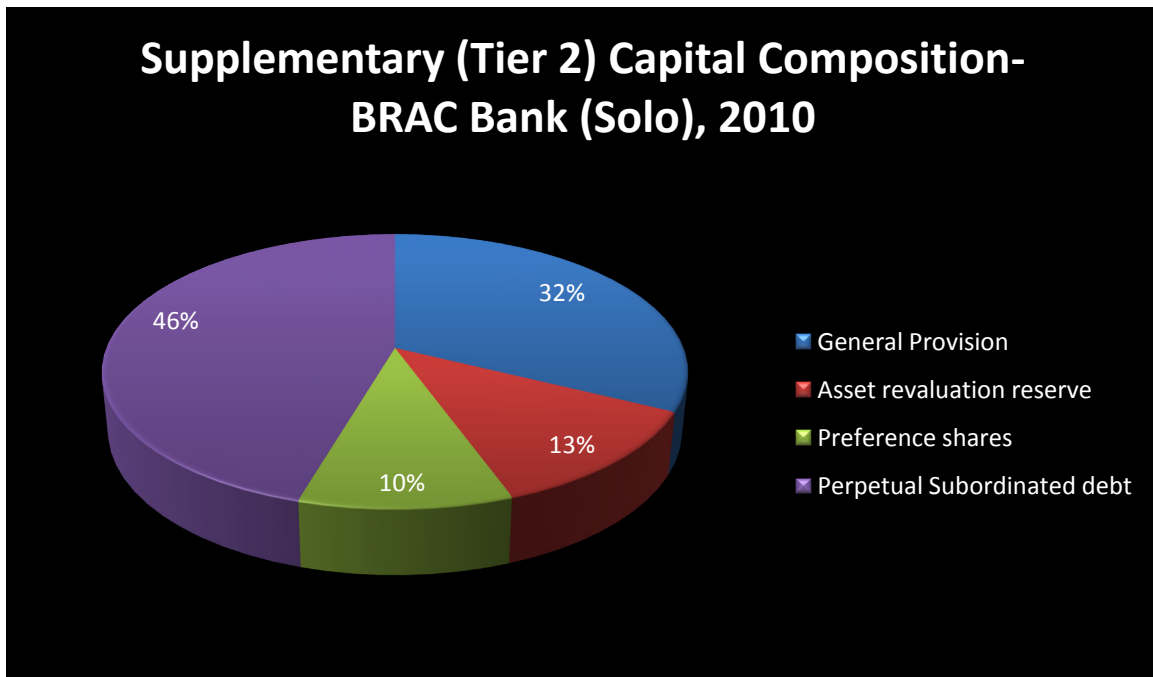
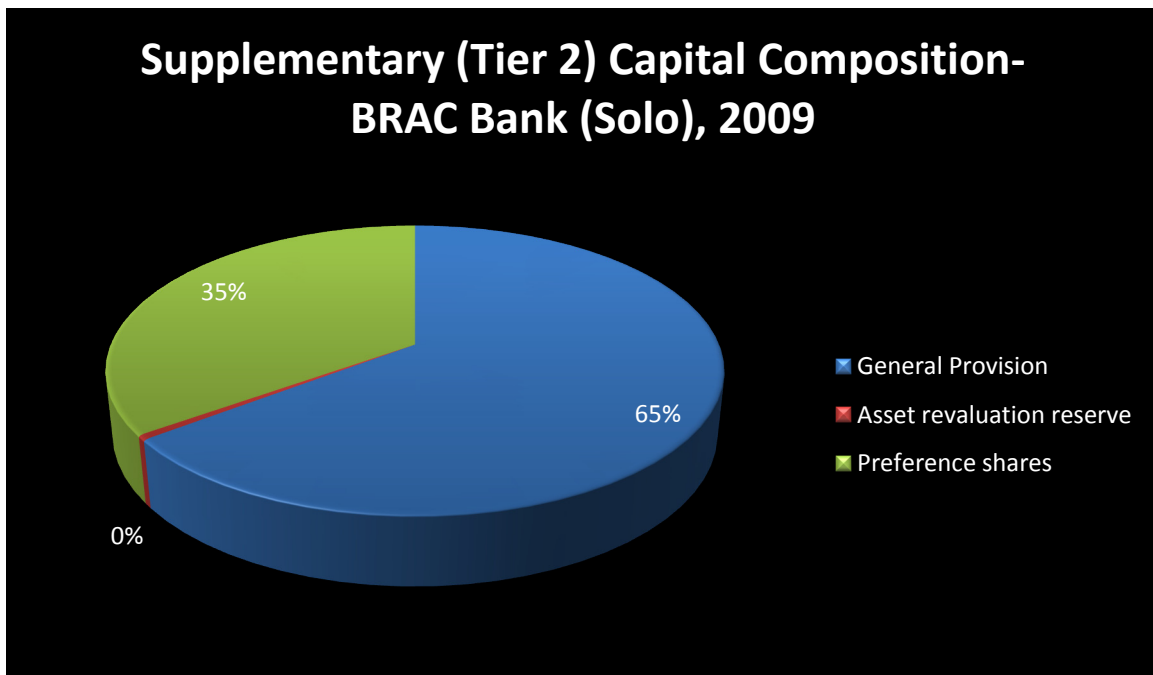


Figure 9: Supplementary capital composition of BBL, 2009



❖ **Risk Weighted Asset**

Total Risk Weighted Asset has taken from (BBL, 2009)⁶, (BBL, 2010)⁷ which is shown below:

Table 10: Total Risk Weighted Asset

| Particulars | 2010 | 2009 |
|----------------------------------|----------------|----------------|
| Total Risk Weighted Asset | 99,508,446,419 | 59,186,040,081 |

5.2 ASSET QUALITY

Asset quality determines the robustness of financial institutions against loss of value in the assets. All commercial banks show the concentration of loans and advances in total assets. In the standard CAMELS framework, asset quality is assessed according to: the level, distribution, and severity of classified assets, the level and composition of nonaccrual and reduced rate assets, the adequacy of valuation reserves; and the demonstrated ability to administer and collect problem credits (Sundarajan and Errico, 2002)². As regards the asset quality, Basel Committee on Banking Supervision highlights the factors a) volume of transactions, b) special mention loans—ratios and trends, c) level, trend and comparison of non-accrual and renegotiated loans, d) volume of concentrations, and e) volume and character of insider transactions (Sahajwala and Bergh, 2000)³. In Bangladesh, all banks show a high proportion of loans and advances in 2004-05 (60.7 percent) in total assets as regarding the asset composition. A high proportion of loans and advances indicate vulnerability of assets to credit risk, especially since the portion of non-performing assets is significant. A large non-performing loan portfolio has been the major predicament of banks, particularly of the state-owned banks. The most important indicator used to identify problems with asset quality in loan portfolio is the percentage of gross and net non-performing loans to total assets and total advances. In BRAC Bank Ltd. classified loan to capital and classified loan to total loans ratios are used to identify asset quality.

²Sundarajan, V. and L. Errico (2002). Islamic Financial Institutions and Products in the Global Financial System: Key Issues in Risk Management and Challenges Ahead. IMF Working Paper No. WP/02/192, November.

³Sahajwala, R and P. V. D. Bergh (2000). Supervisory Risk Assessment and Early Warning Systems. Basel Committee on Banking Supervision Working Papers No. 4, Bank for International Settlements (BIS). Basel, Switzerland, December.

5.3 MANAGEMENT SOUNDNESS

Management quality of any financial institution is evaluated in terms of Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to market risk. Moreover, it is also depended on compliance with set norm, planning ability; react to changing situation, technical competence, leadership and administrative quality. To illustrate any conclusion regarding management soundness on the basis of monetary indicators, as characteristics of good management are generally qualitative in nature is very difficult. So a sound management is the most important pre-requisite for the strength and growth of any financial institution. The capabilities of the Board of Directors and internal management personnel to identify, measure, monitor and control different risks associated in the activities is very important for a sound management. A good manager also need to ensure a safe, sound and efficient operation in compliance with all applicable laws, regulations and especially the core risk management guidelines introduced by the central bank might be a measuring rod of that. In the standard CAMELS framework, management is evaluated according to: technical competence, leadership, and administrative ability; compliance with banking regulations and statutes; ability to plan and respond to changing circumstances; adequacy of and compliance with internal policies; tendencies toward self-dealing; and demonstrated willingness to serve the legitimate needs of the community (Sundarajan and Errico, 2002)².

Basel Committee on Banking Supervision highlights few aspects as regards the management factors (Sahajwala and Bergh, 2000)³ which are given below:

- a) Adopt technical competence, leadership etc. of middle and senior management,
- b) Compliance with banking laws and regulations,
- c) Adequacy and compliance with internal policies,
- d) Tendencies towards self-dealing,
- e) Ability to plan and respond to changing circumstances,
- f) Demonstrated willingness to serve the legitimate needs of the community,
- g) Adequacy of directors, and
- h) Existence and adequacy of qualified staff and programs.

Ratio such as total expenditure to total income, operating expenses to total expenses, earnings and operating expenses per employee, and interest rate/mark-up spread are generally used to gauge management soundness. In particular, a high and increasing expenditure to income ratio indicates the operating inefficiency that could be due to weaknesses in management. However, BRAC Bank Ltd. and many other commercial use a different method to identify management quality ratio which is also accepted from Bangladesh Bank. Here, the management rating is an average of the four ratings given to capital, asset, earnings and liquidity. $(C+A+E+L)/4$. If other key factors are good then management quality will also be good.

5.4 EARNINGS AND PROFITABILITY

Earning and profitability is the prime sources of increasing capital of any financial institution. Strong earnings and profitability profile of a bank reflect its ability to support present and future operations. Increased earning ensure adequate capital and adequate capital can absorb all losses and give shareholder adequate dividends. In the standard CAMELS framework, earnings are assessed according to: the ability to cover losses and provide for adequate capital; earnings trend; peer group comparisons; and quality and composition of net income (Sundarajan and Errico, 2002)². As regards the earnings and profitability factors, Basel Committee on Banking Supervision highlights the aspects like a) return on assets compared to peer group averages and the bank's own trends, b) material components and income and expenses— compared to peers and the bank's own trends, c) adequacy of provisions for loan losses, d) quality of earnings, and e) dividend payout ratio in relation to the adequacy of bank capital (Sahajwala and Bergh, 2000)³. Return on Asset (ROA) is commonly used to identify earnings and profitability ratio of CAMELS rating system from other ratio. BRAC Bank Ltd. and many other commercial bank use ROA for calculating earnings and profitability ratio.

²Sundarajan, V. and L. Errico (2002). Islamic Financial Institutions and Products in the Global Financial System: Key Issues in Risk Management and Challenges Ahead. IMF Working Paper No. WP/02/192, November.

³Sahajwala, R and P. V. D. Bergh (2000). Supervisory Risk Assessment and Early Warning Systems. Basel Committee on Banking Supervision Working Papers No. 4, Bank for International Settlements (BIS). Basel, Switzerland, December.

5.5 LIQUIDITY

An adequate liquidity position refers to a situation, where an institution can obtain sufficient funds, either by increasing liabilities or by converting its assets quickly at a reasonable cost. It access in terms of asset and liability management. Liquidity indicators measured as percentage of demand and time liabilities (excluding interbank items) of the banks. It means that the percentage of demand and time liabilities gets a bank as per its liquid assets. In the standard CAMELS framework, liquidity is assessed according to: volatility of deposits; reliance on interest-sensitive funds; technical competence relative to structure of liabilities; availability of assets readily convertible into cash; and access to inter-bank markets or other sources of cash, including lender-of-last-resort (LOLR) facilities at the central bank (Sundarajan and Errico, 2002)². As regards the liquidity factors, Basel Committee on Banking Supervision highlights the aspects like

- a) Adequacy of liquidity sources compared to present and future needs,
- b) Availability of assets readily convertible to cash without undue loss,
- c) Access to money markets,
- d) Level of diversification of funding sources: on- and off-balance sheet,
- e) Degree of reliance on short-term volatile sources of funds,
- f) Trend and stability of deposits,
- g) Ability to securitize and sell certain pools of assets,
- h) Management competence to identify, measure, monitors and control liquidity position (Sahajwala and Bergh, 2000)³.

At present, commercial bank deposit 18 percent of statutory liquidity requirement (SLR) where cash reserve requirement (CRR) is 5 percent. SLR for the banks operating under the Islamic Shariah is 10 percent and the specialized banks are exempted from maintaining the SLR. Bangladesh Bank keeps the cash reserve requirement (CRR) and the remainder as qualifying secured assets under the SLR, uses either in cash or in government securities. Liquidity indicators measured as percentage of demand and time liabilities (excluding inter-bank items) of the banks indicate whether the banks have excess or shortfall in maintenance

of liquidity requirements. The basic indicators of sound liquidity position take place when deposits are readily available to meet the bank's liquidity needs; assets are easily convertible into cash; compliance with SLR; and easy access to money markets etc. Liquid asset to total demand and time liability and total loan to total deposits are used in BRAC Bank Ltd. to identify liquidity.

5.6 SENSITIVITY TO MARKET RISK

The sensitivity to market risk is a new component of CAMELS rating system. It makes it more effective and more efficient. The sensitivity to market risk is evaluated from changes in market prices, notably interest rates; exchange rates, commodity prices, and equity prices adversely affect a bank's earnings and capital. The major consideration to measure the sensitivity to market risk is the sensitivity of the bank's earnings or the economic value of its capital base or net equity value due to adverse effect in the interest rates of the market. The amount of market risk arising from trading and foreign operations. As regards the sensitivity to market risk, Basel Committee on Banking Supervision highlights the aspects like a) sensitivity of the financial institution's net earnings or the economic value of its capital to changes in interest rates under various scenarios and stress environments, b) volume, composition and volatility of any foreign exchange or other trading positions taken by the financial institution, c) actual or potential volatility of earnings or capital because of any changes in market valuation of trading portfolios or financial instruments, and d) ability of management to identify, measure, monitor and control interest rate risk as well as price and foreign exchange risk where applicable and material to an institution (Sahajwala and Bergh, 2000)³. BRAC Bank Ltd. still not uses any quantitative factors for this component.

³Sahajwala, R and P. V. D. Bergh (2000). Supervisory Risk Assessment and Early Warning Systems. Basel Committee on Banking Supervision Working Papers No. 4, Bank for International Settlements (BIS). Basel, Switzerland, December.

5.7 ANALYSIS OF THE COMPARISON OF CAMELS RATING SYSTEM IN BRAC BANK LTD.

Analysis of the Comparison of CAMELS rating system is an important part of this research report. Here, the CAMELS rating position of BRAC Bank Ltd. in 2009 and 2010 has been clearly identified and it is also tried to identify that what are the difference between two years' ratio and what the reason of these difference are.

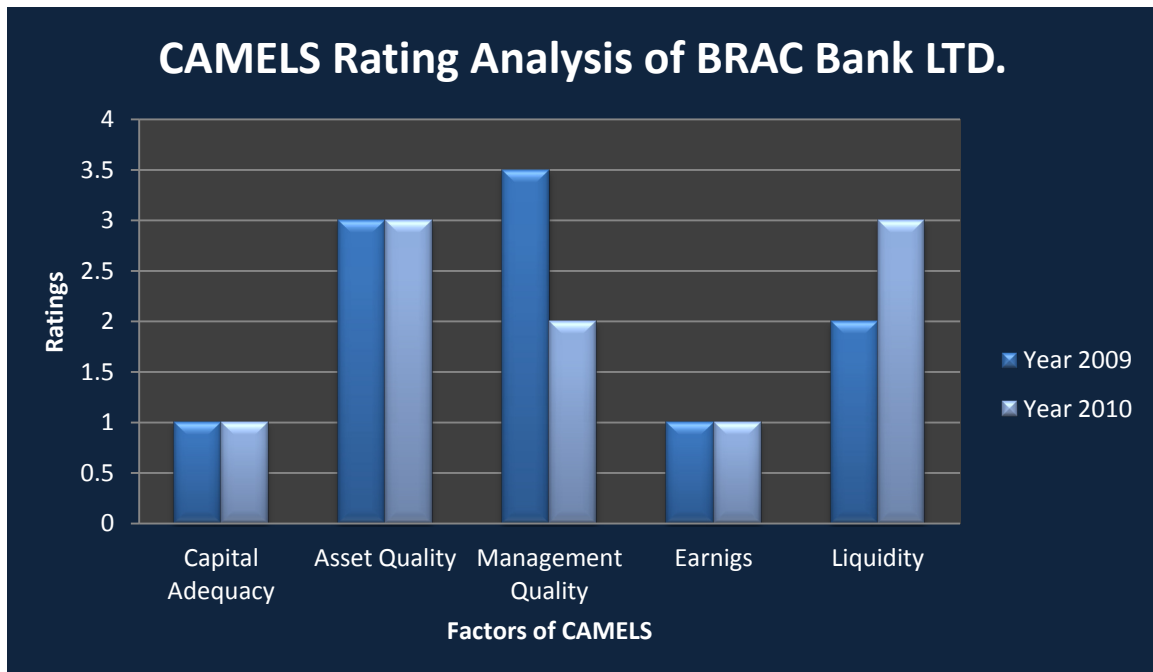


Figure 10: Comparison of CAMELS Rating Analysis in BRAC Bank LTD. (2009 & 2010)

In the analysis part, it is clearly identified that the financial condition of a bank is changing year to year. CAMELS rating system helps to identify these changing factors easily. From Table : 11, it is found that the financial condition of BRAC Bank Ltd. such as capital adequacy, asset quality, management quality, earnings and liquidity ratios were clearly different from year 2009 to year 2010. Capital adequacy ratio of BBL in the year 2009 was greater than the year 2010. Its Core capital adequacy ratio was 2.83% greater than from the year 2010 where supplementary capital adequacy ratio was 2.22% less than from the year

2010. It means that in the year 2009 core capital adequacy ratio was stronger and supplementary capital adequacy ratio was less strong from the year 2010. Although the supplementary capital adequacy ratio was less strong from the year 2010, the total capital adequacy ratio in 2009 was stronger than the total capital adequacy ratio in 2010. However, the rating of CAMELS was same in 2009 and in 2010 that means both were rating 1 or strong position (see Appendix, Table: 1.1, 1.2). In the asset quality ratio, it is also found that the asset quality ratio of year 2009 was better than year 2010 although both were given same ratings or fair position (see Appendix, Table: 1.1, 1.2). To identify management quality rating, there is a different system was followed which is more effective. The management quality rating is an average of the four ratings given to capital, asset, earnings and liquidity. Actually the performance of capital adequacy, asset quality, earnings and liquidity is totally deepened on the performance of management. If the management quality is good then others will also be good. So, management quality rating comes from the average ratings of other four ratings. Earnings ratio of BBL was almost same in 2009 & 2010. It held strong position from 2009 to 2010 (see Appendix, Table: 1.1, 1.2). In liquidity, BBL's credited loan ratio as per its deposit was increased in 2010 from 2009. However, its liquid asset ratio was less than the liquid asset ratio of 2009. So, it held fair position in 2010 where in 2009, it held satisfactory position (see Appendix, Table: 1.1, 1.2) as per as the rating system of CAMELS.

Table 11: CAMELS Rating System in BRAC Bank Limited during 2009 and 2010

| Table: 1 | Ratio Formula | | Ratio (2010) | Ratio (2009) | Average Rating (2010) | Average Rating (2009) | Average Total Rating (2010) | Average Total Rating (2009) |
|--|--|------------------|--------------|--------------|-----------------------|-----------------------|-----------------------------|-----------------------------|
| Capital Adequacy | Total Capital | | 12.07% | 12.69% | 1 (Strong) | 1 (Strong) | 2 (Satisfactory) | 2.1 (Satisfactory) |
| | Total Risk Weighted Assets | | | | | | | |
| | Core Capital (Tier 1) | | 7.43% | 10.26% | | | | |
| | Total Risk Weighted Assets | | | | | | | |
| | Supplementary Capital (Tier 2) | | 4.64% | 2.42% | | | | |
| | Total Risk Weighted Assets | | | | | | | |
| Asset Quality | Classified Loans | | 41.04% | 51.64% | 3 (Fair) | 3 (Fair) | 2 (Satisfactory) | 2.1 (Satisfactory) |
| | Capital and reserve | | | | | | | |
| | Classified Loans | | 5.85% | 6.04% | | | | |
| | Total Loans | | | | | | | |
| Management Quality | The management rating is an average of the four ratings given to capital, asset, earnings and liquidity. (C+A+E+L)/4 | Capital Adequacy | 1 | 1 | 2 (Satisfactory) | 3.5 (Marginal) | 2 (Satisfactory) | 2.1 (Satisfactory) |
| | | Asset Quality | 3 | 3 | | | | |
| | | Earnings | 1 | 1 | | | | |
| | | Liquidity | 3 | 2 | | | | |
| Earnings | Return On Assets (ROA) | | 1.55% | 1.56% | 1 (Strong) | 1 (Strong) | 2 (Satisfactory) | 2.1 (Satisfactory) |
| | Net Income | | | | | | | |
| | Average Total Assets | | | | | | | |
| | | | | | | | | |
| Liquidity | Liquid assets | | 24.80% | 25.51% | 3 (Fair) | 2 (Satisfactory) | 2 (Satisfactory) | 2.1 (Satisfactory) |
| | Total demand and time liability | | | | | | | |
| | | | 95.63% | 85.28% | | | | |
| | Total loans | | | | | | | |
| | Total deposits | | | | | | | |
| | | | | | | | | |
| ** Sensitivity to Market Risk has not yet used | | | | | | | | |
| Ratings | 1 | 2 | 3 | | | 4 | 5 | |
| Description | Strong | Satisfactory | Fair | | | Marginal | Unsatisfactory | |

By analyzing the following CAMELS rating system of BRAC Bank Limited, there are many reasons is clearly identified which help it to be in satisfactory position. The reasons are briefly discussed below:

- ❖ In 2009 and 2010, BBL was in strong position in capital adequacy. It has adequate capital in 2009 and 2010.

- ❖ BBL was in fair position in asset quality during 2009 and 2010. Bank's disburse loan is asset for it. BBL has many classified loan such as sub-standard loan, doubtful loan and bad loan which makes it to take in fair position. Because of having many SME centre, BBL have already gave a large amount of loan where they have few bad loan. So, it cannot maintain the strong asset quality position. It was in fair position because of its classified loan specially for bad loan. There is another reason of failing the maintenance of asset quality. BBL has a large number of SME centre in Bangladesh. So, it is also very hard to maintain a large number of SME centers where it has a huge amount of loan. So BBL cannot maintain its asset quality properly.

- ❖ In management quality, BBL was in satisfactory position in 2010 which was in marginal in 2009. It has been improved from 2009 to 2010. The management quality is mainly based on other key factors such as capital adequacy, asset quality, earnings and liquidity. If other key factors are good then management quality will also be good. Management quality is also depended on the management policy of a manager. If a manager performs good job then management quality will also become good. A good manager can control other factors and also can give a successful result which represents a good management quality. In 2010, management quality improved because of its good management and its other key factors. Management committee of BBL is good. They perform good job that's why the management quality is improving day by day. In the cost cutting situation, they perform their best job which reduces the excessive expenditure of the bank.

- ❖ BBL held a strong position in earnings in 2009 and 2010. Its Return on Asset (ROA) was good in 2009 and 2010 which helps it be a strong position. Its net income to total asset was high which made it to earn more profit. Actually, it was possible because BBL utilized and managed properly its total assets to generate its net income. Asset utilization is a big factor to earn high profit to all financial organization which BBL perfectly performed.

- ❖ In 2010, BBL was in fair position in its liquidity but in 2009, it was in satisfactory position. In 2010, it failed to generate more liquid asset from 2009. Its liquidity asset ratio as per as total demand and time liability was less than the year of 2009 although it used 95.63% of its total deposit as total loan in 2010 which was greater than 2009.

All in all, BRAC Bank Limited was in satisfactory position in 2009 and 2010. It held this position even now. The CAMELS rating analysis interpretation of satisfactory position is that the organization is fundamentally sound with modest correctable weakness where supervisory response is limited. BRAC Bank Ltd. cannot improve its position because it cannot get better in asset quality, management quality and liquidity. If BBL will progress the current position of asset quality, management quality and liquidity and maintain its current position in capital adequacy and earnings in future, it would be in strong position in CAMELS rating system.

RECOMMENDATION



“আমার ব্যাংক আমার চিন্তা বোঝে”
এস. এম. মাহসিনুল ইসলাম; খিলক্ষেত, ঢাকা*

“আমার ব্যাংক আমার চিন্তা বোঝে। ৯৯-তে বন্যা পুরোটা নিজে পেল। মানুষ করে আরেকটা কত নর্সরি করবে; কিন্তু সেজা লব তিনেক টোকা দবলনা। ঠিক হায়ে পলে পেলার গ্রাফ থাকে-জে। একটা এস.এম.ই. সোল নিজে শুক কভার্য নর্সরির কাজ। সেই সঙ্গে নিজে ব্যবহারের টুকটাক ডিভিশন-র নিজেই তৈরি কভার্য জেন পল্ল যা বাগানে চলে - পনি উইয়মিন। আর কেউ বুঝতে নে পরবে, আমার গ্রাফ ব্যাংক বিশুস রেজিডিন আরও অইতিহাস।”

মহসিন সজাবের উদ্ভাবনী চিন্তা আর সবেলভের মতো অসংখ্য সঙ্কলনায় বিশুস জেহে চলছে গ্রাফ ব্যাংক। এগনের মতুমের যশু আর সঙ্কলনায় অমানবর আশু জবিলে।



6. RECOMMENDATION

Many recommendation policies can be applied for BRAC Bank Ltd. which is given below:

- BBL has large capital which helps to keep it strong position in 2009 and 2010. It should maintain its large capital and continue its strong position in capital adequacy ratio of CAMELS rating in future.
- It should improve its asset quality position by utilizing assets in right way. It should reduce the possibility or risk of bad loan and give loan to those customers who are capable to repay loan.
- It should be more concern in their management quality to improve its satisfactory position.
- Management should be stricter on controlling the excessive cost.
- BBL had good return on asset during 2009 and 2010. They should maintain its strong position.
- The position of liquidity in 2010 was fair. BBL should be concern about it and improve its position. It should save more liquid asset to maintain liquidity ratio of CAMELS ratings.
- BBL should provide proper information to the Bangladesh Bank so that Bangladesh Bank can use professional judgment and consider both qualitative and quantitative factors when analyzing a BBL's financial performance.

CONCLUSION



The appearance of the sapling brings along new hopes, new possibilities. At BRAC Bank, we thrive to work better, harder everyday to bring new solutions, new opportunities.

7. CONCLUSION

BRAC Bank Limited is a high standard Bangladeshi private commercial bank in our country. It is a commercial which has become popular in a very short time for its banking operation. It thrives to work better, harder everyday to bring new solutions, new opportunities. BBL is a 'B' category bank in Bangladesh according to CAMELS rating system of Bangladesh Bank. It holds 'B' category for its satisfactory position in CAMELS rating system. Although it is in strong position in capital adequacy and earnings, but it is not in good position in asset quality, management quality and liquidity. So, it is 'B' category bank in Bangladesh. Now BBL is planning to include CAMELS's new component named sensitivity to market in their CAMELS rating system which will make their rating system more efficient and effective. It was a great experience for me that I have done my internship program in this bank. By doing internship from BRAC Bank Ltd, I learned many banking operation and banking reports which will be a great path in my future career life.

The End

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A tree provides with fruits and shade, fights the storms and stands strong with its head held high. At BRAC Bank, we have achieved a lot in ten years, setting new heights to reach in the future.

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Appendix