

PERFORMANCE ANALYSIS OF BANK OF BARODA: APPLICATION OF CAMEL TECHNIQUES

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ABSTRACT

Whenever the trade cycle becomes unfavorable for the economy banking industry stands like a pillar in that critical situation like inflation and recession. But when protector of economy becomes the eater of economy then there is a need to be more conscious. The major impacts of various known and unknown activities of banks have on the economy. So it becomes necessary to analyze banking performance time to time. To fulfill above purpose CAMEL techniques is used. The objectives of research paper are to analyze the financial performance of Bank of Baroda and to study how capital adequacy, asset quality, management soundness, earning, liquidity and control affect the financial performance of bank. As per CAMEL technique of RBI for assessing the performance of bank, BOB proves themselves best in almost all indicators and got score I in all areas.

INTRODUCTION

Economic development of any country based on its financial sector. The backbone of the financial sector are banking industry because they collect deposits from saving of people and distribute this surplus units money to the deficit economic units in the form of loan. Whenever the trade cycle becomes unfavorable for the economy banking industry stands like a pillar in that critical situation like inflation and recession. But when protector of economy becomes the eater of economy then there is a need to be more conscious. The major impacts of various known and unknown activities of banks have on the economy. So it becomes necessary to analyze banking performance time to time. To fulfill above purpose CAMEL techniques is used. CAMEL technique was developed in United State of America. It was adopted by National Credit Union Administration in the year 1980. In 1988 Basel Committee on banking supervision of the bank of international settlement propose the CAMEL framework for assessing the banks performance. This assessment based on financial statement and onsite observation of banks' regulator. Reserve Bank of India the regulators of banks use various ratios to evaluate a performance of bank whether it is financial or operating performance. It was commonly known as CAMEL system through which regulators determine the banks strength and weakness.

Bank of Baroda was established in the year 1908 by Maharaja Sayajirao Gaekwad III of Baroda. It was one of the largest commercial banks. We can easily find its branches anywhere in our cities. Bank of Baroda played the crucial role in the development of economy. In view of the infinity future it has become important to evaluate its performance.

A CAMEL acronym stands for:

C - Capital Adequacy

A- Asset Quality

M- Management Quality

E- Earnings Quality

L- Liquidity

S- Sensitivity to market risk

This is the process in which all five factors is code from 1 to 5 in which 1 is code from strongest rating and 5 is code for worst rating. The Federal Reserve System in US explains the five composite ratings are as follows:

1. Banks sound in every aspect
2. Bank fundamentally sound what has modest weakness
3. Banks with financial operational or compliance in ability that give causes for supervisory concerned
4. Banks with serious financial inability that affect the future viability
5. Banks with critical financial inabilities that main remain the extreme probability of failure in upcoming years

CAMEL efficiency Parameter

No.	Efficiency Parameter	Measurement Ratio	Ratings (on a five point scale)
1.	Capital Adequacy	Risk Weighted Capital to asset	Less than 5(5),6-10(4), 11-15(3), 16-20(2), More than 20(1)
2.	Asset Quality	NPA to Advances	More than 11(5), 8-10(4), 5-7(3), 2-4(2), less than 1(1)
3.	Management Efficiency	Net Profit per Employee	Less than 1(5), 1-2(4), 2-3(3), 3-4(2), More than 5(1)
4.	Earning Quality	Profit to Average Asset	0-0.5(5), 0.6-1.0(4), 1.1-1.5(3), 1.6-2.0(2), More than 2.0(1)
5.	Liquidity Position	Cash to Deposits	Less than 5(5), 6-9(4), 10-12(3), 13-15(2), More than 15(1)

Now let's understand the all these five terms of CAMEL techniques in details:

1. Capital adequacy

The amount of capital holds by bank in order to meet the demand or expectation of banking regulators capital adequacy is the actual amount of capital that the bank should hold as per the expectation of regulator this is denoted by the ratio that is capital adequacy ratio the formula of capital adequacy ratio is equals to banks capital divided by risk weighted SS to protect the interest of investors and depositors it also shows the financial soundness of banks it established the relationship between assets and capital growth experience.

2. Asset quality

As we all know that loan is the primary assets of bank. Loan of Bank divided in generally four categories such as –

Good loan- received less than 3 months delay

Sub standard loan- received within 6 months delay

Doubtful loan- collects up to 1 year delay

Bad loan- collects over 1 year delay

This four types of bank loan helps in analyzing the asset quality. If bank has high number of good loan then Banks' asset quality is good where if Bank have high bad loan banks financial position is not good. Sub standard loan, doubtful loan and bad loan is collectively known as Non Performing Assets of bank. If Non-Performing Assets are high then financial position of bank is very bad.

3. Management Quality

Management is the soul of any organization. Thus the management affects the overall performance of bank management. It helps in making good decision to achieve the competitive advantage, sound strategy which enhances the shareholders wealth.

4. Earning quality

It means net profit after taxes to average. Earning capacity of banks depends upon its return on assets. If bank has higher value of return on assets it presents higher profitability and vice a versa.

5. Liquidity position

Liquidity position presence the banks capabilities to meet its day to day cash requirements. Sometimes due to uncontrollable factors banks suddenly experience huge cash withdrawals. If banks will not have sufficient cash then the bank credit will go down automatically. It can be measured by dividing deposit from cash.

6. Sensitive to Market Risk

Risk management is important tool for banks to sensitivity analysis. It represents how adversely affect the earnings of bank due to changes in interest rate, foreign exchange rates, commodity prices or equity prices. Under this basically four major risk analyzed-

- a. Market risk
- b. Exchange risk
- c. Maturity risk
- d. Contagion risk.

➤ Objectives of the study

1. To analyse the financial performance of Bank of Baroda.
2. To know the significance of CAMEL rating.
3. To study how capital adequacy, asset quality, management soundness, earning, liquidity and control affect the financial performance of bank

➤ Scope of the study

Financial performance evaluation through CAMEL technique is mostly used by regulators to examine the performance of bank. It helps in comparative analysis like time series analysis and cross sectional analysis. It helps in identifying the strength and weakness of bank. It also helps to investors in order to evaluate the bank capability and take decision accordingly.

➤ Research Methodology

Research methodology helps in designing the research on any specific topic. It also helps to selecting the appropriate method of sampling, data collection, analysis of collected data, statement of problem, framing of hypothesis etc.

1. Data collection type

Generally there are two methods of data collection primary data and secondary data. This study basically based on secondary data. The sources of secondary data collection are newspapers, websites, publications, articles, research papers, government bulletin etc. For this study purpose data collected from the official

website of Bank of Baroda and Reserve Bank of India. Other sources of data collection are research paper, thesis, websites, journals and articles.

2. Types of research

This study is basically a descriptive study. Descriptive research is the process of describing the problem exists at present in an analytical manner.

3. Tools used for analysis

Ratio analysis, percentage analysis, table used to analyse the data.

4. Period of history

For the purpose of analysing the financial performance of Bank of Baroda through CAMEL technique the period of study determine of two financial years i.e. 2024 and 2025 for comparative analysis.

Limitation of the study

1. The reliability and accuracy of result based on the correctness of data published by RBI and Bank of Baroda.
2. In this study only quantitative factors used to measure the financial performance of Bank of Baroda but qualitative factors are also very important to analyse the overall performance of bank.
3. Using only few parameters to analyse the performance of bank is also big limitation of the study.
4. The study of paper based on some specific time period that is only for the five year only that period basis performance of banks analyzed which may provide ambiguous result.

Capital Adequacy Analysis

Item	2024	2025
Tier I Capital	14.07%	14.79%
Tier II Capital	2.24%	2.40%
Capital Adequacy	16.31%	17.19%

Above capital adequacy analysis table depicts that capital adequacy ratio has been increased in the year 2025 by 0.88% which indicates that bank have sufficient capital to meet its uncertainties. Bank of Baroda CAR in 2025 is 17.19%. As per CAMEL technique of performance analysis BOB got 2 rating that indicates bank is fundamentally strong with modest weakness.

Item	2024	2025
Net NPA	0.68%	0.58%
Asset Quality	0.03%	0.03%

Above table depicts that net NPA was decreased in the year 2025 that means BOB good loan was increasing. But overall there was not any difference in both years in terms of asset quality. 0.03% is indicator of that BOB is sound in asset quality and almost loan is Good loan. It shows that bank analyzed very well before advancing the amount. As per CAMEL rating bank asset quality got 1 rating i.e. BOB has sound asset quality.

Management Quality

Item	2024	2025
Business Per Employee	30.46%	34.33%
Net Profit Per Employee	23.56%	26.11%
Total Advances to Total Deposit Ratio	86.34%	88.56%

Above analysis table reveals that business per employee and net profit per employee increased by respectively 3.87% and 2.55%. Overall total advances to total deposit ratio increased by 2.22%. Overall this figure depicts that bank actually manage its advances, employees, business and deposit very well. As per CAMEL rating system bank scored 1 i.e. BOB is sound in management quality.

Earning Quality

Item	2024	2025
Return on Asset	1.12%	1.10%
Return on Equity	18.95%	16.96%

Above table of earning quality shows that BOB has recorded decrement of 0.02% and 1.99% in Return on Assets and Return on Equity respectively. It is not good indicator for the earning of bank. But overall bank scored rating 1 as per CAMEL rating.

Liquidity Position

Item	2024	2025
Liquidity Coverage Ratio	125.47%	125.67%

Above table represents the liquidity coverage ratio has increased by 0.20% which shows slow increment in LCR. But overall BOB got scale 1 rating as per CAMEL technique. LCR calculated by dividing highly liquid assets from expected cash outflow.

Conclusion

As per CAMEL technique of RBI for assessing the performance of bank, BOB proves themselves best in almost all indicators and got score I in all areas. We can now easily conclude that Bank of Baroda is sound bank in each and every area and deserves one of the largest commercial bank ratings.

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