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IMPROVING VALUATION PRACTICES IN COMMERCIAL BANKS BASED ON THE CAMELS RATING SYSTEM

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Abstract
This article analyzed the practice of evaluating the activity of commercial banks in the country and developed research proposals aimed at improving its.

Keywords: The quality of assets, profitability, accruals, capital, liquidity, management, financial coefficient, risk, rating system, a commercial bank.

Introduction

The model of control over the performance of commercial banks through the rating evaluation system is based on the CAMELS rating system.

Since the CAMELS rating system is sufficiently accurate and the information contained in it is understandable, the banking supervision bodies of many states use this rating system when evaluating their banks.

The fact that the rating system is called CAMEL(S)is that it consists of the capital letter of the components to be analyzed in banking activities. That is:

C – (Capital adequacy);
A – (Assets quality);
M – (Menegment);
E – (Earning);
L – (Liquidity).
S – (Sensitivity to risk)

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CAMEL (S) rating system is the first component of the capital control process, which analyzes the adequacy of the bank's capital, the activities carried out in terms of capital increase and the policy of payment of dividends.

Literature Review

The highest level of the rating is determined by the indicator 1, which indicates in which component such an assessment is made, it means that it is established at the level of full compliance with international standards.

In this system, the assessment of the adequacy of capital is based on the methodology of the Basel, taking into account the first and second levels of capital.

Table 1 Evaluation of capital adequacy in CAMEL(S) Rating System [1]

	1st-level coefficient of adequacy of capital	Total capital adequacy ratio	Limitations
1 point strong	Much higher than 6 %	Much higher than 8 %	The quality of assets is at least 2; the risk asset coefficient is not higher than 11 percent.
2 points satisfactory	Higher than 5 %	Significantly higher than 8 %	The quality of assets is equal to 3; the coefficient of risky assets is unlimited.
3 points medium	At the level of 4 %	At the level of 8 %	The quality of assets is equal to 4; the coefficient of risky assets is unlimited.
4 points borderline	Noticeably lower than 4 %	Noticeably lower than 8 %	
5 points unsatisfied	Noticeably lower than 4 %	Noticeably lower than 8 %	Losses exceed the amount of initial capital.

In international banking practice, three methods are widely used to assess the capital adequacy of commercial banks. One of these is the method developed by the Basel Committee as a relatively improved method. According to the International Bank for Reconstruction and Development, this method is currently used in more than 150 countries around the world.

Research Methodology

Two financial ratios are used in the capital adequacy assessment method developed by the Basel Committee. The first financial ratio - the capital adequacy ratio of a commercial bank is determined by dividing the total capital by the amount of assets at risk. The normative level of this coefficient is set at 0.08.

The second financial ratio is the capital adequacy ratio of a commercial bank, which is determined by dividing the fixed capital by the amount of assets at risk. The normative level of this coefficient is set at 0.04.

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Analysis and Discussion of Results

Characteristically, the capital adequacy ratio proposed by the Basel Committee is more important than the general capital adequacy ratio. That is, if a commercial bank meets the normative requirement on the capital adequacy ratio, but does not meet the regulatory requirement on the capital adequacy ratio, then the capital of this bank is considered insufficient. This is because, first, according to the Basel standard, the fixed capital of commercial banks should consist only of stable sources of financing; secondly, regardless of the amount of total capital of a commercial bank, it must consist of at least 50 percent, i.e., half of the fixed capital.

One of the main indicators characterizing the quality of assets of commercial banks is the indicator of return on assets. One of the main factors influencing the return on assets is the change in the share of non-returnable assets in the asset structure.

The key indicator that characterizes asset quality is determined by the absolute amount of total asset risk (TR).

TR = Standard assets * 0.02 + Substandard assets * 0.2 + Doubtful assets * 0.5 + Bad assets * 1.0 + Judicial assets * 1.5

Hence, the main indicator characterizing the quality of assets is defined as follows: TR / K * 100%

Although liquidity and profitability are inversely proportional to each other, ensuring that assets are of high quality provides additional income. That is, the higher the quality of the assets, the smaller the amount of reserves created on them.

Table 1 Risk level of assets of commercial banks in CAMELS rating system [3]

Balance sheet assets of banks	Risk level,%
Cash on hand	0
Money on the road	20
Students to the government or the Central Bank	20
Claims secured by cash or government securities or government guarantees	20
Requirements for local public organizations and loans guaranteed by these organizations	20
Requirements to HTT Bank and requirements guaranteed by these banks or secured by their securities	20
Private sector requirements	100
Mortgage loans	50
Requirements for social commerce companies	100
Buildings, structures and other fixed assets	100
Real estate and other investments	100
Debt obligations of other banks	100
Other assets	100

In banks with a strong rating on asset quality, the asset management process is well organized and there are no various liquidity problems.

In the CAMELS rating system, the liquidity of banks is determined by the following indicators:

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Stability of deposits. To determine the stability of deposits, the amount of stable deposits is divided by the total amount of deposits and the result obtained is multiplied by 100 percent. The normative level of this indicator is 75 percent.

- The rate at which assets are converted into cash. To calculate this figure, liquid assets are divided by the sum of gross assets and the result obtained is multiplied by 100 percent.
- Level of access to external resources for a commercial bank. To calculate this figure, loans from other banks are divided by the total amount of resources attracted by the bank, and the result is multiplied by 100%.
- Ensuring the achievement of the standard levels set by the Bank's internal liquidity policy.
- Level of effectiveness of the Bank's asset and liability management strategy. This level of efficiency is assessed by analyzing the dynamics of the ratio between loans and deposits, as well as between loans and borrowings from other banks.

According to Western economists, the CAMELS system is based on the concept of risk identification and uses a “top-down” approach to the risk assessment process. It provides for the members of the bank's board and management to independently determine and manage the level of risk in their banks. They are responsible for controlling the level of risk in accordance with the principles of the bank during the management of the bank. These principles include the bank's policy, information management system, quality of management, as well as other areas of internal control used by management in decision-making. a rating is given, followed by an overall rating for all activities. The highest level of the rating is set by the indicator 1, which indicates which component is given such an assessment, which means that it is organized at a level that fully meets international standards. In the study of the standardized CAMEL (S) system of on-site inspection control, it is expedient to highlight the existing problems by analyzing each component of this system separately [4].

Sensitivity to risks. The “S” in CAMEL (S) was developed in 1995 by the FRT and the Basel Committee. Added to the rating system on January 1, 1997, it primarily defines the risk interest rate and represents the unexpected change in the sensitivity of all loans and deposits to the interest rate. Item C was introduced to identify and assess the impact of a commercial bank's capital and profits on market risk. The growing market risk, especially the sharp fluctuations of market conditions during the global financial and economic crisis, has caused serious concern to international experts, and as a result, new requirements for market risk assessment and management have emerged.

The results of the assessment of the activities of the largest commercial banks of the country through the rating system SAMEL (S) showed a high level of capital adequacy [5].

The quality of assets in the largest banks of the country is higher than 5.0%, which belongs to the 2nd class of the CAMELS rating system. The fact that the quality and volume of assets are declining in the right proportion from top to bottom indicates that the bank's management has done positive work to ensure the quality of assets. For example, in Ipotekbank, this figure was 5.83% at the end of this year [6].

It should be noted that lending is still the primary activity of commercial banks in the country, so the bulk of their gross income should be formed from income from credit operations.

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Conclusions and Suggestions

Therefore, it is important to identify the causes of changes in the share of interest income in gross income, to develop measures to prevent a sharp decline in its share.

Currently, there are problems in the application of element C of the rating system "CAMELS" in the practice of the republic. One such problem is the lack of a methodology for assessing the impact of market risk on the assets and profits of commercial banks. In addition, a number of large commercial banks of the country are unable to meet the requirements of this rating system. For example, the share of transaction deposits of most commercial banks in the gross deposits is 50-60%. However, according to the CAMELS rating system, this figure should not exceed 30%.

In addition, the devaluation reserves have a high share in the capital of a number of large commercial banks of the country. Devaluation reserves, on the other hand, are not a stable source of financing for commercial banks. In addition, the Basel Committee has banned the inclusion of devaluation reserves in the capital of commercial banks.

In our opinion, in assessing the capital adequacy of commercial banks of the country under the rating system "CAMELS", it is necessary to exclude the amount of devaluation reserves from the capital of commercial banks. Only then will it be possible to realistically assess the level of capital adequacy.

We also believe that the CAMELS rating system should use the standardized method of credit risk assessment and the basic indicative method of operational risk assessment proposed by the Basel Committee in order to increase the accuracy of the assessment of the quality of assets of commercial banks.

According to the basic indicative approach: **KBIA = [(ΣGI1...n x□)]/n**,

here:

KBIA - demand for capital of a commercial bank;

GI is the annual positive gross income for the last three years;

n is the number of years in which gross income has been positive for the past three years;

□ =15% - this indicator is set by the Basel Committee in relation to the network level of the indicator [7].

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