

ABSTRACT

The banking sector is an important vehicle that pushes the economy of a country. Banks contribute directly towards the GDP and have an overall impact on its growth. Therefore special emphasis has been laid down on this sector to gauge its performance and to monitor the health of an institution. Banking performance has been evaluated through various tools, one of the commonly used tools is known as the CAMELS rating. CAMELS' framework is also a regulatory requirement used for strengthening the banking system.

This dissertation is an attempt to conduct a cross-country comparison of the banking sector operating in the South Asian belt namely Pakistan, India and Bangladesh using the CAMELS rating technique. A financial analysis has been carried out using specific ratios to evaluate the financial performance of the banking sector. For conducting the empirical work ten banks have been selected from each country and ratio analysis has been performed on secondary data for the Year 2006-2012. The study has also examined the relationship of CAMELS parameter with the risk taking capacity (Z-Score) of the bank using the econometric techniques. The Fixed Effect model has been used to validate the relationship among the CAMELS parameters and Z-Score. The study has investigated the effectiveness of CAMELS rating and its implementation in the banking sector of these three countries and in what manner the risk taking capacity of the banks is enhanced.

Keywords: Financial Performance, CAMELS Rating, Z-Score, Banking System, Risk Taking Pakistan, India, Bangladesh.

JEL Classification Codes: G20, G21, G29