



THE ROLE OF THE PROFITABILITY INDEX OF THE CRITERION CAMELS IN ACHIEVING BANKING GOVERNANCE REQUIREMENTS: A STUDY OF THE IRAQI BANK OF BAGHDAD

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Article history:	Abstract:
Received: 4 th January 2023	Research aims: To introduce the profitability index and the standard ratio determined by the Central Bank of Iraq based on and in line with the standard CAMELS, the role of this indicator and the extent of its contribution to the bank's growth and capital increase, as well as evaluating the performance of banks with the profitability index and indicating its impact on achieving the requirements of banking governance. Theoretical framework : Research into the role played by the profitability index of a criterion CAMELS in measuring the ability of banks to achieve the requirements of banking governance, the profitability index seeks to reduce the risks that the bank may be exposed to, as banks are obligated to achieve a specific percentage of profitability, which should not be less than 1%. Design/Methodology/Approach : The inductive method was relied upon in defining the research problem by asking the following questions: Is the use of the profitability ratio indicator as a standard CAMELS consistent with the objectives of the bank? Does the use of the CAMELS profitability index achieve the requirements of banking governance? To shift from the general to the private as well as relying on the deductive method in order to shift from the private to the general by stating the role played by the profitability index of the CAMELS standard in measuring the ability of banks to achieve the requirements of banking governance. Findings Banking governance systems constitute one of the basic tools that help commercial banks build the right start for them in the work. CAMELS and the extent of its contribution to achieving the requirements of banking governance. Research Practical & Social implication: with the possibility that the bank will be exposed to liquidity risks .The need to adopt the evaluation standard CAMELS and banking governance by banks, the study sample, through the
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formation of a committee from within the bank that evaluates the bank on an annual basis and finds targeted standard ratios according to the components of the standard and adherence to the principles of banking governance, and for the purpose of identifying the most important and prominent weaknesses that the bank suffers from, and working to take corrective measures for it To reduce these points, in addition to identifying the strengths that are represented by the positives that characterize the bank, and then work to strengthen and sustain them in the future.

Implications/Originality/Value: That evaluation standard CAMELS is one of the comprehensive standards that evaluate banks from all financial and administrative aspects, especially the qualitative and quantitative ones, predicting risks before they occur, and the possibility of using it to evaluate banks on an annual basis or for several years

Keywords: standard CAMELS, profitability, banking governance, banking risks.

INTRODUCTION:

Interest in the concept of governance has grown during the past few decades due to the financial collapses that many countries witnessed in banks, financial markets and institutions, one of the reasons for which was the lack of full disclosure and transparency with regard to the financial and accounting information of many institutions and economic units in the financial markets. A group of researchers and economists believed in its important role and its association with improving financial performance and profitability and reducing risks, which called for encouraging researchers all over the world to conduct more research and studies looking into this topic. And because banks are one of the most important tools of economic development in the modern era, and given their role in collecting huge capitals and directing them to build the national economy, all of these previous reasons called for the researcher to conduct this study to find out the extent to which the profitability ratio is applied to the criterion CAMELS in achieving the requirements of banking governance for the Bank of Baghdad, which is listed on the Iraq Stock Exchange

LITERATURE REVIEW:

First: the emergence and development of a standard Camels :

This standard was devised by the Federal Financial Institutions Oversight Board in the United States of America in 1979 as a unified standard for evaluating and classifying banks .Camel And it was applied in many countries of the world, then in 1997 another element was added, which is the element of the degree of sensitivity towards market risks resulting from changes in interest rates and exchange rates, so it became a standard Camels as well as has been applied in many countries.

Second: the concept of standard CAMELS:

The Camels standard is a set of indicators through which the financial position of any bank is assessed and analyzed, its rating is known, as well as knowledge of the bank's financial information and data with a high degree of reliability . The International Monetary Fund defined a standard Camels as a supervisory standard that evaluates different areas of commercial banks' operations to determine the financial soundness of their activities

This criterion consists of six indicators, which are as follows:



Table (1) standard indicators CAMELS

Symbol meaning in Arabic	The symbol and the meaning of the symbol in English
character stands for(C) for the adequacy of capital to protect depositors' money and cover risks	(C)capital adequacy
character stands for(A) for the quality of assets and what is expected to be collected of their net value inside and outside the budget and the extent of provisions to meet doubtful assets	(A) Asset Quality
character stands for (M) for management, its level of competence, depth, and commitment to the laws regulating banking work, the extent of the efficiency of the internal and banking control apparatus, and the existence of future planning policies	(M) Management
character stands for € for the level of profitability and the extent of its contribution to the bank's growth and capital increase	E))Earnings
character stands for(L) To measure the soundness of liquidity and the bank's ability to meet its current and future expected and unforeseen obligations	L)) Liquidity
character stands for (S) of the bank's sensitivity to market risks	S)) Sensitivity to Marketer

Source: Prepared by the researcher based on(Rashidah & Rozzani, 2013: 39)

Third: the concept of profitability:

The banking sector has an essential and major role in the economy as it is the sector that provides funds to other sectors in the economy, and these sectors cannot perform their functions if the banking sector is not profitable, and thus profitability is used for many years, as a top priority for banking operations. and thus profitability can be defined as the relationship between the revenues achieved by the organization and the investments that contributed to achieving these profits, and profitability is a goal for the organization and a measure for judging its efficiency at the level of the total unit or partial units, and profitability is measured Either through the relationship between profits and sales, or through the relationship between profits and the investments that contributed to achieving them .

Fourth: Measuring profitability:

Profitability is one of the most important measures that can be used as a guide in

analyzing financial performance, as it represents the most important goals that banks seek to achieve. The profitability indicator is measured according to the following four ratios:

van & Day, 2019: 266)

1. The rate of return on assets

It is the ratio of net profit after taxes to total assets, and it can be measured according to the following equation:

$$ROA = x\%100 \frac{NI}{TA}$$

ROA: Return On Asset.

Net Income: NI

Total Asset: TA

2. The rate of return on equity

This ratio seeks to show the relationship between the volume of funds contributed by the owners, and the volume of profits realized from them. It can be measured according to the following equation:

$$ROE = x\%100 \frac{NI}{TE}$$

Return On Equity: ROE.

: Net Income : NI Net Income.

Total Equity: TE: Total Equity.



3. The rate of return on deposits

This ratio seeks to measure the net profits achieved compared to the volume of deposits owned by the bank, and it can be measured according to the following equation:

$$ROD = x\%100 \frac{NI}{TD}$$

ROD : Rate of Return on Deposits.

IN:: Net Income Net Income.

:D : Deposits deposits.

4. Net profit margin

It is a ratio comparing the net income achieved after interest and taxes and the revenues achieved by the bank in a specific period and through the following equation:

$$NIM = x\%100 \frac{NI}{R}$$

INM: Net Income Margin

NI: Net Income

R: Revenue

Fifth: The concept of banking governance: The banking system occupies

a great importance at the level of national and international economies compared to other sectors, based on its being the main engine of economic growth, so it has become imperative to maintain the integrity of the performance of the banking sector, and banking governance is one of the important entry points to ensure that, and protect the interests of all Parties related to the bank's activity Banking governance is defined as developing the internal structures of banks in a way that leads to achieving transparency in performance and developing the level of management .Accordingly, and according to the previously mentioned equations, the profitability of the Bank of Baghdad can be extracted. Table (2) shows a comparison of the results of the profitability calculation:

Table (2) Comparing the results of calculating the profitability of the study sample banks

ROD% (1/4) = (5)	TD(4)	ROE% (1/2)=(3)	TE(2)	NI(1)	the value gener al	B
Baghdad Bank						T
2.45%	827926	%7	282822	20245	2016	1
86%	714523	170%	276942	6122	2017	2
52%	786386	%1.56	266,742	4152	2018	3
91%	803009	2.67%	273,641	7299	2019	4
%1.88	1073266	%7	278,436	20200	2020	5
2.59%	1,158,326	10%	309130	29980	2021	6
39%	average	33%	average			
ROA% (1/8) = (9)	TA(8)	npm% (1/6) = (7)	R(6)	NI(1)	the value gener al	B
Baghdad Bank						T
1.69%	1200424	27%	73620	20245	2016	1
56%	1090153	%11	54134	6122	2017	2
37%	1113539	37%	6425	4152	2018	3
64%	1,132,744	160%	4559	7299	2019	4
%1.42	1,419,528	33%	60552	20200	2020	5
%1.95	1539809	36%	82963	29980	2021	6
27%	average	51%	average			



Source: Prepared by the researcher based on the Iraq Stock Exchange Authority of the Bank of Baghdad for the years (2016-2021)

The rate of return on assets ranged between (1.42%) as a minimum in 2020 and (64%) as a maximum during the year 2019, with an annual average of (27%) during the study period. As for the rate of return on equity, it ranged between (1.56%) as a minimum in 2018 and (170%) as a maximum in 2017, with an annual average of (33%) during the study period, and the rate of return on deposits ranged between (1.88%) as a minimum in 2020 and (91%) as a maximum in 2019 With an annual average of (39%) during the study period, which indicates that the

ability of the Bank of Baghdad deposits to generate income was good, while the profit margin ratio ranged between (11%) as a minimum in 2017 and (160%) as a maximum in 2019. With an annual average of (51%), this indicates that the margin achieved in the Bank of Baghdad was good, and this indicates that the profitability of the Bank of Baghdad was a good percentage. **Evaluate the bank in terms of profitability**

Hence, it is possible to indicate the degree of classification of the Bank of Baghdad, according to the following table:

Table (3) profitability weights according to a criterion CAMELS

Classification description	profitability rating	achieved percentage	The bank's rating site	Category
strong	greater than $\geq 1\%$	38%	Baghdad Bank	1
Patients	%0.9-0.8			2
middle	%0.7-0.35			3
my limit	0.34-0.25%			4
weak	$\geq 0.24\%$			5

CONCLUSIONS:

Through the above table, it is clear that the Bank of Baghdad falls within the first (strong) classification in terms of the degree of classification of the bank's profitability, as it achieved a rate of 38% It is more than the specified percentage $\geq 1\%$ according to standard CAMELS, indicating that the bank according to this level Refers to high profitability, which is more than sufficient to support operations, maintain capital, and adequacy of provisions after considering the quality of assets and growth, and other factors that affect the quality, quantity, and direction of those profits, because the profitability factor is one of the most important factors that attract the attention of shareholders, investors, and lenders, because of its importance. An effective role on the

financial performance of the institution, because maximizing profits is one of the most important goals pursued by institutions, as achieving profits enables institutions to maintain their continuity, increase their ownership rights, and guarantee the rights of shareholders and investors, as their ability to face the difficulties and obligations they face increases, as he sees Investors in the distribution of profits is an indicator of the efficiency of management in managing the activities of the institution, and thus we see that the Bank of Baghdad is an investigator of banking governance.

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