Evaluating Nepalese Commercial Banks' Performance from the Eyes of EAGLES Rating

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ABSTRACT

The paper aimed to evaluate the performance of the Nepalese commercial banks using the EAGLE rating model developed by Vong (1994) based on the bank's earning ability ratio, assets quality ratio, growth rate, liquidity, and equity to which an acronym as EAGLE. Vong and Song (2015) added the 'S' element afterward under EAGLE, renaming EAGLES. The strategy response quotient (S) shows management's capacity to set deposit and loan rates and to control a bank's interest burden, calculated as non-interest income minus any overhead costs. The paper considered the financial information of all the commercial banks operating in Nepal from 2018-19 to 2020-21. The paper found that the banks with a short history in the Nepalese banking industry with aggressive market expansion were at the top of the position under the EAGLES rating. The paper also found that ranking for return on equity (E) and ranking for non-performing loan ratio (A) and ranking for return on equity (E), and ranking for capital adequacy ratio (E) have a significant relationship while determining the ranking of the commercial banks. Similarly, the paper found that the bank with a better position for all the components of EAGLES was at the top for the government-owned commercial banks, while for joint venture banks, the bank with better loan growth, liquidity position, and capital structure was at the top.

Keywords: EAGLES, commercial bank, ranking, Nepal.

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I. Background

The EAGLES benchmark monitors bank performance from the perspectives of earning ability, asset quality, growth, liquidity, equity, and strategy. The focus is not entirely dissimilar to the CAMELS based on capital adequacy, assets quality, management, earnings, liquidity, and sensitivity factors of the bank. However, three distinct differences enable a clearer assessment of the condition of the bank. Firstly, EAGLES are conducting a financial analysis of the bank. Vong (1994) developed a new approach to measuring banking performance using the earning ability, assets quality, growth rate, liquidity, equity, and strategy response quotient, to which he gave an acronym, EAGLES. This approach is considered more objective than the CAMELS because the EAGLES apply the ratios as a rating method, not a scoring method of between 1 (one) to 5 (five) as in CAMELS. Financial ratios rather than arbitrary grades ranging from 1 to 5 make up the EAGLES evaluation. It goes without saying that if a trend analysis is conducted on these financial ratios across successive periods, it will be simple to predict when banks or the banking system will fail or become weak.

Second, control of non-interest operational costs, collection of fee income, and pricing of deposit and loan rates all contribute to the quality of bank management. The ability of bank management to accept deposits, make loans, acquire fee-based income, and manage overheads is dependent factors on these four operations (Vong, 1994). Thirdly, the strategic response quotient (SRQ) considers four key financial information of the bank, that is, interest income, interest cost, non-interest income, and non-interest cost. It is measured by taking the interest margin and dividing that by the net operating cost (i.e. fee income less non-interest expense). Vong and Song's (2015) SRQ shows how management can control the interest burden of banks or the difference between non-interest income and any administrative costs as well as set deposit and loan rates. The SRQ time factor measures the offset times the interest burden is offset by net interest income. The authors noted that a coverage level higher than 2 (two) is generally; considered healthy. Higher SRQ is not necessarily beneficial since it relies on the bank's strategic direction. The 1996 Asian Financial Crisis and the 2007 Global Financial Crisis made more concerned about financial stability. The financial stability of the banks was seen as possible only enhancing the profitability and assets quality of the banks. Hence, the concern and interest in EAGLES Model emerged for evaluating the financial performance of the banks. Thus, the paper also tried to evaluate the performance of the Nepalese commercial banks using the EAGLES Model developed by Dang and Vong (2020).

II. Literature Review

Balachandher et al. (2015) found that an evaluation of the Malaysian banks' performance parameters under the EAGLES model will give a proper insight into the banks' financial status in the due process of the initial stage of the merger process. The study found that the rating of the banks using the EAGLES model would give proper information at an initial stage for selecting a suitable partner for the banks which are eager to go for a merger or acquisition process.

Kumari and Prasad (2017) used decade-long data from ten public and private banks to compare their financial performance on the EAGLES model. Their results showed that Yes Bank positioned at the top considering return on assets, gross non-performing assets, and provision coverage ratio. The paper found private banks outperformed public banks.

Ali (2019) used the EAGLES model on the Islamic banks and revealed that rapid growth was in all segments except in the part of liquidity. The steeper learning curve was seen for younger banks than for conventional banks. The paper concluded that conventional banks performed better than Islamic banks in all areas except on the growth side.

Dang and Vong (2020) used the EAGLES framework; based on CAMELS ranking, for ranking the banks. Between 2012 and 2018, 48 banks from the Asia Pacific region were the subject of the investigation, focusing mainly on the EAGLES framework's strategic response quotient (SRQ). The computation of the interplay of four financial data components; interest income, fee-based revenue, the interest cost, and operational expenses; leads to the development of the SRQ. The study discovered that the selected data elements were capable to anticipate and portray bank stability and profitability from a distinctive angle.

Suresh and Krishnan P (2020) found that the CAMELS model of evaluating the performance of the banks was seen as outdated as per the changing banking industry environment, whereas, the EAGLES model was seen as better in reflecting the soundness of the banks with proper consistency.

Sathavara and Sathavara (2021) evaluated the financial performance of selected private sector banks of India by using the EAGLES model. The paper found that the selected private sector banks have maintained the capital adequacy ratio as per RBI norms.

Ristanti and Ismiyanti (2021) applied an EAGLES framework to determine the profitability of the top banks of Indonesia. The paper stated that the four factors of a bank's indicator, namely; Loan Deposit Ratio (LDR), Net Interest Margin (NIM), Net Interest Income Margin/Net Operating Cost (NIM/NOC), and Loan Growth (LG) should be considered while determining the performance of the banks.

Basha V and Tejesh (2021) found from the CAMELS and EAGLES rating those north Indian banks are far better than south Indian banks. Significant differences except for return on assets, provision coverage ratio, and deposit ratios were influencing the rating of the banks.

Yazdi et al. (2022) ranked the Iranian commercial banks' performance during an uncertain period of the COVID-19 pandemic. The paper followed Evaluation by an Area-based Method of Ranking (EAMR) and Step-wise Weight Assessment Ratio Analysis (SWARA) to rank all nationalized Iranian commercial banks. Nevertheless, the paper came out with a new hybrid ranking tool, Multiple Attribute Decision Making (MADM), a better option to rank the bank's performance during a pandemic.

III. Data and Methodology

The paper is based on secondary data. All the licensed 'A' class Nepalese commercial banks are taken as a sample for the paper. Therefore, 27 (twenty-seven) commercial banks operating within Nepal are taken as a sample for the study.

The paper has considered the financial data for the three fiscal years, from 2018-19 to 2020-21. The data during these periods are considered as the last merger of the banks in Nepal took place between Janata Bank Ltd. and Global IME Bank Ltd. in December 2019. The paper has used the parameters of the EAGLES Model to measure the performance of the sampled banks. Hence, return on equity (E), non-performing loan ratio (A), loan growth (G), credit-deposit ratio (L), capital adequacy ratio (E), and strategic response quotients (S) of the sampled banks are considered for the paper. Similarly, a Spearman's rank correlation has been used to determine the strength of a monotonic relationship between the paired data.

IV. Results

Results of EAGLES Ranking of the Commercial Banks

The table below shows the result of the ranking of the banks based on the EAGLES model:

Table 1
Overall Ranking of Nepalese Commercial Banks under EAGLES Model

BANKS	E	RANK	A	RANK	G	RANK	L	RANK	E	RANK	S	RANK	OVER-ALL AVER-AGE	OVER-ALL RANK
ADBL	11.04	15	2.37	22	15.25	21	89.56	11	18.61	1	5.09	19	14.83	17
BOKL	9.14	23	1.62	17	14.10	23	91.25	4	14.21	9	7.11	7	13.83	14
CCBL	7.20	26	1.82	19	14.74	22	87.01	16	14.61	6	8.43	4	15.50	22
CZBL	10.70	19	1.46	16	29.76	5	88.61	13	14.40	8	5.22	16	12.83	11
CBL	5.79	27	1.77	18	28.19	6	91.89	3	14.79	5	8.39	5	10.67	4
EBL	15.58	5	0.17	1	12.93	24	85.28	18	13.20	19	5.59	13	13.33	13
GBIME	14.95	7	1.24	14	39.57	1	74.84	23	12.66	24	9.74	2	11.83	7
HBL	16.21	3	0.87	7	17.39	20	86.52	17	13.81	13	8.36	6	11.00	5
KBL	10.47	21	1.12	11	32.42	3	91.10	5	13.60	17	6.71	9	11.00	6
LBL	10.66	20	0.97	9	20.72	15	93.83	2	12.33	26	4.54	21	15.50	23

MBL	12.84	11	0.50	6	22.24	13	87.36	14	12.62	25	4.53	22	15.17	19
MEGA	11.00	16	1.12	12	35.86	2	85.03	19	13.82	12	8.79	3	10.67	3
NABIL	15.52	6	0.85	7	23.53	11	83.84	20	12.78	23	5.99	11	13.00	12
NBB	12.12	12	2.00	21	18.41	17	69.99	27	13.69	15	2.59	27	19.83	25
NBL	8.52	25	2.39	23	22.46	12	77.72	22	16.87	3	7.00	8	15.50	21
NCCB	8.67	24	7.01	27	23.61	10	89.88	8	13.96	10	5.22	16	15.83	24
NIB	10.98	17	2.72	24	10.33	27	73.34	24	13.84	11	5.15	18	20.17	26
NICA	19.69	1	0.25	5	30.49	4	87.32	15	13.10	21	4.01	26	12.00	8
NMB	11.45	13	1.92	20	27.93	7	94.54	1	15.20	4	5.64	12	9.50	2
NSBI	10.97	18	0.22	2	10.56	26	90.53	7	14.51	7	4.42	25	14.17	15
PCBL	13.74	10	1.16	13	27.45	8	89.12	12	13.81	14	5.04	20	12.83	10
PRUV	10.09	22	2.86	25	17.53	19	83.38	21	11.81	27	5.35	15	21.50	27
RBB	16.09	4	3.97	23	17.81	18	72.64	25	13.16	20	13.83	1	15.17	18
SANI-MA	19.28	2	0.22	3	21.42	14	89.87	9	13.25	18	6.08	10	9.33	1
SBL	14.13	9	1.04	10	24.28	9	89.76	10	13.08	22	5.56	14	12.33	9
SCB	14.40	8	0.24	4	11.63	25	70.72	26	16.89	2	4.52	23	14.67	16
SRBL	11.28	14	1.43	15	19.45	16	90.54	6	13.67	16	4.52	24	15.17	20

Table 1 clearly shows the ranking of the Nepalese commercial banks. As per EAGLES rating, Sanima Bank Limited is seen at the top position, followed by NMB Bank Limited. Prabhu Bank Ltd. was seen at the last position among the banks. The EAGLES model of evaluating the bank mainly concerns the financial soundness concerning the earning position and strategic management responses, i.e., the bank's management ability in deposit-taking, lending, obtaining fee-based income, and controlling overheads are seen as major concerns.

As the rating of the banks has been done based on the performance during the period of the COVID-19 pandemic, the ranking also shows the ability of the respective banks in handling crises.

Looking at individual parameters of the EAGLES ranking, the performance of the banks is not seen as consistent. The top position on each parameter was occupied by different banks for respective parameters.

Table 2

Spearman's Rank Correlation Coefficient for EAGLES Variables

Spearman's Rho	E	A	G	L	E	S
E	1.000					
	0.550**					
A	(0.003)	1.000				
	0.025	-0.002				
G	(0.901)	(0.992)	1.000			

	-0.339	0.126	0.216			
L	(0.083)	(0.532)	(0.280)	1.000		
	-0.411*	-0.268	-0.217	0.127		
E	(0.033)	(0.176)	(0.276)	(0.528)	1.000	
	-0.106	-0.204	0.238	-0.067	0.040	
S	(0.599)	(0.307)	(0.232)	(0.740)	(0.842)	1.000

***Correlation is significant at the 0.01 level (2-tailed).*

**Correlation is significant at the 0.05 level (2-tailed).*

Table 2 shows that the ranking for return on equity (E) and ranking for non-performing loan ratio (A) has a significant relationship. Similarly, ranking for return on equity (E) and ranking for capital adequacy ratio (E) of the commercial banks has a significant relationship to determine the performance ranking of the Nepalese commercial banks.

Among the sampled 27 (twenty-seven) commercial banks, 3 (three) are fully government-owned or partially share-owned by the government. Among these three banks, ADBL is in a better position. Table 3 shows the three factors of the EAGLES framework, non-performing loan ratio (A), credit-deposit ratio (L), and capital adequacy ratio (E), are at the top level for ADBL among the three banks.

Table 3

Ranking of Nepalese Government-owned Commercial Banks under EAGLES Model

BANKS E	RANK A	RANK G	RANK L	RANK E	RANK S	RANK	OVERALL AVERAGE	OVERALL RANK
NBL	8.52 3	2.39 2	22.46 1	77.72 2	16.87 2	7.00 2	15.50	3
RBB	16.09 1	3.97 3	17.81 2	72.64 3	13.16 2	13.83 1	15.17	2
ADBL	11.04 2	2.37 1	15.25 3	89.56 1	18.61 1	5.09 3	14.83	1

Source: Table 1

Table 4 shows the ranking of 6 (six) joint venture commercial banks operating in Nepal. Among the six joint venture banks, NMB is ranked at the top as per the EAGLES rating followed by HBL.

Table 4

Ranking of Nepalese Joint Venture Commercial Banks under EAGLES Model

BANKS E	RANK A	RANK G	RANK L	RANK E	RANK S	RANK	OVERALL AVERAGE	OVERALL RANK
EBL	15.58 2	0.17 1	12.93 5	85.28 3	13.20 5	5.59 4	13.33	4
HBL	16.21 1	0.87 4	17.39 4	86.52 2	13.81 3	8.36 1	11.00	2
NABIL	15.52 3	0.85 3	23.53 2	83.84 4	12.78 6	5.99 2	13.00	3
NBB	12.12 5	2.00 6	18.41 3	69.99 6	13.69 4	2.59 6	19.83	6
NMB	11.45 6	1.92 5	27.93 1	94.54 1	15.20 2	5.64 3	9.50	1
SCB	14.40 4	0.24 2	11.63 6	70.72 5	16.89 1	4.52 5	14.67	5

V. Conclusion and Implications

CAMELS rating, an acronym for capital adequacy, assets quality, management, earnings, liquidity, and sensitivity was developed in 1979 under Uniform Financial Institutions Rating System in the United States. The rating system was not giving a proper indication of the failure of the banks during the Asian Financial Crisis (AFC) of 1996 and the Global Financial Crisis (GFC) of 2007. This made concern for developing a new measuring indicator for the performance of the banks. Therefore, Vong (1994) developed a new rating system considering the earnings and growth of the banks as well as strategic responses, naming EAGLES. Nevertheless, Vong (1994) connected the rating of the banks on the profitability position, namely earning with the strategic response of the respective ranked banks; the Nepalese commercial banks do not seen able to connect their strategic responses with their earning position. Due to the COVID-19 pandemic also, Nepalese commercial banks were more focused on implementing functional strategies rather than going for business level strategy.

The EAGLES rating for the banks was seen as fruitful during the financial crisis at the Global or Asian level. Therefore, the paper has also conducted the Nepalese commercial bank's rating for their performance during the COVID-19 pandemic period.

The paper found that the banks with a short history in the Nepalese banking industry with aggressive market expansion was seen at the top of the position as per the EAGLES rating. The bank with a better earning position and strategic management responses was seen at the top position. Nevertheless, as per their ownership, the bank with a better position for all the components of EAGLES was at the top for the government-owned commercial banks, while for joint venture banks, the bank with better loan growth, liquidity position, and capital structure was at the top.

The paper also found that ranking for return on equity (E) and ranking for non-performing loan ratio (A) and ranking for return on equity (E) and ranking for capital adequacy ratio (E) have a significant relationship while determining the ranking of the commercial banks.

Stakeholders of the banks are concerned about the performance of the banks; especially investors are more concerned about the earnings and growth of the bank.

Therefore, to evaluate the bank's performance even in an economic crisis due to a pandemic affect, EAGLES rating is seen as a better option in evaluating the bank's performance for the investors.

The development of the EAGLES rating emerged at the time of the economic crisis in Southeast Asia. The failure of the earlier popular rating concept of CAMELS during the 1996 Asian Financial Crisis made concern among financial analysts go for a new rating tool. Hence, the concept of the EAGLES Rating emerged and came into practice, especially in Southeast Asia. Against this backdrop, the rating of banks is done using the EAGLES rating during the crisis time rather than adopting another technique. It can be viewed that the banks with a better capital base, strong liquidity position, and low-level non-performing assets could sustain even in the crisis time, as well as manage to run the banks in a better position. With experience operating in the crisis period of COVID-19, when the Nepalese economy faced a harsh lockdown, the central bank should go for a strong capital base and liquidity management directives for banks and financial institutions. At the same time, the central banks should implement the policy by connecting the profitability of the banks and financial institutions with capital structure.

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