Evaluating the Performance of Indian Banks : EAGLES Model Approach

G. SURESH*

ARUN KRISHNAN P**

Abstract

Sound financial health of a bank is the guarantee not only to its depositors but is also equally significant for the shareholders, employees and whole economy as well. Various steps and policies have been made from time to time, to measure the financial position of each bank and manage it efficiently and effectively. The introduction of new banking policies and technological advances put banks into more complex and risky situations. CAMEL model is widely used tool for measuring the efficiency and performance of banks which has been proved to be outdated. EAGLES' model is a proper tool to measure the financial performance as well as the soundness of banks in a more determinate, objective and consistent manner, as the banks are being analyzed on the output ratios. The present study aimed at finding out the financial performance and soundness of selected Indian commercial banks, analyzing six major parameters which are key success factors of every bank today.

I. Introduction

THE BANKS ARE considered as the backbone of every economy,since they are the custodians of financial assets of a country and channelize these assets to the masses in need of it (Khosla, 2007)[1]. An economy with proper banking structures always withstands the sudden economic depressions. The supervisory agencies such as the central banks play vital roles in maintaining the immunity of the banking system along with important stability functions which become prominent during times of financial turmoil (Archer 2017)[2]. The Indian banking system is closely monitored by the Central Bank of the country and the Ministry of Finance, due to which the Indian banking industry along with the Indian financial system sustained very well even at the times when global economic recession hit the banking systems worldwide. Even during the crisis time, the Indian banking sector showed

* Assistant Professor, CHRIST (Deemed to be University), Department of Commerce, Hosur Rd, Bhavani Nagar, S.G. Palya, Bengaluru, Karnataka 560029, INDIA
** Assistant Professor, CHRIST (Deemed to be University), The School of Business and Management, Hosur Rd, Bhavani Nagar, S.G. Palya, Bengaluru, Karnataka 560029, INDIA

5.6 *Strategy*

Strategy defines the banks policies regarding earning incomes from both interest and non interest sources. As per the measurement convenience,strategy ratios were divided into two which are, interest and non interest. Interest income to interest cost (II/IC) ratio helps in understanding the banks capacity to earn benefits from changes in interest rates by re pricing the assets in accordance with the liabilities. Noninterest income to Non interest liabilities ratio (NII/NIC) measures the cost incurred by the bank to earn non interest income. HDFC bank was found to have best II/IC ratio and Both AXIS bank and BOB was in last position in average II/IC ratio. The analysis showed that ICICI bank had an average NII/NIC of more than 1 which is considered to be an ideal ratio.

The results of analysis using the EAGLES model showed that, in majority of the instances private sector banks were performing better than the public sector banks which show that private sector banks are more efficient in utilization of resources compared to public sector banks. Also out of the thirteen sub parameters HDFC bank secured top position in nine sub parameters which clearly illustrates that the policies followed by HDFC bank can be considered as better one than all the other banks under study.

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