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## Financial Performance Evaluation of Punjab National Bank

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### ABSTRACT

A well-developed banking system is a prerequisite condition for the economic development of a modern economy. Indian economy is not an exception to this and the banking system in India play a vital role in the process of economic growth and development. The Indian banking system at present also faces a number of challenges particularly the public sector banks. These public sector banks accounts for almost more than 78 percent of total banking sector. This makes it essential to analyse financial performance of public sector banks to predict their future performance. The financial efficiency, liquidity position and credit performance are the main areas to measure the performance of a bank. The present study is an attempt to measure the financial performance of Punjab National Bank which is one of largest public sector banks of India. The research is descriptive and analytical in nature. The secondary data has been used for the study. Different financial ratios have been applied to evaluate the performance. Financial performance has been measured by using three indicators; profitability position, liquidity position and credit performance of the bank. The study concluded that profitability position, credit performance of selected bank has been found poor and liquidity position remained almost constant during the study period.

**KEYWORDS:** Public Sector Banks, Financial Performance, Punjab National Bank.

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## **INTRODUCTION**

An efficient banking sector is one of the crucial components of the financial system and is a basic requirement for the economic development of any country. Its efficiency and competitiveness define the strength of any economy. Banking institutions in India have also been assigned a significant role in financing the process of planned economic-social growth and development. The Banks mobilizes the idle savings of individuals into more productive channels and plays a vital role in development of agriculture and industries. The banking system of India is featured by a large network of bank branches, serving many kinds of financial needs of the people and is dominant as it accounts for more than half the assets of the financial sector. The Government and Reserve Bank of India has taken several measures since Independence to improve access to affordable financial services through financial education, leveraging technology, and generating awareness. The banking sector reforms were aimed at making banks more efficient and viable.

As banks play crucial and significant role in the economy, therefore banks should be given more attention than any other type of economic unit. In order to ensure healthy financial system and an efficient economy, the performance of banks must be carefully evaluated and analysed. The performance of a commercial bank may be evaluated for several reasons according to desired objectives. It has asserted that the whole idea of measuring bank performance is to separate banks that are performing well from those which are doing poorly. Further indicated that evaluating the performance of financial institution can inform the government about the effects of deregulation, mergers and market structure on their efficiency Berger & Humphrey, 1997<sup>1</sup>. Bank regulators screen banks by evaluating the liquidity, solvency and overall performance of banks to enable them to intervene when there is need and to gauge the potential for problems.

On a micro-level, bank performance measurement can also help improve managerial performance by identifying best and worst practices associated with high and low measured efficiency. Bank performance is calculated using ratios analysis and assessed with the aim of: (i) looking at the past and current trends; and (ii) determining future estimates of bank performance. Financial ratio analysis investigates different area of bank performance, such as profitability, assets quality and solvency. The tools that can be used to calculate performance are derived from the information revealed by periodic financial reports produced by accounting system, the balance sheet and the income statement Casu & Girardone, 2006<sup>2</sup>.

The overall objectives of the present research is to measure the performance of one of leading public sector commercial banks using a groups of financial ratios that will indicate its performance and developments over the period 2012-13 to 2017-18.

## **LITERATURE REVIEW**

Kumbirai and Webb (2010)<sup>3</sup> investigated the performance of commercial banking sector of South Africa for the period of 2005- 2009. Financial ratios were employed to examine the profitability, liquidity and credit quality performance of five South African based commercial banks. The study concluded that overall bank performance increased considerably in the first two years and a significant change in trend was noticed at the onset of the global financial crisis in 2007, reaching its peak during 2008-2009. This resulted in falling profitability, low liquidity and deteriorating credit quality in the South African Banking sector.

AlkhatibA. (2012)<sup>4</sup>, examined the financial performance of five Palestinian commercial banks listed on Palestine securities exchange (PEX). Performance had been measured by using three indicators; Internal-based performance measured by Return on Assets, Market-based performance measured by Price / Book value of Equity (Tobin's Q model) and Economic-based performance measured by Economic Value add. The study found that there existed statistically significant impact of bank size, credit risk, operational efficiency and asset management on financial performance of Palestinian commercial banks.

Das, (2013)<sup>5</sup> carried out the study with the objective to compare the financial performance of four state- owned commercial banks in Bangladesh for the period 2000 to 2010 and identified the determinants of performance exposed by the financial ratios. Econometric model by formulating a regression model was used to estimate the impact of loan to asset ratio, non-performing loan ratio, credit to deposit ratio and percentage of classified loan on the financial profitability namely returns on assets of these banks. The results show that the same bank had different ranks under the different financial ratios and the estimation results reveal that return on assets was significantly influenced by capital adequacy ratio and percentage of classified loan.

Hassan M.(2014)<sup>6</sup> investigated the financial performance of Erbil Bank Kurdistan Region of Iraq during the period of 2009-2013. They used several financial performance parameters such as liquidity ratios, assets quality ratios or credit performance, profitability ratios (NPM, ROA, ROE). The findings of the study shows the positive behaviour of the financial position for Erbil Bank and some of their financial factors variables influence the financial performance for the bank. It was found that the overall financial performance of Erbil Bank improved in the study period. The study suggested a set of recommendations regarding the development and enhancing of banking operations which will boost the bank's profitability and improve the financial performance for the bank.

Almumani (2014)<sup>7</sup> conducted the study with the purpose to analyse and compare the performance of Saudi listed in stocks market for the period 2007-2011. The financial performance of banks is studied on the basis of financial ratios and variables derived from secondary data. Financial

performance was measured by two approaches; trend analysis and inter-firm analysis. The study found that increasing of assets, operating expenses, and cost to income cause a decrease in Saudi bank's profitability, while increasing of operating income causes an increase in the profitability of Saudi Banks. Results also shows that all the variables of study have a positive mean value and all banks are generating income. Saudi joint venture banks proved to be more proficient in generating profits, absorbing loan losses and dominating in ROE, while, Saudi established banks have more capacity of absorbing asset losses and dominating in ROA.

Kumar (2016)<sup>8</sup> analysed the financial performance of EXIM Bank through "CAMEL" model, of financial analysis. The results showed that the position of the EXIM Banks under study was sound and satisfactory as their capital adequacy, assets quality, management efficiency, earning capacity and liquidity position found good.

Alemu (2017)<sup>9</sup> examined the overall performance of six sampled private commercial banks in Ethiopia of 10 years period (2007-2016). using CAMEL rating approach. The study included more explanatory variables, like fixed asset to total assets, net profit per employee, total deposit per no. branches, total loan per no. of branches, measurements. The descriptive statistics tools used to rate the overall performance of the bank, while panel regression model was used to measure the impact of CAMEL elements on bank performance. The finding of the study revealed that NIB bank stood on the top followed by Unitedbank, while Awash bank and Bank of Abyssinia stood the least. It was concluded that explanatory variables were significant in determining the profitability indicators-ROA and ROE and asset quality indicators were not significant in determining the profitability ratios.

## **SCOPE OF THE STUDY**

This study measures the financial performance of Punjab National Bank for the period of six years i.e. 2012-13 to 2017-18. The study will provide details about the growth of deposits and advances, profitability of PNB. It is hoped that the result of this study will propose policy measures for the better performance of this bank in order to achieve the financial goals along with customer satisfaction.

## **SIGNIFICANCE OF THE STUDY**

The banking sector is considered an important segment of a modern economy and its efficiency is of vital importance. An entity like a bank regulator helps in identifying those banks which are expressing chronic financial problems and fix these problems before the situation get out of control. In present times of globalization, competition and volatile market, banks attempt to find new method to improve their performance. And, here arises the question, "What drives performance?" To address this question, researchers have focused their efforts on the operational

details Soteriou and Zenios<sup>10</sup>. An important requirement, to answer this question, is the profitability measurement. In recent years, an increased attention has been received by financial institutions on performance analysis.

Commercial banks evaluate their performance for determining their efficacy and also long term viability of management decisions or goals for taking appropriate and necessary course of action. Without a constant and routine monitoring of performance, the underlying problems may remain invisible and thus lead to financial failures down the line. Therefore, it is very much essential to analyse the financial performance of banks in India.

## **OBJECTIVES OF THE STUDY**

The main objective of this study is to examine the financial performance of PNB and in order to achieve the main objective following sub-objectives are being set:

- To examine the profitability position of PNB
- To evaluate the liquidity position of PNB
- To examine the credit performance of PNB

## **RESEARCH METHODOLOGY**

The study has used secondary data for the purpose of financial performance analysis of Punjab National Bank. The data has been collected from website and annual reports of Punjab National Bank. Other relevant data sources are journals, newspapers, magazines and internet sources. The present study is conducted for the period of six years ranging from 2012-13 to 2017-18. The variables used for the study are total deposits, total advances, total business, total assets and net profit.

**Tools used for Analysis:** Different ratios are used to analyse the financial performance of Punjab

National bank which are as follows:

Return on Total Asset (ROA) = Net Profit / Total Asset \* 100

Return on Equity (ROE) = Net Profit / Net Worth \* 100

Net Profit Margin = Net Profit / Total Deposits \* 100

Advances to Deposit Ratio = Advances / Deposits

Advances to Assets Ratio (AAR) = Advances / Total Assets

Provisions to Advances Ratio = Provisions / Advances

Provision to Assets Ratio = Provisions / Assets

## **LIMITATIONS OF STUDY**

The present study is limited to only one public sector bank of India. Hence, the results will not be applied to the entire banking sector. This study is also limited to only six year time period (2012-13 to 2017-18). The study is based only on secondary data which has been collected from published annual reports of banks and various relevant internet sources which may contain its own limitations.

## **DATA ANALYSIS AND INTERPRETATION**

The present study is concerned about the evaluation of financial performance of Punjab National Bank of five years from 2012-13 to 2017-18 which has been carried out with the help of different financial ratios. The main variables under study and their trends are given below:

**Table 1 Financial highlights of PNB**

**(Rs. in crore)**

<b>Year</b>	<b>Total Business</b>	<b>Total Deposits</b>	<b>Total Advances</b>	<b>Total Assets</b>	<b>Net Profit</b>
2012-13	700356	391560	308796	478948	4748
2013-14	800666	451397	349269	550420	3343
2014-15	881913	501379	380534	603334	3062
2015-16	965377	553051	412326	667390	-3974
2016-17	1041197	621704	419493	7220331	1325
2017-18	1075961	642226	433735	7650830	-12283

Source: Annual Reports of PNB from 2012-13 to 2017-18

From the above table, it can be seen that overall there is an improvement in the total business of the bank along with increased its lending activities. Total assets, Deposit and assets of the bank have also increased but net profit has declined throughout the years from Rs. 4748 crore in 2012-13 to loss of Rs. 12283 crore in 2017-18.

### ***Ratio Analysis of Punjab National Bank***

The present study is concerned with the financial analysis of Punjab National Bank from 2012-13 to 2017-18 which has been done with the help of using a group of the financial ratios: Profitability, Liquidity and Credit Performance Ratios. These categorized ratios are employed for the purposes of evaluating the financial performance for banks with respect to profitability, liquidity and assets quality or credit performance.

### ***Profitability Performance***

Profitability ratios typically used in banking are ROA, ROE, NPM, and ROD, all are studied below:

#### **Return on Assets (ROA)**

Return on assets ratio is considered as primary ratio which relates the income earned by the bank to the assets it used in the business operation. It is commonly defined as net income or pre-tax profit divided by total assets. It gives information about management's performance in using the assets of the business to generate income.

**Table.2 Return on Assets (ROA) of PNB**

<b>Year</b>	<b>Net Profit</b>	<b>Total Assets</b>	<b>(Rs. in crore)</b>
2012-13	4748	478948	1.00
2013-14	3343	550420	0.64
2014-15	3062	603334	0.53
2015-16	-3974	667390	-0.61
2016-17	1325	720331	0.19
2017-18	-12283	765830	-1.60

Source: Annual Reports of PNB from 2012-13 to 2017-18

The above table indicates the ratio of net profit to total assets. The ratio shows a decreasing trend and negative ROA is reported in 2015-16 and 2017-18. It may be concluded that the declining in ratio has shown adverse effect to the bank. So the bank needs to take care of liquid assets to maintain steady position.

### **Return on Equity (ROE)**

This ratio measures an organization's profitability by revealing how much profit a business generates with the money shareholders have invested. This profitability ratios measure the financial performance and the managerial efficiency of bank. The higher such ratio, the more efficient is the financial performance of profitability of a bank.

**Table.3 Return on Equity (ROE) of PNB**

**(Rs. in crore)**

<b>Year</b>	<b>Net Profit</b>	<b>Net Worth</b>	<b>ROE</b>
2012-13	4748	32676	14.53
2013-14	3343	35895	9.31
2014-15	3062	39080	7.83
2015-16	-3974	38310	-10.37
2016-17	1325	41847	3.47
2017-18	-12283	41074	-29.90

Source: Annual Reports of PNB from 2012-13 to 2017-18

The above table shows the ratio of return on equity of the PNB from 2012-13 to 2017-18, It was 14.53 percent in 2012-13 which declined steeply and even in negative in study period i.e. -10.37 per cent in 2015-16 and -29.90 in 2017-18. It may be concluded that higher ratio ensures increased return to the equity shareholders and vice versa.

### **Net Profit Margin (NPM)**

To most financial analysts consider Net Profit Margin (NPM) as one of the best measures of bank profitability performance. It is calculated through dividing net profits by total deposits. This ratio reflects the bank management ability to utilize the customers' deposits in order to generate profits.

**Table.4 Net Profit Margin (NPM) of PNB**

Year	Net Profit	Total Deposits	NPM (Rs. in crore)
2012-13	4748	391560	1.21
2013-14	3343	451397	0.74
2014-15	3062	501379	0.61
2015-16	-3974	553051	-0.72
2016-17	1325	621704	0.21
2017-18	-12283	642226	-1.91

Table reveals the NPM of the bank was only 1.21 per cent in 2012-13 which declined over the years and finally stood negative at -0.72 per cent in 2015-16, improved little bit next year and again dropped at - 1.91 in 2017-18. It indicates poor performance of the bank during the study period. Profitability is the major area for any business concern which reveals the earning capacity, business performance and customer satisfaction.

### **Liquidity Performance**

Liquidity ratios, generally shows the ability of bank to pay its current liabilities. The higher the value of the ratio is, the larger the margin of safety of a bank will be, to cover its short-term obligations. Liquidity ratios are, listed below as following:

**Advances to Deposits Ratio (ADR):** This ratio is a common measure used for assessing liquidity and credit risk. It is calculated by dividing the banks total loans or total advances by its total deposits. This ratio is the indicator of, the percentage of a bank's loans funded through deposits. A high loan to deposit ratio from liquidity's viewpoint indicates, a potential source of illiquidity and insolvency as deposits are quite stable source of funding for a bank and loans are riskier asset than other financial assets because of lower market liquidity. Therefore, a higher loan deposit ratio means more financial stress by making excessive loans. So, the lower loan deposit ratio is always favourable to the higher one.

**Table.5 Advances to Deposit Ratio (ADR) of PNB**

(Rs. in crore)

Year	Total Advances	Total Deposits	ADR
2012-13	308796	391560	0.79
2013-14	349269	451397	0.77
2014-15	380534	501379	0.76

2015-16	412326	553051	0.75
2016-17	419493	621704	0.68
2017-18	433735	642226	0.68

Source: Annual Reports of PNB from 2012-13 to 2017-18

It is clear from the above table that ADR ratio was highest in the year 2012-13 and it has subsequently declined to reach in the year 2017-18, which is a good indicator.

**Deposits to Assets Ratio (DAR):** Total deposits to total assets ratio is another liquidity measure and is calculated by dividing the banks total deposits by its total assets. It indicates the reliable base of funding for the bank, i. e. how much of the bank's assets are funded by deposits.

**Table.6 Total Deposits to Total Assets Ratio (DAR) of PNB**

(Rs. in crore)

Year	Total Deposits	Total Assets	DAR
2012-13	391560	478948	0.82
2013-14	451397	550420	0.82
2014-15	501379	603334	0.83
2015-16	553051	667390	0.83
2016-17	621704	720331	0.86
2017-18	642226	765830	0.84

Source: Annual Reports of PNB from 2012-13 to 2017-18

The above table shows the ratio of deposits to assets ratio of Punjab National Bank from 2012-13 to 2017-18. The ratio ranges from 0.82 per cent to 0.86 per cent during the years under study.

### **Credit Performance (Assets Quality)**

Lending is still one of the most important activities of banks. While it is expected that all banks will have to bear some positive level of bad loans and loan losses; one of the key objective of bank management is to minimise such losses,(Casu et al, 2006)

**Table.7 Total Provisions to Total Advances Ratio  
(Rs. in crores)**

Year	Total Provisions	Total Advances	Provisions/Advances
2012-13	6160	308796	0.0199
2013-14	8842	349269	0.0253
2014-15	8893	380534	0.0234
2015-16	16192	412326	0.0393
2016-17	13240	419493	0.0316
2017-18	22577	433735	0.0521

Source: Annual Reports of PNB from 2012-13 to 2017-18

The above table shows that for PNB, the total provisions to total advances ratio varies from 3.81 percent to its peak 4.99 percent in the year 2017-18.

**Table.8 Total Provisions to Total Assets Ratio  
(Rs. in crores)**

Year	Total Provisions	Total Assets	Provisions/Assets
2012-13	6160	478948	0.013
2013-14	8842	550420	0.016
2014-15	8893	603334	0.015

2015-16	16192	667390	0.0243
2016-17	13240	720331	0.0184
2017-18	22577	765830	0.0295

Source: Annual Reports of PNB from 2012-13 to 2017-18

The table above depicts that provision to assets ratio was maximum in the year 2012-13 (3.13%) with little fluctuations in next years it reached minimum in the year 2016-17 (2.22%) and rises to i.e. 2.83 % in 2017-18.

## FINDINGS

- The total business, deposits, advances and total assets of the bank has continuously increased during the study period.
- Net profit has declined throughout the years from Rs. 4748 crore in 2012-13 to loss of Rs. 12283 crore in 2017-18.
- The Return on Assets (ROA) ratio shows a decreasing trend and it is even negative in 2015-16 and 2017-18.
- Return on Equity (ROE) ratio also has decreasing trend and reported negative in study period i.e. -10.37 per cent in 2015-16 and -29.90 in 2017-18.
- Net Profit Margin (NPM) of the bank has declined over the years and finally stood negative at -0.72 per cent in 2015-16, improved little bit next year and again dropped at – 1.91 in 2017-18.
- Advances to Deposits Ratio have declined in the years under study.
- Advances to Assets Ratio shows almost a stable trend with very little increase and decrease.
- Provision to total Advances ratio has increased from 2013 to 2018.
- Provision to total assets ratio shows a fluctuation of increase and decrease and finally becomes highest in last year of the study.

## CONCLUSION

The study examines financial performance and profitability of PNB with the help of various financial ratios. Profitability performance of the bank may be concluded to be not good as both ROA and ROE have declined during the study period. Liquidity of bank has almost remained constant as shown by the liquidity ratios. Credit performance of the bank is also poor as credit performance ratios show increasing trend during the study period. All these results show that bank needs to make more and more efforts to improve its financial performance. This study is helpful for bankers and managers in their decision making to improve the financial performance and formulate policies that will promote effective financial system.

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