
A Study on the Financial Performance Assessment of Nationalized Bank of India with Special Reference to Punjab National Bank

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ABSTRACT

The CAMEL approach is a useful tool to examine the safety and soundness of banking sectors in India. In the present study, the performance of Punjab National Bank using the CAMEL approach has been studied. This paper observes the globally accepted parameters of the CAMEL rating model and their consistency over the study period of 2014-15 to 2018-19. The main objective of this paper is to highlight the overview of PNB and to study the shareholder's capital adequacy, asset quality, earnings quality, liquidity ratios and management efficiency ratios performance in PNB. The particular study is based on secondary data where different ratios pertained. It is interpreted that the expediency position is falling during the study period wherein it improves asset quality and capital adequacy however earning standards couldn't match banks' efficiency to induce increased turnover.

Keywords: CAMEL approach, Punjab National Bank, Public Sector banks, Management Banking Efficiency.

1.0 INTRODUCTION

The maximum part of the supply of money in the economy is controlled by the bank. The present study is split into seven parts. The introductory background of the topic is provided by the first part and the literature review has been provided in the second part of the study. The third part covers the objectives of the study and hypothesis in the fourth part. The fifth section covers the detailed methodology and data analysis and interpretation by the sixth part. The seventh part covers the conclusion. Ratio analysis and CAMEL method help in the financial analysis of a bank. The second largest public sector bank has been evaluated under this study. Established in the year 1894, PNB is banking plus merchandising service in a public domain. It is supervised by RBI Act, 1934 and Banking Regulation Act, 1949. It was honored as the first bank that operated itself solely on the basis of Indian working capital. By taking into PNB past five-year annual reports (2014 – 2019): the financial performance of PNB is studied for the betterment of its banking business.

2.0 LITERATURE REVIEW

Research journals, books, and other relevant materials are taken for its review. Some of the associated material for the present study is taken from Kumbirai and Webb (2010)⁶ studied South Africa's commercial banking sector (2005- 2009). Five commercial banks located in South Africa were scrutinized where perception was that in the initial two years the general bank performance was mushrooming. An alteration was observed at the onset of global financial crises in the year 2007 which resulted in the South African Banking sector falling credit quality. Kumar, B.S. (2008)⁵, determined the Indian private sector banks' financial performance. This study showed that a level in the banking industry has been gained by the new age group because of improved technology. Koeva, P. (2003)⁴, studied banks' dues and profits in the liberation phase. The aftermath of the study exhibited that performance signals were affected by ownership determination along with rising competition. Almazari (2011)² studied seven Jordanian commercial banks for the period 2005-2009. The conclusion was that banks with higher shareholder's equity, credits, deposits, and assets did not always have high profitability. Abdulrahman and Al-Sabaawee (2011)¹ evaluated the performance of Islamic banks. The Iraqi Islamic Bank and Jordan Islamic Bank for the tenure 2000-2008 are taken as a sample. The study concluded that great future plans can help in achieving economic objectives. Aspal and Malhotra (2013)³ studied Indian public sector banks for the period 2007-2011. This study showed that the top two banks were Bank of Baroda and Andhra Bank because of high asset quality and capital adequacy.

3.0 THE STUDY OBJECTIVES

The main objectives of the study are:

- To evaluate the pecuniary performance of PNB.
- To study the work performance of PNB.
- To scrutinize the impact of advances and deposits on PNB.

- To study the profitability position of PNB.

4.0 HYPOTHESES TESTING

The hypotheses of the study are as follows:

- H₀₁: There is no significant impact of CAR of PNB.
- H₀₂: There is no significant impact of AQR of PNB.
- H₀₃: There is no significant impact of MER of PNB.
- H₀₄: There is no significant impact of EQR of PNB.
- H₀₅: There is no significant impact of LR of PNB.

5.0 RESEARCH METHODOLOGY

The required secondary data constitutes the main source of information. In this study, data were collected from Annual reports of PNB bank from 2014-15 to 2018-19. And also various national and international journals, periodic publications, working papers, books, articles, thesis, dissertation work on pre and post-financial performance of the Indian banking sector.

The statistics obtained are not fundamental (the primary source of information). It's usually possessed and computed from annual bank reports or internet sources might be biased and not fully reliable.

The drawbacks of the study are mentioned below:

- The study is not applicable to the whole banking sector as the immediate study is restrained to a single public sector bank of India.
- This study is bound to a five year period i.e. 2014-15 to 2018-19.
- The statistics obtained are not fundamental (the primary source of information). It is usually possessed from annual bank reports or internet sources that might be biased and not fully reliable.

6.0 DATA ANALYSIS AND INTERPRETATION

CAMEL's method measures performance through Capital Adequacy Ratio (CAR), Asset Quality Ratio (AQR), Management Efficiency Ratio (MER), Earnings Quality Ratio (EQR) and Liquidity Ratio (LR). The CAMEL research design is as follows:

1. CAR	<ul style="list-style-type: none"> • CAR - Capital Adequacy Ratio • D-ER - Debt – Equity Ratio • TA – TA - Total Advances to Total Assets • GS – TI - Government Securities to Total Investment
2. AQR	<ul style="list-style-type: none"> • NN – NA - Net NPA's to Net Advances • GN – NA - Gross NPA's to Net Advances • TI – TA - Total Investments to Total Assets • NN – TA - Net NPA's to Total Assets

3. MER	<ul style="list-style-type: none"> • TE – TI - Total Expenditure to Total Income • TA – TD - Total Advances to Total Deposits • TI – TA - Total Income to Total Assets
4. EQR	<ul style="list-style-type: none"> • NP – A - Net Profit to Assets • ROE - Return on Equity • IS - Interest Spread • II – TI - Interest Income to Total Income • NII – TI - Non-Interest Income to Total Income
5. LR	<ul style="list-style-type: none"> • C – D - Cash to Deposit • GS – TA - Government Securities to Total Assets • TI – TD - Total Investments to Total Deposits

6.1 Capital Adequacy Ratio of PNB:

Table No.1 indicates the performance of capital adequacy ratios of PNB. The capital adequacy ratio is measured in four categories such as CAR, D-ER, TA-TA, and GS-TI.

In the context of CAR, the overall CAR ratio is 54.08%. The performance of the CAR ratio is decreasing trend from 12.21% to 9.73% from 2014-15 to 2018-19 respectively. Further the D-ER, the overall performance was 85.34%. The ratio has shown an increasing trend from 14.51% to 17.39% from 2014-15 to 2018-19 respectively. In the context of TA-TA, the overall ratio is 2.99%. The ratio has decreased from 0.63% to 0.59% from 2014-15 to 2018-19 respectively. The overall GS-TI is 3.96%. The ratio has decreased from 0.83% to 0.80% from 2014-15 to 2018-19 respectively. The declining trend in GS-TI reflects the high risk associated with bank investment in PNB.

Table No. 1
Capital Adequacy Ratio

C-Ratios	CAR	D-ER	TA-TA	GS-TI
2014-15	12.21	14.51	0.63	0.83
2015-16	11.28	17.28	0.62	0.79
2016-17	11.66	17.39	0.58	0.78
2017-18	9.20	18.80	0.57	0.76
2018-19	9.73	17.39	0.59	0.80
Grand Total	54.08	85.34	2.99	3.96

Source: Annual Reports of PNB Bank 2014-19.

6.2 Assets Quality Ratio of PNB:

Table No. 2 represents the performance of assets quality ratios of PNB bank. The assets quality ratios are measured in four categories such as NN-NA, GN-NA, TI-TA,

and NN-TA. In the context of NN-NA, the overall ratio is 0.64%. The NN-NA has increased from 0.06% to 0.11% from 2014-15 to 2018-19 respectively. Further GN-NA overall ratio is 1.11% and it has increased from 0.10% to 0.26% from 2014-15 to 2018-19 respectively. In the context of TI-TA, the overall performance is recorded at 1.27%. It has increased from 0.25% to 0.26% from 2014-15 to 2018-19 respectively. NN-TA is 0.39%. It has shown the increasing trend from 0.04% to 0.07% from 2014-15 to 2018-19 respectively.

Table No. 2
Assets Quality Ratio

A-Ratios	NN-NA	GN-NA	TI-TA	NN-TA
2014-15	0.06	0.10	0.25	0.04
2015-16	0.14	0.21	0.24	0.09
2016-17	0.13	0.22	0.26	0.08
2017-18	0.20	0.32	0.26	0.11
2018-19	0.11	0.26	0.26	0.07
Grand Total	0.64	1.11	1.27	0.39

Source: Annual Reports of PNB Bank 2014-19.

6.3 Management Efficiency Ratios in PNB:

Table No.3 portrays the performance of management efficiency ratios of PNB. The management efficiency ratios are measured in three categories such as TE-TI, TA-TD, and TI-TA.

Table No. 3
Management Efficiency Ratio

M-Ratios	TE-TI	TA-TD	TI-TA
2014-15	0.94	0.76	0.09
2015-16	1.07	0.75	0.08
2016-17	0.98	0.67	0.08
2017-18	1.22	0.68	0.07
2018-19	1.17	0.68	0.08
Grand Total	5.08	3.54	0.40

Source: Annual Reports of PNB Bank 2014-19.

In the context of TE-TI, the overall ratio is 5.08%. It has increased from 0.94% to 1.17% from 2014-15 to 2018-19 respectively. Further, the TA-TD, the overall ratio is 3.54%. It has shown a decreasing trend from 0.76% to 0.68% from 2014-15 to 2018-19 respectively. In the context of TI-TA, the overall ratio is 0.40%. It has shown a declining trend from 0.09% to 0.08% from 2014-15 to 2018-19 respectively.

6.4 Earning Quality Ratios of PNB:

Table No. 4 represents the performance of earning quality ratios of PNB. The earning quality ratios are measured in five categories such as NP-A, ROE, IS, II-TI and NII-TI.

Table No. 4
Earning Quality Ratio

E-Ratios	NP-A	ROE	IS	II-TI	NII-TI
2014-15	0.0051	89.45	6.73	0.89	0.11
2015-16	(0.0060)	74.36	6.26	0.87	0.13
2016-17	0.0013	90.01	6.39	0.84	0.16
2017-18	(0.0160)	36.10	6.36	0.84	0.16
2018-19	(0.0129)	45.64	6.27	0.87	0.13
Grand Total	(0.0285)	335.56	32.01	4.31	0.69

Source: Annual Reports of PNB Bank 2014-2019.

In the context of NP-A, the overall ratio was recorded in negative at 0.0285%. It has decreased from 0.0051% to (0.0129)% from 2014-15 to 2018-19 respectively. . Further ROE, the overall performance was recorded at 335.56%. It has shown a decreasing trend from 89.45% to 45.64%. In the context of IS, the overall performance was recorded 32.01% and it has decreased from 6.73% to 6.27% from 2014-15 to 2018-19 respectively. Further the II-TI, the overall performance was recorded by 4.31% and it has decreased from 0.89% to 0.87% from 2014-15 to 2018-19 respectively. The NII-TI, the overall ratio was 0.69% and it has increased from 0.11% to 0.13% from 2014-15 to 2018-19 respectively.

6.5 Liquidity Ratios in PNB:

Table No.5 depicts the performance of liquidity ratios of PNB. The liquidity ratios are measured in three categories such as C-D, GS-TA, and TI-TD. In the context of C-D, the overall performance was recorded at 22.98%. It has shown a decreasing trend from 4.88% to 4.62% from 2014-15 to 2018-19 respectively. Further GS-TA, the overall performance recorded 1.01% and remained 0.21% from 2014-15 to 2018-19 respectively. In the context of TI-TD, the overall ratio recorded 1.50% and it also remained the same at 0.30% from 2014-15 to 2018-19 respectively.

Table No.5
Liquidity Ratio

L-Ratios	C-D	GS-TA	TI-TD
2014-15	4.88	0.21	0.30
2015-16	4.81	0.19	0.29
2016-17	4.40	0.20	0.30

2017-18	4.27	0.20	0.31
2018-19	4.62	0.21	0.30
Grand Total	22.98	1.01	1.50

Source: Annual Reports of PNB Bank 2014-19.

7.0 CONCLUSION, FINDINGS, AND SUGGESTIONS

In the aforementioned paper, the financial conduct of PNB from the financial year 2014-15 to 2018-19 is reasoned. The investor's interest can be protected by increasing the expected returns on their deposits in the bank. Accordingly, in light of its own solidity, the bank needs to alter its strategy. This research would be instructive for the managers and bankers in decision making and will benefit them in formulating policies and for exceeding financial achievements. It also puts the soundness of the bank's operation in good words. Despite all, it may also help the decision-makers focus more on the paramount banking activities and end up in a better ranking of the bank. The research layouts a fresh perspective for evaluating the financial assessment of the top-tier commercial banks. Moreover, this finding could be adjoined to the present-day literature.

The following are the suggestion for the study:

- The PNB needs to increase its CAR in order to maintain its depositor's confidence.
- The PNB should prioritize the management of its assets.
- The PNB should attempt to better the standard of its main banking activities i.e., from lending activities in order to increase income.
- The PNB should improve its management order to take crucial decisions controlled by risk attention.
- The PNB should give the greatest significance to its liquidity position since liquidity is a pivotal feature which shows the bank's ability to meet its financial obligations.

The PNB should try to minimize cost at the minimum possible level. The current study focused on the presentation of PNB by the CAMEL approach. From the above examination, we can come to an end that there has been declining trend in the capital adequacy and increasing trend in the asset quality ratios but the management efficiency and earnings quality failed to reflect the ability of the bank to effectively utilize the assets in generating increased income for the bank and thereby its profitability.

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