

**Business Performance Review**  
**Of**  
**PUNJAB NATIONAL BANK**  
**And**  
**Recommendations**

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**Audience**

This report is for college students and working professionals who want a detailed analysis of PNB.

**Executive Summary:**

Punjab National Bank is one of the most reputed and oldest financial institution in India. Recently it is in news to due Nirav Modi scams and rising NPAs. Mission of this report is to provide detailed analysis about the company ranging from its history, growth story, mergers and acquisitions, scams, current financial condition and profitability. Along with this some recommendations are also provided in each category which can help to optimize bank's operations and increase its profits.

Apart from financial analysis, some data is also provided about CSR initiatives of the company. Along with this, comparison is made between bank's digital offerings with its competitors. Language is kept as simple as possible. The data used in this report is collected from authentic sources like RBI, bank website etc. Tables and charts are used so that comparison should be easy. If anyone wants to do further analysis on their own then source links are provided in the end of the report.

## Contents

<b>Introduction</b> .....	3
1.1 History:.....	3
1.2 Growth Story:.....	3
1.3 Current Scenario:.....	4
<b>CSR Initiatives</b> .....	5
<b>Digital Products</b> .....	5
<b>Share Holding Pattern</b> .....	8
<b>PNB Scam</b> .....	8
<b>Analysis of Financial Statement</b> .....	10
6.1 Equity: .....	10
6.2 Liabilities:.....	11
6.3 Assets: .....	12
6.4 NPAs: .....	12
<b>Ratio Analysis</b> .....	14
<b>Additional information</b> .....	15
<b>Appendix</b> .....	18
<b>References</b> .....	19

## Introduction

### 1.1 History:

Punjab National Bank (PNB) is an Indian multinational bank founded in 1894 in Lahore (Capital of Punjab state of Pakistan) using only Indian investments. Its founding members include various leaders belonging to Swadeshi movement such as Dyal Singh Majithia, Bakshi Jaishi Ram, Lala Lajpat Rai etc. who wanted to set up a financial institution to unite the Indians against British. Its business started in Lahore on April 12, 1895 and Lala Lajpat Rai was considered as the most active member in the development of the bank in its initial years.

### 1.2 Growth Story:

PNB opened its first branch outside Lahore in the year 1900 in Karachi and Peshawar. After that to expand its base further, it made the following acquisitions:

- In 1940, acquired Bhagwan Das Bank.
- In 1951, acquired 39 branches of Bharat Bank which was established in 1942.
- In 1961, acquired Universal Bank of India.
- In 1986, acquired Hindustan Commercial Bank.
- In 1993, acquired New Bank of India.
- In 2003, acquired Kerala's oldest private bank, Nedungadi Bank.

After partition, PNB shifted its headquarters from Lahore to Delhi. Bank was nationalised by the Government of India on July 19, 1969 along with 13 other commercial banks. After getting nationalised, PNB started its journey to become an international bank. It took following measures to develop its international presence:

- In 2004, established branch in Kabul (Afghanistan), offices in Shanghai and Dubai.
- Alliance with Everest Bank of Nepal to carry out easy transactions between India and Nepal. At present PNB has 20% stake in Everest bank.
- In 2006, established Punjab National Bank International Ltd. (PNBIL) in UK to carry out its banking business on foreign land. Since then it has established its offices in London, Southall, Birmingham, Wembley etc.
- In 2009, opened a branch in Hong Kong (China) and a representative office in Oslo (Norway).
- In 2010, PNB opened its office in Bhutan.

- PNB also bought stakes in various other foreign banks like 51% stake in Druk PNB Bank of Bhutan, 49% stake in JSC Tengri Bank of Kazakhstan etc.
- In 2011, an office of PNB was opened in Sydney, Australia.
- In 2012, an agreement was signed between PNB and MetLife (US based insurance company) to acquire 30% stake in MetLife India Limited.

### 1.3 Current Scenario:

At present, PNB has 7000 branches with its 70000 employees spread across 764 cities along with 10681 ATMs serving around 80 million customers worldwide. Its head office is located in Dwarka, New Delhi (Fig. 1). Sunil Mehta is the current MD & CEO.



*Fig. 1*

PNB has also received following awards and recognitions for its services:

- Ranked #717 in Forbers Global 2000 on May 2013.
- Ranked #26 in Fortune India 500 ranking of 2011.
- Awarded 'Best Public Sector Bank' in 2012 by CNBC TV 18.
- Recognised as the 'most socially responsive bank' by PWC and Business World in year 2012.
- Received 'Golden Peacock Award' for 'Excellence in Corporate Social Responsibility' in 2011.

## CSR Initiatives

PNB being a multinational bank is actively involved in CSR activities. As two third its branches are in rural and semi urban areas, so CSR remains core of its daily banking operations. Some of the CSR schemes launched by the bank:

- PNB Ladli: Aim is to popularise the education among the poor and needy girls of rural India.
- PNB Kisan Balak Shiksha Protsahan Yojana: This scheme focuses on promoting education among the weaker sections of the society especially farmers, landless / daily wage labourers, small farmers etc.
- Mahila Kaushal Vikas Yojana: It aims at women empowerment by skill development so that they can find suitable jobs.

Apart from these schemes, the bank has also set up 12 Farmers Training Centres (FTCs) across the country which provide training to the farmers on latest techniques. PNB also has 57 Rural Self Employment Training Institutes (RSETIs) for skill and entrepreneurship development and also has 108 Financial Literacy Centres (FLCs) to provide knowledge of basic financial concepts to general public. Through PNB Prerna, the spouses of the top executives of the bank are involved to deliver door to door services to the needy. Also, the bank is involved in environment conservation activities by undertaking tree plantation drives, energy conservation measures, encouragement of usage of solar energy etc. In the area of medical services, free medical check-up camps and blood donation camps are organised by the bank at regular intervals. To nurture young talent in sports, PNB has set up a Hockey Academy in Sept. 2002 where all the expenses of the talented players belonging to weaker sections of the society are born by the bank.

## Digital Products

PNB started its IT journey a long back in 2000. Since then it has made large number of improvements. With growing internet penetration in the country along with stiff competition in the market, PNB has been able to provide various online facilities to its customers like Internet banking, Phone Banking, Mobile Banking etc. With the help of these customers can carry out their day to day tasks easily.

Some of the features provided in internet banking are opening of PPF accounts, fixed deposits, view statements, debit card services, demat account services etc. Along with this PNB has launched some apps for its mobile savvy customers like:

- PNB M-passbook: To view account statements.
- PNB M-Banking: To carry out all the internet banking services via mobile.
- PNB Bhim: For UPI transactions.
- PNB MobiEase: For banking services without using internet with the help of SMS Banking, USSD Banking and Missed Call banking.
- PNB Basket: To check latest news from the bank and also to track the other apps of PNB.
- PNB Genie: Suitable for Credit card holders to track their transactions and pay their bills.
- PNB Assist: To register complaints regarding ATMs.
- PNB Kitty: For faster recharges and bill payments.
- PNB Care: To provide feedback, suggestions and also to track complaints.
- PNB Yuva: To help young people to manage their financial goals.

Bank	App Rating (x/5)	App Downloads	Website Rankings (Domestic)
SBI	4	10 million	9
HDFC Bank	4.1	10 million	18
ICICI Bank	4.5	10 million	29
Canara Bank	3.7	1 million	324
<b>PNB</b>	<b>3.7</b>	<b>1 million</b>	<b>458</b>
Bank of Baroda	4.3	1 million	236
Axis Bank	4.5	10 million	66
Bank of India	4.5	1 million	389
Union Bank	3.8	1 million	390
Kotak Bank	4.5	10 million	206

The above data shows to true picture of the user friendliness of digital platforms provided by top 10 banks of India. Internet Banking website rankings are based on the Alexa ranking add on used in google chrome. App downloads are the latest downloads in google play store along with their average ratings out of 5.

This data clearly states that PNB scores very low in providing digital platform to its customers. Instead of being the 5<sup>th</sup> largest bank of India in terms of revenue, its internet banking website ranking is lowest. Also, total downloads of its mobile banking application are also not encouraging which has an average rating of only 3.7 (lowest among others). This clearly states that PNB has to improve a lot in this area or else it will lose its customer base to other banks.

**Some Recommendations:**

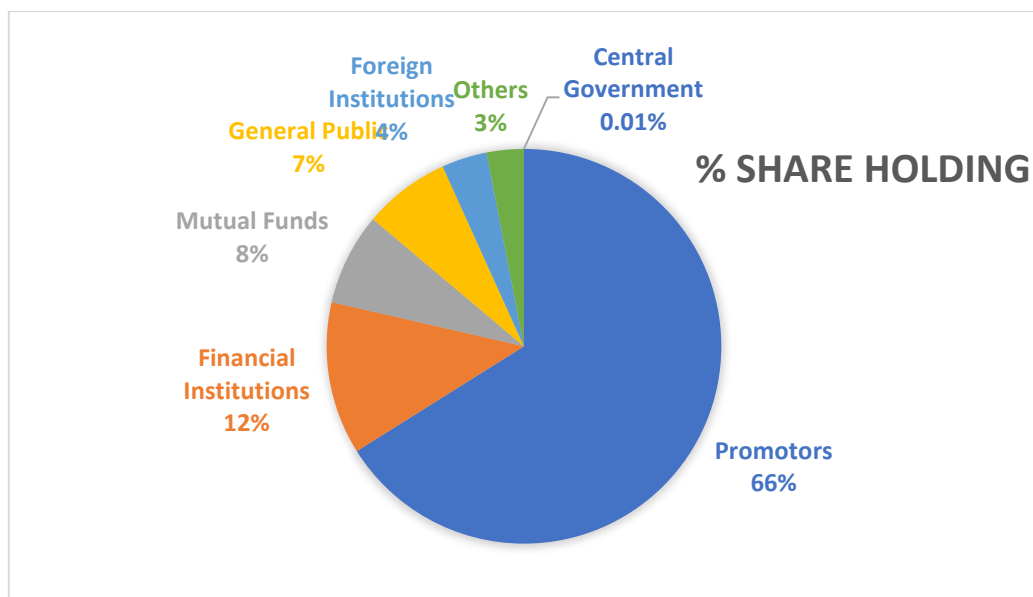
- PNB has created a separate application for every task which is usually not liked by customers. So, there is an urgent need to create a common and more user-friendly application that can provide all the services.
- Also, the internet banking website is also not easy to use. So, it should improve that also. It can take some ideas from the websites used by its competitors and based on that develop their own concept. These types of tasks can be outsourced to IT companies like TCS, Infosys etc. who have the required expertise in this area.
- More services should be included on digital platforms as many common services like change of nominee, change of bank branch etc. are still done manually in physical branches.
- From the above data we can observe that even though digital penetration of the bank is low but still its revenue is greater than many of its counterparts. This clearly shows that PNB has not promoted its digital products very well and most of its operation are still carried manually. So, there is a need to do proper marketing of any new product or service launched by the bank.

At present even though the bank is generating a large revenue from its operations and has a large customer base but new generation of India is tech savvy who always prefer to perform all their banking tasks online. If PNB does not act fast in digital space then it will easily lose its potential customers to its competitors leading to revenue loss.



## Share Holding Pattern

Below is share holding pattern of PNB.



Promoters of the company hold a major chunk of the total number of shares which clearly indicates that they have the autonomy to take their decisions independently without the interference of other shareholders. Also, this shows that promoters have strong faith in the company's operations and they are optimistic about the future. As of now, promoters have not pledged any single share of PNB which again is an indication of a sound company.

PNB share is also a part of various indexes in India like NIFTY NEXT 50, Nifty PSU Bank Index, Nifty Bank index, BSE Bankex etc. which again shows that PNB is a sound company.

Also, many prominent mutual fund houses like HDFC AMC, SBI, Reliance Nippon etc. have also invested crores of rupees in PNB stock. Foreign Institutional investors hold only around 3.72% of the total shares while general public accounts for only 7.11%.

## PNB Scam

The biggest fraud case in the history of PNB worth US \$2.1 Billion came into limelight in the month of January 2018 when associates of three jewellery firms Diamond R US, Solar Exports and Stellar Diamonds, all three related to India's biggest jewellery company Gitanjali Gems approached PNB and asked for Letter of Undertaking (LOUs) to pay to their overseas

suppliers. Due to unavailability of any pre-arranged credit limit, the bank asked them for 100 percent cash margin to issue the LOUs. But firms said that they had received such letters in the past without any guarantee. When branch records were checked then no such transactions were shown. PNB suspected a fraud and started further investigation.

A complaint was filed with Central Bureau of Investigation (CBI) which alleged that Nirav Modi (Owner of Gitanjali Gems), Nisha Modi and Mehul Choksi (*refer Appendix*) all partners of the three jewellery firms along with two PNB officials cheated PNB. Gokul Nath Shetty (retired Deputy Manager of PNB) and Manoj Kharat, two employees of PNB's Brady House in Fort, Mumbai branch had issued LOUs over the SWIFT interbank messaging system to Hong Kong based creditors on behalf of three firms. The did not entered any of these transactions on the bank's own system and such transactions continued for years without coming to notice. Bank officials said that SWIFT system which is used for international transactions and the core banking system works independently of each other and both these systems are not linked to each other in most of the banks in India. So, fraudsters took the advantage of this. As the outstanding LOUs were not available in the core banking system, so bank continued to issues more LOUs and fraud went undetected.

**Recommendations:**

This incident created a turmoil in the Indian Financial sector and banking stocks fell by 20-30% within a few weeks. This incident took place due to inappropriate use of power by bank officials, outdated technical infrastructure of bank and delay in actions by Indian Government. So, to avoid such incidents in future following measures need to be taken:

- Banks should update their technical infrastructure regularly.
- They must not overlook central bank rules.
- PSU banks should be freed from any kind of political influence.
- PSU banks should be allowed to hire from reputed management and technical institutes so that they can have experts for smooth functioning of the organisation
- Salaries of government bank officials are far less as compared to their private counterparts. This difference sometimes leads the bankers to commit frauds to earn more money.

## Analysis of Financial Statement

Punjab National Bank				
Standalone Balance Sheet	----- in INR Crores -----			
	2018	2017	2016	2015
	12 months	12 months	12 months	12 months
<b>EQUITIES AND LIABILITIES</b>				
<b>SHAREHOLDER'S FUNDS</b>				
Equity Share Capital	552.11	425.59	392.72	370.91
<b>Total Share Capital</b>	<b>552.11</b>	<b>425.59</b>	<b>392.72</b>	<b>370.91</b>
Revaluation Reserve	3,683.82	3,750.53	2,844.78	1,387.55
Reserves and Surplus	36,838.37	37,670.86	35,072.64	37,321.06
Total Reserves and Surplus	40,522.19	41,421.39	37,917.42	38,708.61
<b>Total Shareholders' Funds</b>	<b>41,074.31</b>	<b>41,846.98</b>	<b>38,310.14</b>	<b>39,079.52</b>
Deposits	642,226.19	621,704.02	553,051.13	501,378.64
Borrowings	60,850.75	40,763.34	59,755.24	45,670.55
Other Liabilities and Provisions	21,678.86	16,016.21	16,273.94	17,204.89
<b>Total Capital and Liabilities</b>	<b>765,830.10</b>	<b>720,330.55</b>	<b>667,390.46</b>	<b>603,333.60</b>
<b>ASSETS</b>				
Cash and Balances with Reserve Bank of India	28,789.03	25,210.00	26,479.07	24,224.94
Balances with Banks' money for call and short notices	66,672.97	63,121.65	47,144.02	31,709.23
Investments	200,305.98	186,725.44	157,845.89	151,282.36
Advances	433,734.72	419,493.15	412,325.80	380,534.40
Fixed Assets	6,349.33	6,273.25	5,222.73	3,551.48
Other Assets	29,978.07	19,507.06	18,372.94	12,031.19
<b>Total Assets</b>	<b>765,830.10</b>	<b>720,330.55</b>	<b>667,390.46</b>	<b>603,333.60</b>
<b>OTHER ADDITIONAL INFORMATION</b>				
Number of Branches	6,983.00	6,938.00	6,760.00	6,560.00
Number of Employees	74,897.00	73,919.00	70,801.00	68,290.00
<b>ASSETS QUALITY</b>				
Gross NPA	86,620.05	55,370.45	55,818.33	25,694.86
Gross NPA (%)	18	13	13	7
Net NPA	48,684.29	32,702.10	35,422.56	15,396.50
Net NPA (%)	11	8	9	4
Net NPA To Advances (%)	11	8	9	4

### 6.1 Equity:

As we can see from the above balance sheet, equity share capital of PNB is continuously increasing for the past 4 years. But total reserves and surplus were increasing till 2017 then

marginally decreased in year 2018. This is mainly due to Nirav Modi scam which came into limelight in the month of January.

## 6.2 Liabilities:

Total liabilities of the bank have increased year after year. In dept analysis shows the following:

Deposit Type	Amount (in crores) 2018	Amount (in crores) 2017
Demand deposits	40374.1981	45853.3075
Savings Deposit	222873.112	214162.5493
Term Deposit	378978.8818	361688.1596
Total Deposits	642226.1919	621704.0164

Savings deposits, which is one of the cheapest sources of funds for any bank stood at 34.70% of all the deposits. As compared to previous year, this figure has increased. There is a decrease in demand deposits in the bank.

Origin of Deposits	Amount (in crores) 2018	Amount (in crores) 2017
Deposit of branches in India	600386.8409	565572.7079
Deposits of Branches outside India	41839.351	56131.3085
Total Deposits	642226.1919	621704.0164

The above table clearly indicates that even though PNB has its branches all over the world but deposits in the overseas branches has decreased by 25%. This states that overseas depositors are losing their interest in PNB's services.

Now this year bank's borrowings have increased by 49.27%. Following are the contributors:

- Reserve Bank of India - 16,606 crore rupees.
- Other Banks – 3933.87 crore rupees.
- Other institutions and Agencies – 20933.38 crore rupees.

This indicates that this year PNB has borrowed large amount of money. Some part of it is due to Government of India's (GOI) initiative to infuse 110000 crore rupees in various public sector banks to improve their financial conditions and to help them in expansions.

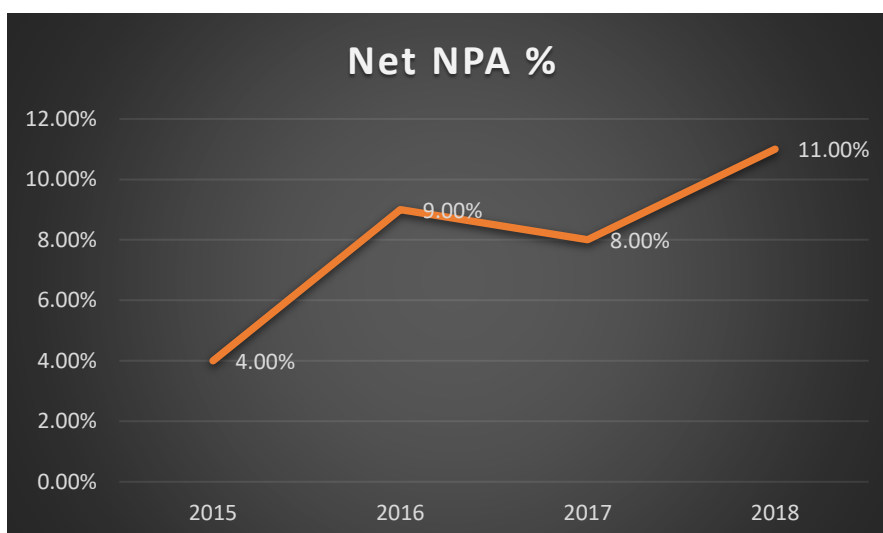
### 6.3 Assets:

Below are some of the key inferences from asset side of balance sheet:

- As compared to previous year, there is a 6.32% increase in total assets.
- Among all the different type of assets, 7.27% increase has been observed in investments which include Government Securities, debentures, bonds etc. amounting to 13,580.54 crore rupees.
- Another major contributor to increase in total investments is advances (Cash credits, overdrafts and Loans Payables) which contributed 14241.57 crore rupees (3.394% increase from previous year). These advances are a combination of secured tangible assets, assets covered by government guarantee and unsecured assets. Unsecured loans in financial year 2017-2018 has increased by 16022.39 crore rupees.
- Total loans given to public sector companies increased by 19048.57 crore rupees (95.53% increase).
- Also, Total money kept by the bank with RBI also increased by 3,579.03 crores.

### 6.4 NPAs:

After Nirav Modi Scam, NPAs have become a bigger concern, especially for public sector banks. It has been observed that many times under political influence, public sector banks provide loans to big corporates without proper due diligence which later on get converted to bad debts or NPAs (*Chart 1, Appendix*). In case of PNB, net NPA percentage is increasing continuously from the for the past 4 years.



If we compare PNB among top 10 banks of India then it has the highest ranking of net NPA% among all. Below is the data:

Bank	Net NPA% [March 2018]	Rank
PNB	11.24%	1
Union Bank	8.42%	2
Bank of India	8.26%	3
Canara Bank	7.48%	4
SBI	5.73%	5
Bank of Baroda	5.49%	6
ICICI Bank	3.65%	7
Axis Bank	2.54%	8
Kotak Bank	0.81%	9
HDFC Bank	0.40%	10

### Recommendations:

- Even though PNB has been able to maintain a healthy CASA ratio of 43.85% but it can still do better. As private sector is the major contributor to total number of jobs in India, so PNB should collaborate with various private sector companies to attract more high-income clients. This will improve their CASA percentage.
- NPAs generally happen when banks do not do proper due diligence before issuing any loan. So, instead of relying only on external agencies, banks should themselves check the financial position of a company before providing any loan.
- There is a need to keep a check on unsecured loans and proper steps should be taken before these loans become NPAs.
- In order to reach to more customers, PNB should also acquire some small banks which have a strong regional presence.
- Political intervention should be avoided bank's operations and if any such incident happens then quick action should be taken against it.
- Bank should use artificial intelligence and data analytics to figure out any future defaulters.

## Ratio Analysis

Ratios/Percentages	March 18	March 17	March 16	March 15
Loan to deposit percentage	63.53%	65.79%	71.10%	72.73%
Capital Adequacy Ratio	9.2	11.66	11.28	12.89
NPA Ratio	11.24%	7.81%	8.61%	4.06%
Return on Assets	-1.60%	-1.60%	0.18%	-0.59%
Return on Equity	-29.90%	-32.85%	3.47%	-11.20%
Net interest Margin	2.02	2.17	2.42	2.88
Operating profit Margin	-44.09%	-44.09%	-16.13%	-22.88%
Cost to Income Ratio	63.44%	63.44%	40.22%	48.18%

Here are some of the key ratios of the bank for the past 4 years which depict the performance of the bank.

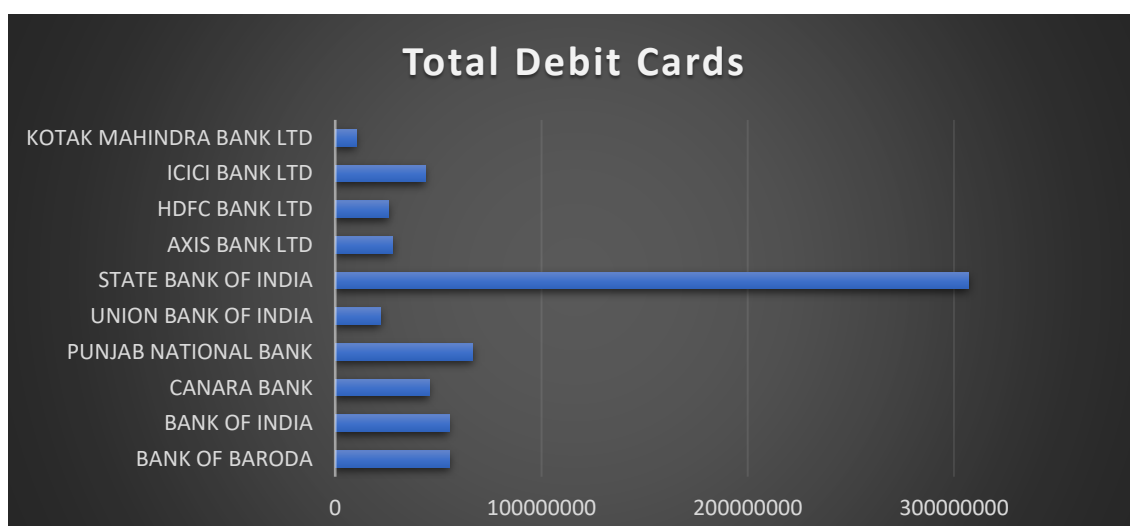
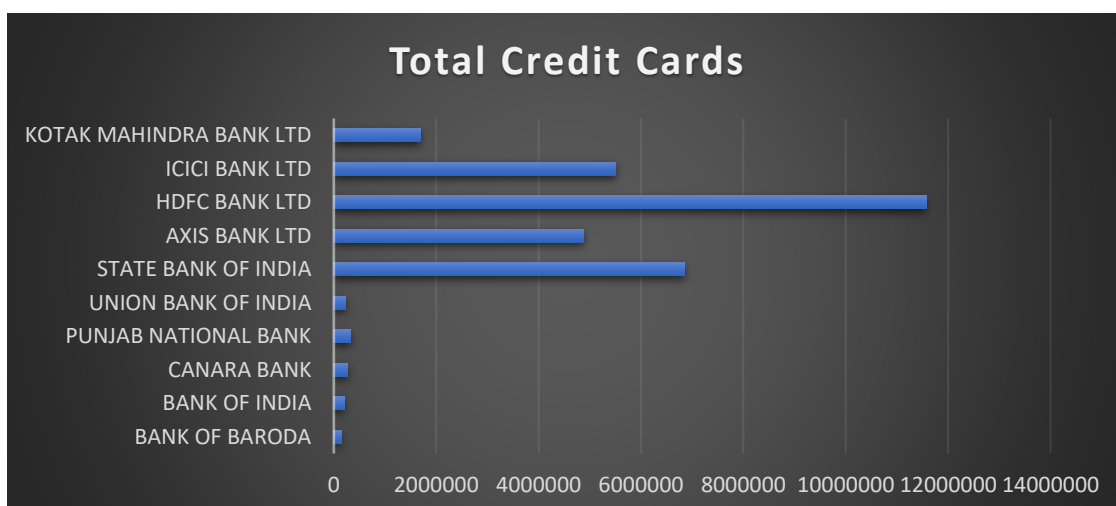
- Loan to deposit ratio is decreasing every year which indicates that every year bank is lending less. Optimal range of this ratio is 70-80%. This is because bank is unable to find sufficient number of customers to provide loans
- RBI has mandated the capital adequacy ratio to be above 9 and PNB has maintained that ratio.
- NPA ratio is one of the most important ratios for any financial organisation and PNB has one of the highest NPA ratio among all India banks. Its NPA ratio is also increasing every year.
- Return on Assets and return on Equity is both negative which indicates bank is unable to manage its properly.
- Net interest margin typically indicates difference between interest paid and interest earned. This ratio is also decreasing continuously. This will directly have impact on bank's net profit.
- Bank is continuously having a negative operating profit margin and its cost of operations is also increasing means its operations are also not well optimized and they are running into losses.

### Recommendations:

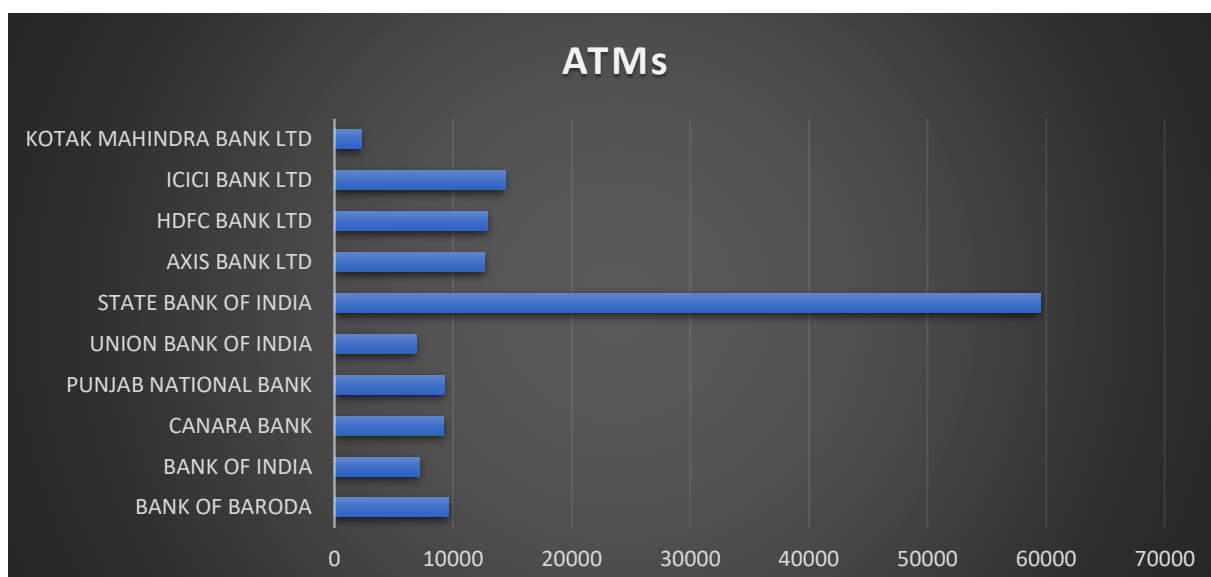
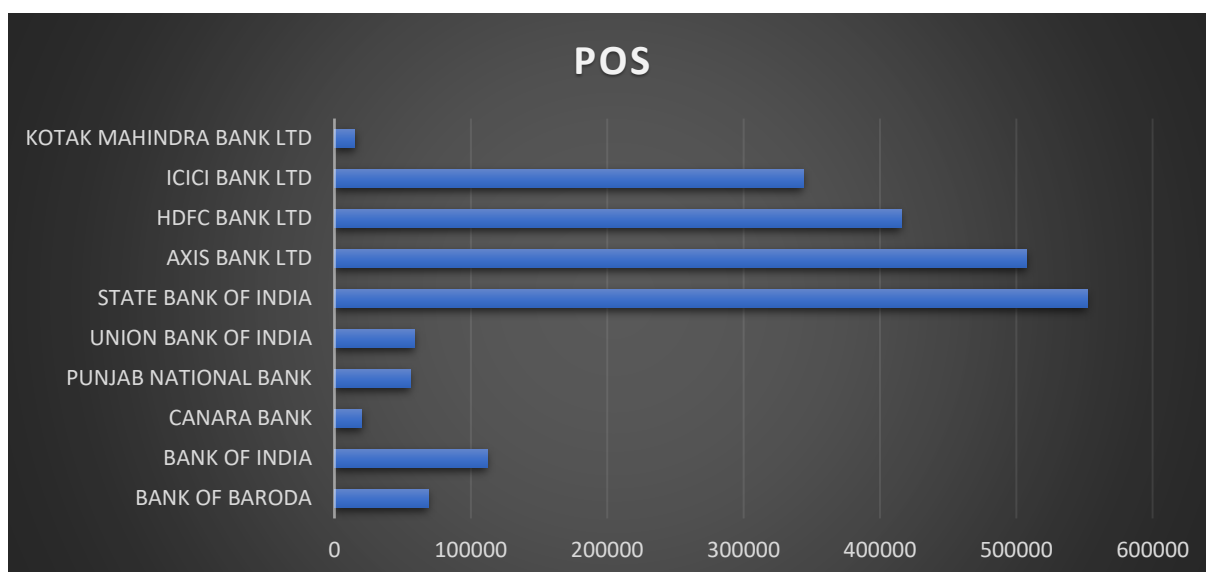
- There is an immediate need to take strict actions against defaulters. Government should provide more powers and political support to the bank so that its officials can take immediate actions without delays.

- Employees should be trained properly in analysing the credit history of its customers and to predict the future defaulters.
- There are many operations in the bank which can be automated with the help of technology like pass book competition, opening of new account, transfer of account etc. So instead of increasing the manpower, bank should invest more in technology.
- To increase the net interest margin, bank should focus on its credit card segment as it is the highest interest earning area for any bank.
- Also, banks should tie up with various other companies e.g. TCS, Infosys etc. to provide personal loans to its employees as this will help to increase the loan to deposit ratio of the bank.

## Additional information







Above is some additional data provided by RBI regarding total number of credit cards, debit cards, point of sales (POS) terminals and ATMs (*Refer Table 1 Appendix*).

- In terms of total share of debit cards, PNB has done a decent job. It holds second position in terms of total number of active debit cards among top 10 Indian banks.
- But in case of credit card business, it ranks very low. It holds only 1.03% of total number of credit cards available in the market as compared to 10.11% in case of debit cards.
- Also, in terms of total number of POS terminals, PNB only holds 2.5% market share while total share of only 4 private banks is 59.64%.

- PNB only has 6.44% market share in terms of total number of ATMs.

Interest rate earned by the banks on credit card payments can reach up to 40% annually that is why private sector banks are more focused on growth of credit card business. Even banks earn significant amount of money from POS transactions. So above data clearly shows that PNB has not properly explored the modern ways of earning more income.

**Recommendations:**

- Bank should promote growth of credit card business by providing better offers, attractive reward point system etc.
  - It should tie up with retail stores, restaurants etc. to provide them with POS services.
  - PNB should diversify its credit card product line to cater the needs of different segments of the society.
  - PNB should maintain its existing ATMs properly as many times faults are there in the machine which brings bad image to the bank.
  - Proper marketing of the new products should be done to attract more customers.
- .....

## Appendix

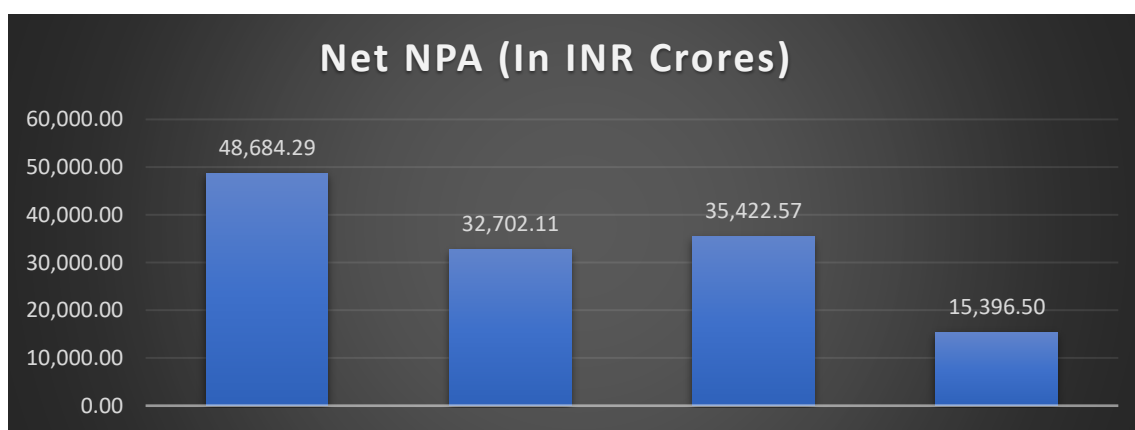
- NPA: Non-Performing Assets

Those loans that are not paid for the past 90 days are classified as NPAs

- Table 1

Bank Name	Total Credit Cards	Total Debit Cards	POS	ATMs
BANK OF BARODA	143466	55468280	68846	9626
BANK OF INDIA	207623	55277775	111998	7129
CANARA BANK	271168	45503256	20164	9218
PUNJAB NATIONAL BANK	327139	66730460	55752	9271
UNION BANK OF INDIA	228644	22171406	58598	6877
STATE BANK OF INDIA	6851249	307029951	551934	59521
AXIS BANK LTD	4885182	27863136	507512	12667
HDFC BANK LTD	11570453	25876605	415769	12929
ICICI BANK LTD	5507862	43750707	343676	14388
KOTAK MAHINDRA BANK LTD	1698001	10204013	14922	2239
Total	31690787	659875589	2149171	143865

- Chart 1:



Nirav Modi



Mehul Choksi

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