An Analytical Over View of Performance of Bank of Punjab during the Period 2005-2014

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Abstract:
This research study aims at investigating the performance of Bank of Punjab during last decade (2005-2014), several performance parameters are used to evaluate and measure the financial standing of the bank. Financial ratios were used to gauge the profitability, liquidity and stability of the bank.
It was revealed that I) Profitability was unstable during the period under review even loss was declared in few years. II) The weighted cost of deposit was very high in the industry which means that financial managers were under stress to maintain the books of bank by mobilizing costly deposits. III) The ratio of infected portfolio was very high which on one hand affected adversely the revenue generation on one hand and eaten up the capital on the other. After few years of poor performance it has improved its profitability by managing the Non-Performing Loans significantly.
Key Words: *Profitability, liquidity, Stability, Bank of Punjab*

Introduction:

Banking play an important role of financial intermediation between savers and investors ,it collects funds from savers having surplus funds at one rate of interest and extends loans to investors who are short of funds at some higher rate.
Banking System is the backbone of the economy of each and every country .It is matter of fact that strong and resilient banking system is an essential requirement for sustainable economic growth. Banks play an important role in economic prosperity of a country by capital formation and growth of firms. Therefore a healthy and sound system can easily face and absorbs the negative shocks and ensure the stability and solvency of banking system. Banking in the form and practices it works today is a very sensitive and responsive business, even a very meager shock disturb the entire system in one or other way beyond the boundaries of globe.
In developing country like Pakistan where very bad governance is prevailing there has very much developed banking system particularly after autonomy of the central Bank It contains a wide range of institutions including a well-organized regulator -SBP, Non-Banking Financial Institutions & commercial banks. Pakistan was controlled by Reserve Bank of India at the time of partition in 1947 but its growth is unprecedented it accelerated its pace so rapidly that we have very sound and strong banking system today. Pakistan's banking sector developed rapidly after partition now it comprises a variety of commercial banks, Islamic Banks, Non- banking institutions, DFIs (Developments Financial Institutions) Micro Finance Banks, Central Bank –the regulator.

The basic objective of Nationalization of banks in 1974 was to meet the targets of priority sectors by extending loans to the ignored segments but it also negatively affected the efficiency of banks in long run. Government involvement was very common in day to day affairs including lending and write off loans on political purposes ,hiring of staff on merit was ignored which ultimately compelled the financial managers to denationalize the banks and allow entrance of private banks for healthy competition and improve the efficiency in 1991.On one hand government started denationalization and on the other provincial governments were allowed to establish their own banks which include Bank of Punjab, Sindh Bank and Bank of Khyber.
The bank of Punjab (BOP) was established in 1989 and become as scheduled bank in 1994.The majority of shares are hold by Government of Punjab.

Objectives of Study

Main objective of the paper is to evaluate performance of Bank of Punjab (BOP) in terms of its profitability, liquidity and solvency for the period covering a decade from 2005 to 2014.

Methodology

Financial ratios were used to measure the efficiency and performance of bank, below mentioned ratios were used for this purpose.

Profitability Ratios	Profit before tax ratio Gross Yield on Earning Assets Cost/Income Ratio Return on Equity Gross Profit Ratio Net Profit to Sales Return on Assets Non Interest Income to total income
Liquidity Ratios	Gross Advances to Deposits Ratio Investment to Deposits Ratio Cash & Portfolio investment to Deposit Ratio
Capital Structure Ratios	Earning Assets to Total Assets Weighted average cost of deposit Deposits to Equity ratio Deposits to Total Assets Ratio Equity Multiplier

Profitability Ratios

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Profit before tax ratio	51.67	41.13	27.63	-94.82	-91.89	-33.95	2.53	5.69	12.39	14.59
Gross Yield on Earning Assets	7.27	9.33	9.48	13.06	9.00	10.32	9.49	9.09	8.51	8.48
Gross Spread ratio	56.42	35.15	20.53	6.41	-21.61	-3.19	-1.88	8.69	16.59	30.47
Cost / Income ratio	28.61	26.34	32.09	-20.95	-26.70	-169.87	93.39	74.30	62.79	59.06
Return on Equity	34.72	35.69	29.42	-198.97	54.77	-136.72	3.43	15.22	15.41	18.27
Gross Profit ratio	42.09	25.44	7.46	-82.47	-80.48	-19.41	9.90	11.15	16.84	24.03
Net Profit to Sales	31.69	26.17	19.36	-45.86	16.96	-20.04	1.53	6.57	6.97	8.65
Return on Assets	2.12	2.31	1.89	-5.41	1.40	-1.76	0.12	0.49	0.55	0.66
Non interest income to total income	27.78	42.06	60.1	78.6	-190.88	144.62	124.22	59.82	47.22	23.67

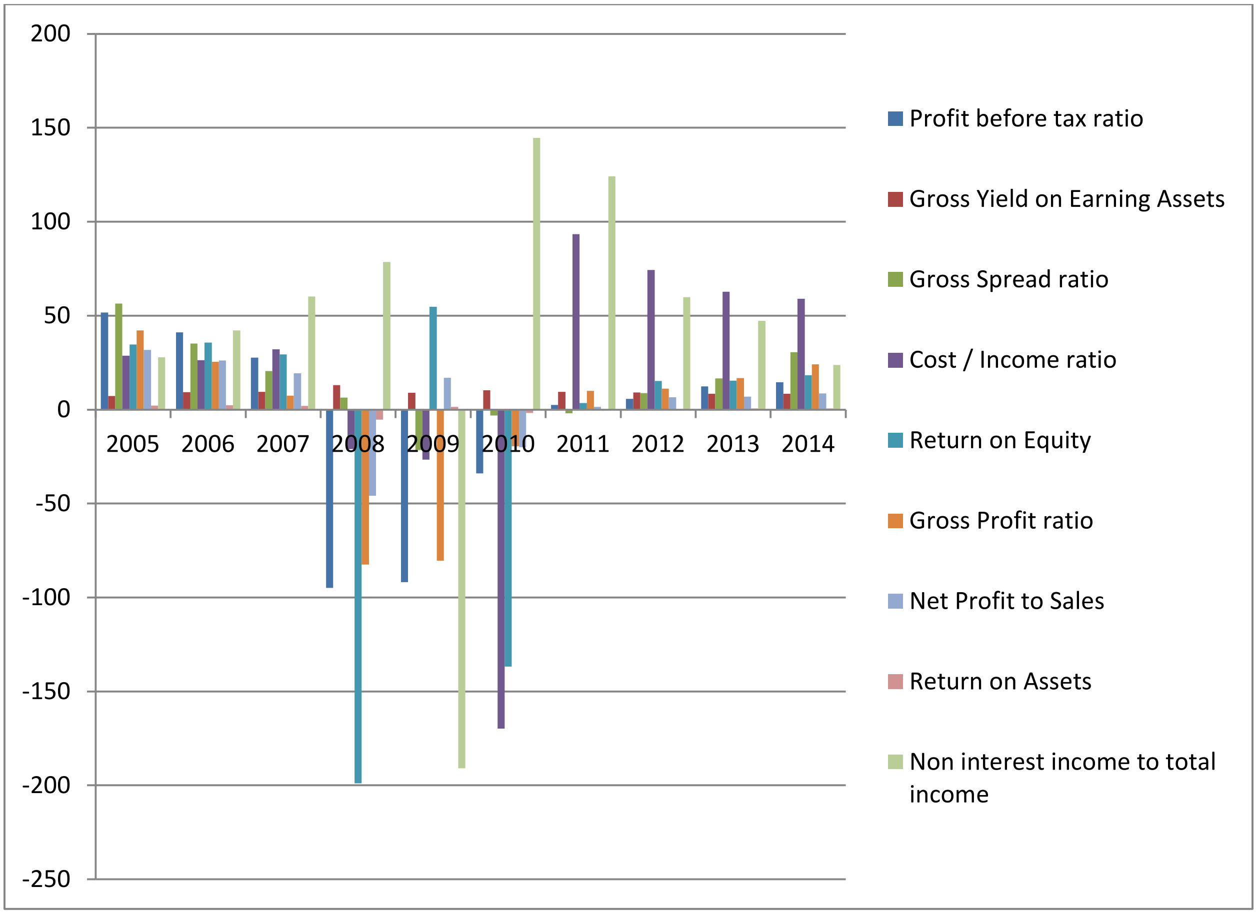
Liquidity Ratios

Gross Advances to Deposits ratio	71.92	73.57	69.75	80.29	63.56	58.04	53.44	56.23	59.68	57.59
Investments to Deposits Ratio	20.38	20.5	38.27	13.84	30.37	27.09	22.47	48.68	40.43	33.50
Cash & Portfolio investment to Deposit Ratio	30.31	30.7	45.67	20.34	37.20	33.85	45.94	55.18	48.2	52.15

Capital Structure Ratios

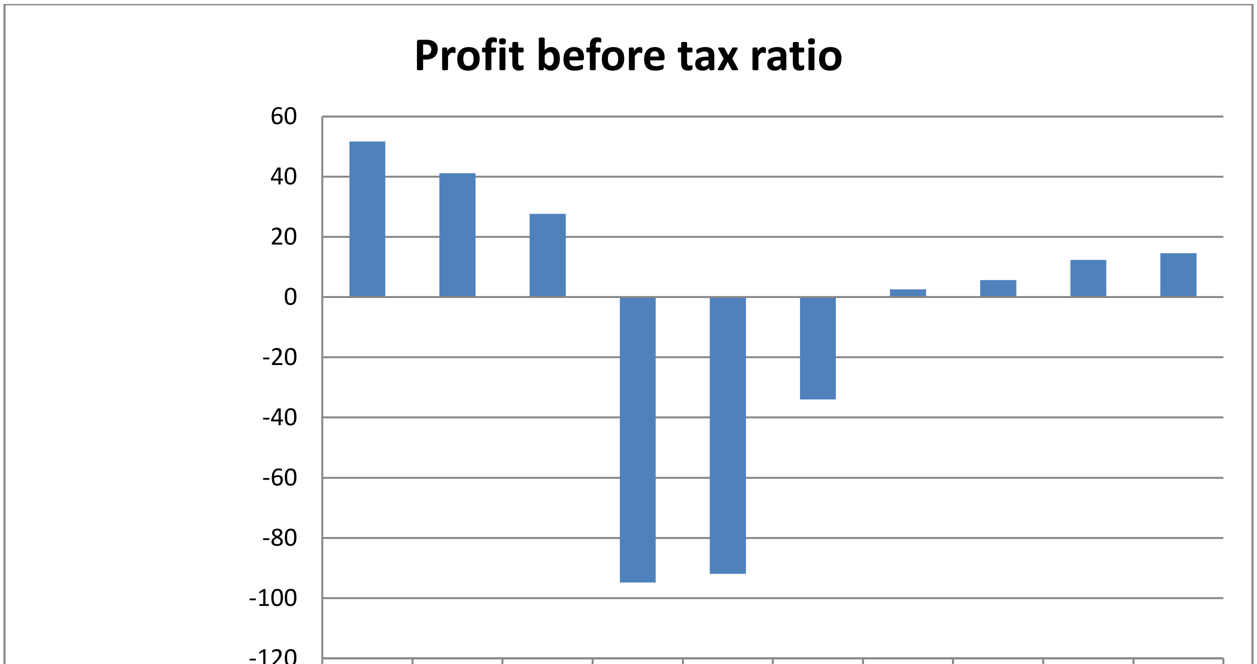
Earning assets to total assets ratio	88.57	87.39	89.76	83.84	88.26	81.09	81.34	85.00	83.72	85.45
Weighted average cost of deposit	3.44	6.43	8.18	8.61	9.88	8.06	8.26	7.86	6.60	6.52
Deposits to Equity ratio	1193.67	1292.25	1270.48	3245.11	3451.32	7064.03	2347.28	2478.86	2437.47	2243.65
Deposits to Total Assets Ratio	83.06	83.54	81.7	88.25	88.09	90.83	84.66	80.11	86.92	81.43
Equity Multiplier	1437.14	1546.77	1555.09	3677.00	3918.08	7777.06	2772.55	3094.30	2804.31	2755.44

Profitability Ratios



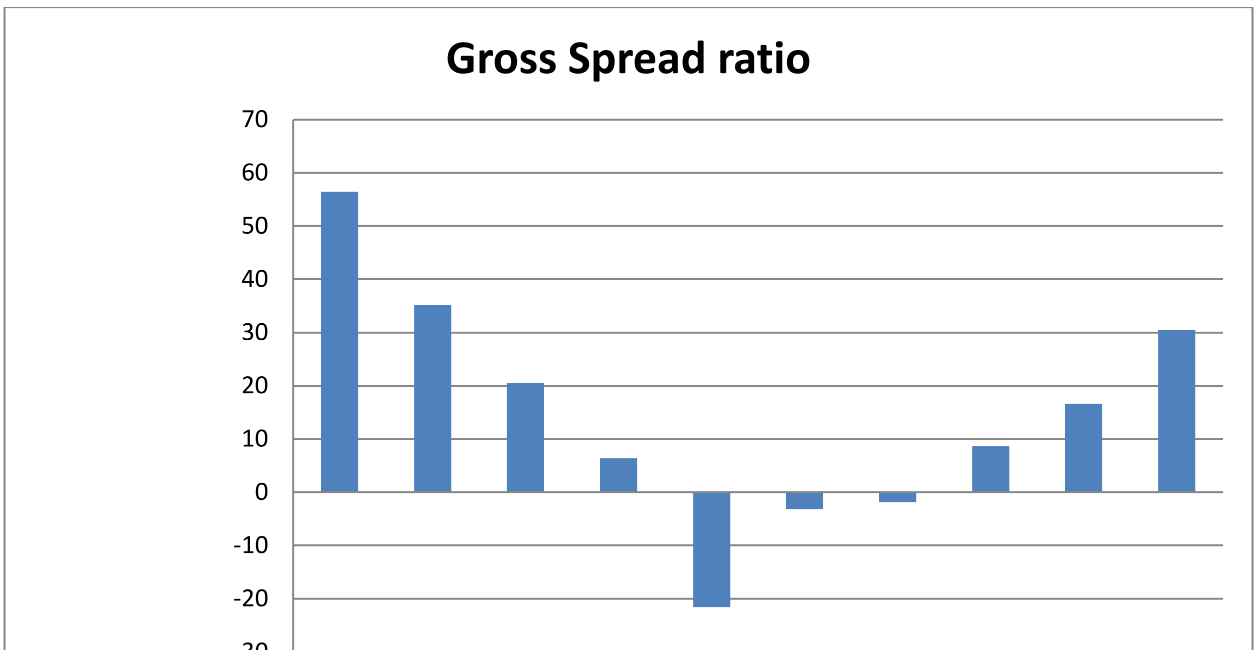
Comments:

While going through the profitability ratios it has been revealed that the years from 2008-2010 were very much disappointing, Bank faced heavy operational losses despite better deposits position. The main reason was cost of a deposit which was around 8-9 % to much in banking industry of country. The other most important reason is accumulation of large Non Performing Loans portfolio which was around 28-42 percent of its earning assets, which has caused heavy losses even bank sustained loss on gross spread and swallowed the share holders' equity**.**



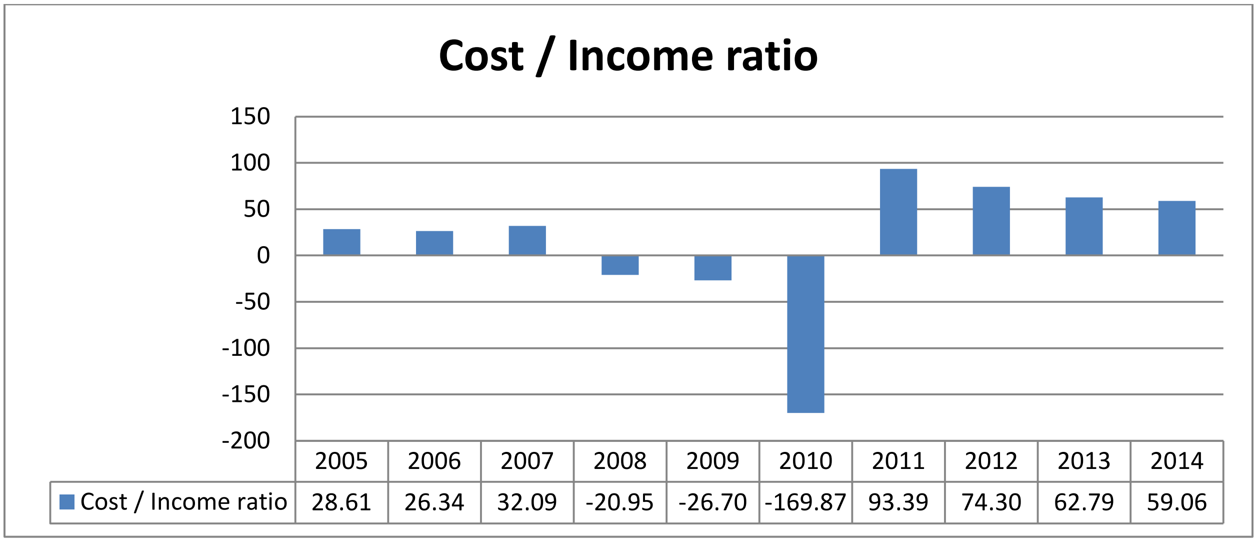
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Profit before tax ratio	51.67	41.13	27.63	-94.82	-91.89	-33.95	2.53	5.69	12.39	14.59

Comments: The ratio itself tells that it was unstable and witnessed downward trend from 2005 to 2011 even loss was declared during 2008 to 2010 for the very reason of infected portfolio accumulated significantly.

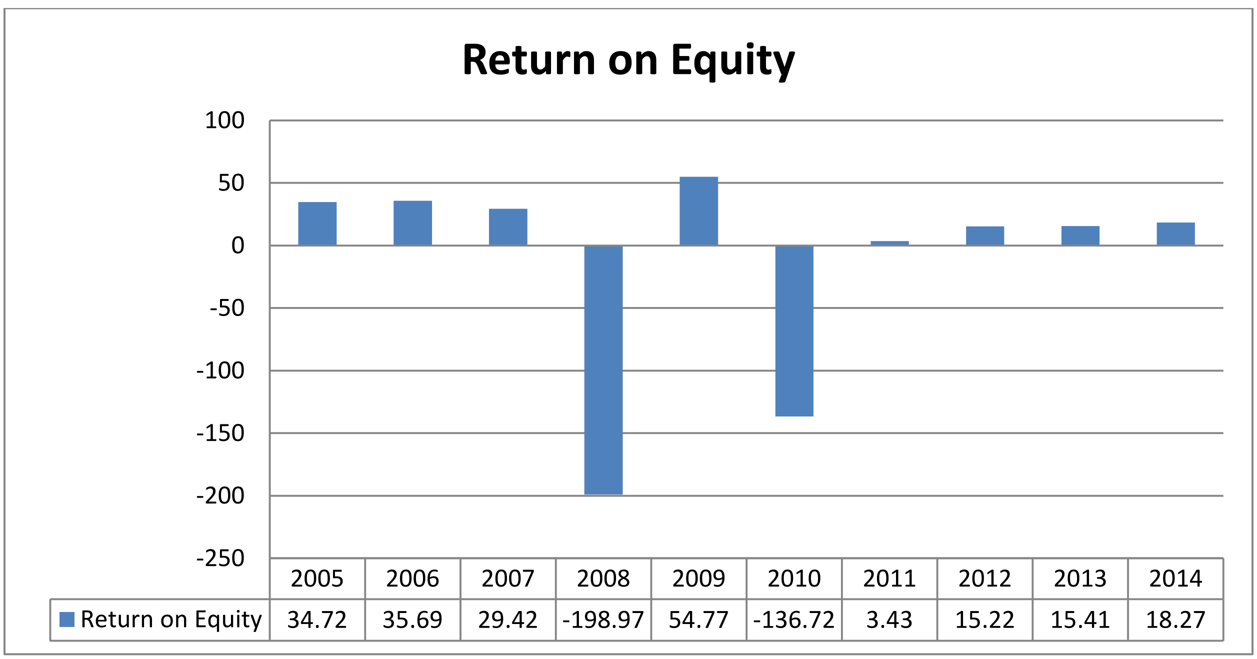


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gross Spread ratio	56.42	35.15	20.53	6.41	-21.61	-3.19	-1.88	8.69	16.59	30.47

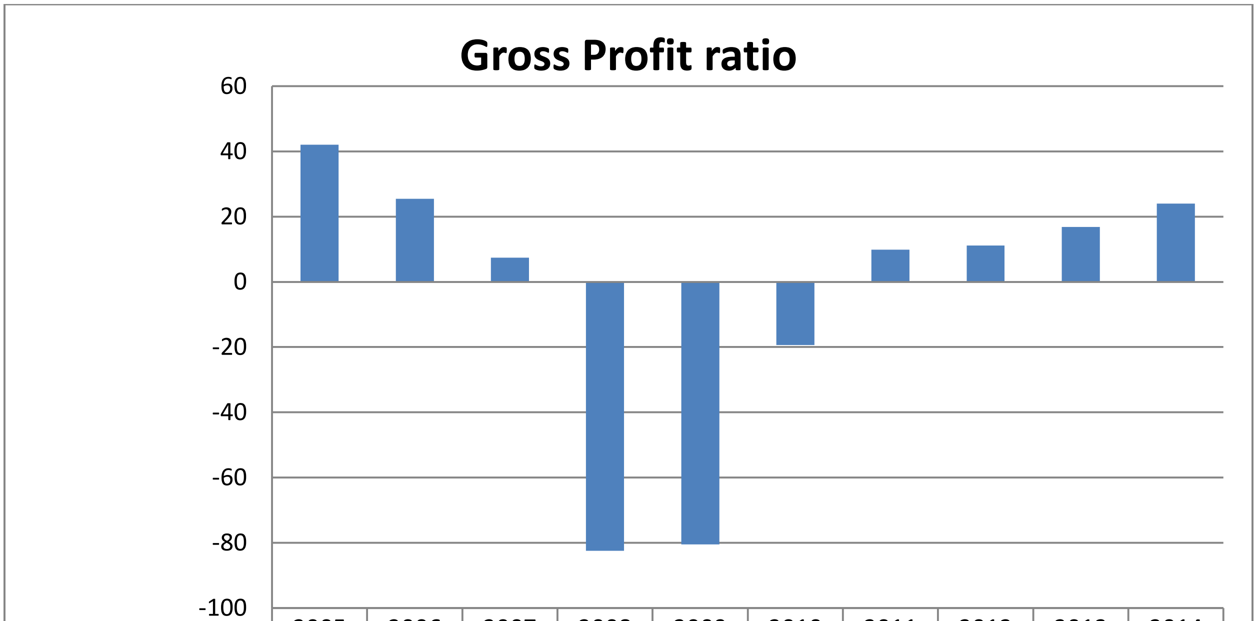
Comments: Gross Spread ratio also confirms that bank big established banks remained adversely affected during period under review. It tells that Net Markup income is decreased and Markup expense increased which also reflects from Weighted Cost of deposits



Comments: This ratio represents relationship between operational expenses with respect to operational income. The ratio advises that expenses are higher than that of income hence its upward movement is never ideal, even it has went into negative during the period of 2008-10 which reveals that it has swallowed the income and the capital as well.



Comments: Efficiency can be measured through this ratio i.e. higher ratio means better performance and vice versa. It clearly portrays the picture that return on equity is on downward trend from 2007 to onward expect in 2009 where new capital seems to be injected. It has also eaten the equity during 2008 and 2010 by 199 % and 137 %



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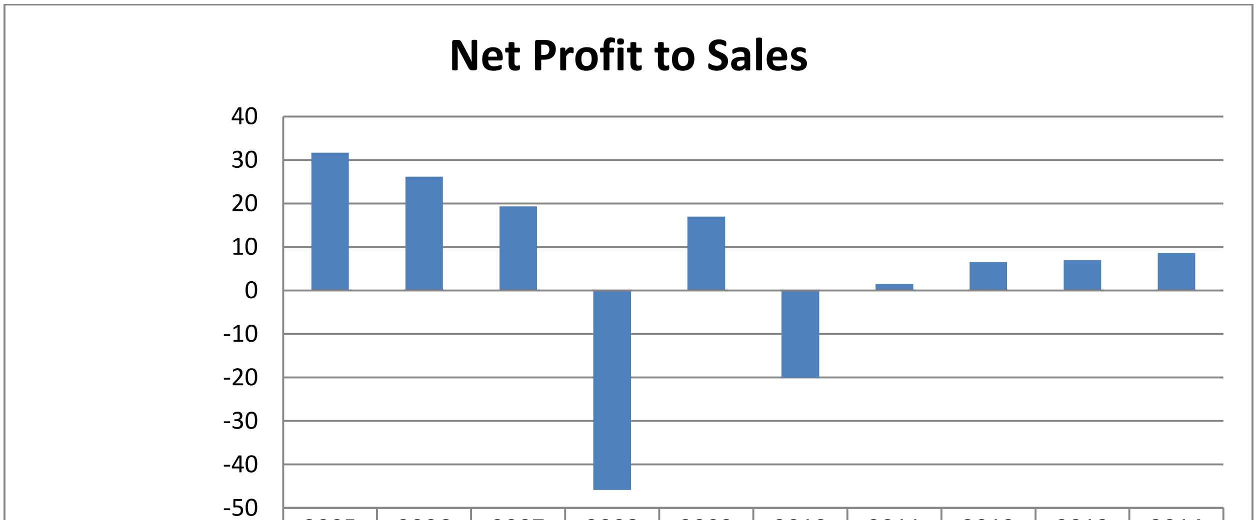
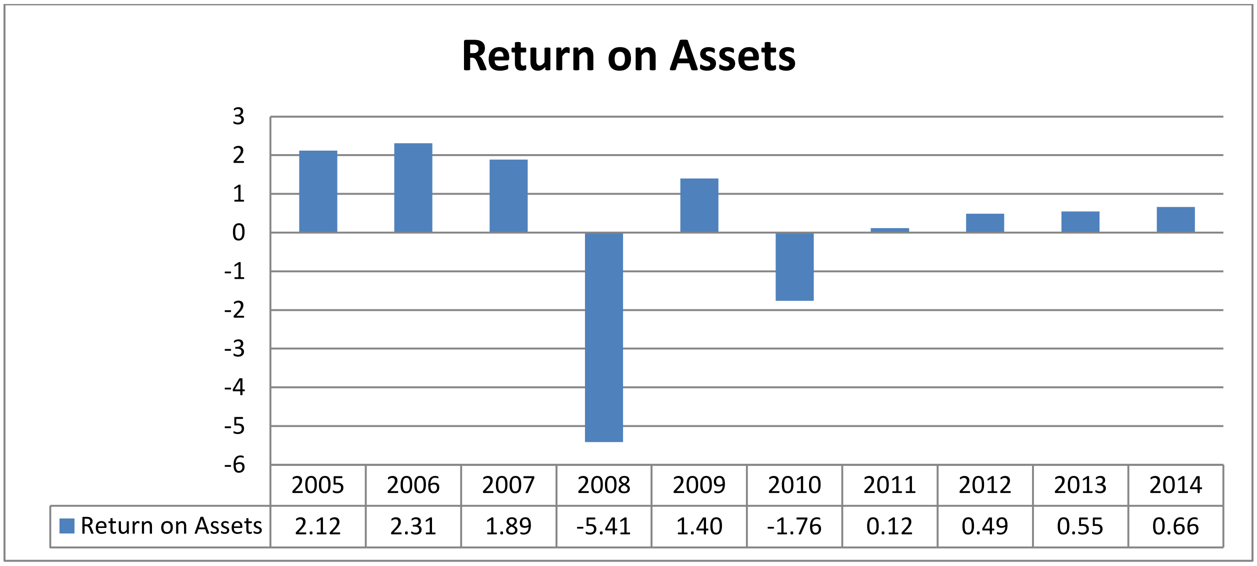
Gross Profit ratio	42.09	25.44	7.46	-82.47	-80.48	-19.41	9.90	11.15	16.84	24.03

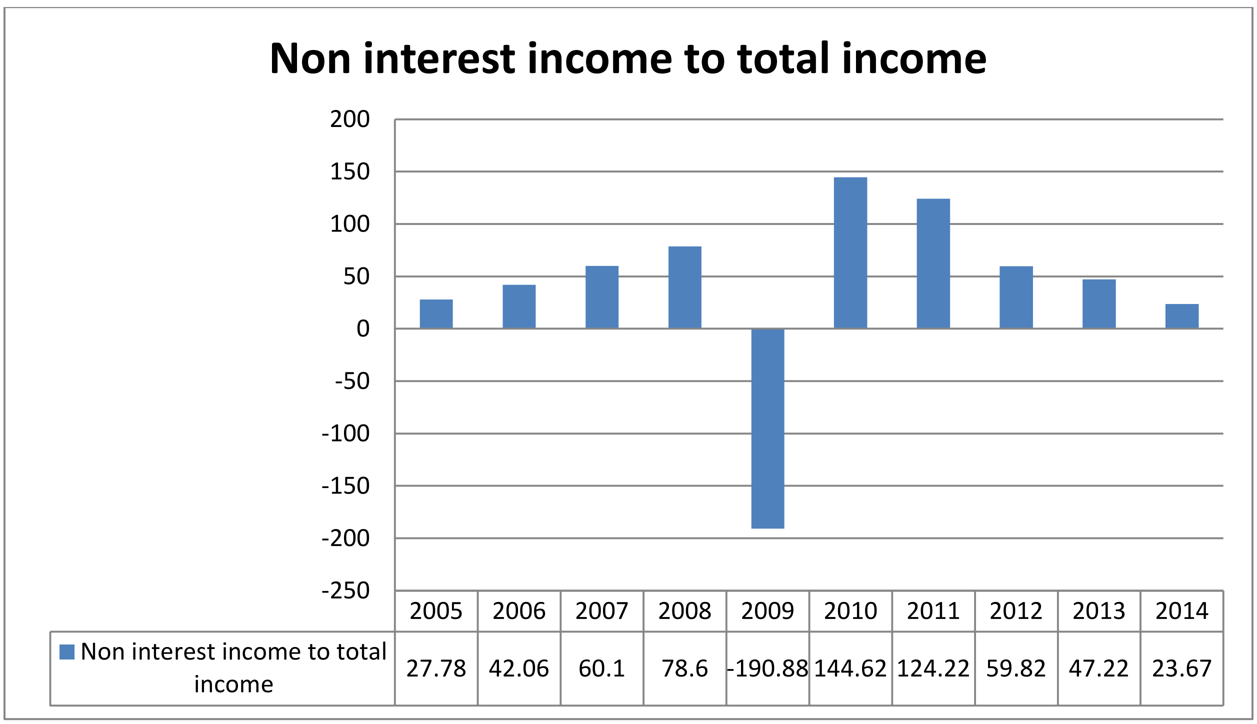


	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Profit to Sales	31.69	26.17	19.36	-45.86	16.96	-20.04	1.53	6.57	6.97	8.65

Comments: The ratio is related with respect to Net profit to total revenue, it has shown declining trend since 2007 and onward even has went into negative during 2008 and 2010.Very much poor performance was witnessed.

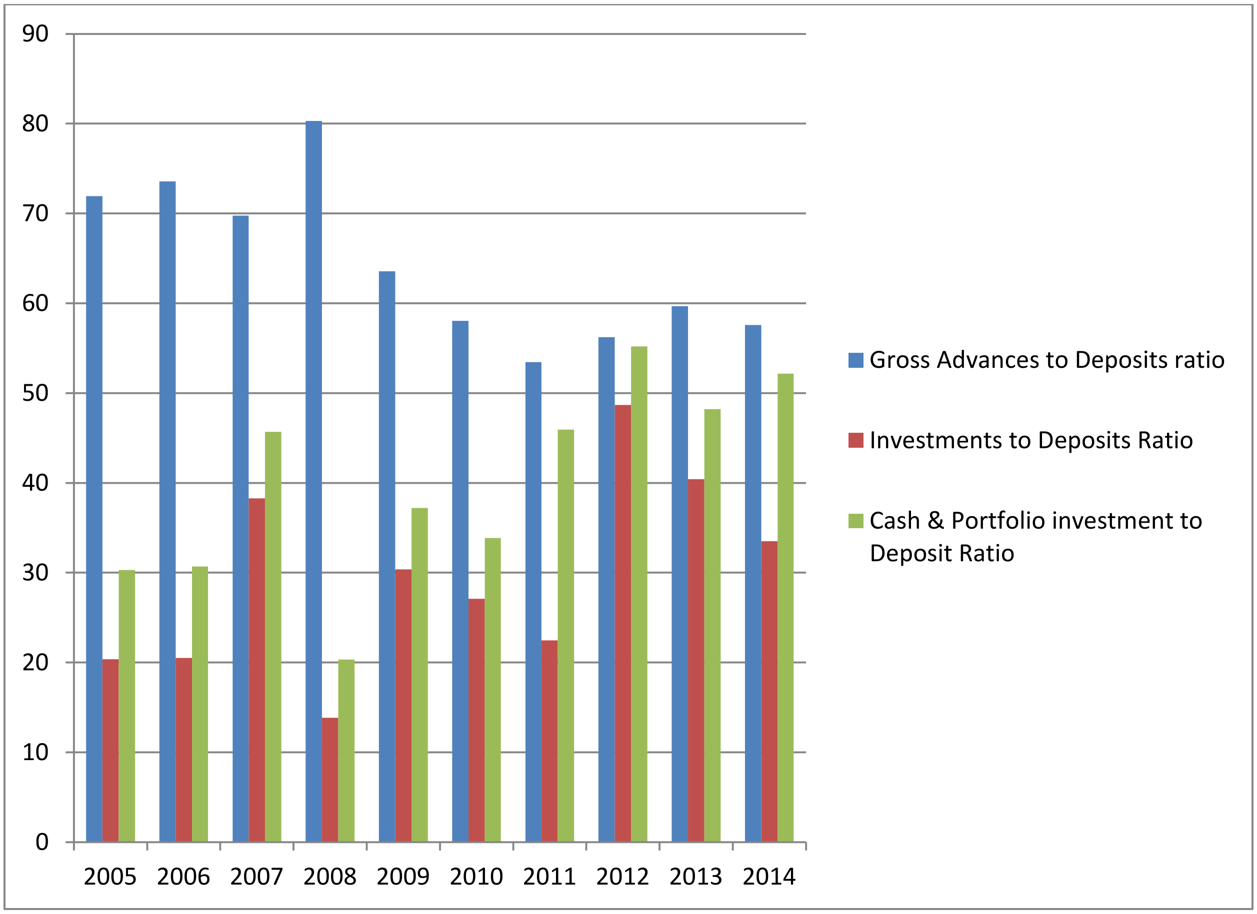


Comments: The ratio tells about the earnings on assets, which is very much disappointing even it was in decimal far behind industry trend which means either assets were idle or blocked giving with very poor income.



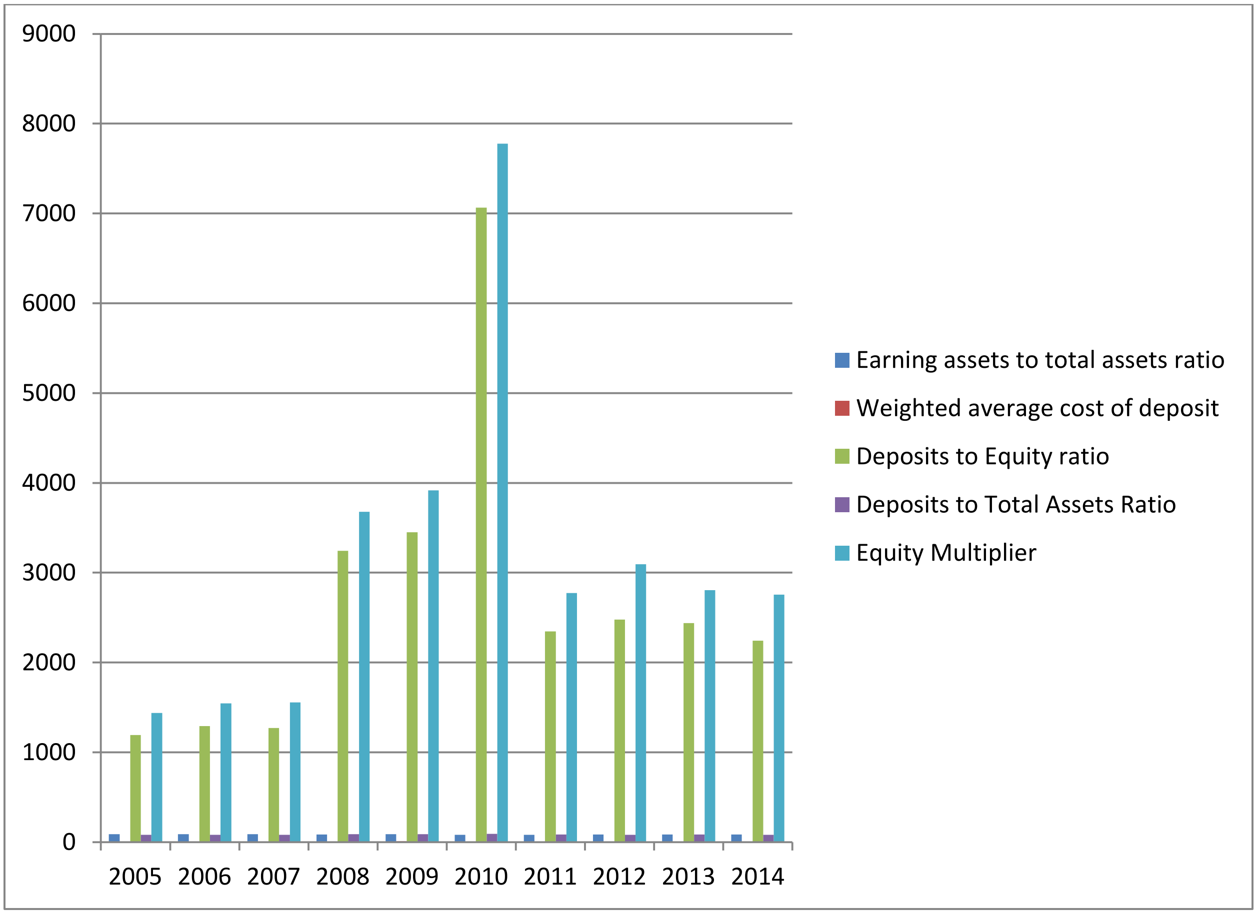
Comments: This ratio indicates non mark up income with respect to total income it has generated good income from non markup business such as commission, brokerage etc. Overall trend was satisfactory expect in 2009 when it was badly affected and went into negative by 191 %

Liquidity Ratios



Comments: Overall liquidity position was managed but in 2008 there seems an extra ordinary signal of tight liquidity which was result of advances to deposit ratio, non-performing loans contributed a lot for such awkward position. Bank has succeeded to improve the position after 2009 and onward which was result of gradual reduction in NPL position.

Capital Structure Ratio



Comments:

Overall performance seems critical particularly in 2010 when equity of bank was on very low side which was improved afterwards by injecting fresh equity which means that bank was not on the track, the most important factor was the infected portfolio which has eaten up the equity. It also reveals that sound and healthy lending practices were not in place to manage risk within certain parameters particularly the credit risk. It further reveals that Prudential regulations of central bank were not followed in letter and spirit or there was a favoritism in extending the loans or diversification was not followed instead all eggs were kept in one basket.

It was further revealed that the equity multiplier position was not managed properly ,high ratio tells over the period is proof of weak and fragile position of Bank which mostly relied on capital injection or outside lending which is early warning signal that Bank is not functioning on sound footings.

Conclusion & Suggestions:

Profitability throughout the period under review was very poor, liquidity was adversely affected and solvency was stake in 2008-2010

Bank should improve its CASA composition and avoid mobilizing costly deposits which will improve its gross profit ratio. More focus should be made on recovery of bad loans and a sound strategy should be developed to ensure that quality of risk assets is not compromised at all and Capital Adequacy Ratio should be maintained which was not complied in accordance with Basel-II accord.

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