



To cite this article: Dr. Hariom Agrawal, Kuldip Singh and Dr. Shekhar Kumar Mishra (2026). A STUDY ON CREDIT RISK MANAGEMENT IN PUNJAB NATIONAL BANK, International Journal of Research in Commerce and Management Studies (IJRCMS) 8 (1): 630-637 Article No. 622 Sub Id 1046

A STUDY ON CREDIT RISK MANAGEMENT IN PUNJAB NATIONAL BANK

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DOI: <https://doi.org/10.38193/IJRCMS.2026.8151>

ABSTRACT

This study looks at how Punjab National Bank (PNB) handles credit risk, using information from its annual reports and financial statements. It explores how well PNB manages financial risks and remains profitable by carefully reviewing loan applications, managing bad loans, and adhering to banking rules. To understand how these methods affect the bank's financial health, the study uses key numbers like the Loan-to-Deposit Ratio and Profit to Assets Ratio. The results show that good credit risk management helps reduce loan defaults and improve the quality of the bank's assets. However, challenges like economic ups and downs and unreliable borrowers still make things difficult. This highlights the need for flexible and strong risk management practices. Overall, the study provides valuable insights into PNB's credit risk practices and their implications for maintaining financial soundness and operational efficiency.

KEYWORDS: Credit Risk Management, Non-Performing Assets (NPAs), Loan-to-Deposit Ratio, Profit to Assets Ratio and Financial Performance of Banks

1. INTRODUCTION

Credit risk management is important in the banking sector because it helps protect banks from losses when borrowers default on their loans. It is a step-by-step process of finding, studying, and reducing the risks linked to lending. In today's changing financial world, banks must balance strict risk control with meeting the needs of their customers. Maintaining this balance helps banks stay strong and keep their customers satisfied.

A strong credit risk management system helps banks remain financially stable, reduce bad loans (NPAs), and maintain steady profits. Such systems include clear rules and procedures for checking loan applications, giving loans, and monitoring repayments. Financial ratios like the Loan-to-Deposit Ratio, Provision Coverage Ratio, and Cost of Credit Risk are useful in understanding how well a bank manages its loans and risks. These numbers show the quality of loans, the strength of provisions, and the level of overall risk. This research uses secondary data such as annual reports, financial statements,



and official disclosures to study how well banks manage credit risk. By looking at these financial indicators, the study identifies trends and strategies that make credit risk management more effective. The results help banks improve their risk assessment methods, strengthen loan monitoring, and create flexible policies for future growth.

This study connects theory with practical experience in the field of banking. It highlights why continuous improvement in credit risk management is necessary to handle economic changes and protect the trust of customers. Good risk management not only prevents losses but also supports the long-term success and stability of financial institutions.

1.1 Objective

- To evaluate the impact of credit risk management practices on the profitability of the bank.
- To analyse key financial ratios—such as Loan to Deposit Ratio and Return to Assets ratio.

2. REVIEW OF LITERATURE

The evolving landscape of banking risk management has been shaped significantly by global financial crises, as highlighted by Ankur Joshi (2024). His study emphasises the increasing importance of regulatory measures concerning capital adequacy, liquidity, and leverage. Modern banks are now adopting advanced tools such as stress testing and machine learning models to enhance risk assessment capabilities. These technological advancements are complemented by a cultural shift within banks, where risk awareness is embedded at all levels, including board-level decision-making. Kamal Sigdel and Kirti Deswal (2024) further reinforce the role of financial indicators—particularly the credit-to-deposit ratio and non-performing loans—in determining bank profitability, measured through Return on Assets (ROA) and Return on Equity (ROE). Their findings suggest that effective monitoring of these metrics is essential for maintaining financial health.

In the Indian context, Krishnendu Ghosh and Amitava Mondal (2022) explore the significance of credit risk management in commercial banks, focusing on non-performing loans (NPLs) and capital adequacy ratios. Their research underscores the need for stringent credit appraisal mechanisms to mitigate default risks. Savita Shankar (2021) addresses the persistent credit gap in India's MSME sector, proposing data analytics as a solution to improve lending decisions and reduce risk. TP Gosh (2021) shifts the focus to compliance risk, analyzing how regulatory lapses in fraud detection, cybersecurity, and asset classification can lead to substantial financial losses. His study highlights the importance of regulatory adherence in safeguarding bank assets. Similarly, VS Kaveri (2021) discusses the transition from traditional internal audits to Risk-Based Internal Audit (RBIA), identifying systemic issues such as fraud and irregularities in urban cooperative banks and NBFCs, which pose significant credit risks.



Renu Arora (2021) evaluates credit risk management practices in Indian public sector banks through statistical analysis, revealing how credit analysts' perceptions align with regulatory and strategic objectives. Her findings suggest that aligning internal assessments with external compliance frameworks enhances risk mitigation. D John Prabakaran (2020) investigates private banks, emphasizing the link between asset quality and liquidity. His research shows that sound asset management directly contributes to improved financial performance. Rachita Gulati, Anju Goswami, and Sunil Kumar (2019) delve into macroeconomic and bank-specific factors influencing credit risk, noting that lower profitability and excessive diversification can elevate risk levels. This study advocates for customized risk management strategies tailored to individual bank profiles. Finally, Kumar et al. (2018) provide a focused analysis of Punjab National Bank's credit risk management practices, highlighting the use of credit scoring models and rating systems. Their research illustrates how structured risk assessment tools are vital for maintaining profitability and institutional stability in Indian banking.

3. RESEARCH METHODOLOGY

This study aims to analyse the relationship between credit risk management and Punjab National Bank's (PNB) profitability, with a special emphasis on important financial variables that determine the bank's creditworthiness. A systematic and structured strategy was used to ensure that the findings were reliable, accurate, and relevant. The study uses a descriptive design, which is ideal for examining current data and determining the patterns and links between credit risk management techniques and financial performance. This approach enables a detailed assessment of how specific financial indicators reflect the efficacy of risk mitigation techniques and their impact on the bank's overall stability.

The primary goal of this methodology is to determine how credit risk management affects profitability and the role of financial parameters such as the Loan to Deposit Ratio, Provision Coverage Ratio, and Cost of Credit Risk. These ratios are key instruments for assessing a bank's exposure to credit risk and ability to manage probable default. By studying these indicators, the study hopes to gain insight into the operational effectiveness of PNB's credit risk framework, as well as its compatibility with regulatory standards and strategic goals.

3.1 Collection of Data

The study is solely based on secondary data gathered from trustworthy and publicly available sources using a systematic multi-stage procedure to assure correctness and reliability. Initially, relevant financial documents from Punjab National Bank (PNB) for the 2020-2024 period, such as balance sheets, profit and loss statements, annual reports, and credit risk management disclosures, were

identified based on their relevance to the study's objectives. Data were then gathered from reputable financial databases such as Bloomberg, Reuters, and the Reserve Bank of India (RBI), as well as official PNB publications such as annual reports and investor presentations, to ensure authenticity and representativeness. The acquired data was carefully examined to remove discrepancies or outdated information, then digitized and structured for statistical analysis, with a focus on key financial ratios such as the Loan-to-Deposit Ratio and the Return on Assets (or Profit-to-Total Assets) Ratio. The third step was to analyse the data using descriptive statistical tools and financial analysis techniques. Descriptive statistics were used to summarize the data and detect trends over the past five years.

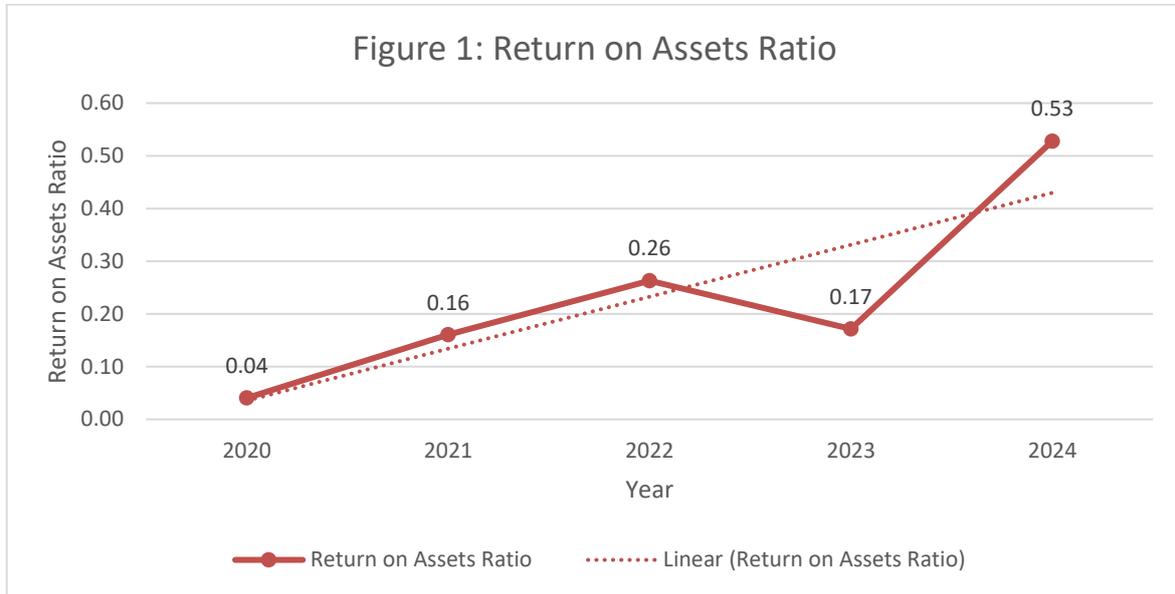
4. DATA ANALYSIS AND INTERPRETATION

4.1 Return on Assets Ratio (ROA)-

We can measure the bank's profitability in relation to its total assets. By calculating this ratio, we can measure the effectiveness of the bank's holdings towards generating profits. A higher rate of returns on assets not only reflects better utilization of assets but also demonstrates efficiency in income generation.

Year	Net Profit (₹ in lakh)	Total Assets (₹ in lakh)	Return on Assets Ratio (%)
2020	336.19	8,30,665.91	0.04
2021	2,021.62	12,60,632.62	0.16
2022	3,456.96	13,14,805.02	0.26
2023	2,507.20	14,61,831.36	0.17
2024	8,244.62	15,61,835.01	0.53

Source: RBI



Source: Table 1

From 2020 to 2024, the institution experienced notable improvements in its financial performance and operational effectiveness. Net profit grew sharply—from ₹336.19 lakh to ₹8,244.62 lakh—reflecting better credit recoveries, tighter expenditure management, and higher income from interest. During the same period, total assets rose by more than 88%, expanding from ₹8.31 lakh crore to ₹15.61 lakh crore. This growth suggests a broadening of the institution’s lending activities and a more diversified asset portfolio.

The Return on Assets (ROA) showed a slight decline in 2023, falling to 0.17 and interrupting the previous upward trend. This decrease may have been due to broader economic challenges, increased provisioning, or a rise in non-performing assets. However, the ROA rose sharply to 0.53 in 2024—the highest level in the past five years—reflecting a strong recovery and effective use of institutional assets. Overall, the financial data highlights the institution’s sound governance, strategic flexibility, and alignment with long-term development goals, positioning it well for sustained performance and stakeholder trust.

4.2 Advance to Deposit Ratio (ADR):

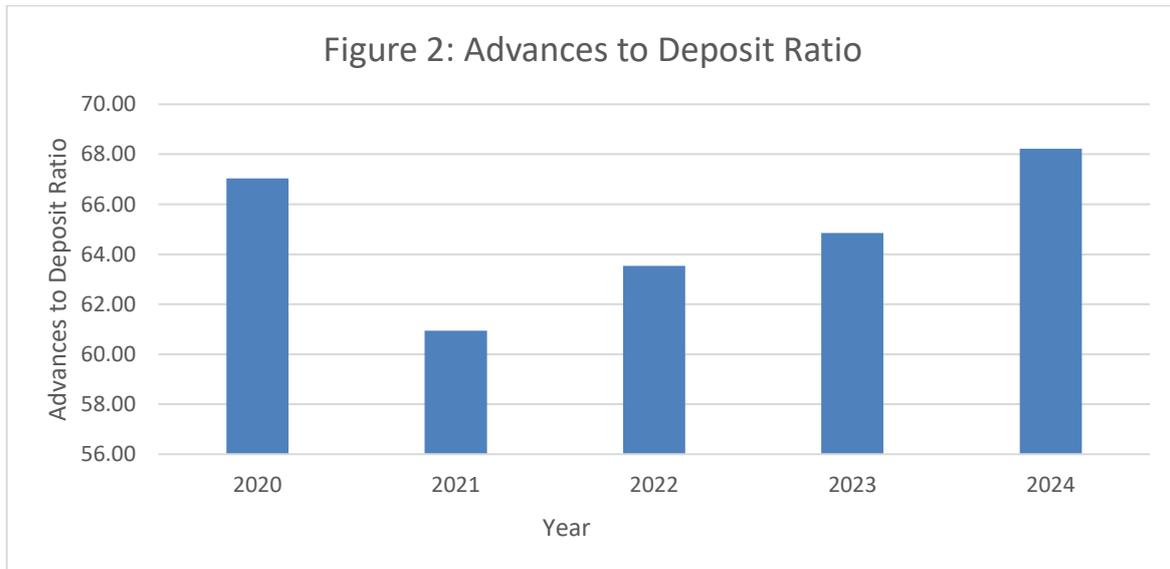
This ratio is also known as the Credit Deposit Ratio (CDR) and is a key indicator of a bank's liquidity, credit risk, and lending efficiency. It shows the proportion of deposits that have been deployed as loans and advances. A higher Advance-to-Deposit Ratio (ADR) reflects aggressive lending practices, which may yield higher returns but also carry increased risk. Conversely, a lower ADR suggests a more conservative approach, favouring liquidity over profitability. Ideally, a

balanced ADR falls within the range of 60% to 75%, aligning with the institution’s strategic objectives and regulatory framework to ensure both financial stability and optimal resource deployment.

Table 2: Advance to Deposit Ratio

Year	Total Advances (₹ in lakh)	Total Deposit (₹ in lakh)	Advances to Deposit Ratio (%)
2020	4,71,827.72	7,03,846.32	67.04
2021	6,74,230.08	11,06,332.47	60.94
2022	7,28,185.68	11,46,218.45	63.53
2023	8,30,833.98	12,81,163.11	64.85
2024	9,34,430.59	13,69,712.81	68.22

Source: RBI



Source: Table 2.

Between 2020 and 2024, the organization had remarkable growth in both advances and deposits, with advances increasing by over 98% and deposits by 94%. This simultaneous growth implies a healthy balance sheet and business momentum. The Advances-to-Deposit Ratio (ADR) fluctuated within the ideal range of 60-70%, beginning at 67.04% in 2020, falling to 60.94% in 2021—most likely due to pandemic-induced caution—and gradually rising again to 68.22% by 2024. As economic conditions improved, this trajectory indicated a strategy change away from conservative lending and toward increased credit expansion.



The constant ADR success reflects a sensible lending approach that balances liquidity and profitability. The 2021 dip shows cautious asset deployment in uncertain times, but the post-2021 recovery reflects increased loan demand and borrower confidence. By 2024, the elevated ADR indicates efficient use of deposit resources and vigorous lending operations. While rising ADR can promote profitability by increasing interest income, it must be closely regulated to maintain credit quality and avoid undue risk exposure. Overall, the trend demonstrates solid financial governance and flexible lending practices in response to macroeconomic shifts.

5. CONCLUSION:

Between 2020 -2024, Punjab National Bank's financial trajectory indicates a strong and tactically controlled growth track, as seen by improved profitability, increasing assets, and boosted operational efficiency. The short drop in Return on Assets (ROA) in 2023—likely owing to provisioning or external pressures—was followed by a robust comeback in 2024, demonstrating the bank's adaptability in risk management and resource optimisation. The constant rising trend in net profit and asset base, culminating in peak ROA performance, demonstrates solid financial governance and good credit risk oversight in line with long-term institutional objectives.

During the same period, the bank's deposits and advances grew steadily, and the Advance-to-Deposit Ratio (ADR) remained within the ideal range. The decline in ADR in 2021 shows a cautious lending posture during economic uncertainty, but the recovery to 68.22% in 2024 demonstrates increased credit activity and strategic fund deployment. This trend demonstrates Punjab National Bank's capacity to balance liquidity and profitability through cautious credit risk management, efficient financial intermediation, and a disciplined lending policy, supporting its position as a stable and growing public sector institution.

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