INTRODUCTION ON FINANCE

Finance, the art and science of managing money, affects the lives of every person and every organization. Finance is concerned with the process, institutions, markets, and instructions involved in the transfer of money among and between individuals, businesses, and governments. Managerial Finance (Which is concerned with the duties of the financial manager in the business firm) is important in all types of businesses including banks and other financial institutions, as well as industrial and retail firms. It is important in government operations, schools, and hospital and highway departments.

While the specifics vary among organizations, the key finance functions are the investment, financing, and dividend decisions for an organization. Funds are raised from external financial sources and allocated for different uses. The flow of funds within the enterprise is monitored. Benefits to financing sources take the form of returns, repayments, products, and services. These functions must be performed in business firm, governments, banks, agencies, and non-profit organizations alike.

Financial Analysis as a part of finance is also one of the major parts in every type of organization, which is very useful to understand the firm's performance. As the financial services industry becomes more complex, the financial information provided to public becomes more difficult to understand. Quality governance is impossible without effective analysis and evaluation of financial information.

Traditional financial ratio analysis has focused on the numbers. The value of this approach is that quantitative relations can be used to diagnose strength and weaknesses in the firm's performance. It provides a framework for financial planning and control. Financial managers need the information provided by analysis both evaluate the firm's past performance and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firm's operation.

After identifying so much scopes and importance of financial analysis, I decided to do research work on it by giving the example of one of the well-known bank, Himalayan Bank Ltd.

OVERVIEW ON HIMALAYAN BANK LIMITED

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Habib Bank Limited, one of the largest commercial bank of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. The bank at present has the five branches in kathmandu valley, three branches outside Kathmandu in Birgunj, Bharatpur and Tandi. The bank is also operating a counter in the premise of the Royal Palace. The bank has a very aggressive plan of establishing more branches in different parts of the Kingdom in the near future.

Himalayan Bank's policies extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. To extend more efficient services to its customers, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the Bank to constantly improve its service level but has also kept it prepared for future adoption of new technology.

STATEMENT OF PROBLEM:

Though Himalayan Bank is fairly young in terms of tenure of its operation, it has been the innovator in introducing many new products such as credit cards, Tele-Banking, Any branch Banking, ATM, 24 Hours Banking, Correspondent Network. Due to their prompt and quality services HBL has achieved its remarkable success in banking sector and have proved its high status in the eye of public. HBL have been improving its performance from very beginning since its establishment.

The basic objectives of this bank are to uplift the economic activities and strengthen welfare of the general people; to facilitate loan in different sector and to provide the banking services to the country and to its people. Therefore, this study concentrates on its financial soundness, which will enable it to meet its objectives.

Financial performance and conditions are important components of bank performance. Strong financial performance and sound financial conditions are critical to a bank's ability to provide necessary services. The essence of the financial soundness of a company lies in balancing its goals, commercial strategy, product market choices and resultant financial needs. This study attempts to evaluate the financial performance of HBL by using various financial and statistical tools such as financial ratios, income and expenditure statement analysis etc. Ratio analysis is a very useful analytical technique to raise pertinent questions on a number of managerial issues. Many question relating to company overall profitability, liquidity position, and long-term solvency, operating efficiency, inter-firm comparison, assets utilization should be answered while assessing the financial condition of the company.

Various issues are to deal for the purpose of this study. Some among the various issue but the important ones are as follow:

→ What are the major factors effecting the financial performance of HBL?

→ How far HBL been able to meets its current obligation when they become due? This will be helpful to recognize the liquidity position of the bank. The liquidity position of the firm would be satisfactory if the firm has sufficient liquid funds to pay the interest on its short-maturing debt usually within a year as well as the principal.

→ What is the strength and weakness of the firm? In other words, whether the earning power and operating efficiency is satisfactory or not.

→ How far HBL is able to meet its short term as well as long-term obligation to its creditor? This will answered the overall profitability of the bank and ensures a reasonable return to its owner and secure optimum utilization of the assets of the firm.

→ What is the financial position of the firm in the market? Ratio analysis answers whether the financial position of a firm is improving or deteriorating over the years.

OBJECTIVE OF THE STUDY:

1) To define and explain return on investment as a measure of bank's performance.
2) To define and explain residual income as a measure of investment center performance.
3) To explain the operation of the balanced, and understand the relationship between performance driver measures and outcome measures.
4) To understand the industry's most commonly used financial ratios and performance measurements
5) To evaluate the earning generating capacity
6) To provide suggestion and major points that will help the management to improve the performance of HBL based on the findings of the analysis.
7) To evaluate performance compared to both the peer group institutions and the organization's own goal.

LIMITATION OF THE STUDY:

There will be some limitations while undergoing this study. The main limitations of this study will be :

1. The study period covers data for only five fiscal years from 1998/1999 to 2002/2003.
2. The study will be done mostly on the basis of secondary data collected.
3. As the study needs sufficient money in order to collect required information through various sources, the researcher could not afford it and the time dimension is very limited.
4. The study will be done for the partial fulfillment of MBS program of T.U.
5. Although there are many joint venture banks, the study limits to only one bank HBL.

SINGNIFICANCE OF THE STUDY :

Financial ratio analysis is a reliable way to understand how a company is performing financially. By applying ratios to an organization's financial statements, managers are able to better evaluate its short and long term financial performance. Equally important, managers can evaluate the financial performance of their competitors in order to further understand their relative performance in the market place.

As the financial services industry becomes more complex, to financial information provided to directors becomes more difficult to understand. Quality governance is impossible without effective analysis and evaluation of financial information. Directors must posses the ability to understand and oversee risk. This study will certainly help managers & director the HBL to improve their financial performance.

Besides this study will be useful to more people and organization such as:

1. Government
2. Trade Creditors
3. Investors
4. Stock brokers
5. Academicians
6. Policy formulators
7. General Public

METHODOLOGY

Every research should follow the systematic research methodology to solve the research problem. The research methodology is wider concept. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why hypothesis has been formulated.

To answer the above question I have follow the following research methodology to achieve the objectives of the study:

1. **Research Design**: A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. A research design is the specification of methods and procedures for acquiring the information needed. It is overall operational pattern of framework of the project that stipulates what information is to be collected from which sources by what procedure. If it is a good design, it will ensure that the information obtained is relevant to research questions and that is was collected by objectives and economical procedures.

   Since the main objectives of this study is to determine the financial performance of the bank, all the indicators that shows the financial position of the bank were calculated using data obtained from the five year end internally generated accounting records maintained by individual Himalayan Bank Limited. The study is designed as to give a clear picture of the bank's financial state with the help of available data and with some useful suggestions and recommendation.

2. **Data Collection Procedure**: This research work used most of the secondary source of data. The financial data included in this study report were for the fiscal year 1998/99 to 2002/2003. This represented the most recent data available at the time of research work. The supplementary data and information will be obtained from various sources like annual reports and financial statement of the bank, official records, monthly bulletins of bank, various published and unpublished periodicals, magazines, and all available reports and materials of Nepal Rastra Bank (NRB) on commercial banks. Besides bank officials of various departments will directly be approached to gains required relevant information.

3. **Processing of data**: The various data obtained for this study will be presented in various required tables, diagrams and charts with supporting details interpretations of the such tables, diagrams and charts.

BIBIOGRAPHY

1. Managerial Finance, Ninth Edition, By "J.Fred Weston & Thomos E. Copeland".
2. Corporate Financial Management, Theory & Practice by " Kiran Thapa".
3. Financial Management, Text and Problem, Second Edition, By M.Y.Khan & P.K.Jain".
4. Joshi Subi, Shanker Dev Campus, July 2003, "A study of financial analysis of Nepal Investment Bank Limited".
5. Kishor Luintel., Shander Dev Campus, July 2003, "A study of financial performance of Nepal Banijya Bank".