

CHAPTER -I

INTRODUCTION

1.1 General Background

Economic development of the country largely depends upon the effective mobilization of its internal resources. Financial institutions play an important role in mobilizing saving and utilizing them into productive sectors for the development of agriculture, hydropower, tourism, commerce and industry of the country. It assists in capital formation and economic growth of the country. The financial sector of any country comprises of banks, co-operative societies, insurance companies, finance companies, stock markets, foreign exchange markets, mutual funds, provident funds etc. And stock exchanges via primary markets, banks and financial institutions via short-term and other types of loans are recognized as the main sources of much needed capital input for industries and business.

"Finance Companies, licensed under Nepal Rastrya Bank (Central Bank of Nepal) under the section 6 (A) of Finance Companies Act 2042 B.S are one of the group of deposit taking financial institutions in Nepal." "Though the finance companies act was published in gazette in 2042 BS, the real establishment and functioning come only after the economic liberalization policy of the government in the 8th plan (2049BS- 2053BS)." Finance companies play very dominant role in the economic development particularly in consumer financing, leasing and asset based lending, with strong preference on short-term debt. The main liabilities of the finance companies are fixed type deposit borrowings from banks and agencies and comparatively substantial amount of equity capital. In general, finance companies can be defined as a firm that loans money to people who promise to repay the loan with interest over a specified period of time. "Finance Company is a financial institution which is a company, a non-banking institution, whose principle business is to receive the deposits under any scheme or arrangement or in any other manner and lending in any manner" (Baidya and Shakespeare, 2056:85).

Nepal Rastra Bank has been acting as the father figure of the finance companies. NRB is the central supervisory authority that has every control over the running finance

companies. All the activities that finance companies are authorized to do or restricted to do are listed out by the NRB Unified Directives 2069. It is like the boundary of activities of finance companies is set by the NRB Unified Directives . There are NRB directives propounded by NRB for Bank and Financial institutions to guide them through and to restrict their activities. The NRB directive for finance companies set out matters as;

-) Capital Structure
-) Collection of deposits
-) Minimum liquidity requirement
-) Per customer loan limits
-) Classification of loans and provision for loan loss
-) Interest rates etc.

Finance companies were borne by NRB to perform mere some functions of commercial banks. The objective being reducing some burden from commercial banks and getting some prompt services to the general public. “Finance companies are typically organized to handle some specialized financing problem that is not adequately handled by banks and other institutions. They engage in all types of loan activities and specialize in handling problems and risks that other institutions would not accept. Their interest rates reflect their costs and risks “(Baidya and Shakespeare, 2056:86).

Finance companies, thus, handle the essential functions of commercial banks i.e. accepting deposits and lending money, discarding other specialized services provided by the commercial banks.

“The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then it provides money to those who are in need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory notes. Thus, the primary function of a commercial banker is that of a broker and a dealer in money. By discharging this function efficiently, a commercial bank renders a valuable service to the community by increasing the productive capacity of the country and thereby

accelerating the pace of economic development.” Thus, being an essential function operator of commercial bank, finance companies do all above mentioned borrowing and lending of money and act as a dealer of money. But it is to be noted that finance companies cannot borrow money or lend money under all different types of categories as commercial banks are authorized to. "Unlike commercial banks which are engaged mainly in long term loans to customers for whom they can offer current account, overdraft facilities, these finance companies can operate only fixed deposits from 3 months to 6 years” (Nepal Rastra Bank Regulation). However, finance companies are rendering their services directing towards the economic development of the country via increasing the productive capacity of the country.

The NRB’s Non-banking Operations Unit supervises the Finance companies in respect of their activities as deposit-takers and lenders. As issue managers, underwriters or market-makers on the stock exchange, finance companies have to be registered with the Securities Board and the NEPSE. Not only do Finance companies have to ensure that they have adequate capital to engage in the securities business as dealer, market-makers and underwriters, but they must ensure that both client monies and deposits are kept separately from the firm’s capital and cash flow. They have to provide the central bank with financial information on a regular basis. According to the World Bank, although the Finance companies provide financial information to the central bank – but they are not adequately supervised by the central banking authorities. Lack of discipline and proper prudential oversight could well emerge as a serious problem at some point in the future. In the first instance, developing a robust system of off-site supervision by the NRB is felt to be particularly important, followed eventually by a reinforcing system of on-site supervision.

The main function of the finance companies are to accept the deposits and to lend the same. On granting the loan and advances, finance companies shall always try its level best in creating such assets, that maximizes the return, because the secret of successful financing lies in creating or achieving a proper balance between profitability and liquidity, which is achieved through proper distribution of resources in various forms of assets.

Taking into account the profitability and liquidity, the Bank invests its resources mainly in the following assets (portfolios):

1. Liquid Assets

- a) Cash at Vault
- b) Balance with other Banks
- c) Balance with Central Bank

2. Semi Liquid Assets

- a) Money at Call
- b) Bills Discounted

3. Earning Assets

- a) Investment
- b) Loans and Advances

Loans and Advances is a sum of amount sanctioned to a customer by a Bank for a specific period at agreed rate of interest. The borrower or customer is required to pay back the principal and interest on maturity or on the specific period depending on the nature of the advances. Lending has its different forms. It can be divided in to fund based and non-fund based Lending. Leasing, hire purchase, bills discounting, term loans, housing loans, floating mutual funds, bridge financing, loan participation, loan syndication etc come under fund based Lending. Similarly, investment management, portfolio management services for individuals and corporate, issue management, underwriting, trust receipts, arranging trading market for buying and selling securities, private placement of shares and debentures etc fall under the category of non-fund based Lending. In practice, most of the Finance Companies activities are fund based.

Borrowers are required to offer some guarantee against the loan they are getting such as lien on their salary or personal possession. “Loans or guarantee means loans or guarantee advanced with any movable or immovable asset as collateral, or with any other necessary security or guarantee, on conditions stipulated by the company.” Good collateral is essential for the quality of loan. The quality of loan, quality of borrower and quality of securities determines the health of any financial institution. The efficiency of finance company lies in how it multiplies the deposits of its

depositors. Hence, Lending should be accompanied by some basic principles and practices. No finance company would be willing to give loan unless it has sufficient confidence in the borrower that it will not be necessary to seek the help of court for recovery.

Finance Companies provide various forms of credit (Loans and Advances) against the collateral security (movable and immovable). However, Finance may also extend credit on personal guarantees and or corporate guarantees, subject to provisions of Central Bank and other competent authority.

1.1.1 History of Finance Company

Historically Finance companies were the creation of early 1960s and the real need for the creation of these finance companies were felt when commercial banks were unable to serve sectors of economy other than big business houses. The small savings were ignored so were their smaller credit requirements. Need of those institutions serving the deprived sectors were felt and it was that need which gave birth to institutions like finance companies.

The infrastructure development, especially industrial, is almost impossible without the mobilization of scattered funds with the public. However, Nepal has been late in recognizing the fact. So, the history of formal and commercial banking and finance companies is relatively short.

The first commercial bank of Nepal, Nepal Bank Limited was established in 1937 under Nepal Bank Act, 1937. Prior to the establishment of Nepal Bank Limited, a Government financial institution called Tejarath operated in the country. Tejarath used to extend credit to the people but it did not accept deposits from them. It performed banking function partially. With the establishment of NBL, Tejarath was abolished and inconveniences caused by the absence of formal banking sector were finally removed.

Even after the establishment of NBL, there was no general banking legislation in Nepal up to 1964 and the Nepal Bank Act, 1937 itself required thorough revision to suit the changed circumstances. Hence, a new commercial bank act was enacted in

1964 and it replaced the Nepal Bank Act, 1937 in April 1965. Since, the private sector did not take any initiative to establish another commercial bank, the Govt. established a public sector Rastriya Banijya Bank in January 1966 under Rastriya Banijya Bank Act, 1965. The General Commercial Bank Act, 1965 and the Rastriya Banijya Bank Act, 1965 were repealed and was replaced by a new Commercial Banking Act enacted in 1974.

During the mid 80s, the joint venture banks also come into the fray in Nepal, namely Nepal Arab Bank Ltd., Nepal Grindlays Bank Ltd. And Nepal Indo-Suez Bank Ltd. The two national banks, NBL and RBB, had then extended their area of operation to every nook and corner of the country under Banking Development Scheme, 1967 of Nepal Rastra Bank, which entailed a scheme of bank branch expansion.

Through the speedy expansion of bank branches, helped the access of banking services to the rural and remote areas, the rural sector could not benefit much because of operational procedures of the commercial banks. The benefit was limited to the urban sector only.

The Govt. then realizing such a state of rural sector and mounting operational losses of branches of commercial banks, which it had to compensate (certain percentage) through NRB, enacted Finance Companies Act in B.S. 2042.

The main logic behind the enactment of the Finance Company Act was to motivate the private sectors in the field of formal banking. Govt. by then had realized the fact that the development of any country is not possible without the active involvement of the private sectors. Besides, this step of Govt. would boost the establishment of the private finance companies, which are likely to be opened on localized basis that would cut down the operational losses of commercial banks' branches.

Need of Finance Companies Act was also felt because unorganized sectors like Upahar and Dhukuti programs were collecting savings from the common public, who were very interested and taking part with enthusiasm. But these programs failed public hopes and ran away. As is the saying "every act has its react", gov. realized about the benefit that could be attained if only all such collected fund were utilized in

some productive way. Considering such interest, benefit of mobilizing such savings in productive sector, banking sector's inability to carry out capital market activities and to meet consumers need for credit, government introduced Finance Company Act 2042 B.S. However, no finance company was set up till 2049 B.S as because the act came into being only in 2049 B. S with some amendments.

"Nepal Awash Bikash Bitta Company Ltd" is the first finance company established in 2049 BS promoted by Rastriya Beema Sansthan, Nepal Bank Limited (NBL), Rastriya Banijya Bank (RBB), Agricultural Development Bank (ADB) and Savings Company Limited was established from the private sector. And then there was no looking back. Today we have finance companies in the number of 70. And many more individuals and organizations are interested in starting finance company. Considering this, to control over the mushrooming of finance companies, NRB has made some amendments in the act such that it's not that easy in establishing finance company now. It's much more organized. Beside in recent years we had some news about failure and running away of finance companies. To control over this also NRB came up with much more stricter rules.

1.1.2 Profile of the Concerned Finance Companies

This is done on two finance companies of Nepal, namely Lumbini Finance and Leasing Company Limited, and NIDC Capital Markets limited. In this section the company profile of the above subjected companies are presented to know better of the companies individually.

Lumbini Finance and Leasing Company Limited

Lumbini Finance and Leasing Company Ltd. commonly known as LFLC is a public limited Finance and Leasing Company promoted by a group of highly committed and innovative persons. It is managed by a group of well experienced and professional managers having excellent leadership. The company has the right combination of dedicated service-oriented staffs for which one can always trust for an excellent service. It is registered in the Ministry of Industry and has obtained license from Nepal Rastra Bank (Central Bank of Nepal) under the section 6(A) of Finance Companies Act 2042. LFLC is operating its business as per the guidelines of Nepal Rastra Bank, provisions of Finance companies Act 2042, companies Act 2053 and

other related Nepalese law. LFLC has started its operation from 12/03/2052 and has shown a very encouraging trend in its nine years of operation. Its logo represents the symbol of continuity and reliability in the market. LFLC's share is listed in Nepal stock Exchange (NEPSE quote: LFLC) and it is being traded in the market as A-grade share.

The share structure of Lumbini Finance and Leasing Company Limited is presented in Table 1.1

Table 1.1
Share Structure of Lumbini Finance and Leasing Co. Ltd.

Share Structure	NRS.
Authorized Capital (6,500,000 share of Rs. 100 each)	650,000,000.00
Issued Capital (4,125,000 shares of Rs. 100 each)	412,500,000.00
Paid Up Capital (268,1250 share of Rs. 100 each)	268,125,000.00

Source: www.lumbinifinance.com

NIDC Capital Markets Limited

NIDC Capital Markets Ltd. (NCML) was established under the Finance Companies Act 2042 under the initiative of Nepal Industrial Development Corporation along with the participation of other institutions such as National Life and General Insurance, National Productivity, Rastriya Beema Sansthan, Rastriya Banijaya Bank, Nabil Bank, and Nepal Red Cross and Provident Fund. It was registered with the Company Registrar office on Magh 1st 2049 and commenced its operations from Magh 10 2049.

NCML is the First Company to undertake merchant banking activity in Nepal. It has played an instrumental role in introducing various companies to the general public through initial public offerings (IPO). By providing services such as Registrar to shares, issuance of securities and underwriting, NCML is "the pioneer" in strengthening the transactions of the stock exchange by way of efficient transfer of the title of shares. At present, NCML has diversified its operation to include banking services such as deposits, loans and cash advances, money transfer in addition to

merchant banking. The share structure of NIDC Capital Market is presented in Table 1.2.

Table 1.2
Share Structure of NIDC Capital Markets Ltd.

Share Structure	NRS.
Authorized Capital (4,000,000 share of Rs. 100 each)	400,000,000.00
Issued Capital (222,356 shares of Rs. 100 each)	222,356,000.00
Paid Up Capital (233,473 share of Rs. 100 each)	233,473,800.00

Source: www.ncml.com.np

1.2 Statement of the Problem

Keeping pace with today's up growing economy itself is a hazardous task. And with that, finance companies are facing tough competition too and the fact that the present situation of Nepal has made the investments insecure to high extend. As a result, investments are being very challenging today. Finance companies have to look for secure and productive investment opportunity which definitely is tuff job. However, subsequent development of Finance Companies in quality has not been satisfactory. Finance Companies in Nepal have been facing various challenges and problems. Some of them are arising due to the economic conditions of the country, some of them are arising due to lack of policy clarity of government and many of them are arising due to default borrowers. After liberalization of economy, banking sector has growth and various opportunities have emerged.

However financial institutions do not seem to be performing well, liquidity is high with the financial institutions. Hence the banks and financial institutions are competing among themselves to advance credit to limited sectors available. Banks and financial institution are investing in housing loan, hire purchase loan for safety purpose. Due to lack of good lending opportunities, Finance Companies appear to be facing problems of excess liquidity. Nowadays, Finance Companies have increasing amount of deposit in fixed and saving account but have decreasing trend in lending behaviors. So, this has caused major problems to the Finance Companies. Due to competition among Finance Companies, the recovery of the Companies credit is

going towards negative trends. Non- performing credit of the Finance Companies is increasing year by year. To control such type of state the regulatory body of banks and financial institution, NRB has renewed its directives of the credit provision time and again.

The research works tend to explore the following questions.

- J Do the lending practices of the Finance companies match with lending policy adopted?
- J Do finance Companies follow NRB (Nepal Rastra Bank) directives in terms of lending?
- J What are the trends of loan and advances and earning per share of Finance Companies?
- J What is the portion of non-performing loan in total lending?

1.3 Objectives of the Study

In today's context, finance companies play very important role in the economic growth of a country. Today, economy also opens the door for various investments. In today's diversified economy, finance companies are playing the role of money dealer between savers and investors, thus, diversifying its functions according to different needs of depositors and borrowers. This study aims at analyzing the various aspects of lending in various sectors of economy, the performance of finance companies regarding lending quantity and quality. It is expected that this study will provide some relevant findings, which may help the interested.

The objectives of this study are as follows:

- J To measure the finance companies' lending strength. The lending strength shall be measured in absolute terms also to analyze the volume of contribution made by each finance company under study.
- J To analyze the portfolio behavior of lending and measuring the ratio and volume of Loans and Advances made in performing and non performing Loan.
- J To measure the lending efficiency and its contribution in profitability.
- J To analyze the relation between Balance Sheet and Profit and Loss Account, analyzing if they have healthy relation. .
- J To measure the Propensity of Growth on trend analysis.

1.4 Importance of the Study

Finance companies are emerging as vital part of our economy and moreover, lending is one of the most essential and main function of finance company. Thus, this study on two finance companies viz., Lumbini Finance, and NIDC Capital Market is going to play a significant role for all other researchers who wish to study on finance companies. More than that, this can provide adequate information about studied two finance companies and overall trend of finance companies to the shareholders, investors, professionals and also to the students and teachers of commerce.

The presentation of this study will also help to clear out the misconceptions people have about finance companies regarding their trustworthiness. Besides, this comparative study of lending practices of finance companies is probably going to be of an important value for the people interested in this field.

More than all, myself being a management student and interested in career in financial institutions, this study will prove to be very important in my individual level, for my career in the up growing and challenging field of financial institutions.

1.5 Limitations of the Study

There were numerable limitations for the study. Some very prominent limitations of the study as listed as follows;

-) The period of the study will be limited. The study will be made from the 2062/63 to 2067/68 only.
-) The study will be conducted amongst two finance companies out of the total. Hence, it might not reflect the real status of all the finance companies neither it can represent the lending practices of whole finance companies of the country.
-) The data used will be all secondary. The annual reports published by the respective companies will be the major data used for the analysis in the study. Besides those, reports published by NRB, articles, journals, and news published will be used as the source of data. Thus, any misrepresentations, mistakes and omissions will affect the outcome of the study.

- J Since the study will be made for 6 years only and the performances of others years ignored, this might not give the accurate picture. And the trend analysis might not be correct too.
- J Statistical tools will be used for analysis. Hence, the drawbacks and weakness of those tools may affect the outcome of the study.

1.6 Organization of the Study

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report is designed in five chapters which are as follows:

Chapter- I: Introduction

The first chapter is an introductory chapter, which contains General background of the study, history and introduction of finances companies, profile of the concerned finance companies, statement of problem, objectives of the study, importance of the study and limitation of the study.

Chapter- II: Review of Literature

The second chapter of the study will assure that will be familiar with important research that will be carried out in similar areas. It also established that the study as a link in a chain of research that is developing and emerging knowledge about concerned field. It includes a conceptual framework, review of books, reviews of journal, review of unpublished desertions and relevant NRB directives.

Chapter - III: Research Methodology

Research methodology will refer to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It covers on research design, population and sample, sources of data, data collection procedure, analysis of financial and statistical tools and research hypothesis formulated for the study.

Chapter- IV: Presentation and Analysis of Data

This chapter will analyze the data related with study and present the findings of the study and comment briefly on them.

Chapter- V: Summary, Conclusion and Recommendation

Based on the result from data analysis, the researcher will conclude about the performance of the concerned organization in terms of lending practices. It will also give important suggestion to the concerned organization for better improvement.

The sources of literature reviews like Books, Articles, Journals, Thesis, and Websites are included in this heading. Various calculations, raw data, their classification and Tabulation are shown in the heading.

CHAPTER- II

REVIEW OF LITERATURE

2.1 Conceptual Frame Work

The origin of word 'Bank' is linked to Latin word 'bancus', Italian word 'banca' and French word 'banque', all which means one word that is bench. "Money lenders in the streets of major cities of Europe used benches for acceptance and payments for valuables and coins. When they were unable to meet their liabilities, the depositors used to break their benches. "thus there is difficult to say whether the bank has been derived from "bancus", "banca", "Banque".

The origin of word bank is linked to Latin word bancus Italian word banca and French word banque all which means one word that is bench. Money lenders in the streets of major cities of Europe used benches for acceptance and payments for valuables and coins. When they were unable to meet their liabilities the depositors used to break their benches thus there is difficult to say whether the bank is linked to Latin word bancus Italian word banca and French word bank is linked to Latin word bancus banca banque.

A bank is a government regulated profit making business that operates in competition with other banks and financial institutions to serve the saving and credit needs of its customers. The primary business of banks is accepting deposit and lending money. Banks accepts deposits from the customer who wants the safety and convenience of deposits service and the opportunity to earn interest on their excess funds. Banks put their depositors fund to other individuals to business and to federal state and local government.

Whereas financial institutions refers to any institutions established with objective of providing loan to agriculture cooperative industry or any other specific economic sector or of accepting deposits from the general public. The term also refers to any other institution called financial institutions by HMG/N by publishing a notice in Nepal gazette. However the term does not signify commercial bank.

Finance Companies growth and profitability are the result of carefully forecasting funding needs, competitively attracting funds, efficiently borrowing funds, effectively investing funds in safe but profitable earning assets. According to 'Bank and Financial Institutions Act 2063, Finance Companies fall under "C" Class financial institutions operating these days. Depending on company's size and location and on local and national economic conditions, a finance company may have adequate, relatively stable sources of low cost funds, or it may have to compete regularly and aggressively for funds at high market prices. For an increasing number of finance companies, the second situation is becoming the norm, as more and more finance companies face increase in pressure to attract adequate funds at reasonable costs. The main business of finance companies consists of providing credit to manufacturers, traders engaged in inland business and export and import business, in the form of loan and credit. For purposeful lending, eyes and ears are equally important (Singh, 2062).

The major source of the finance companies revenue comes from credit in the form of interest and in the meantime, if, proper attention in granting and monitoring of loans and advances is not given, it could be the biggest headache and cause of the company's losses or failure.

2.1.1 General Procedures for Granting Loan and Advances

On granting loans and advances, the following general procedures are required to be followed.

) **Interview the Customer** for identifying who is the Customer and what is the nature of their business. Once the customer and nature of their business is known, whether the Policy of the company permits in lending in such business, is required to be identified and assessed. If, there is scope of such business, as per Policy of the company, then the applicant's request shall be further processed as below.

) **Conduct an in-Depth Interview** of the applicant, Focusing on 5 Cs

- a. Character
- b. Capacity
- c. Capital
- d. Collateral
- e. Condition

-) If the interviewing officer is satisfied on above focal points, the officer shall ask the customer to fill up the standard loan application form, designed by the company and provide the documents as mentioned in the application form itself.

-) **Get the Loan Application Filled up** and collect all the required documents. Upon receipt of all the relevant documents, the officer handling the proposal (in consultation with the seniors if required) to go through minutely on the information furnished by the applicant. If there is any queries, clarification on the same, shall have to be obtained from the applicant.

-) **Pay Site Visit of the Applicant's Business and the Offered Security** for mortgage and prepare the report of the same in a standard format. If the company is satisfied with the report, the applicant's proposal shall have to be further processed.

-) **Issue Credit Inquiry Letters to CIB** (For more than Ten Lakhs) and other financial institutions. If positive reply is received, the applicant's request qualifies for further processing.

-) **Issue Letter to the Banks Approved Valuer taking a Written Undertaking** of the Applicant that the company does not guarantee the approval of loans/advances and will not indemnify the applicant if the approving authority declines the proposal.

-) **Prepare Credit Appraisal Memo** in a standard format and forward it for approval along with the valuation report and other relevant documents.

-) **If the Loan is Approved, Forward Offer Letter to the Customer** mentioning all terms and conditions of the facilities offered.

-) **After Offer Letter is Accepted by the Customer Execute all the Charge documents** as per the terms and conditions of the approved memo.

J) **Upon Execution of Documents, by Preparing a Checklist** of the executed documents, Disbursement of Loan shall have to be done.

J) **Monitor the Loan from Time to Time** so as to ensure that the loan will not be classified. After advancing loan to the loan to the customer, it seems to be the end of lending process. For larger commercial credits, the loan officer will visit the customer's business periodically to check on the firm's progress and to see what other services the customer may need.

2.1.2 Principles of Good Lending

All loans and advances extended to the borrower shall be returned back after maturity as per the terms and conditions stipulated at the time of approval. A lending officer must study the ability of the borrower to repay the loan from cash flow. Cash flow is the first way out of the loan. Enforcement of security is the second way out of lending. Borrowers may not repay the loan either they are unable to repay or they are not willing to repay. To safeguard the loan from above risk security to the loans to be obtained which must be enforceable as desired by financial institutions. There are few general principles of good lending that every finance company shall have to follow, on making credit decision. They are stated in the following paragraphs:

Safety

Safety First' is the most important principle of good lending. When a finance company lends, he/she must be certain that the advances granted to the customer is safe, i.e. the money will definitely come back on its due date with interest. The finance company shall ensure that the advances is granted to the right customer and is utilized in such a way that the advances are safe all the time.

Liquidity

It is not enough that the advance will come back; it is also important that the advances granted to the customer must come on demand or in accordance with the agreed terms of repayment. The source of repayment must be definite. Company attaches liquidity clause in every Offer Letter so as to honor the Depositor's request of withdrawal

because every deposit held with the finance company is repayable on demand or at short notice.

Purpose

The purpose should be productive so that the money remains safe, providing definite source of repayment. The company shall cautiously scrutinize the purpose for which the money is required, and shall ensure that the customer applies the advance granted to the particular purpose accordingly. Purpose has assumed a special importance and significance in present day banking.

Profitability

Like other financial Institutions, the objective of the finance company is to make profits. The company shall carefully assess the expenses that to be met in managing its resources before fixing the rate of interest on lending. It should, however, be noted that lending rates are affected by the extent of competition, provisions of the directives and circulars issued by the central bank, borrower's credit worthiness, nature of security, mode of charge and type and form of advances. It is also sometimes possible that a particular transaction may not appear profitable in itself, however, there may be some ancillary business available, such as borrower's sister/other concern's deposits or it's foreign exchange business and other non fund and commission based business, that may be highly remunerative.

Security

It has been the practice of financial institutions not to lend as far as possible except against the security, though the projected income from such advances is very attractive and profitable. Security is considered as an insurance or cushion to the advances. Security taken for securing advances shall always be such that it fetches the economic value all the time.

Diversification

In every advance, there is the element of risk however secure it might appear to be. The business of the finance company is to take calculated risk. A successful lender is the one who is expert in assessing the risks and is master in spreading the risks

involved in lending, over a large number of borrowers, over a large number of industries and over different types of securities.

National Interest

Even when an advance satisfies all the above principles, it might not be suitable if it does not take into account the national interest. Finance companies are required to grant advances on those sectors, which are priorities by the Government on time to time in meeting the national requirements.

2.1.3 Credit Granting Policy

I) Credit Analysis

Credit investigation is primarily historical based on available credit information, it is compiled to make a prediction of future behavior. In fact, credit analyst believes that history is a clue to the future.

II) Credit Information for Consumer Lending

1. Payment Record

Past payment habits regarded as the most important factor judging credit quality. Regular payments of installments of previously taken loan, telephone bills, and electricity bills are some of the examples of regular payment records.

2. Income

Income consists of wage/salary, rentals and business income if self employed. These incomes are verified with employer/industry average – comparing with wage and salary of other employer's of similar nature. In the case of business income, nature of business, sales turnover, profit margin etc are verified.

Similarly, household expenditures and other fixed obligations are verified to access the estimation of net income that would be enough to repay the loan.

3. Residence

An address check is a routine part of the verification. The size and types of residence are also indicative of the applicant's housing expense, social responsibilities and

wealth. Plus, if the customer is a permanent local resident, it is likely that he'd pay his dues in time and there is less probability that he has any intentions of fraud

4. Marital Status

Information about single, married, widowed, divorced or separated marital status is some times sought of all applicants and considered important while accessing consumer credit. Marital relationship may affect income and obligations as well as person's happiness. Loan default and collection problems repeatedly arise from marital adjustments. Besides it is important that while granting loans, the spouse is taken as a personal guarantee.

5. Age

Age of the applicant may be another factor in accessing credit risk. Too young and old applicants may be regarded as high credit risk. Too young applicant are usually not established financially and often considered transient and uncommitted. Older persons are recipients of limited income and prone to illness. Thus, people who are aged within the working period of life should be more preferred to others.

6. References

References from previous creditors, friends and business associates, persons who have treated others fairly and loyally are likely to give the same consideration to a new credit relationship.

7. Reserves, Assets and Collateral

Assets and income that may be liquidated provide a backup means of payment when the income stream stops. Securities and real estate without heavy debt payment are good reserve assets.

III) Commercial Credit Information

In addition to similar kinds of information as consumer application, commercial credit information contains the following:

1. Financial Statement

- a. Usually balance sheet, income statement and cash flow statement certified by management and auditors.
- b. Shows the position, trend and flow of applicant's business.

2. Customers and Creditors Listing

Provide means and authorization to make inquiries with those doing business with the applicants.

3. Credit bureaus
4. Credit application/interview etc.

IV) Analysis of Credit Risk

Five 'C's of Credit

1. Character

The quality of willingness to repay debts when due is ranked all other considerations. The good character and intentions of the borrower is very important and thus should be seriously considered. Information about the character of the client can be gathered from his working place, references, neighbours and other places he is associated with. This job is tedious but should be carried out for secure investment.

2. Capacity

The ability to repay debts as scheduled. The gross income, expenses and net income of the client/borrower should be analyzed whether the borrower lives on salary/wages or any other forms of income source. Whether the borrower has some extra income source other than salary/wages; any other source of income which can be used to repay the scheduled installments should be considered. It should be analyzed beforehand whether the borrower has enough income to pay the scheduled installments.

3. Capital

Capital provides a cushion to absorb operating and asset losses that might otherwise impair debt repayment. This, in fact, is the insurance against the loans granted to the borrower.

4. Collateral

Sufficiency of collateral is necessary to ensure the recovery of loan. In case of default, by any cause, the collateral kept should have value enough to recover the loan granted and interest borne by it. It is recommended that only 50% of the value of collateral is

granted as loan. But considering other factors like character of borrower and his credit worthiness, this percentage can be made flexible.

5. Conditions

Borrowers may be subject to unfavorable economic conditions beyond their control. Repayment depends not only upon character, capacity and collateral but those factors over which the borrower exercise little or no control. As for example: natural calamities or drastic economic crisis.

V) Basic Requirements in a Borrower

According to NRB Directive regarding Loan information and provision of blacklisting, Directive No: 12/069, any organization receiving permission letter under NRB should collect basic information regarding the borrower, if the borrowed amount is Rs.1,000,000.00 or more documents such as copy of citizenship, permanent/temporary address, and information the family members is required. In case of proprietorship firm information regarding properties is most along with agreement papers. But NRB keep the organization or the lenders under black list if the lend money and interest is not returned within one year. If the bank notices that there is misutilization in the facilities provided or the borrower went to bankruptcy according to prescribed law , if it comes to notice of the bank that lender is involved in any sort of criminal activities or if the balance seems to insufficient on the side of borrower.

Moreover in case of finance companies there are some basic requirements that should be fulfilled by the client to stand himself as a probable borrower. Finance companies can not lend money to just anyone blindfold. It should be confident regarding the trustworthiness and intentions of the probable borrower beforehand. The borrower, on the other hand, should provide finance company with all pertaining documents that the company seeks to build confidence on borrower. The basic requirements of borrowers are as follows;

1. If the Applicant is an Individual

-) Applicant should be a Nepali citizen
-) Should have good knowledge about the work they intend to commence

- J Normally the applicant should not have taken loan from any other institutions.
- J Applicant should present the job planning scheme.
- J Personal Information
- J Business registration certificate and income tax.
- J Quotation and personal guarantee.
- J Driver's license
- J others

2. If the Applicant is Partnership Firm

- J The firm should be registered in related department.
- J The person dealing with the borrowing of the firm should be specified in the partnership contract.
- J Income tax registration certificate.
- J And other required and possible items from point 1.

3. If the Applicant is Private Limited Company or Public Limited Company

- J Company should be registered.
- J Working place, project place should be specified and all the assets should be in the name of company.
- J Audited Balance Sheet, Profit and Loss Accounts and other required financial documents, at least of one year, should be presented.
- J If the work place and/or project place is leased, the lease contract should be presented.
- J The authorized person should apply for the loan.
- J Loan amount applied must be within the limit of memorandum of the company or must be decided by the board.
- J Decisions of the promoters.
- J Personal information of the main person.
- J Written personal guarantee of proprietors.
- J Citizenship of promoters and proprietors.
- J And other required and possible items from points 1 and 2.

VI) Recovery of Loans and Advances

Mobilization of funds collected from deposits is very important. Inability of doing so is a total loss to the company. Giving out Loans and Advances is one of the main and very crucial segments, where the collected funds are invested. Being more practical, the position and status of finance companies are read via Loans and Advances it has mobilized. But a profound thought highlights that only giving out Loans and Advances to the maximum extend is not the only important thing. The more crucial part is the recovery of such invested funds.

All the invested time and work goes in vain if finance companies fail to recover what they had invested in Loans and Advances. The money mobilized in Loans and Advances is borrowed from public via deposits, which are liability of the company. Besides, interest from Loans and Advances is one of the main sources of income of finance companies. If the finance company is not able to recover its Loans and Advances, it's a failure of the company. Thus, finance companies pay special attention in the recovery part.

The finance company should regularly watch the repayment of each and every loan it has mobilized. It should be best tried that none of the borrowers miss their single scheduled repayments. Reminding each borrower prior about the upcoming due date should be made the regular function of the respective department in the company. The function continues as sending reminder letter at different time intervals as the requirement, as according to the regulations of the company. This is very crucial section and thus, it should be well observed and inspected. The company should try all possible legal techniques to collect the repayments.

In case the borrower, defying the company's schedule, does not pay the due installment, the company can use the last weapon of recovering its investment via liquidation of the security against which, the loan was mobilized. Thus, company should collect quality security while giving out Loans and Advances to be in the safe side. "Loans to be supplied only against security. The company must not supply loans without taking any collateral or other necessary securities and guarantees acceptable to it."

2.2 Review of Books

"Banks offer credit facilities to the borrower, it is always subject to the terms and conditions stipulated in the conditions which can be lenient or stringent depending upon the bargaining capacity of the bank and the borrower, but no way detrimental to the interest of the bank" (Dahal and Dahal, 2002:140).

"Credit Management is on the lowest administrative level, the person holding the position of the credit manager or its equivalent is responsible for the actual extension of credit in actual in analyzing request, conducting investigations, evaluating risks, setting limits and referring credit to higher authority. Making collection is another chief duty, which entails maintenance of controls, following up accounts, calling upon customers, representing the company at creditors meeting and supervision of collection correspondence" (Rose, 1988:223).

"The Mechanism of credit creation is used to expand the business. Fluctuation in the credit facilities granted by the banks has an important bearing on the level of economic activities. Expansion of bank credit is followed by increased production, employment, sales and prices. In the developing economy, the banks offer more and more bank credit and increase the resources of the industries, thereby causing faster economic development. The credit facilities extended by the banks must be uniform and rational; otherwise there will be haphazard development of the country. The flow of the credit is very much like the circulation of blood. Just as the circulation of blood has to be smooth and uniform throughout the organs of the human body, so also credit should flow steadily and evenly through various sectors of economy. If credit flow is artificially plugged or arrested, it would do irreparable harm to the economy just clotting of our blood vessels lead to fatal results" (Radhaswami and Vasudevan, 1979:521-522).

2.3 Review of Journals and Articles

Poudel (1997) Economic Advisor Research Department NRB, wrote an article on the topic "Finance Companies in Nepal and Overview" He mainly focused on the performance of finance companies. According to him, " In the year 1966, the ratio of capital funds to deposits has been increasing over the time but on top of this, it is substantially below than the authorized level of deposit mobilization, which is 10

times of capital base. Nevertheless, some of the finance companies have even mobilized the deposits by more than ten times of their capital base by violating the regulatory norms issued by the NRB. The credit /deposit ratio has remained quite high leaving room for doubt about the quality of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase, housing and term loans are the major sectors, which all together received more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline. Since the very tin Aging factor, it is too early to evaluate the performance of the finance companies in Nepal but equally important factor is that the regulatory and authority should keep close eyes o monitor their activities.

Shrestha (2001) wrote an article entitled “Present Position and Future Challenges of Finance Companies in Nepal”. Was published in Banking Prawardhan Vol.8. The theme of the article is drawn in the following points.

-) Despite the existence of numbers financial institution, local lending and borrowing transaction has covered about 80% of total credit demand of Nepal.
-) In past costumers used to approach to financial institution. But now a day here came a condition that the institutions need to go to the clients for providing financial services. Thus finance companies need to modify their working style as demanded by time and should concentrate in quick and practical services.
-) Taking the example of financial crises in some of the countries in Southeast Asia. Nepal should also learn the lesson from the countries in the context of increasing numbers of finance companies in the country.
-) There should be debt recovery act on Nepal.
-) Finance companies are seen not getting able to collect long-term deposit satisfactory. So they need to try to increase public confidence towards them.

Ghimire (2002) wrote an article entitled “Regulating depository Institution in Nepal” has attempted to suggest a board of framework for regulating depository institution. In this article four important regulations are discussed. They are licensing

requirement, minimal capital requirement, investment restriction and, capital adequacy requirement.

Regulatory Discretion on Licensing

NRB has the discretionary power on who should not be allowed to open or own a company. NRB is supposed to take its decision after evaluating the potential owner's background. This regulation stops every third person walking on the street to start owning or running a company and stopping the probability of misuse and fraud in functioning of the system.

Minimum Capital Requirement for Licensing

Current regulation stipulates minimum amount of equity capital that the company should have to get license in operating and mobilizing deposits. This will definitely put bar in new entrances and lower the current competition by allowing already operating institution to operate freely. Since the concentration activity has been on capital only, there has been geographical sanction too. As per NRB unified Directives No.01/69, Finance Companies should maintain capital adequacy ratio i.e 5.5% of core capital and 11.00% of supplementary capital

Investment Restriction

This regulation restricts how and where an institution can invest for example, limit to any one sector, to any borrower, on any one category etc. Productive investment by the company affects the nation's productivity. Restriction on investment on single borrower avoids the risk of failure of any single borrower adversely affecting the intervention on their issues as companies have been smartly violating these regulations.

Capital Adequacy Rate

Commercial banks are primarily controlled by capital adequacy requirement whereas finance companies are controlled by the maximum amount of deposit fixed at a certain multiple of the net worth. Capital indicates degree of owner's commitment on these institution and cushion against shrinkage of the assets of company in event of default. Since capital indicates degree of owner's commitment, capital as a

percentage of risky investment should be enforced. In the end, he further presents some of conclusion remarks and recommendations:

-) The regulation to be resorted must be carefully examined, analyzing the marginal cost and benefit.
-) Depositing institutions engaged in the function of mobilizing deposits should be subject to uniform rules.
-) Regulatory intervention in enhancing the overall efficiency is required.
-) Minimum capital requirement for opening any financial institution should be scrapped.
-) Regulation that doesn't make economic sense and that cannot be enforced should be scrapped.

Shrestha and Khadka (2003) wrote an article "Development Required in Policy and Legal Aspects of Finance Companies" published in Banking Prawdhan Vol. 9. The major part of the article is summarized in the following points:-

-) Under the existing regulation, a new finance company could issue common share to public within 3 years of its establishment. A company in loss should go to public as soon as it starts getting profit. But it is seen that some companies are not seen to issue public shares eve after completing 4 or 5 years of operation. So, NRB should make such companies issue public share by circulating regulations like not allowing a company to provide dividends to its promoters if it fails to issue public share within a specific period of time.
-) Promoters should not be allowed to sale their share unless the company issue public share. Moreover, there should be standards of eligibility of the buyers to purchase, thus sold shares, as there is a great role of promoter in planning and monitoring of a company.
-) There is a requirement of credit information system among all the financial institutions. Finance companies association of Nepal should play its role in this regards.
-) As there is not any credit rating agency in Nepal, depositors or investors are facing problem of choosing appropriate finance company to deposit or invest their savings. So NRB should develop a system of ranking finance companies on the basis of capital structure, profit/loss condition, issuance of public shares,

quality of management, amount of bad debt, service diversification, service quality etc. The companies in high rank should be slightly relaxed from restrictions regarding various aspects.

With more deregulation setting in, evaluation of risk appraisal is assuming more importance. Absolute quantitative credit deposit ratio has no relevance if the assets are not performing ones. Hence, it is felt that appraisal techniques of bank lending in competitive areas have to be more attuned towards risk evaluation. A major aspect of this work has been the development of more advanced methods for the quantitative measurement of market risk; the extensive trading in financial instruments provides a good supply of price statistics and this is a considerable help when it comes to estimating market risks. Much work is now being done in many places to construct models for a better management of credit risks, which are still by far the largest risk category for banks. The difficulties here, however, are far greater than in the case of market risks. The estimation of key parameters for models is obstructed by a lack of statistics. Moreover, some advances have been made in the estimation of operational risks, i.e., the risk of losses arising from technical problems or inadequate internal controls. Previously, operational risks had attracted less attention than credit and market risks. It changes in the nature of banking operations that have brought them more to the fore.

Financial legislation and regulation need to be sufficiently flexible to accommodate the rapid pace of developments in the financial sector. It tends to take considerably longer to amend rules than it takes to create new financial products. But there has to be a foundation of minimum requirements for risk management. In addition, the authorities must be increasingly involved in ensuring that institutions themselves possess a basic competence in and understanding of the risks that have to be managed, as well as adequate systems for their management, rather than issuing detailed risk management instructions. In other words, it has become more important to inspect systems, defining in a wide sense, then to scrutinize particular commitments or market risk. Some supervision can be carried out with the market's assistance. The authorities prescribe as well as encourage a more open presentation of the institutions' risks and profitability in different operations such as transparency emphasize the banks' demands on each other as well as what customers require of their banks.

Effective credit risk management allows a bank to reduce risks and potential NPAs. It also offers other benefits. Once banks understand their risks and their costs, they will be able to determine their most profitable businesses and, thus, price products according to the risks. Therefore, the banks must have an explicit credit -risk strategy supported by organizational changes, risk measurement technique and fresh credit processes and systems. There are five crucial areas that credit risk management should focus on.

-) Credit sanctioning and monitoring process.
-) Approach to collateral.
-) Credit risks arise from new business opportunities.
-) Credit exposures relative to capital or total advances.
-) Concentration on correlated risk factors.

Apart from these, the bank management should regularly review all asset quality issues including portfolio composition, big borrower exposures and development in credit management policy and process. Improving risk management will not be easy or quick. However, Nepalese bankers have little choice. Hopefully, the banks adopt good risk management practices and will be able to reap both strategic and operational benefits.

The challenge is the lack of a kind of the trust or faith between the clients and the financial institutions. Sometimes I see some kinds of the moral hazards in this country. Many times I have been asked by our clients why do we ask for too much collateral and keep too many clauses in the contract. I think that perception should be changed. Some clients even tell me that if the has offered a high collateral value compared to the loan amount the borrower has to obey what the bank or the finance company dictates. And if the bank extends a loan without any collateral then the bank will have to obey its clients. That is totally wrong. You know why do such kinds of things happen here? Because there is no system to keep a track record of the borrower. If somebody is bankrupt or fails to repay loan in time he should not be allowed to do any other business. But here, such person can easily start a new company and gets the loan from other banks. These types of things are prevailing here. First of all, these things should be changed.

In Nepal, if a cheque is bounced nothing happens to the issuer. But it becomes a criminal case in Korea. In case of promissory note it is not a criminal case, it is just a civil case. In case of cheque however, cheque issuer should go behind the bars. It is only with such a strong social system that the credibility among the financial institutions and the clients and the government is established. Except in Japan and Korea I don't think that even the western countries have such kind of strong social system. The reason for them may be that they grew in such a kind of environment that if somebody fails to pay his promises he couldn't survive in the society. They should go somewhere else. That's why they don't need to develop such systems. In the case of Japan and Korea, the history of their industrialization is not that long. Japan's may be about 150 years long and Korea's about 50 years long. Therefore, they could not import the system within that time. Therefore, without any severe penalty one doesn't necessarily follow the rules. In western countries if someone's cheque is bounced, no bank will again issue the cheque for that client. Therefore, the clients are more alert about it. But in Nepal the bank doesn't seem to care even if the cheque may have bounced three or four times. Sometimes, the clients intentionally issue the cheques on empty account even if they know that they don't have the balance in that account. This happens very frequently. Therefore, these things should first be addressed. In this kind of environment how can we work? Because of this attitude, many times we are very scared to provide the loans to even a very big company.

The profit shown by companies and certified by auditors largely depends on the amount of loan loss provision provided as required by Nepal Rastra Bank directives. There is often disagreement between Company Management and Auditors over the loan categorization necessary for the loan loss provision. Nepal Rastra Bank's unified Directive No.2/69 mentioned detailed regulations on how loans should be classified as (1) Pass (2) Substandard (3) Doubtful and (4) Loss which constitutes 1%, 25%, 50% and 100% loan loss provision should be provided respectively.

NRB Directive allows companies to restructure/ reschedule/ capitalize interest when the loanee cannot pay back money in time. But the NRB Directive does not mention the condition for doing such things. It does not state whether or not a company should fully recover interest due. Details of the documents to be obtained by the Company Management to reschedule/restructure are however required as per New Directives

Issued by NRB to commercial banks effective from the 1st quarter of FY 2058/59. The NRB Directive to Finance Companies also does not say anything about how many times Finance Companies can reschedule/restructure loans and capitalize interest within a "Loan Period" or within a "Fiscal Year". In the absence of such regulation, there may be a malpractice of rescheduling/restructuring the same loan many times even within the fiscal year passing off a worse quality loan as a better quality loan.

The definition of scheduled and non-scheduled loans and the amount of such loans in any finance company is immensely important for the "Risk Management" and overall Fund/Financial Strategy of the Finance Company. NRB Directive addresses "Loan Policy, Procedures, and Period of Scheduled Loans. But the NRB directive fails to define the meaning of scheduled loan. What percentage of the total loan portfolio could be disbursed in the form of non-scheduled loan? These terms should be explicitly defined. Otherwise finance companies may disburse whole/majority of loans as non scheduled loans to show short term profit at the cost of the long term sustainability of companies. The disbursement of maximum non-scheduled loans calls for a liquidity crisis, which hazards the companies business and creditworthiness.

It is normal act of Nepal Rastra Bank to in act directives, time to time, to such institutions that collect deposit from public, for the safety of depositors. It should not be questioned otherwise. But directives should be such that, they are conveniently applicable. If directives are lengthy and whose application might arise question in the existence of the company itself, consequently turn out to be ineffective. It is not compulsory that strict directives increase the efficiency of finance company. Efficiency of managers and board of directors, who make rule and regulations, bring effectiveness ad efficiency in finance companies.

2.4 Review of NRB Directives

Funds used by finance companies for the purpose of advancing of loans and leased assets are that of public. Finance co. collects deposits from public and it is the very same fund the finance companies use to make profit and give back to the public. Thus, to prevent this public fund being misutilized and to protect the savings of public, NRB has given directives to the finance companies regarding investment of

public fund along with the directives to perform all other jobs of finance companies. Directives related to classification of loan and advances , loan loss provisioning , Rescheduling and and Restructuring of loan, Singel Borrower Limit, Provision for black listing guides the financial institutions as well as Finance companies to smoothly regulate its financial transactions.

Table 2.1
Loan Categorization according to NRB Directives

S. No.	Loan Categorization	Repayment Due Period	Loan Loss Provision (%)
1.	Good	No due and maximum due of 3 months	1%
2.	Sub-standard	Due from 3 months to 6 months	25%
3.	Doubtful	Due from 6 months to 1 year	50%
4.	Bad Loan	Due of more than 1 year	100%

Source: NRB Unified Directives, 2069

In the directives given by NRB, loan and advances are initially categorized as performing loan and non-performing loan. Good loan and advances are defined as performing loan where as Sub-standard, doubtful and bad loan fall under the categorization of non-performing loan. Loan cases like loan granted to the project which is not presently working or misutilization of loan or whose loanee has run away are also treated as bad loan and classified as non-performing loan even if they are within the due dates.

Along with the comply of above guidelines, there are certain other guidelines regarding performing, non-performing loans and loan loss provision that has to go in synchronize with the given one. For the general outlook on loan policy of finance companies those guidelines, in brief, are listed below;

-) Any loan and advances that are granted under the criteria of repayment in installments are categorized as accordance to the due of repayment installments and treated as discussed above. But if any installment is due for more than a year, then the whole amount of loan is categorized as bad loan and 100% loan loss provision is to be made.
-) Regarding long term project financing, only the principle dues are categorized but if 25% or more of the total loan amount of these long term project are due

the whole balance amount so categorized under loan categorization and loan loss provision is made.

-) Inter finance company financing can be done for the time span of 3 weeks. If these loans are not realized within 3 weeks then the loan amount is categorized under loan categorization and loan loss provision is made accordingly.
-) Company can categorize its loans against its own fixed deposit receipts as good loan and loan loss provision is to be made accordingly.
-) No loan loss provision is to be made for the loan against HMG treasury bills and NRB securities.

This directive was imposed by NRB to minimize the risk that can arise due to concentration of loans and advances, lease financing and services to one customer (NRB Unified Directives, 2069).

I. Limitation for loans and Advances and Lease Financing

1. Per Customer Loan Limit

Company can provide loan and advances, lease finance and services to one person, family, customer, industry, project, firm or company at the most to the percentage of primary capital as given below; (NRB Unified Directives, 2069).

-) Company can give out fund based loans and advances and non fund based loan and lease finance up to 25% of core capital as per new NRB Unified Directives 2069.

2. Related Customers will be Treated as a Single Group

For the purpose of drawing limits in granting loans and advances, lease financing and giving other services, customers with personal relations are categorized in to a single group under the following conditions (NRB Unifed Directives, 2069).

-) In case one company has acquired 25% or more shares of another company then those both companies are considered as a single group.
-) In case a director of a company is a shareholder of another company or his/her relative; spouse, son, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, parents, step mother and younger dependent siblings

residing under the same roof or the companies whose 25% or more share are owned by above mentioned relatives individually or jointly.

- J In case the firms, companies are legally connected in a group or members of such groups
- J If relatives mentioned in point (b) do not, individually or jointly, own 25% or more shares of a company but hold the following positions:
 - J Chairperson of BOD
 - J Managing Director of the company
 - J In case one customer or company has given cross guarantee to another customer or company (NRB Unifed Directives, 2069).

II. Additional provisioning in the case of personal guarantee loans

Where the loan is extended solely against personal guarantee, a statement of the assets equivalent to the personal guarantee amount not claimable, shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of Pass, Substandard, and Doubtful, in addition to the normal loan loss provision applicable for the category, an additional provision by 20-percentage point shall also be provided. Classification of such loan and advances shall be prepared separately.

In respect of the loan loss provisioning, credit and non-funded facilities extended to the Promoters or Shareholders in the Promoters Group of the bank holding less than 1% of the total issued capital shall require provisioning at double the percentage of requisite provisioning as per the existing rules (NRB Unifed Directives, 2069).

III. Loan Loss Provisioning in Respect of Rescheduled, Restructured or Swapped Loan

Except for Priority Sector, in respect of all types of rescheduled or restructured or swapped loan, if such credit falls under PASS category according to Nepal Rastra Bank's directives, loan loss provisioning shall be provided at minimum of 12.5%.

- J In case of rescheduling or restructuring or swapping of insured or guaranteed priority sector credit, the loan loss provisioning shall be provided at one-fourth of the percentage mentioned in Clause (a).
- J In respect of swapped loans, the bank accepting the loans in swapping has to provide loan loss provision classifying the loan under the same classification as

were existing. The bank accepting the loan in swapping shall obtain certification from the concerned bank or financial institution as to the existing classification."

J Separate statement shall be prepared for loans classified and provision made as above (NRB Unifed Directives, 2069).

IV. Sector wise Loan Disbursement Limit

NRB Directive has defined sectors and sub-sectors for finance companies under which they can disburse loan. The sectors and sub-sectors under which finance companies are allowed to give out loan on as follows:

1. Hire Purchase Loan
 - 1.1. Vehicles
 - 1.2. Machinery, equipments and plants
 - 1.3. Consumer durable goods and other movable goods
2. Housing Loan
 - 2.1. Purchase of land and purchase/construction of building, god own for an individual
 - 2.2. Purchase of land and purchase/construction of building, god own for an organization
3. Lease Financing
 - 3.1. Vehicles
 - 3.2. Plants, machinery and equipments
 - 3.3. Consumer durable goods and other movable assets.
4. Term Loan – Medium and Long Term only
 - 4.1. Agriculture and agro-based business
 - 4.2. Industry
 - 4.3. Business
 - 4.4. Education
 - 4.5. Health
 - 4.6. Tourism
 - 4.7. Hydro-power
 - 4.8. Others
5. Fund Based Merchant Banking Activities
 - 5.1. Venture capital

- 5.2. Bridge financing
- 5.3. Other merchant banking transaction
- 6. Non- Fund Based Merchant Banking Activities
 - 6.1. Corporate counseling
 - 6.2. Project counseling
 - 6.3. Issue management
 - 6.4. Share underwriting
 - 6.5. Portfolio management

(NRB Unified Directives, 2069)

1. Provision of Interest Rate Declaration

Company can decide up the interest rate to be given on deposits and the interest rates collected on loans by itself. The earlier rule of maintaining the interest spread had been withdrawn.

2. No Flat Rate

Company cannot charge the interest on loans and advances under flat rate system.

3. Interest Rates Should be Decided

Interest rates of deposits and loans and advances, interest calculation system, penalty system, service charge and commission rate used by the company should be decided by the board meeting or by other sub-committee authorized by the board or by the managing director of the company.

4. Information Regarding Interest Rates

While in acting the interest rates mentioned above for the first time or after any change in any time span, the detailed information should be forwarded to NRB Non-Banking Regulation Department and NRB Non-Banking Control and Supervision Department within 7 days of the change.

5. Publication of Interest Rates

Interest rates given in deposits and charged in loans and advances by the company should be published in every half yearly closing (Shrawan and Magh) within the period of one month, compulsorily in National Daily Paper.

a. Interest income and expenses:

-) Due interest from loans and advances can be transferred to interest income only under cash basis. Interest of 3 months due but not paid can be shown as interest income under Interest Receivable Account. In case this due is not received in cash within 3 months, it should be transferred to Interest Suspense Account as expenses. And this interest amount transferred to Interest Suspense Account can be recorded as Interest Income only when it is collected in cash.
-) Interest income from Govt. securities, NRB securities, debentures and other investments should be treated as according to commitment basis. But dividends from share investments should be treated on cash basis (NRB Unifed Directives, 2069).

2.5 Review of Unpublished Dissertations

Shahi (2004) in her thesis paper "A Lending Operation and Practices of Joint Venture Bank in Nepal", has examined the lending operation and practices of joint venture banks. the main objectives of the research is to determine the liquidity position , to measure the banks lending strength, to analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector. The data used in the research is secondary type and tools are financial and statistical.

The research has concluded that the high volume of liquidity shows that the high degree o lending strength has been prevailing in all of these banks. The lack of reliable lending opportunity and fear of losing the principal in rural sector has been keeping these banks to less orient towards the lending. Hence, the government should take appropriate action to initiate these banks to attract to flow credit in rural economy.

Maskey (2004) in his thesis paper, "A Study on Lending Performance with Reference to Nabil Banks Ltd., Standard Chartered Bank Ltd and Nepal Investment Bank Ltd". Has set objectives of studying the relationship among different financial indicators relating to loan and advances, total investment, profitability, deposit and non-performing loan in commercial banks under the study. In this study, financial and

statistical tools are used. The data used in this research is mainly secondary nature and extracted from the annual reports of concerned banks and website of Nepal Stock exchange.

Conclusion is given as the banks are following NRB guidelines of loan classification and provision which makes bank financially strong instead of holding high volume of NPA's in addition to all guidelines followed by NRB and the banks internal policy. The thesis is mission to give the fact of why the non-performing rates are not being relatively affected beyond the precaution of the banks to keep the collateral. Also primary data collection is limited through the questionnaire with banking officials only. The actual lender opinion about lending policies is missing.

Shilpakar (2004) in her thesis paper "A Study on Lending Practices of Finance Companies of Nepal" has set objective of highlighting the fact regarding lending and recovery and highlighting the NRB directives regarding loans and advances. The tools used in the thesis are financial and statistical tools.

This thesis is able to fulfill its objectives of what a loan actually is. What is the principal of good Loan? Quality of loans is objected to highlight. To measure the lending performance in quality, efficiency and its contribution in profitability. The liquidation of collateral, as regarded as security against the loans and advances is one very tedious job. Realization of default loan from the liquidation of collateral does not turn out to be as simple as it sounds qualitative analysis comes only on the theoretical base. A huge amount of primary data is necessary to be collected to fulfill the objectives of qualitative analysis.

Mharjan (2005) has carried out research on "Loan Management of Nepalese Commercial Banks" has examined the loan management of the commercial banks in Nepal. The main objectives of the study were how far the banks are investing in the priority sector and the deprived sector, the trend of the deposit and the loan, loan loss provision made by the banks. The data used in this research are secondary data and the tools are statistical.

The research concluded that the loan and advances are the profitable assets for the banks and it's very risky too. Due to this reason, the loan and advances should be effectively managed and controlled. The recommendation was to follow the NRB directives because thinking the beneficial in terms of the banks and the strength the financial condition of the country directives should be made.

Tuladhar (2008) in his thesis paper "A Study on Lending Practices of Finance Companies of Nepal" has highlighted the fact regarding lending and recovery and highlighting the NRB directives regarding loans and advances. The tools used in the thesis are financial and statistical tools.

This thesis is able to fulfill its objectives of what a loan actually is. What is the principle of good Loan? Quality of loans is objected to highlight. To measure the lending performance in quality, efficiency and it's contribution in profitability secondary data are used. The liquidation of collateral, as regarded as security against the loans and advances is one very tedious job. Realization of default loan from the liquidation of collateral does not turn out to be as simple as it sounds qualitative analysis comes only on the theoretical base. A huge amount of primary data is necessary to be collected to be collected to fulfill the objective of qualitative analysis.

Dhakal (2010) has carried out her research on "A Comparative Study on Lending Performance of the Commercial Banks". The main objectives of the study are to analyze the lending performance of Commercial banks. Similarly it has also emphasis on lending strength and lending efficiency of Commercial Banks. It has also the objectives to study the position and utilization of deposit, lending efficiency and its contribution of banks. The data used in this research is mainly secondary nature and extracted from the annual reports of concerned banks and website of Nepal Stock exchange.

Conclusion is given as the finance companies are following NRB guidelines of loan classification and provision which makes companies financially strong instead of holding high volume of NPA's in addition to all guidelines followed by NRB and company's internal policy.

2.6 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There have been lots of articles published related to investment policy of financial institutions. There are various researches conducted on investment policy of commercial banks, impact and implementation of NRB guideline in commercial banks but it has been found that no such research has been made in the lending practices of finance companies and the increasing challenges faced by finance companies. Few theses have been prepared on the Credit Management. These researches are related only with trend of lending. So, this study can make further research on lending practices and their policy. Hence, the research had attempted to fill this research gap by taking reference to Lumbini Finance and Leasing Co. Ltd. and NIDC Capital Markets Ltd.

CHAPTER- III

RESEARCH METHODOLOGY

Research is essentially a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and to deduce from them broad principles or laws. It is really a method of critical thinking by defining and redefining problems, formulating hypothesis or suggested solution, collecting, organizing and evaluating data, making decisions and making conclusions to determine whether they fit the formulated hypothesis.

“Research is the process of a systematic and in-depth study or search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data. It is a careful search or inquiry in to any subject matter, which is an endeavor to discover or find out valuable facts which will be useful for further application or utilization” (Wolf and Pant, 2008:265).

Research Methodology depends on the various aspects of the research project. The size of the project, the objective of the project, importance of the project, time frame of the project, impact of the project in various aspects of the human life etc. are the variables that determine the research methodology of that particular project. “However, the following steps provide a useful procedural guidance so far as research methodology is concerned:

-) Tentative selection of the problem (i.e. topic of research)
-) Initial survey of literature
-) Defining or selecting the research problem
-) Extensive literature survey
-) Specification of the information required: formulating the hypothesis
-) Design of the search project
-) Sample design
-) Collection of data/ construction of questionnaires
-) Execution of the project
-) Analysis of data

-) Testing of hypothesis
-) Arriving at generalizations and
-) Preparation of the report (i.e. stating or writing down the result)”

The topic of the project has been selected as “Lending Practices of Finance Companies of Nepal (With Special Reference to Two Finance Companies in Nepal)” with a tentative objective of highlighting and analyzing the lending practices of finance companies. The survey of literature has been conducted from various library and references and these have been mentioned in chapter two. The problem of the study has been specified in the topic “Statement of Problem” in chapter one. Two finance companies out of 77 till today are selected for the study namely Lumbini Finance and Leasing Co. Ltd, and NIDC Capital Markets Ltd. The data has been collected from various sources as specified in sources of data. The data has been processed and presented in chapter four. The major findings of the analysis have been mentioned in chapter five. The conclusion and recommendations have been put in the same chapter.

3.1 Research Design

Research design is a plan for the collection and analysis if data. “A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected from which sources by what procedures. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected by objective and economical procedures” (Kothari, 2005).

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research objectives through analysis of data. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedure and techniques, which guides the study and the ways to do the study.

This, in fact, is the specific presentation of the various steps in research process. These steps include the selection of a research problem, presentation of the problem, formulation of hypothesis, methodology, survey of literature and documentation, data collection, interpretation, presentation, report writing and bibliography.

This research covers two major finance companies of Nepal, particularly in their practices of lending and recovery. The research has its basic objective to figure out the problem therein and provide them with some recommendations. The literature has been reviewed from past thesis, books and published articles. The data for the research are of secondary type. The data are in the form of both descriptive and analytical.

3.1.1 Source of Data

Secondary data is used to conduct this research. The annual reports of the subjected finance companies are the main source of the data for the study. However, besides the annual reports other sources of data listed as below are also used;

1. NRB reports
2. NRB Directives
3. Academic Books
4. Various Publications concerning the subject matter
5. World Wide Web; the internet.

Besides the above mentioned sources, remarks of specialists or any other material found relating to the study are used as valuable data for the study.

3.1.2 Population and Sample

When it is impossible or very difficult to study the whole population, a part of the population is selected in order to draw conclusion of the whole population, this process is sampling and the part selected is called sample.

Here, regarding to this study, the whole of finance companies, with 70 in total number, is the population of the study. And the selected two finance companies viz, Lumbini Finance Co. Ltd, and NIDC Capital Markets Ltd. are the samples for the

study. For this particular study, the sample was collected by random selection of major two finance companies.

3.1.3 Data Collection Procedures

The annual reports of respective finance companies were collected from their respective official websites. NRB reports were collected from Research department of NRB. The numerical data collected from different sources were used in whole numbers for the convenience of the study. The internet proved to be a very good source of data. Various sites were used for the collection of data. The sites used are listed in the bibliography.

3.2 Analysis of Data

The data presented in the study are analyzed by the following tools.

3.2.1 Financial Tools

1. Ratio Analysis

The relationship between two accounting figure, expressed mathematically, is known as financial ratio (or simply as ratio). A ratio is simply one number expressed in terms of another and as such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion, and as a coefficient. The technique of ratio analysis is a part of the whole process or analysis of financial statements of any business of industrial concern specially to take output and credit decisions. Through this technique, a comparative study can be made between different statistics concerning varied facets of a business unit. Just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic of financial health of a business concern. Thus, the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns.

As far as we are concerned about the financial ratio, a ratio between two relevant figures, which provide a certain relation, and have negative or positive correlation between them will only be studies. Since comparing two incomparable figures and

their ratios give no idea and judgment on analysis and it remains as an absurd figure only. This section has been divided into following sub-sections.

Asset/Liability Management Ratio

Asset/Liability Management Ratio measures the proportion of various assets and liabilities in Balance Sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of is Lending and Investment functions. Assets and Liability management ratio measures its efficiency in multiplying various liabilities in performing assets. The following are the various ratios relating to Asset Liability management, used to determine the Lending Strength of the subjected finance companies.

-) Investment to Loans and Advances and Investment Ratio
-) Loans and Advances and investment to Total Deposit Ratio
-) Loans and Advances to Shareholder's Equity Ratio
-) Loans and Advances: Portfolio

Activity Ratio

Activity ratio measures the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity an enterprise to utilize available funds, particularly short-term funds. The following ratios are used in this study to determine the efficiency, quality and the contribution of Loans and Advances in the total profitability.

-) Loan Loss Provision to Total Loans and Advances Ratio
-) Non-Performing Loans to Total Loan and Advances Ratio
-) Interest Income from Loans and Advances to Total Income Ratio
-) Interest Suspense to Total Interest Income from Loans and Advances Ratio
-) Loans and Advances to Total Deposit Ratio
-) Interest Income to Interest Expenses Ratio

Profitability Ratio

Profit is the difference between the revenues and the expenditures over a period. Profit is the main elements that make an organization to survive. The profit, in other hand, measures the management ability regarding how well they have utilized their

funds to generate surplus. The given ratios are used to determine the efficiency of the lending, its quality and contribution on total profitability.

Net Profit to Shareholder's Equity Ratio

3.2.2 Statistical Tools

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured from groups of individuals or groups of observations from a single individual. The figures provide detailed description and tabulate as well as analyze data without subjectivity, but only objectivity. The results can be presented in brief and precise language and complex and complicated problems can be studied in very simple way. It becomes possible to convert abstract problems into, figures and complex data in the form of tables. The various statistical tools used in this study to analyze the collected data are as follows:

Arithmetic Mean

Average is statically constant which enable us to comprehend in a single effort of the whole. It represents the entire data by a single value. It provides gist and gives bird's eye view of the huge mass of unwieldy numerical data it is calculated as:

$$\bar{X} = \frac{x}{N}$$

Where,

\bar{X} =Arithmetic Mean

N =Number of observation

x =Sum of Observation

Standard Deviation

Standard deviation is the most popular and most useful measure of dispersion and gives uniform, correct and stable results. The chief characteristics of standard deviation are that it is based on mean, which gives uniform and dependable results. Further more, a standard deviation is always a positive number and is superior to the

mean deviation, quartile deviation and the range because t is used for further mathematical treatment.

Karl Pearson introduced the concept of Standard Deviation in 1823 and this is denoted by the small Greek letter σ (read as sigma). The formula to calculate the Standard Deviation is given below;

$$= \sqrt{\frac{\sum x^2}{N}}$$

Where

$$x = (\bar{X} - X)$$

$$= \sqrt{\frac{\sum fx^2}{N}}$$

Where,

$$x = (\bar{X} - X) \text{ and } f = \text{frequency}$$

$$= \sqrt{\frac{\sum dx^2}{N} - \left[\frac{\sum d}{N} \right]^2}$$

Where,

$$d = (\bar{X} - A) \text{ and } A = \text{assumed mean.}$$

Coefficient of Variation

The percentage measure of coefficient of Standard Deviation is called Coefficient of Variation (C.V.). The Standard Deviation calculated in the above formulae gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on Standard Deviation only. The Coefficient of Variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability.

The Coefficient of Variation (C.V.) is given by the following formula;

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\bar{X}} \times 100$$

Correlation Coefficient (r)

Correlation is the measure of relationship between two or more characteristics of a population or a sample. It simply measures the changes between the phenomena. The correlation coefficient between two variables describes the degree of relationship between those two variables. It measures the increase or decrease in one variable due to increase or decrease in another variable. Simply stated, correlation is a statistical tool, with the help of which, we can determine whether or not two or more variables are correlated and if they are correlated, what is the degree and direction of correlation.

The degree of correlation is measured by the correlation coefficient which ranges +1 for perfectly correlated series to -1 for perfectly negatively correlated series; symbolically correlation coefficient can be expressed as follows:

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Correlation analysis describes the relationship between variable i.e positive or negative. it helps to determine the following.

-) A positive or negative relationship exists.
-) The relationship is significant or insignificant
-) Establish cause and effect relation if any.

The statistical tool-correlation analysis is used in the study to measure the relationship between variables in determining within the relationship is significant or not. For the purpose decision making interpretation are based on the following terms.

When,

$r=1$, then is perfect positive correlation.

When,

$r= -1$, then is perfect negative correlation

When,
 $r=0$, then is no correlation

When,
'r' lies between 0.7 to 0.999 (-.07 to 0.0999), then is high degree of positive (or negative) correlation.

When 'r'
lies between 0.5 to 0.6999 there is moderate degree of correlation

When 'r'
is less than 0.5, there is low degree of correlation.

Coefficient of Determination (r^2)

Coefficient of determination is the square of correlation coefficient. It denotes the extent of changes in dependent variables that can be explained by the independent variable. In this study coefficient of determination is used to analyze the changes in collection by disbursement.

Coefficient of determination = r^2

Probable Error (P.E)

The probable error of the correlation of coefficient helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows.

Where,

$$\text{Probable error of 'r' (P.Er.)} = 0.6745 \frac{1 - r^2}{N}$$

r = correlation coefficient

N = number of pairs of observation

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant, then if the value of 'r' is more than six

times of the probable error, the coefficient of correlation is practically certain, i.e. the value of 'r' is significant.

Regression

The literal meaning of the word “regression” is stepping or returning back to the average value. The term was first developed by Sir Francis Galton in 1877. “Regression is the statistical tool with the help of which we can estimate or predict the unknown value of one variable from the known value of any other variable. Assuming that the two variables are closely related, we can estimate the value of one variable from the value of another. The variable whose value is given is called “independent variable” and the variable whose value is to be predicted is called “dependent variable”.

The regression equation of y on x is expressed as;

$$Y_c = a + bX$$

Where,

Y_c = value of Y computed from the relationship for a given X.

“a” and “b” are constants and also known as the parameters of the line. The parameter “a” determines the distance of the line directly above or below the origin, while parameter “b” determines the slope of the line i.e. the change in y with per unit change in x. X is an independent variable and Y is dependent variable.

Time Series

“Economist and business experts have often to deal with varieties (quantities) which change in value with time. Variation of such quantities with time can be systematically studied and analyzed by presenting on the graphs. For obtaining knowledge about the nature of variation of a quantity along with time, time series can be used” (Stapit, 2007). When a series of data pertaining to a series of continuing periods should be studied, its characteristics and its future directions best estimated by the time series. Time series analyses a series of data keeping in mind the various short term and long term fluctuations.

The Least Square Method of trend analysis has been adapted to measure the trend behaviors of the subjected finance companies in this study. “Method of Least Square is mathematical method of obtaining trend that uses the concept of least square method. Simply the technique of fitting regression equation.” This method is widely used in practices. The straight line trend of a series of data is represented by the following formula;

$$Y_c = a + bX$$

Where, Y_c is used to designate the trend values and to distinguish them from the actual Y values, a is the Y intercept or the computed trend figure of the Y variable when $X=0$, b represents the slope of the trend line of the amount of change in Y variable that is associated with a change of one unit in X variable. The X variable in time series analysis represents time.

In this study, the data of last 6 fiscal year i.e. 2062/63 to 2067/68 has been used in measuring the trend analysis used. While analyzing the Time Series, the Propensity of Growth and Growth Rate have been examined based on the value of trend value of Least Square Method.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

4.1 Measuring the Lending Strength

Lending strength is that important aspect of any finance company, which if not kept in track while performing the functions, can lead to very critical situation. This, in fact, shows the situation of finance company in terms of investments in loans and advances. Whether the company is lending in accordance with the deposits it is collecting and the investments made by the shareholders or not should be analyzed regularly. Any idle deposit is loss to the company. Here, under this topic, an attempt is made to analyze the lending strength of the finance companies under study in relative terms as well as absolute terms.

4.1.1 Measuring the Lending Strength in Relative Terms

The lending strength of finance companies under study is measured in relative terms in this section. The relationship between various assets and liabilities of the balance sheet has been established to show the relative strength of lending strength of each finance company comparatively.

4.1.1.1 Investment to Loans and Advances and Investment Ratio

This ratio measures the contribution made by Investment in total amount of Loans and Advances and Investments. The proportion between Investment and Loans and Advances depicts the management attitude towards risk assets and safety assets. This also measures the risk the company is taking in its investment. The high ratio indicates the mobilization of funds in safe area and vice versa. However, safety does not provide with satisfactory return, as is said “no risk no gain”. Thus, a compromising ratio between risk and profit should be maintained.

Table 4.1
Investment to Loans and Advances and Investment Ratio

	Fiscal Year						Mean
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	
Lumbini	0.04	0.08	0.08	0.03	0.03	0.05	0.05
NIDC	0.12	0.08	0.10	0.13	0.06	0.18	0.11
Combined Mean							0.08

Source: Appendix 1

Table 4.1 shows the ratios of Investment to Loans and Advances and Investments. The ratios are ranged from 0.06 of to 0.18 of NIDC and ratio ranged of Lumbini is from 0.03 to 0.08. The ratios of NIDC are the highest throughout the study period. Analyzing the 6 year data of two finance companies, it is noted that only NIDC has a steady increase in the ratio throughout the study period. Despite being highest, the ratios of NIDC are in fluctuating trend. The ratios of NIDC are in decreasing trend at year 2063/64 and are in increasing trend in 2064/65 to 2065/66 and 2067/68 and the trend has decreased in 2066/67. Lumbini too has ratios in decreasing trend since the year 2064/65. The combined mean ratio of all two finance companies is 0.08. The mean ratios of Lumbini and NIDC are 0.05 and 0.11 respectively. Among the two companies NIDC has higher mean ratio than combined mean, this indicates that they have highest degree of investment in risky assets.

4.1.1.2 Loans and Advances and Investment to Total Deposit Ratio

Loans and Advances and Investments are the major area of fund mobilization. This is the major area where the funds collected as deposits are channeled. The first part, Loans and Advances is more crucial and also bears more risk than Investments but also gives the higher return. Whereas, the second half, Investments has lesser risk and gives lower return in compare to Loans and Advances. Loans and Advances and Investments to Total Deposits ratio indicate the firm's fund mobilizing power in gross. Total Deposits collected, against giving interest to the customers, is the total amount available for investments. Loans and Advances and Investments are the major areas where the companies can mobilize the funds with some returns. Any idle deposits mean loss to the company. Thus, this ratio measures how well the deposits have been mobilized. In other

words we can say that this ratio measures what part of deposits are generating income for the company to give out interest to the deposits and also make profit.

Table 4.2

Loans and Advances and Investment to Total Deposit Ratio

	Fiscal Year						Mean
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	
Lumbini	0.92	0.99	1.25	1.09	1.21	1.19	1.11
NIDC	1.21	0.99	0.8	0.90	0.78	0.94	0.94
Combined Mean							1.02

Source: Appendix 1

Table 4.2 shows the ratio of Loans and Advances and Investments to Total Deposits. This means the portion of deposit being mobilized to generate income. The ratios range from 0.92 of Lumbini finance in 2062/63 to 1.19 in 2067/68. Lumbini has higher ratio in different years. Lumbini has highest ratio of 1.25 in 2064/65. Whereas NIDC has highest ratio of 1.21 in 2062/63. NIDC has lower ratio throughout the study period in comparison to Lumbini Finance. The ratios of Lumbini is in increasing trend whereas NIDC have decreasing and in fluctuation trend. .

The Combined mean ratio of two finance companies is 1.02. The mean ratios of Lumbini and NIDC are 1.11, and 0.94 respectively. Lumbini has the highest mean ratio than its combined mean which shows Lumbini has been doing best in mobilizing the funds collected in income generating way. And since the ratio is above 1, it refers that none of the deposit is idle. There is maximum utilization of the collected funds.

4.1.1.3 Loans and Advances to Shareholder's Equity Ratio

The ratio between Loans and Advances to Shareholders Equity shows how far the Shareholder's Equity has been able to generate assets to multiply its wealth. Shareholder's Equity is the investment made by shareholders in the company and Loans and Advances means mobilization of that invested funds in profit generating sector. Thus, this ratio measures size of the business and their success in converting liability into assets.

Table 4.3
Loans and Advances to Shareholder's Equity Ratio

	Fiscal Year						
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	10.93	11.89	10.74	9.48	6.91	5.33	9.21
NIDC	8.78	7.55	7.09	5.89	4.41	4.90	6.44
Combined Mean							7.82

Source: Appendix 1

Table 4.3 shows the ratios of Loans and Advances to Shareholder's Equity. The ratios range from 10.93 of Lumbini in year 2062/63 and is in decreasing trend upto 5.33 in the year of 2067/68. The highest ratio through out the year is 11.89 of Lumbini in 2063/64 and lowest ratio through out the year is 4.41 of NIDC in 2066/67. The ratios of all Two companies are fluctuating. This fluctuation is probably due to increase in the shareholder's equity of the companies in different times.

The Combined Mean ratio of two companies is 7.82. The mean ratios of Lumbini and NIDC are 9.21 and 6.44 respectively. Lumbini has the highest mean ratio in comparison to NIDC. Since the mean of Lumbini is above combined mean it means Lumbini has been succeeded in increasing Loans and Advances in proportion to the size of their capital.

4.1.2 Measuring the Lending Strength in Absolute Terms

In this topic, the various variables in their absolute values are measured. Unlike ratio analysis, different variables are measured individually. The value of individual variables enables to measure the gross contribution of respective fiancé companies in those aspects. The ratio analysis merely describes the ratio between he two variables but does not tell about the absolute value of those variables. Thus, in this section, some of the important individual variables in their absolute value of Mean and Standard Deviation is examined. At the same time to measure the relative measure of variability of data, the Coefficient of Variation is also measured.

4.1.2.1 Loans and Advances

The main function of finance company is to create credit from its borrowed fund. Doing so it converts its liability into assets. The high volume of Loans and Advances is indicator if good performance in credit sector. In other words to say, the volume of Loans and Advances is taken as one crucial element of measuring the performance of any finance company.

Table 4.4
Loan and Advance

(Rs. in Million)

	Mean	S.D	C.V
Lumbini	1054.73	337.11	0.32
NIDC	823.48	255.88	0.31

Source: Appendix 2

Table 4.4 shows mean standard deviation and coefficient of variance of all two finance companies under study. The mean Loans and Advances of Lumbini are highest of all i.e. 1054.73 and NIDC has the least of 823.48. Similarly, standard deviation of Lumbini is the highest with 337.11 and that of NIDC is lowest with 225.88. Thus, the performance of Lumbini is more consistence regarding giving out loans and advances in comparison of NIDC. Whereas coefficient of variance of both companies seems competitive.

Figure 4.1
Loan and Advances

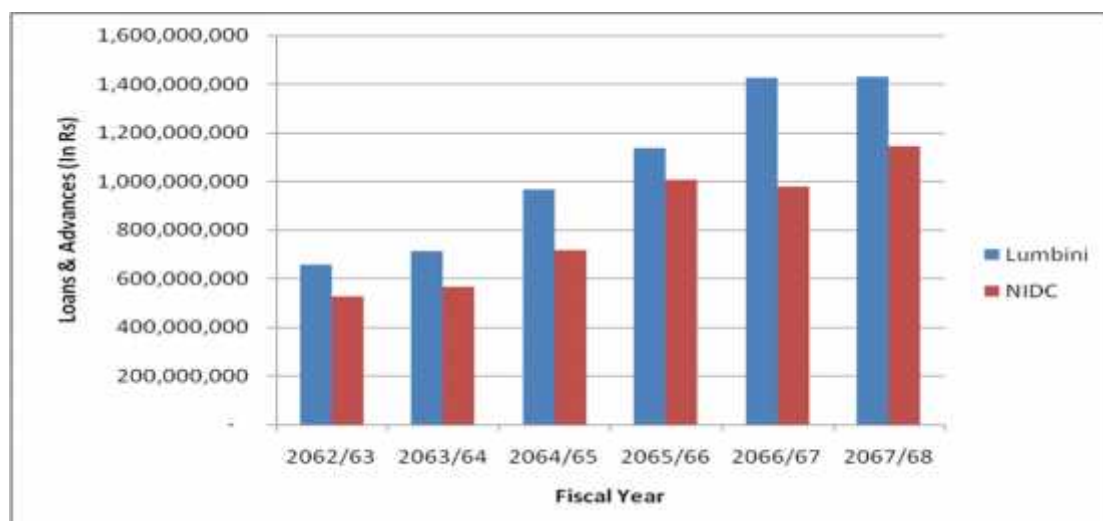


Figure 4.1 graphically presents the Loans and Advances of all two finance companies throughout the study period. Lumbini and NIDC have increasing trend as the highest amount registered of Lumbini in 2067/68. However, there is an overall increasing trend in Loans and Advances starting from the year 2062/63, when the companies have come to the year 2067/68.

4.1.2.2 Non-Performing Loan

Non-Performing Loan is consists of Loans and Advances except for good loans. It is that part of Loans and Advances that should be looked upon carefully for the timely recollection of the repayments. According to NRB Unified directive no. 04/69, Sub-standard, doubtful and bad loans are categorized under Non-Performing Loans. Non-Performing Loans are, in fact, very crucial problem to finance companies. They not only require extra effort for collection of repayments but as according to the NRB directions for Loan Loss Provision, they also create large amount of Loan Loss Provision cutting down the profits and making the amount idle.

Table 4.5
Non-Performing Loan

(Rs. in Million)

	Mean	S.D	C.V
Lumbini	71.44	21.48	0.30
NIDC	47.28	8.33	0.18

Source: Appendix 2

Table 4.5 shows the Non-Performing Loan situation of two finance companies under study. Mean, Standard Deviation and Coefficient of Variance of two finance companies are depicted in table 4.5. The Mean Non-Performing Loan of Lumbini is higher than the mean value of NIDC. The highest Standard Deviation of Non-Performing Loan is that of Lumbini i.e. 21.48 and lower mean of NIDC i.e 8.33. This NIDC is performing well regarding the management of Non-Performing Loans. Deviation of Lumbini is very high comparing with NIDC; this might call for problems in future if not controlled in time. Similarly, the highest Coefficient of Variance is of Lumbini with 30% and the lower is that of NIDC with 18%.

Figure 4.2
Non-Performing Loan

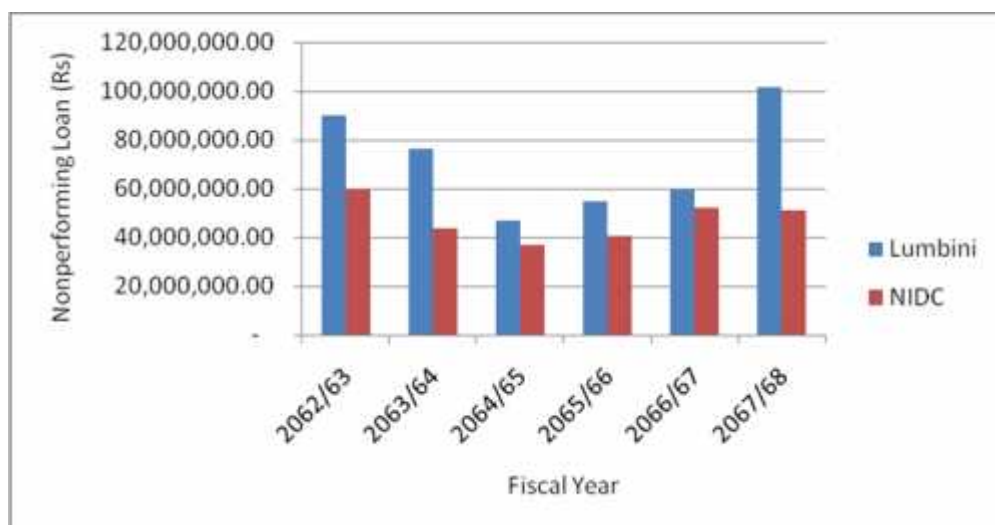


Figure 4.2 presents the Non-Performing Loans of two finance companies graphically. The maximum Non-Performing Loan registered is 99 million of Lumbini in 2067/68. The values of Lumbini, NIDC seem to be fluctuating but the value of the final year is higher than the previous year, showing a dark sight in the future in collection of repayments. Lumbini Finance seems to be much in problem with Non-Performing Loans increased in 2067/68 as compared to the previous year.

4.1.2.3 Interest Income from Loans and Advances

Interest Income from Loans and Advances is one of the main sources of income of finance companies. This is only a sub-sectional part of Profit and Loss Account but is the most voluminous and thus very crucial. This presents the pure income from the funds mobilized for Loans and Advances only.

Table 4.6
Interest Income from Loans and Advances

(Rs. in Million)

	Mean	S.D	C.V
Lumbini	160.02	52.12	0.33
NIDC	125.72	65.63	0.52

Source: Appendix 2

Table 4.6 shows the Mean, Standard Deviation and Coefficient of Variance of Interest Income from Loans and Advances of two finance companies under study. The highest

Mean register of Interest Income from Loans and Advances is 160.02 of Lumbini and similarly 125.72 is of NIDC. At a glance, it can be said that Lumbini is the most income making finance company as compare to NIDC. But while considering the Standard Deviation, which is registered highest of NIDC too i.e. 65.63, it can be said that even if NIDC has the maximum volume of Interest Income from Loans and Advances, it is not steady. On the contrary, Lumbini has the highest Mean but also the least Standard Deviation, which means the least deviation from mean, result of much steady and regular collections from Loans and Advances. The highest Coefficient of Variance is 52% of NIDC and the least is that of Lumbini with 33%.

Figure 4.3

Interest Income from Loans and Advances

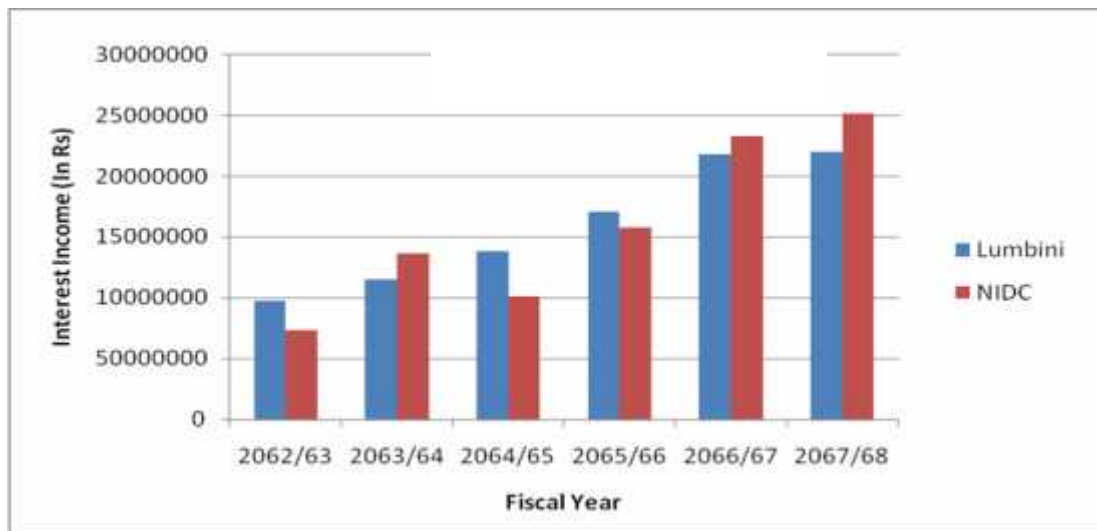


Figure 4.3 has the graphical presentation of Interest Income from Loans and Advances. This very distinctively shows the high income of NIDC in the year 2067/68 which amounts to Rs.250 million and also followed by Lumbini in the same year. From the figure above it is clear that two finance companies have the increasing trend in interest income from the loans and advances.

4.1.2.4 Loan Loss Provision

Loan Loss Provision shows the figure that is the summation of provision made against all types of loans as per the NRB directives. The NRB directives directs to make the provision of 1%, 25%, 50% and 100% for pass loans, sub-standard loans, doubtful loans and bad loans respectively. This Loan Loss Provision occupies the larger share in the total provision presented in the Profit and Loss Account and definitely

decreases the profit of the company. The more the Loan Loss Provision, it suggests two definite things, more of total loan and or more of bad loan. Since, according to the NRB directives, 1% provision is to be provided for all good loans too, it does acquire a huge portion of the total Loan Loss Provision. Thus, just by looking at mere Loan Loss Provision it cannot be said if the company has all good loans or voluminous bad loans.

Table 4.7
Loan Loss Provision

(Rs. in Million)

	Mean	S.D	C.V
Lumbini	102.91	16.85	0.16
NIDC	55.31	8.49	0.15

Source: Appendix 2

Table 4.7 presents the Loan Loss Provision of two finance companies under study. The above table shows that Lumbini has the highest Mean of 102.91 and standard deviation of 16.85, meaning it had allocated the highest amount in provision for Loan Loss in comparison to NIDC. Whereas NIDC has the least of Mean 55.31 and 8.49, Standard Deviation of 8.49. Thus, Lumbini is most likely to have highest volume to risky assets as compare to NIDC. Similarly the highest Coefficient of variance is 16% of Lumbini and lower is 15% of NIDC.

Figure 4.4
Loan Loss Provision

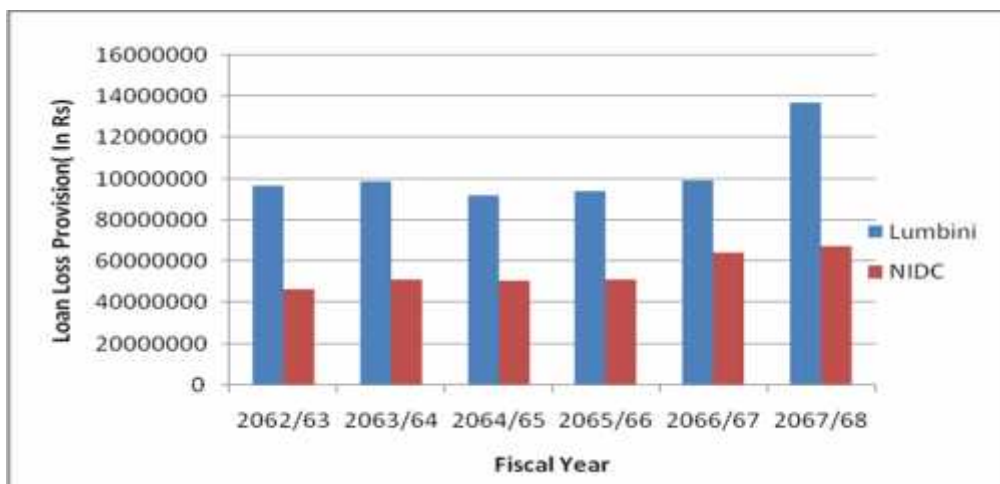


Figure 4.4 shows the graphical presentation of Loan Loss Provision of the finance companies under study. NIDC has the least Loan Loss Provision in the year 2062/63 of study of Rs 42 million to 62 million in 2067/68. Whereas provision of Lumbini increased from Rs.96 million in 2062/63 to 127 million in 2067/68. The overall trend of this liability is increasing in two finance companies.

4.1.2.5 Net Profit

This Net Profit is the Net Profit before Appropriation. Bonus for employees and taxes are deducted and retained earning of previous year is also adjusted in the Net Profit for the study. Besides all the elements that count and questioned, the volume of Net Profit is the main factor that measures the success of the firm in every aspect.

Table 4.8
Net Profit

(Rs. in Million)

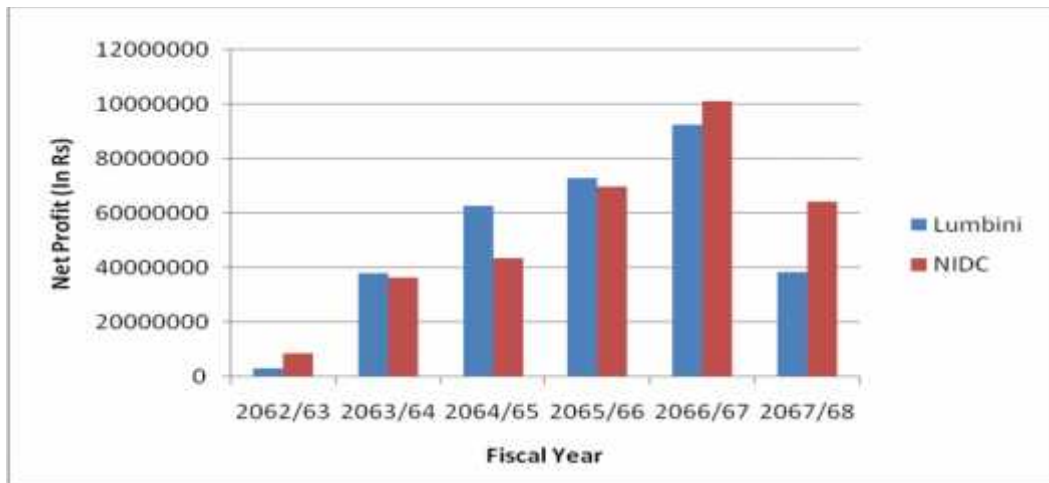
	Mean	S.D	C.V
Lumbini	51.36	31.49	0.61
NIDC	54.54	32.03	0.59

Source: Appendix 2

Table 4.8 shows NIDC has the highest Mean of 54.54 with the variability of 0.59. The Mean Net Profits of Lumbini and NIDC are 51.36 and 54.54 respectively and their respective

Standard Deviation are 31.49, and 32.03. Under this analysis it can be said that NIDC has the best performance. But it can be seen that Lumbini is catching up with NIDC with its next close Mean value.

Figure 4.5
Net Profit



The graphical presentation of Net Profits of these two finance companies is shown in Figure. 4.5. This chart shows that the Net Profits of NIDC is mostly higher in comparison to Lumbini Finance. NIDC has net profit of Rs.101 million in the year 2066/67 whereas its net profit has been decreased in the year 2067/68. Similarly Lumbini Finance has a decreasing trend of Net Profits.

4.2 Analyzing the Portfolio Behaviors of Loans and Advances

So far, the relationship of Loans and Advances with various relative elements of Balance Sheet and Profit and Loss Account have been analyzed. In this section, the portfolio management of Loans and Advances is analyzed. Finance companies invest in various sectors of economy and to various types of borrowers. Besides, NRB, in its directives, has created boundaries for finance companies to invest in different sectors of the economy. That is to say, NRB has given certain limits to the finance companies to invest in certain sectors. So, in this chapter we'll be analyzing the portfolio behaviors of finance companies in terms of performing loan and non-performing loan.

4.2.1 Category wise Loan Classification

Here in this section, Loans and Advances made by the finance companies are different sectors as classified by the NRB is studied. This study shows the Lending trend of finance companies under performing and non performing loans.

Lumbini Finance and Leasing Co.

Table 4.9

Category wise Loan Classification – Lumbini Finance and Leasing Co.

(Rs. in million)

	Fiscal Year					
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Performing Loan	662	736	1011	1177	1461	1464
Non-Performing Loan	89	76	46	54	63	101

Source: Annual Reports of Lumbini Finance and Leasing Co. Ltd.

Table 4.9 depicts the category wise loan classification of Lumbini Finance and Leasing Company. The total investment in Loans and Advances is in increasing trend and the maximum amount given out for Loans and Advances amounts to Rs.1425 million in the year 2067/68 falls under performing loan, Whereas non performing loan is fluctuating throughout the study period.

NIDC Capital Markets Ltd.

Table 4.10

Category wise Loan Classification – NIDC Capital Markets Ltd.

(Rs. in Million)

	Fiscal Year					
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Performing Loan	513	572	730	1018	992	1093
Non-Performing Loan	59	43	36	40	51	51

Source: Annual Reports of NIDC Capital Markets Ltd.

Table 4.10 portrays the category wise loan classification of NIDC Capital Markets Ltd. The overall loans and Advances are in increasing trend. NIDC has Performing Loan in increasing trend except in the year 2066/67 i.e Rs. 992 million and non performing Loan in fluctuating trend. However, Performing Loan has been the highest Loan granting category through out the study period.

4.2.2 Performing Loan to Total Loan and Advances Ratio (%)

This ratio presents the portion of performing loan to total loans and advances in the specific periods.

Table 4.11
Performing Loan to Total Loan and Advances Ratio

(in %)

	Fiscal Year					
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	1.01	1.03	1.05	1.03	1.03	0.93
NIDC	0.98	1.01	1.02	1.01	1.01	0.95

Source: Appendix 1

Table 4.11 shows the portion of performing loan in the total loan released. Lumbini has the highest ratio in performing loan of 1.05% in 2064/65. Whereas the ratio in the year 2067/68 is only 0.93%. Similarly NIDC has highest ratio in performing loan in year 2064/64 and its lowest ratio is in the year of 2067/68 i.e 0.95%. These two companies have the ratios in increasing trend through out the different study period except in the year in 2067/68..

4.2.3 Non Performing Loan to Total Loan and Advances Ratio

Table 4.12
Non Performing Loan to Total Loan and Advances Ratio

	Fiscal Year					
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	0.14	0.11	0.05	0.05	0.04	0.08
NIDC	0.11	0.08	0.05	0.04	0.05	0.06

Source: Appendix 1

The Table 4.12 presents the ratios of non performing loan to total loans and advances of these two companies under study. The maximum ratio is that of Lumbini in the year 2062/63 i.e 0.14 and its lowest ratio is in the year 2066/67 i.e. 0.04. Similarly The maximum ratio is that of NIDC in the year 2062/63 i.e 0.11 and its lowest ratio is in the year 2065/66 i.e. 0.04 through the study period.

4.3 Analyzing the Lending Efficiency and its Contribution in Total Profitability

In this section, the Lending Efficiency in terms of its quality and turnover is measured. For this purpose, the relationship of different variables of Balance Sheet and Profit and Loss Account is established.

4.3.1 Loan Loss Provision to Total Loans and Advances Ratio

The ratio of Loan Loss Provision to Total Loans and Advances describes the quality of assets that the finance company is holding. NRB has directed the finance companies to categorize its Loans and Advances into Pass loan, substandard, doubtful and bad loans and to make the provisions of 1%, 25%, 50% and 100% respectively as Loan Loss Provision. Loan Loss Provision, in fact, is the cushion against future contingency created by the default of the borrowers. The lower ratio signifies the good quality of assets in the total volume of Loans and Advances. Similarly, the higher ratio signifies relatively more risky assets in the volume of Loans and Advances and also possibility of increment of Non-Performing Loans in future.

Table 4.13

Loan Loss Provision to Total Loan and Advances Ratio

	Fiscal Year						Mean
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	
Lumbini	0.15	0.14	0.1	0.08	0.07	0.10	0.11
NIDC	0.09	0.09	0.07	0.05	0.06	0.06	0.07
Combined Mean							0.09

Source: Appendix 1

The tabulated figures of Table 4.13 show the Loan Loss Provision to Total Loans and Advances ratio of two companies during the specified study period. Comparing their mean ratios, Lumbini has the higher mean ratio than NIDC, calculated as 0.11. The combined mean ratio of two finance companies is 0.09. The mean ratio of Lumbini is higher than combined mean, it means that the company has always been provisioning higher than the combined mean. Generally, increase in this ratio suggests the increase in the Non-Performing Loans, which might result in questioning about the effectiveness in the credit policy of the company. The highest ratio of Lumbini vaguely depicts the portion of Non-Performing Loans in the total Loans is higher than NIDC.

4.3.2 Non-Performing Loans to Total Loan and Advances Ratio

As the NRB directives given to the finance companies, substandard, doubtful and bad loans are categorized under Non-Performing Loans. Increase in Non-Performing Loans increases Loan Loss Provision and Interest Suspense too, which ultimately results in profit deduction. “The banking sector is severely affected by the NPL (Non-Performing Loans) problem. It is estimated that the NPL of the Nepalese banking system is around 16 percent. Therefore, there is no doubt that it has a serious implication on economic performance of the country.” Even though shown as banking problem, it is as equal the problem of any finance companies in Nepal. And if the 16 percent as given is true; and the calculated mean of the finance companies under study also come around this percentage, we have finance companies whose Non-Performing Loans is higher than the industrial average of banks.

Table 4.14

Non-Performing Loans to Total Loan and Advances Ratio

	Fiscal Year						Mean
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	
Lumbini	0.14	0.11	0.05	0.05	0.04	0.07	0.08
NIDC	0.11	0.08	0.05	0.04	0.05	0.04	0.06
Combined Mean							0.07

Source: Appendix 1

Table 4.14 exhibits that the combined mean of Non-Performing Loans to Total Loans and Advances of two finance companies under study is 0.07. That is to say, in the total volume of Loans and Advances the Non-Performing Loans represents 7%. Similarly, Lumbini has 8% of its Loans and Advances as Non-Performing and to continue observing this ratio we see that NIDC have their Non-Performing Loans 6% respectively. This shows how the remaining finance companies are gradually being engulfed by the Non-Performing Loans.

4.3.3 Interest Income from Loans and Advances to Total Income Ratio

Needless to say, income is the most vital part of any business. Besides, in the companies dealing in lending business Interest Income occupies a greater portion of the Total Income. This ratio, Interest Income from Loans and Advances to Total Income, measures the volume of Interest form Loans and Advances in Total Income. This ratio also helps to measure performance of the finance company on the grounds

of its lending policy. The high ratio indicates the high contribution in profits is made by the lending practices than in other risk free investments and vice versa.

Table 4.15

Interest Income from Loans and Advances to Total Income

	Fiscal Year						
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	0.84	0.92	0.81	0.89	0.88	0.81	0.86
NIDC	0.63	0.7	0.7	0.75	0.79	0.68	0.71
Combined Mean							0.78

Source: Appendix 1

Table 4.15 exhibits that the combined mean ratio of Interest Income from Loan and Advances to Total Income of two finance companies is 0.78. This is indicative of the fact that Interest Income from Loans and Advances contributes 78% in the Total Income. The mean ratios of Lumbini and NIDC are 0.86 and 0.71 respectively. Among the two finance company Lumbini finance has higher mean ratio than the combined mean ratio. This clears the fact that the Interest Income from Loans and Advances have much higher contribution in the Total Income and thus profit of the Lumbini finance. This also clarifies that the finance companies are pretty much aggressive in investment and have invested their funds comparatively much less in risk free investments which bear much lesser return than risky investments. NIDC finance has highest contribution of 71 % of Interest Income from Loans and Advances in the Total Income.

4.3.4 Loans and Advances to Total Deposit Ratio

Deposits are those funds that the finance company collects from different individuals and investors to that has to give back after certain time period with some interest. Whereas, Loans and Advances is that mobilized part of deposit amount that brings back additional income as interest from the borrowers. Thus, Deposits are liabilities which when converted to assets are called Loans and Advances. Deposits when are idle in company, it is loss to the company. Company can make profits only when deposits, which take away interest of certain rate, are mobilized by giving away loans and advances, which bring back interest at higher rates.

Table 4.16
Loan and Advances to Total Deposit Ratio

	Fiscal Year						Mean
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	
Lumbini	0.88	0.9	1.15	1.06	1.17	1.13	1.05
NIDC	1.07	0.91	0.72	0.75	0.76	0.80	0.83
Combined Mean							0.94

Source: Appendix 1

Table 4.16 shows the ratios of Loans and Advances to Total Deposits of two finance companies under study. The combined mean is 0.94. The minimum ratio is of NIDC, which is 0.83. That means NIDC has not been able to invest in Loans and Advances even half the amount of deposits collected. This means maximum portion of deposits of NIDC is idle in the company or else they are invested in risk free investments, which normally do not give lucrative returns. This directly affects the income and ultimately the profits of the company. Whereas Lumbini seems to be doing the best according to this ratio of 1.05, meaning its investment in Loans and Advances are more than the total deposits collected. Finance companies can afford to invest in Loans and Advances more than they collect Deposits because they also have Shareholder's Equity to be invested apart from the deposits alone.

4.3.5 Interest Income to Interest Expenses Ratio

The ratio of Interest Income to Interest Expenses measures the gap between interest rates offered and interest rate charged. NRB has canceled the restriction it had on finance companies regarding the interest rate spread. Thus, the interest rate spread in finance companies, now, is driven by the competition in the market. The spread between Interest Income and Interest Expenses is the main foundation of profit of finance company.

Table 4.17
Interest Income to Interest Expenses Ratio

	Fiscal Year						Mean
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	
Lumbini	2.16	2.27	2.46	2.48	2.28	1.52	2.20
NIDC	1.82	1.72	1.77	2.08	2.28	1.59	1.88
Combined Mean							2.04

Source: Appendix 1

Table 4.17 shows the ratios of Interest Income to Interest Expenses of finance companies under study with the combined mean 2.04. Lumbini has the highest degree of gap between Interest Income and Interest Expenses. NIDC has lower mean ratio than its mean ratio through out the study period. . The lower ratio of NIDC is result of its heavy investment in risk free assets than in Loans and Advances, which generates higher interest income.

4.3.6 Net Profit to Shareholder's Equity Ratio

This Net Profit to Shareholder's Equity ratio measures the amount of profit that a rupee of shareholders' fund has received. The Net Profit here is the Net Profit before Appropriation. The high ratio is the high return to shareholders and vice versa.

Table 4.18
Net Profit to Shareholder's Equity Ratio

	Fiscal Year						Mean
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	
Lumbini	0.05	0.63	0.7	0.61	0.34	0.14	0.41
NIDC	0.15	0.49	0.43	0.41	0.45	0.28	0.37
Combined Mean							0.39

Source: Appendix 1

The Table 4.18 shows the ratio of Net profit to the Shareholder's Equity of two finance companies under study. Lumbini has the highest mean ratio of 0.41. and NIDC has its mean ratio less than the combined mean of 0.39. NIDC has lower mean ratio of 0.37 which is comparatively weaker in terms paying of net profits to shareholder as compare to Lumbini Finance.

4.3.7 Earning Per Share (EPS)

EPS refers to Net Profit divided by the total number of shares outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This figure is the indicative of the overall good or bad performance of an organization. How far an organization is able to use its resources to generate profit is determined by the profit it has earned. Thus, EPS determines the market value of a share, determines the attitude of outsiders.

Table 4.19
Earning Per Share (EPS)

	Fiscal Year					
	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	5.44	63.19	69.68	60.93	44.88	14.39
NIDC	14.63	48.51	43.09	53.16	59.24	28.93

Source: Appendix 1

Table 4.19 shows that EPS of both finance companies which are in fluctuating. NIDC has the highest EPS in the year 2064/65 i.e Rs. 69.68 whereas its EPS in the year 2067/68 is Rs. 14.39. Due to the increment in capital of both companies definitely it decreases their EPS in subsequent years. By viewing overall year EPS it shows that market value of a share of NIDC and Lumbini are in increasing trend despite the fact in the year of 2067/68 and it also shows that the attitude of outsiders towards the firm seems satisfactory.

4.4 Measuring Correlation Between Different Variables

In this section of presentation and analysis, relation between variables of Balance Sheet and Profit and Loss Account are analyzed. For this, Correlation Coefficient (r) and Probable Error (P.Er) are calculated. And for the purpose of analyzing the significance and reliability of Correlation Coefficient, 6 times of Probable Error is also calculated. If the value of Correlation Coefficient is greater than 6 times the value of Probable Error, the Correlation Coefficient is deemed as significant and reliable.

4.4.1 Correlation between Deposits and Loans and Advances

The correlation between Deposits and Loans and Advances describes the degree of relationship between these two items. What is the impact on Loans and Advances with a unit increase in Deposit is measured here.

Table 4.20
r, P.Er and 6xP.Er between Deposits and Loans and Advances

	r	PEr	6 x PEr	Impact
Lumbini	0.95	0.0279	0.168	Significant
NIDC	0.98	0.0133	0.080	Significant

Source: Appendix 3

The Table 4.20 shows the relation between Deposits and Loans and Advances, which seems to have high degree of positive relation. The value of 'r' is highest in NIDC i.e 0.98. In case of finance companies a percentage increase in Deposit is likely to bring the same percentage of change in the value of Loans and Advances. To be more specific, there is highest probability of this happening in NIDC. The value of 'r' in both companies is more than six times the P.Er, which concludes that the correlation between Deposits and Loans and Advances is certain and significant in two finance companies.

4.4.2 Correlation between Share Holder's Equity and Loans and Advances

The correlation between Shareholder's Equity and Loans and Advances shows the degree of impact of increase in Loans and Advances by change in Shareholder's Equity.

Table 4.21

r, P.Er and 6xP.Er between Share Holder's Equity and Loans and Advances

	r	PEr	6 x PEr	Impact
Lumbini	0.95	0.0271	0.163	Significant
NIDC	0.97	0.0189	0.114	Significant

Source: Appendix 3

Table 4.21 explains the degree of correlation between Shareholder's Equity and Loans and Advances of two different finance companies under study. NIDC has positive high degree of correlation depicting every increase in Shareholder's Equity increased Loans and Advances, which also showed well mobilization of funds collected. Lumbini also has a positive high degree of correlation i.e 0.95. The analysis of 6 times P.Er of both finance companies says that that the correlation between Shareholder's Equity and Loan and Advances is certain and significant.

4.4.3 Correlation Between Investments and Loans and Advances

This correlation measures the degree of relationship between Investments and Loans and Advances. This measure of correlation explains whether the finance companies have a rigid policy to maintain a consistent relationship between two assets or other factors such as seasonal opportunities, economic demand, NRB directives etc. have impact on the volume of these two variables. The volume of Investment does not have

any impact on Loans and Advances as every finance company, or most of them, has first priority on Loans and Advances to Investments. Theoretically, increase or decrease in the volume of Loans and Advances directly reduces or increases the level of idle funds and this idleness of funds increases the Investments. Thus, it is expected to have negative correlation in between these two variables.

Table 4.22

r, P.Er and 6xP.Er between Investments and Loans and Advances

	r	PEr	6 x PEr	Impact
Lumbini	0.16	0.2679	1.608	Insignificant
NIDC	0.80	0.0985	0.591	Significant

Source: Appendix 3

Table 4.22 shows the Correlation Coefficient between Investments and Loans and Advances of two finance companies under study. NIDC only, has a high degree of positive correlation of 0.80. This means NIDC has maintained a steady ratio between Investments and Loans and Advances as compare to others. NIDC has moderate positive correlation highlighting their seasonal character, which Lumbini finance seem to be missing. Besides analyzing the correlation, glancing upon the 6 times of P.Er. It can be said that NIDC has positive correlation which is significance where as Lumbini finance 'r' is less than 6 times of PEr which is insignificant.

4.4.4 Correlation between Total Income and Loans and Advances

The degree of relation of Total Income and Loans and Advances is measured by the correlation of these two variables. The value of 'r', here shows whether change in Loans and Advances changes the volume of Total Income i.e. is to say whether Loans and Advances contribute to increase the income of the company or not.

Table 4.23

r, P.Er and 6xP.Er between Total Income and Loans and Advances

	r	PEr	6 x PEr	Impact
Lumbini	0.99	0.0049	0.029	Significant
NIDC	0.85	0.0762	0.457	Significant

Source: Appendix 3

Table 4.23 shows the correlation between Total Income and Loans and Advances of the finance companies under study. Lumbini and NIDC both have higher degree of

positive relation with 1 as the value of 'r' which shows that Total Income is increasing in equal percentage with Loan and Advances. Under our study Lumbini finance and NIDC, the value of 'r' in companies are greater than six times the P.Er, which concludes that the correlation between Total Income and Loan and Advances can be taken relied on confidently and they are significant.

4.4.5 Correlation between Loan Loss Provision and Loans and Advances

The correlation between Loan Loss Provision and Loans and Advances measures the relation between Loan Loss Provision and Loans and Advances. In fact, Loan Loss Provision is the product of Loans and Advances, these variables are co-related. Increase in Loans and Advances is likely to increase the volume of Loan Loss Provision.

Table 4.24

r, P.Er and 6xP.Er between Loan Loss Provision and Loans and Advances

	r	P.Er	6 x P.Er	Impact
Lumbini	0.55	0.1935	1.161	Insignificant
NIDC	0.80	0.0971	0.583	Significant

Source: Appendix 3

Table 4.24 shows that Lumbini finance has moderate degree of positive correlation between Loan Loss Provision and Loans and Advances. NIDC has higher degree of positive correlation between Loan Loss Provision and Loans and Advances i.e 0.80. Besides in Lumbini Finance 'r' is less than that of 6 times P.Er. which is insignificant.

4.4.6 Correlation between Interest Income and Net Profit

Interest Income contributes the major portion of Total Income and thus Net Profit of any finance company. This correlation between Interest Income and Net Profit measures the degree of relation of these two variables. Its is most likely to have that Net Profit increases with the increase in Interest income.

Table 4.25

r, P.Er and 6xP.Er between Interest Income and Net Profit

	r	P.Er	6 x P.Er	Impact
Lumbini	0.64	0.1616	0.970	Insignificant
NIDC	0.82	0.0885	0.531	Significant

Source: Appendix 3

Table 4.25, shows the correlation of Interest Income and Net Profit. The highest degree of correlation recorded is that of NIDC with 0.82. whereas Lumbini has moderate degree of correlation i.e 0.64. NIDC have significant correlation because its r is greater than the value of 6 times P.Er whereas Lumbini has insignificant correlation because it's 6 times P.Er is greater than the value of 'r'. This implies that, Net Profit of Lumbini doesn't depend on their Interest Income.

4.5 Measuring Regression of one Variable on the other

In this section, regression analysis is used to describe the average relationship between two variables. The regression line of one variable on other estimates the most probable value of first variable for the given value of the second variable. Under this section we shall calculate the regression line of Loans and Advances on Deposit and Loan Loss Provision on Loans and Advances.

4.5.1 Regression Analysis of Loans and Advances on Deposit

Loans and Advances and Deposits are very significant items of Balance Sheet of any finance company. The Deposit collected so is mobilized in Loans and Advances. This is how from the fund circulation finance companies make profits. Here, regression analysis if Loans and Advances on Deposit is done of the industrial data.

Table 4.26
Regression Equation of Loans and Advances on Deposit

(Rs. in Million)

Fiscal Year	Deposits(x)	Loans(y)	xy	x ²
2062/63	1,234.42	1,182.24	1459380	1,523,790
2063/64	1,412.35	1,279.13	1806576	1,994,727
2064/65	1,838.49	1,683.45	3095010	3,380,060
2065/66	2,362.73	2,144.95	5067932	5,582,488
2066/67	2,555.90	2,405.73	6148799	6,532,632
2067/68	2,693.25	2,573.76	6931777	7,253,594
Total	12,097.14	11,269.25	24,509,474	26,267,292

Source: Appendix 4

Table 4.26 presents the industrial figures of Deposits and Loans of finance companies from the year 2062/63 through 2067/68 and the requisite data for calculation of regression equation. The regression equation obtained from the calculation is “y = -

$42.78+0.95x$ “. The slope of this line is 0.95, i.e. the change in Loans and Advances with per unit change in Deposits. This brings up the fact that with a unit change in Deposit, Loans and Advances also changes in the same direction with a little less than the equal proportion.

4.5.2 Regression Analysis of LLP on Loans and Advances

Loan Loss Provision is a kind of by-product of Loans and Advances. Every Non-Performing Loan increases Loan Loss Provision. Loan Loss Provision decreases the profits of the company. Thus, company should try to control over the Loan Loss Provision.

Table 4.27
Regression Equation of LLP on Loans and Advances

(Rs. in Million)

Fiscal Year	Loans(x)	LLP(y)	xy	x ²
2062/63	1,182.24	142.91	168,954	1,397,692
2063/64	1,279.13	150.31	192,270	1,636,172
2064/65	1,683.45	142.61	240,071	2,833,998
2065/66	2,144.95	145.59	312,279	4,600,804
2066/67	2,405.73	163.80	394,052	5,787,519
2067/68	2,573.76	204.15	525,441	6,624,238
Total	11,269.25	949.37	1,833,068	22,880,424

Source: Appendix 4

The Table 4.27 presents the industrial figures of Loan Loss Provision and Loans and Advances of finance companies from the year 2062/63 through 2067/68 and the requisite data for calculation of regression equation. The regression equation obtained from the calculation is “ $y = 103.50+0.03x$ “. The slope of this line is 0.03., i.e. the change in Loan Loss Provision with per unit change in Loans and Advances. This explains that with a unit change in Loans and Advances, Loan Loss Provision also changes in the same direction but with small magnitude.

4.6 Measuring the Propensity of Growth Based on Trend Value

So far we have calculated various measures of relative financial tool and absolute measures of statistical tools. In this chapter we shall examine the trend analysis of Loans and Advances and Earning Per Share (EPS). The measures of trend analysis exhibits the behaviour of given variables in series of time. The performance of any

finance company does not carry consistency over all the period and several factors cause the increase or decrease in the volume of various items. The trend of any variable and the slope of trend line relating with the compound interest discount factor measures the Growth Rate of the variable. Thus, along with the analysis of trend line the Growth Rate has also been measures in this chapter.

4.6.1 Trend Analysis and Propensity of Growth of Loans and Advances

Table 4.28

Trend Equation and Propensity to Growth of Loans and Advances

(Rs. in Million)

	Linear Eq ⁿ s	2063	2068	Propensity to Growth 2069
	(2062=0)			
Lumbini	$y = 614.72 + 176x$	790.72	1670.73	176.00
NIDC	$y = 484.57 + 135.56x$	620.14	1297.95	135.56
Combined Mean				155.78

Source: Appendix 4

Table 4.28 shows the linear equation based on $Y=a + bX$ of respective finance companies with respect to their Loans and Advances. The third and fourth column represents the amount of Loans and Advances based on the equation in second column for the year 2062/63 and 2067/68 respectively. The fifth column represents the Propensity to Growth i.e. an amount of Loans and Advances that is likely to be increased in one year period based on the linear equation.

It can be seen that Lumbini has the highest Propensity to Growth in Loans and Advances. It is likely to increase by Rs. 176.00 million in one year period. The Propensity to Growth in NIDC is the least; i.e Rs.135.56 million. The Propensity to Growth of Lumbini is higher than the average of Rs. 155.78 million. NIDC is likely to increase their Loans and Advances by Rs.135.56 million in one year period, though below average.

Figure 4.6

Trend Equation and Propensity to Growth of Loans and Advances

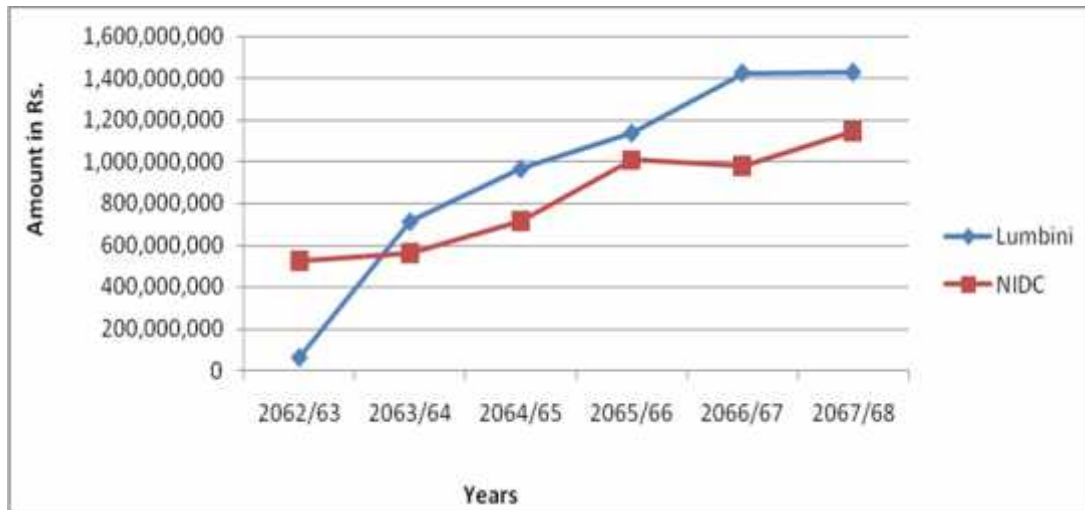


Figure 4.6 shows the trend lines representing Lending behaviors of two finance companies and the average representing the performance of the two finance companies in Lending. The trend lines of Lumbini have always been above the average line. The trend line of NIDC almost coincides with the average. The trend line of NIDC finance company is below the average line.

4.6.2 Trend analysis and Propensity of Growth of Earning Per Share

EPS and its trend reflect the overall efficiency of a finance company. The measures the efficiency of overall performance and checks the financial health of an organization.

Table 4.29

Trend analysis and Propensity of Growth of Earning Per Share

	Linear Eq ⁿ s (2062=0)	2063	2068	Propensity to Growth 2069
Lumbini	$y = 31.45 + 4.66x$	36.10	59.38	4.66
NIDC	$y = 27.03 + 5.69x$	32.72	61.18	5.69
Combined Mean				5.17

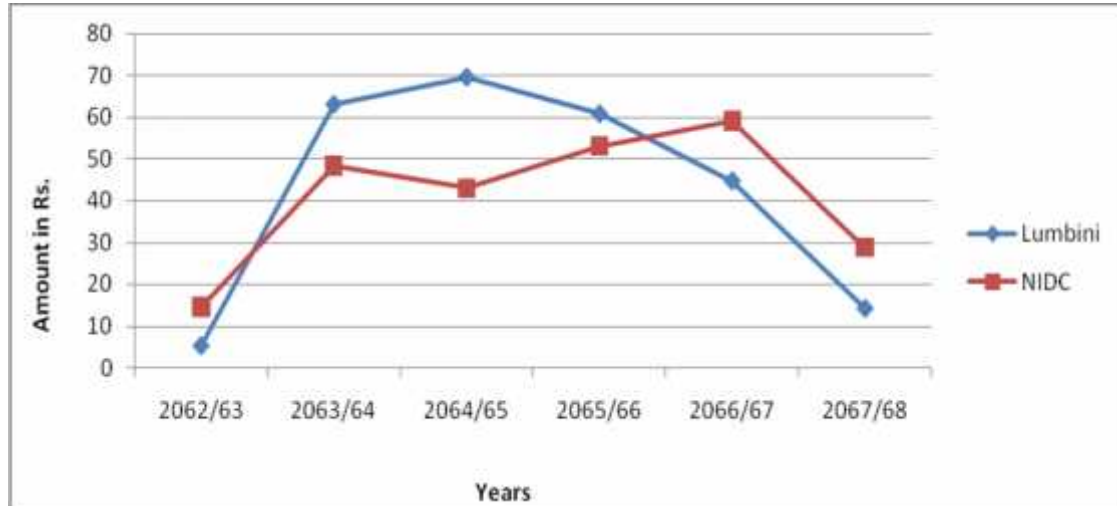
Source: Appendix 4

The Table 4.29, shows the linear equation based on $Y = a + bX$ of respective finance companies with respect to their EPS. The third and fourth column represents the amount of Earning per Share based on the equation in second column for the year

2063 and 2068 respectively. The fifth column represents the Propensity to Growth i.e. EPS that is likely to be increased in one year period based on the linear equation.

Figure 4.7

Trend analysis and Propensity of Growth of Earning Per Share



It can be seen that NIDC has the highest Propensity to Growth; i.e. Above the average of Rs. 5.69. In the present environment, it is pretty dubious that NIDC could keep the expectation of growth of its EPS by Rs. 5.69 in another year. Lumbini Finance has near about average growth and of its EPS increased by Rs.4.66 respectively, which is quite below the average.

Figure 4.7 shows the overall increasing trend of EPS of the two finance companies. The average line is in increasing trend. The slope of increasing trend of Lumbini is near about to that of the average.

4.7 Major Findings of the Study

In the research mainly secondary data are used and the analysis is computed with the help of different financial and statistical tools. In financial tools ratio analysis has been used and on statistical tools correlation coefficient, and trend analysis has been used. This chapter focuses on the major findings from analysis of data of three banks.

Measuring the Lending Strength

-) The combined ratio of Loan and Advances to Investment ratio is 0.08. NIDC has the highest mean ratio of 0.11 and Lumbini has the least ratio of loan and advances to investment, i.e. 0.05.

- J The combined ratio of loan and Advances and Investment to Total Deposit ratio is 1.02. The Lumbini has highest mean ratio i.e 1.11 and NIDC has the lower, i.e and 0.94.
- J The combined ratio of loan and advances and shareholder's equity is 7.82. Lumbini has the highest mean ration of 9.21 and NIDC has the least ration of 6.44.
- J The absolute measures of lending strength reveals that Lumbini has the highest mean in Loan and Advances of 1054.73 and highest standard deviation of 337.11 also. The lower mean in Loan and Advances recorded is that of NIDC i.e.823.48 similarly Lumbini has higher C.V among two finance companies.
- J The absolute measures of lending strength reveals that Lumbini has the highest mean and highest standard deviation in Non- performing loan i.e 71.44 and 21.48 respectively. NIDC has lower mean as well as standard deviation i.e 47.28 and 8.33 respectively.
- J The highest mean register of interest income from loan and advances is 160.02 of Lumbini and the lower of NIDC i.e 125.72 .But while considering standard deviation , which is highest of NIDC i.e. 65.63.
- J It shows Lumbini has the highest mean of 102.91 in Loan Loss Provision and NIDC has the lower of 55.31.Lumbini has the highest standard deviation in loan loss provision of 16.85 and NIDC has the lowest of 8.49.

Analysis of portfolio behaviors of loan and advances

- J Lumbini has increasing trend under performing loan and amounts to Rs.1464 million in the year 2067/68 where as non- performing loan is fluctuating.
- J Similarly NIDC has also increasing trend under performing loan and amount to Rs. 1093 million in the year 2067/68 whereas non performing loan is decreasing throughout the study period.
- J Lumbini has highest ratio in performing loan of 1.05 in the year 2064/65 whereas the ratio is low of NIDC i.e 0.95 in the year 2067/68.
- J Lumbini has the highest ratio in nonperforming loan of 0.14 in the year 2062/63 and the lowest ratio i.e 0.04 is recorded is in the year 2066/67. Similarly NIDC has highest ratio of non-performing loan in the year 2062/63 i.e 0.11 and lower non performing loan ratio in the year 2065/66 i.e 0.04.

Analyzing Lending Efficiency

-) The Loan loss provision to total loans and advances of Lumbini is highest and NIDC has lower. It reveals that quality of loan of NIDC is better than Lumbini.
-) The Non performing loan to total loan and advances of Lumbini has highest mean ratio of 0.08 and NIDC has lower of 0.06. This indicates that NIDC has good performance.
-) Lumbini has the highest mean ratio of Interest income to total income ratio of 0.86. The combined ratio of interest income to total income is 0.78.
-) Lumbini has the highest mean ratio of Net profit to shareholder's equity of 0.41 and the combined ratio is 0.39.
-) EPS of NIDC is highest throughout the year and Lumbini has lower i.e. 14.39 in the year 2067/68.

Correlation Co-efficient Analysis

-) The correlation coefficient between deposit and loan and advances shows, that there is high degree of positive correlation between these variable.
-) The correlation coefficient between Shareholder's equity and loan and advances shows there is positive correlation between these two variables.
-) The correlation registered between investment and loan and advances shows that these two variables are not reliable and insignificant.
-) The correlation coefficient between total income and loan and advances is highly positive for Lumbini and NIDC have higher degree of positive correlation between total income and loan and advances.
-) Lumbini finance has moderate degree of positive correlation between Loan Loss Provision and Loans and Advances. NIDC has higher degree of positive correlation between Loan Loss Provision and Loans and Advances i.e 0.80
-) The correlation coefficient between interest income and net profit is highest degree in NIDC.

Regression Analysis

-) Regression analysis of Loan and advances on Deposit implies that there is positive relationship between Loan and Advances. Here if the amount of

Deposit is increased the Loan and advances also increase and vice-versa. This concludes that Loan and advances is dependent on Deposit

-) Regression analysis of Loan Loss Provision on Loans and advances implies that there is positive relation between loan loss provision and Loans and advances. Here if the amount of Loan and advances is increased the loan Loss Provision also increase but with small magnitude and vice versa.

Propensity of Growth Based on Trend Analysis

-) Here we can see that Lumbini has the highest propensity to growth in loan and advances. It is likely to increase by Rs. 176.00 Million in one year period. The propensity to growth in NIDC is low i.e. Rs. 135.56 Million. The propensity of growth of Lumbini is higher than the average of Rs. 155.78 Million, and NIDC are likely to increase their loans and advances by Rs.135.56 Million in one year period though they are below average.
-) The trend line of Lumbini has always been above the average line. The trend line of NIDC almost coincides with the average. The trend line of NIDC is below the average line.
-) The propensity of growth of earning per share shows that NIDC has the highest propensity to growth i.e. above the average of Rs. 5.69. Lumbini has near about average growth i.e. Rs.4.66 growth of its EPS which is quite below the average.

The overall increasing trend of EPS of the two finance companies. The average line is in increasing trend. The slope of increasing trend of Lumbini is near about to that of the average.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter contains the results of the study. It is divided into summary, conclusion and recommendations.

5.1 Summary

Finance companies play very important role in this up growing economy. With its history, in Nepal, starting form B.S 2042, it has come up a very long hike to today status. Regardless the various services they provide today, in general, finance companies can be defined as a firm that loans money to people who promise to repay the loan with interest over a specified period of time. Nepal Rastra Bank is the father figure of finance companies. NRB created them and it guides them all the way as how to work. More than that, NRB has full control over the functions of finance companies established all over the country. It has provided guidelines to the finance companies, which is more or less like a boundary drawn by the NRB for the functions of the finance companies which basically is for the security of depositors, who deposit their savings in the finance companies.

Lending is one o the most important functions of finance companies and the composition of loans and advances directly affect the performance and profitability of the finance companies. There is intense competition in financial business with limited market and less investment opportunities available. Every financial sector is facing the problem of default loan and there is always possibility of certain portion of the loan and advances turning in non -performing loan.

The research is about the lending practices of finance companies with reference to Lumbini and NIDC. The first chapter of the study deals about the basic assumption. Basically it has highlighted the concept, problems, and objectives of the study. Second chapter help the researcher to provide the conceptual review and other researchers' review. Third chapter deals with various methodology used for the study such as data, population and sample of data, data collection technique and procedure and tools used.

Fourth chapter deals with data presentation and analysis. In this chapter financial condition, nonperforming loan, correlation and regression are analyses. A study on loan and advances and profitability of Lumbini finance and Leasing Company and NIDC Capital Market is analyzed and its lending strength, lending efficiency and its contribution in total profitability has been measured.

In this study, the financial tools –ratios viz. Asset/liability ratios and profitability ratios are calculated to find out the lending strength of these finance companies. Also growth ratios, statistical tools like Mean, Correlation Coefficient and trend analysis conducted for analysis and interpretation of the data. The data used in this research is mainly secondary nature and extracted from the annual reports of the concerned finance companies and website on NRB. The financial statement of five years (2062/63 to 2067/68) was selected for the study purpose.

By analyzing the lending strength of the finance companies, utilization of liability to create assets are assessed. Lumbini is best in utilizing its fund from total deposit to create assets as loans and advances and investment. Again Lumbini has the highest ratio on Loan and advances to Shareholders' equity.

The correlation analysis has shown high degree correlation between Deposits and Loans and Advances in finance companies. This means mobilization of Loans and Advances is in high degree in respect to the Deposits collected. This is indicative of availability of good lending opportunities. Lumbini and NIDC have the highest degree of positive relation between Deposits and Loans and Advances. And significance of their relation is proved by the six times of P.Er.

The trend analysis of Loans and Advances has revealed that, Lumbini has the highest trend line and thus is the best amongst two finance companies in accordance to giving out Loans and Advances. The Loans and Advances of Lumbini and NIDC are likely to increasing trend during the study period The trend analysis of EPS, that checks the financial health of an organization, shows satisfactory position of both companies Along with the average line, finance companies have an increasing trend of EPS. The trend line of Lumbini has the highest slope and has peaked quite high. This might be the result of its unnatural increase in EPS in the final years.

The findings were drawn analysis the six years data of above mentioned two finance companies. Different ratios were calculated to get the results for conclusions. Since the topic of the study revolves around the lending practices, the distribution of loans and advances, their recovery, and the ratios of those items that are related to the distribution and recovery of loans and advances are calculated.

5.2 Conclusion

The measurement of Lending strength in relative terms has revealed that NIDC has the highest Investment to Loans and Advances and Investment ratio. This ratio gives the portion of risk free investment out of total Loans and Advances and Investment. Only NIDC has exceeded the average ratio. However Lumbini seems to tilt over to risky investments. The mean ratios range from 0.05 of Lumbini to 0.11 of NIDC and the combined mean ratio is 0.08. Lumbini has the highest Loans and Advances and Investment to Total Deposit ratio referring that it has the maximum mobilization of deposits than others. The mean ratio ranges from 0.94 of NIDC to 0.11 of Lumbini and its combined mean is 1.02. This ratio let us know what parts of deposits have been mobilized in total investments combining Loans and Advances and Investments. It seems that Lumbini is making investments in high extend than any other finance companies. This ratio also tells about the success of finance companies to convert their liabilities into assets.

Loans and Advances to Shareholder's Equity ratio has gained the significant importance in measuring the capital fund and corresponding contribution if Loans and Advances. The highest Loans and Advances to Shareholder's Equity ratio is that of Lumbini being 9.21 followed by NIDC with the ratios 6.44 while the combined mean ratio is 7.82. The absolute measures of lending strength reveals that Lumbini has the highest mean in Loans and Advances with an increasing trend but has the high standard deviation too. Similarly, Lumbini has the highest mean in Interest Income from Loans and Advances, Rs.160.02 millions. But when deeply seen, the highest mean of Lumbini is due to the extraordinary increase in Interest Income from Loans and Advances. Lumbini seems to be best doing since it had data in increasing trend and the increasing pace is higher too.

Lumbini has the highest mean in Loan Loss Provision as well as highest standard deviation and C.V in compared to NIDC.

The portfolio analysis has revealed that most of the finance companies under study have emphasis more in performing loan than in non-performing loans through out the study period. Lumbini and NIDC both have increasing trend in its performing as compared to non performing loans.

The measurement of efficiency in Lending has revealed that Loan Loss Provision to Total Loan and Advances ratio is pretty satisfactory since according to NRB directives Loan Loss Provision indicates provision against both Performing and Non-Performing Loans. Thus, even the increase in good loan increases the Loan Loss Provision. However, the finance companies have exceeded this combined mean ratio at some times in the years individually.

The ratio of Interest Income from Loans and Advances to Total Income explains the contribution of Interest Income from Loans and Advances in the total Income. From the analysis, it is known that there is maximum contribution of Interest Income from Loans and Advances to the Total Income of the company. The combined mean ratio being 0.78, the mean ratios of Lumbini finance companies are above it but NIDC has ratio of 0.71 only.

The measurement of ratios of Loans and Advances to Total Deposits of two finance companies under study. The combined mean is 0.94. The minimum ratio is of NIDC, which is 0.83. That means NIDC has not been able to invest in Loans and Advances even half the amount of deposits collected. This means maximum portion of deposits of NIDC is idle in the company or else they are invested in risk free investments, which normally do not give lucrative returns. This directly affects the income and ultimately the profits of the company. Whereas Lumbini seems to be doing the best according to this ratio of 1.05, meaning its investment in Loans and Advances are more than the total deposits collected. Finance companies can afford to invest in Loans and Advances more that they collect Deposits because they also have Shareholder's Equity to be invested apart from the deposits alone

The correlation analysis has shown high degree correlation between Deposits and Loans and Advances in finance companies. This means mobilization of Loans and Advances is in high degree in respect to the Deposits collected. This is indicative of availability of good lending opportunities. Lumbini and NIDC both have progressive degree of positive relation between Deposits and Loans and Advances. And significance of their relation is proved by the six times of P.Er.

There is no uniformity in correlation of two variables in different finance companies. Both finance companies have a positive correlation between Shareholder's Equity and Loans and Advances which interprets that the both companies have good balance over investing both in risky and risk free assets.

Loans and Advances is one of the main sources of Income in finance companies. This is what is also shown by the high degree positive correlation between Total Income and Loans and Advances. NIDC have higher degree of correlation for they are more inclined towards risk free assets. So, it proves the highest degree of positive relation between Total Income and Loan and Advances. And significance o their relation is proved by the six times of P.Er. Correlation between Loan Loss Provision and Loans and Advances shows that Lumbini finance has moderate degree of positive correlation between Loan Loss Provision and Loans and Advances. NIDC has higher degree of positive correlation between Loan Loss Provision and Loans and Advances i.e 0.80. Besides in Lumbini Finance the of 'r' is less than that of 6 times P.Er. which is insignificant.

Loan Loss Provision is like a by-product of Loans and Advances thus, with Loans and Advances Loan Loss Provision does increase in synchronize. Similarly, with Interest Income, Net Profit increases thus, there's high degree positive correlation between Interest Income and Net Profit in finance companies. NIDC have the higher degree of positive correlation between Interest Income and Net Profit and significance of their relation is proved by the six times of P.Er.

The trend analysis of Loans and Advances has revealed that, Lumbini has the highest Propensity to Growth in Loans and Advances. It is likely to increase by Rs. 176.00 million in one year period. The Propensity to Growth in NIDC is the least; i.e Rs.

135.56 million. The Propensity to Growth of Lumbini is higher than the average of Rs. 155.78 million. NIDC is likely to increase their Loans and Advances by Rs.135.56 million in one year period, though below average. It can be seen that NIDC has the highest Propensity to Growth; i.e. Above the average of Rs. 5.69. In the present environment, it is pretty dubious that NIDC could keep the expectation of growth of its EPS by Rs. 5.69 million in another year. Lumbini Finance has near about average growth and of its EPS increased by Rs.4.66 respectively, which is quite below the average.

5.3 Recommendations

Based on the findings and conclusions, the following recommendations have been forwarded;

- J Investment to Loans and Advances and Investment mean ratio of Lumbini Finance and Leasing is way to below the combine mean. Investment in risk free assets is also important. Thus, the company should increase in their risk free assets at least to the combined mean. It is also seen from Loans and Advances and Investment to.
- J Total Deposit ratio that NIDC has not been investing whole of Deposits it is collecting. Besides Deposits, it also has Shareholder's Equity to invest. This insufficient investment may result in insufficient income to cover all the expenses. Thus, they should concentrate on increasing its investment in risky or risk free assets.
- J In overall, Loans and Advances of finance companies are increasing and so are Non-Performing Loans and Loan Loss Provision. Extra efforts should be enforced to control over NPL. Both finance companies have increasing Loan Loss Provision. So they have to take extra care for this too.
- J Interest Income from Loans and Advances to Total Income ratio reveals that NIDC is lesser inclined towards investment in risky assets. Contribution of interest income from Loans and Advances to the Total Income of NIDC is comparatively lower as its mean being only 0.71in comparison to combined mean of 0.78. This side of investment is risky but has high return than that of risk free investment. Thus, NIDC should make more investment in Loans and

Advances than in others also because lending is one of the main and significant functions of finance companies.

- J The finance company is suggested to strictly follow the NRB directives. Following of NRB directives will help to reduce the credit risk arising from borrower's defaulter, leak of proper credit appraisal, defaulter by black listed borrowers and professional defaulter. Government has established credit inebriation bureau, which will guide finance companies. So, the finance is suggested to follow project-oriented.
- J The finance companies are suggested to adopt sound recovery policy which helps to decrease its loan loss provision and nonperforming loan of the finance company.
- J The credit management of both finance companies must follow the policy as rapid identification of delinquent loans, immediate contact with borrower and continual follow-up until a loan is recovered to decrease its non-performing loan and loan loss provision.
- J Finance companies are recommended to develop an innovative approach of finance marketing for well-being and sustainability in the market. They are suggested also to carry out competitor's analysis to retain old customers and gain new customers, which increase deposit and eventually can earn profit from lending loan and other investments.
- J Most of the customers are dissatisfied with the service charge and interest rates of credit. Therefore, the finances' management should consider on these variables more seriously. Finance should regularly follow the credit customers to confirm that whether the customers have utilized their credit for the same purpose or not committed at the time of taking credit from the company.

Finally, it is suggested that the new standards should be designed to make the finance management more accountable for lending policy. Besides, it should investigate what is the reasons of lending inefficiency.

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www.nepalstock.com

www.nrb.org.np

APPENDICES

Appendix-1

Loans & Advances

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	655565262	713659849	966429297	1137785093	1425856909	1429061692
NIDC	526675100	565469371	717018983	1007163490	979869483	1144697901

Source: Annual Report of LFLC and NIDC

Total Deposits

Source: Annual Report of LFLC and NIDC

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	741670000	789769000	838976000	1071291000	1216557000	1261362000
NIDC	4922062063	6225763064	992064065	1222065766	13206616762	14206886844
Lumbini	25152000	65822500	80822500	30822500	43696000	72823631
NIDC	68783456	51093696	77690955	151589778	67343778	200636158

Investment

Source: Annual Report of LFLC and NIDC

Shareholder's Equity

Source: Annual Report of LFLC and NIDC

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	60000000	60000000	90000000	120000000	206,250,000	268125000
NIDC	60000000	74941200	101170620	170978348	222271852	233,473,800

Non Performing Loan

Source: Annual Report of LFLC and NIDC

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	89,895,896	76,336,644	46,606,886	54,865,914	59,397,061	101,536,638
NIDC	59,296,965	43,904,204	36,830,209	40,553,853	51,919,317	51,167,996

Loan loss Provision

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	96517768	98949000	91818000	94155000	99231000	136817955
NIDC	46392504	51364480	50788563	51433222	64566439	67335322

Source: Annual Report of LFLC and NIDC

Total Interest Income

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	97067290	115043278	138518844	170963533	218575406	219922063
NIDC	73579968	136996554	101464993	158197750	232917613	251683561

Source: Annual Report of LFLC and NIDC

Source: Annual Report of LFLC and NIDC

Total Income	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	115601021	125297145	171634742	191466430	249315467	269975031
NIDC	115906266	195059054	145517939	210462809	293032033	368831883

Total expenses

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	93565787	87380867	108920104	118344769	156740626	195136483
NIDC	107125584	158701675	101727854	140550939	191749867	242948795

Source: Annual Report of LFLC and NIDC

Interest Income to Interest Expenses Ratio

Year	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	2.16	2.27	2.46	2.48	2.28	1.52	2.20
NIDC	1.82	1.72	1.77	2.08	2.28	1.59	1.88
Combined Mean							2.04

Source: Annual Report of LFLC and NIDC

Net Profit before Appropriation

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	3261268	37916277	62714638	73121661	92574841	38596396
NIDC	8780681	36357379	43593366	69911870	101282166	64375976

Source: Annual Report of LFLC and NIDC

No. Of Shares

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	600000	600000	900000	1200000	2681250	2681250
NIDC	600000	749412	1011706	1709783	2222719	2223560

Source: Annual Report of LFLC and NIDC

Interest Income to Interest Expenses Ratio

Year	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	2.16	2.27	2.46	2.48	2.28	1.52	2.20
NIDC	1.82	1.72	1.77	2.08	2.28	1.59	1.88
Combined Mean							2.04

Source: Annual Report of LFLC and NIDC

Calculation of Mean for Lumbini

Here,

$$X = 13.17$$

$$N = 6$$

$$\text{Mean } (\bar{X}) = \frac{X}{N}$$

$$\text{Mean } (\bar{X}) = 13.17/6$$

$$\text{Mean } (\bar{X}) = 2.20$$

The Mean Value of other items are calculated accordingly.

Year	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	0.84	0.92	0.81	0.89	0.88	0.81	0.86
NIDC	0.63	0.7	0.7	0.75	0.79	0.68	0.71
Combined Mean							0.78

Net profit to Shareholder's Equity Ratio

Year	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	0.05	0.63	0.7	0.61	0.34	0.14	0.41
NIDC	0.15	0.49	0.43	0.41	0.45	0.28	0.37
Combined Mean							0.39

Source: Annual Report of LFLC and NIDC

Interest Income from Loans and Advances to Total Income

Source: Annual Report of LFLC and NIDC

Earning Per Share (EPS)

Year	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	5.44	63.19	69.68	60.93	44.88	14.39
NIDC	14.63	48.51	43.09	53.16	59.24	28.93

Source: Annual Report of LFLC and NIDC

Loan & Advances

Loans & Advances	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	655,565,262	713,659,849	966,429,297	1,137,785,093	1,425,856,909	1,429,061,692
NIDC	526,675,100	565,469,371	717,018,983	1,007,163,490	979,869,483	1,144,697,901

Source: Annual Report of LFLC and NIDC

Investment

Investment	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	25152000	65822500	80822500	30822500	43696000	72823631
NIDC	68783456	51093696	77690955	151589778	67343778	200636158

Source: Annual Report of LFLC and NIDC

Loan & Advances and Investment

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	680717262	779482349	1047251797	1168607593	1469552909	1501885323
NIDC	595458556	616563067	794709938	1158753268	1047213261	1345334059

Source: Annual Report of LFLC and NIDC

Investment to Loans and Advances and Investment Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	0.04	0.08	0.08	0.03	0.03	0.05	0.05
NIDC	0.12	0.08	0.1	0.13	0.06	0.18	0.11
Combined Mean							0.08

Source: Annual Report of LFLC and NIDC

Total Deposits

Total Deposits	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	741670000	789769000	838976000	1071291000	1216557000	1261362000
NIDC	492749000	622579000	999518000	1291437986	1339344362	1431887744

Source: Annual Report of LFLC and NIDC

Loans and Advances and Investment to Total Deposit Ratio

Source: Annual Report of LFLC and NIDC

Shareholder's equity	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	60000000	60000000	90000000	120000000	206250000	268125000
NIDC	60000000	74941200	101170620	170978348	222271852	233473800

Shareholder's Equity

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	0.92	0.99	1.25	1.09	1.21	1.19	1.11
NIDC	1.21	0.99	0.8	0.90	0.78	0.94	0.94
Combined Mean							1.02

Source: Annual Report of LFLC and NIDC

Loans and Advances to Shareholder's Equity Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	10.93	11.89	10.74	9.48	6.91	5.33	9.21
NIDC	8.78	7.55	7.09	5.89	4.41	4.90	6.44
Combined Mean							7.82

Source: Annual Report of LFLC and NIDC

Non performing Loan

Non performing loan	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	89895896	76336644	46606886	54865914	59397061	101536638
NIDC	59296965	43904204	36830209	40553853	51,919,317	51167996

Source: Annual Report of LFLC and NIDC

Performing Loan

Performing loan	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	89895896	76336644	46606886	54865914	59397061	101536638
NIDC	59296965	43904204	36830209	40553853	51,919,317	51167996

Source: Annual Report of LFLC and NIDC

Loan Loss Provision to Total Loans and Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	0.15	0.14	0.1	0.08	0.07	0.10	0.11
NIDC	0.09	0.09	0.07	0.05	0.06	0.06	0.07
Combined Mean							0.09

Source: Annual Report of LFLC and NIDC

Non-Performing Loans to Total Loan and Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	0.14	0.11	0.05	0.05	0.04	0.07	0.08
NIDC	0.11	0.08	0.05	0.04	0.05	0.04	0.06
Combined Mean							0.07

Source: Annual Report of LFLC and NIDC

Interest Income to Interest Expenses Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	2.16	2.27	2.46	2.48	2.28	1.52	2.20
NIDC	1.82	1.72	1.77	2.08	2.28	1.59	1.88
Combined Mean							2.04

Source: Annual Report of LFLC and NIDC

Loan and Advances to Total Deposit Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	0.88	0.9	1.15	1.06	1.17	1.13	1.05
NIDC	1.07	0.91	0.72	0.75	0.76	0.80	0.83
Combined Mean							0.94

Source: Annual Report of LFLC and NIDC

Net Profit to Shareholder's Equity Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Mean
Lumbini	0.05	0.63	0.7	0.61	0.34	0.14	0.41
NIDC	0.15	0.49	0.43	0.41	0.45	0.28	0.37
Combined Mean							0.39

Source: Annual Report of LFLC and NIDC

Performing Loan to Total Loan and Advances Ratio

	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	1.01	1.03	1.05	1.03	1.03	0.93
NIDC	0.98	1.01	1.02	1.01	1.01	0.95
Combined Mean						0.94

Source: Annual Report of LFLC and NIDC

Appendix-2

Loans and Advances

(Rs. In million)

	Mean	S.D	C.V
Lumbini	1054.73	337.11	0.32
NIDC	823.48	255.88	0.31

Loans and Advances of Lumbini

Years	Loans & Advances(X)	$x = \bar{X} - X$	x^2
2062/63	655.57	399.16	159327.38
2063/64	713.66	341.07	116327.61
2064/65	966.43	88.30	7796.60
2065/66	1137.79	-83.06	6899.24
2066/67	1425.86	-371.13	137738.71
2067/68	1429.06	-374.33	140124.20
	6328.37		568213.73

Source: Annual Report of LFLC

Calculation of Mean for Lumbini

Here,

$$X=6328.27$$

$$N = 6$$

$$\text{Mean } (\bar{X}) = \frac{X}{N}$$

$$\text{Mean } (\bar{X}) = \frac{6328.27}{6}$$

$$\text{Mean } (\bar{X}) = 1054.73$$

Standard deviation

$$\dagger X \sqrt{\frac{\sum X^2}{N} - \bar{X}^2}$$

$$\dagger X \sqrt{\frac{568213.73}{5} - 1054.73^2}$$

$$\dagger = 337.11$$

$$\begin{aligned} \text{Coefficient of Variance} &= \frac{\dagger}{\bar{X}} \\ &= \frac{337.11}{1054.73} \\ &= 0.32 \end{aligned}$$

The Mean, Standard Deviation and coefficient of Variance of other items are calculated accordingly.

Non-Performing Loan

(Rs. in Million)

	Mean	S.D	C.V
Lumbini	71.44	21.48	0.30
NIDC	47.28	8.33	0.18

Interest Income from Loans and Advances

(Rs. in Million)

	Mean	S.D	C.V
Lumbini	160.02	52.12	0.33
NIDC	125.72	65.63	0.52

Loan Loss Provision

(Rs.in Million)

	Mean	S.D	C.V
Lumbini	102.91	16.85	0.16
NIDC	55.31	8.49	0.15

Net Profit

(Rs.in

Million)

	Mean	S.D	C.V
Lumbini	51.36	31.49	0.61
NIDC	54.54	32.03	0.59

Appendix- 3
Coefficient of Correlation between Deposit and
Loan and Advances

Lumbini

Deposit(X)	Loans and Advances(Y)
741670000	655565262
789769000	713659849
838976000	966429297
1071291000	1137785093
1216557000	1425856909
1431887744	1429061692

(Rs in Million)

Years	Deposit(X)	Loans and Advances(Y)	X ²	Y ²	XY
2062/63	741.67	655.57	550074.3889	429772	486217
2063/64	789.77	713.66	623736.6529	509310.6	563627
2064/65	838.98	966.43	703887.4404	933986.9	810815
2065/66	1071.29	1137.79	1147662.264	1294566	1218903
2066/67	1216.56	1425.86	1480018.234	2033077	1734644
2067/68	1431.89	1429.06	2050308.972	2042212	2046257
Total	6090.16	6328.37	6555687.952	7242925	6860463

Source: Annual Report of LFLC

Now we have

N=6

$$X = 6090.16$$

$$Y = 6328.37$$

$$X^2 = 6555687.952$$

$$Y^2 = 7242925$$

$$XY = 6860463$$

Coefficient of correlation can be calculated by using following formula

Correlation coefficient

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 * 6860463 - 6090.16 * 6328.37}{\sqrt{6 * 6555688 - 6090.16 * 6090.16} \sqrt{6 * 7242925 - 6328.37 * 6328.37}}$$

$$r = 0.95$$

Similarly,

$$\text{Probable Error of 'r' (P.Er)} = 0.6745 \frac{1 Z r^2}{\sqrt{N}}$$

$$= 0.6745 * \frac{1 Z f 0.95 \text{Å}}{\sqrt{6}}$$

$$= 0.0279$$

The Coefficient of Correlation and Probable Error of other items are calculated accordingly.

NIDC	
Deposit (X)	Loan & advances (Y)
492749000	526675100
622579000	565469371
999518000	717018983
1291437986	1007163490
1339344362	979869483
1431887744	1144697901

Years	Deposit(X)	Loans and Advances(Y)	X ²	Y ²	XY
2062/63	492.75	526.68	242801.577	277386.7	259519
2063/64	622.58	565.47	387604.6112	319755.6	352049
2064/65	999.52	717.02	999036.2323	514116.2	716673
2065/66	1291.44	1007.16	1667812.072	1014378	1300689
2066/67	1339.34	979.87	1793843.32	960144.2	1312383
2067/68	1431.89	1144.70	2050302.511	1310333	1639079
Total	6177.52	4940.89	7141400	4396114	5580392

Source: Annual Report of NIDC

Correlation coefficient

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = 0.98$$

Similarly,

$$\text{Probable Error of 'r' (P.Er)} = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.0133$$

r, P.Er and 6xP.Er between Deposits and Loans and Advances

	r	PEr	6 x PEr	Impact
Lumbini	0.95	0.0279	0.168	Significant
NIDC	0.98	0.0133	0.080	Significant

Similarly,

Coefficient of Correlation between Shareholder Equity

and Loan and Advances

Lumbini

Shareholders Equity(X)	Loans and Advances(Y)
60000000	655565262
60000000	713659849
90000000	966429297
120000000	1137785093
268125000	1425856909
268125000	1429061692

(Rs. in

Million)

Years	Shareholders Equity(X)	Loans and Advances(Y)	X²	Y²	XY
2062/63	60	655.57	3600	429766	39334
2063/64	60	713.66	3600	509310	42820
2064/65	90	966.43	8100	933986	86979
2065/66	120	1137.79	14400	1294555	136534
2066/67	268.125	1425.86	71891	2033068	382308
2067/68	268.125	1429.06	71891	2042217	383167
Total	866.25	6328.36	173482	7242902	1071141

Source: Annual Report of LFLC

Correlation coefficient

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

r=0.95

Similarly,

$$\text{Probable Error of 'r' (P.Er)} = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

= 0.0271

NIDC	
shareholders equity	Loan & advances
60000000	526675100
74941200	565469371
101170620	717018983
170978348	1007163490
222271852	979869483

233473800

1144697901

Years	Shareholders Equity (X)	Loans and Advances(Y)	X ²	Y ²	XY
2062/63	60.00	526.68	3600.00	277387	31601
2063/64	74.94	565.47	5616	319756	42377
2064/65	101.17	717.02	10235	514116	72541
2065/66	170.98	1007.16	29234	1014378	172203
2066/67	222.27	979.87	49405	960144	217797
2067/68	233.47	1144.70	54510	1310333	267257
Total	862.84	4940.89	152600	4396114	803776

Source: Annual Report of NIDC

Correlation coefficient

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{[n \sum X^2 - (\sum X)^2][n \sum Y^2 - (\sum Y)^2]}}$$

$$r = 0.97$$

Similarly,

$$\text{Probable Error of 'r' (P.Er)} = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

$$= 0.0189$$

r, P.Er and 6xP.Er between Shareholders Equity and Loans and Advances

	r	PEr	6 x PEr	Impact
Lumbini	0.95	0.0271	0.163	Significant
NIDC	0.97	0.0189	0.114	Significant

Correlation between Investment and Loans & Advances**LUMBINI**

Investment(X)	Loans and Advances(Y)
25152000	655565262
65822500	713659849
80822500	966429297
30822500	1137785093
43696000	1425856909
72823631	1429061692

Years	Investment(X)	Loans and Advances(Y)	X ²	Y ²	XY
2062/63	25.15	655.57	633	429766	16489
2063/64	65.82	713.66	4333	509310	46975
2064/65	80.82	966.43	6532	933986	78109
2065/66	30.82	1137.79	950	1294555	35069
2066/67	43.70	1425.86	1909	2033068	62304
2067/68	72.82	1429.06	5303	2042217	104069
Total	319.14	6328.36	19660	7242902	343016

Source: Annual Report of LFLC

NIDC	
Investment	Loan & advances
68783456	526675100
51093696	565469371
77690955	717018983
151589778	1007163490
67343778	979869483
200636158	1144697901

Years	Investment(X)	Loans and Advances(Y)	X ²	Y ²	XY
2062/63	68.78	526.68	4731	277387	36227
2063/64	51.09	565.47	2611	319756	28892
2064/65	77.69	717.02	6036	514116	55706
2065/66	151.59	1007.16	22979	1014378	152676
2066/67	67.34	979.87	4535	960144	65988
2067/68	200.64	1144.70	40255	1310333	229668
Total	617.14	4940.89	81147	4396114	569156

Source: Annual Report of NIDC

r, P.Er and 6xP.Er between Investments and Loans and Advances

	r	PEr	6 x PEr	Impact
Lumbini	0.16	0.2679	1.608	Insignificant
NIDC	0.80	0.0985	0.591	Significant

**Correlation between Total Income and Loans & Advances
LUMBINI**

Total Income(X)	Loans and Advances(Y)
115601021	655565262
125297145	713659849
171634742	966429297
191466430	1137785093
249315467	1425856909
269975031	1429061692

Years	Total Income(X)	Loans and Advances(Y)	X²	Y²	XY
2062/63	115.60	655.57	13364	429766	75784
2063/64	125.30	713.66	15699	509310	89420
2064/65	171.63	966.43	29458	933986	165873
2065/66	191.47	1137.79	36659	1294555	217848
2066/67	249.32	1425.86	62158	2033068	355488
2067/68	269.98	1429.06	72887	2042217	385811
Total	1123.29	6328.36	230226	7242902	1290223

Source: Annual Report of LFLC

NIDC	
Total Income	Loan & advances
115906266	526675100
195059054	565469371
145517939	717018983
210462809	1007163490
293032033	979869483
368831883	1144697901

Years	Total Income(X)	Loans and Advances(Y)	X ²	Y ²	XY
2062/63	115.91	526.68	13434	277387	61045
2063/64	195.06	565.47	38048	319756	110300
2064/65	145.52	717.02	21175	514116	104339
2065/66	210.46	1007.16	44295	1014378	211970
2066/67	293.03	979.87	85868	960144	287133
2067/68	368.83	1144.70	136037	1310333	422201
Total	1328.81	4940.89	338857	4396114	1196989

Source: Annual Report of NIDC

r, P.Er and 6xP.Er between Total Income and Loans and Advances

	r	P.Er	6 x P.Er	Impact
Lumbini	0.99	0.0049	0.029	Significant
NIDC	0.85	0.0762	0.457	Significant

**Correlation between Interest Income & Net Profit
LUMBINI**

Interest Income(X)	Net Profit(Y)
97067290	3261268
115043278	37916277
138518844	62714638
170963533	73121661
218575406	92574841
219922063	38596396

Years	Interest Income(X)	Net Profit(Y)	X²	Y²	XY
2062/63	97.07	3.26	9422	11	317
2063/64	115.04	37.92	13235	1438	4362
2064/65	138.52	62.71	19187	3933	8687
2065/66	170.96	73.12	29229	5347	12501
2066/67	218.58	92.57	47775	8570	20235
2067/68	219.92	38.60	48366	1490	8488
Total	960.09	308.19	167214	20788	54590

Source: Annual Report of LFLC

NIDC

Interest Income	Net Profit
73579968	8780681
136996554	36357379
101464993	43593366
158197750	69911870
232917613	101282166
251683561	64375976

Years	Interest Income (X)	Net Profit(Y)	X²	Y²	XY
2062/63	73.58	8.78	5414	77	646
2063/64	137.00	36.36	18768	1322	4981
2064/65	101.46	43.59	10295	1900	4423
2065/66	158.20	69.91	25027	4888	11060

2066/67	232.92	101.28	54251	10258	23590
2067/68	251.68	64.38	63345	4144	16202
Total	954.84	324.30	177099	22589	60903

Source: Annual Report of LFLC and NIDC

r, P.Er and 6xP.Er between Interest Income & Net Profit

	r	PEr	6 x PEr	Impact
Lumbini	0.64	0.1616	0.970	Insignificant
NIDC	0.82	0.0885	0.531	Significant

Correlation between Loan Loss Provision & Loan & Advances

r=0.55

LUMBINI	
Loan loss Provision	Loan & advances
96517768	655565262
9894900	713659849
91818000	966429297
94155000	1137785093
99231000	1425856909
136817955	1429061692

Source: Annual Report of LFLC

NIDC	
Loan loss Provision	Loan & advances
46392504	526675100
51364480	565469371
50788563	717018983
51433222	1007163490
64566439	979869483
67335322	1144697901

r=0.80

Source: Annual Report of NIDC

r, P.Er and 6xP.Er between Loan Loss Provision & Loan and Advances

	r	PEr	6 x PEr	Impact
Lumbini	0.55	0.1935	1.161	Insignificant
NIDC	0.80	0.0971	0.583	Significant

Appendix - 4
Regression Equation of Loans and Advances on Deposit

Years	Deposits(x)	Loans(y)	xy	x ²
2062/63	1,234.42	1,182.24	1459380	1,523,790
2063/64	1,412.35	1,279.13	1806576	1,994,727
2064/65	1,838.49	1,683.45	3095010	3,380,060
2065/66	2,362.73	2,144.95	5067932	5,582,488
2066/67	2,555.90	2,405.73	6148799	6,532,632
2067/68	2,693.25	2,573.76	6931777	7,253,594
Total	12,097.14	11,269.25	24509474	26267292

Source: Annual Report of LFLC and NIDC

We have,

$$X = 12097.14 \quad Y = 11269.25 \quad XY = 24509474$$

$$x^2 = 26267292$$

$$n = 6$$

$$a = \frac{Y}{n} - b \frac{X}{n}$$

$$b = \frac{n \cdot XY - X \cdot Y}{n \cdot X^2 - \sum X^2}$$

$$b = \frac{6 \cdot 24509474 - 12097.14 \cdot 11269.25}{6 \cdot 26267292 - 12097.14 \cdot 12097.14}$$

$$b = 0.95$$

$$a = \frac{11269.25}{6} - \frac{0.95 \cdot 12097.14}{6}$$

$$a = -42.78$$

$$Y = a + bx$$

$$y = -42.78 + 0.95x$$

The Regression Analysis of other items are calculated accordingly.

Regression Equation of LLP on Loans and Advances

Years	Loans(x)	LLP(y)	xy	x ²
2062/63	1,182.24	142.91	168954	1,397,692
2063/64	1,279.13	150.31	192270	1,636,172
2064/65	1,683.45	142.61	240071	2,833,998
2065/66	2,144.95	145.59	312279	4,600,804
2066/67	2,405.73	163.80	394052	5,787,519
2067/68	2,573.76	204.15	525441	6,624,238
Total	11,269.25	949.37	1833068	22880424

$$b = 0.03$$

$$a = 103.50$$

$$y = 103.50 + 0.03x$$

**Trend Equation and Propensity to Growth of Loans and Advances
(in million)**

	Linear Eq ⁿ s	2063	2068	2069	Propensity to Growth
	(2062=0)				
Lumbini	$y = 614.72 + 176x$	790.72	1670.73	1846.72	176.00
NIDC	$y = 484.57 + 135.56x$	620.14	1297.95	1433.49	135.56
Combined Mean					155.78

Loans & Advances	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	655565262	713659849	966429297	1137785093	1425856909	1429061692
NIDC	526675100	565469371	717018983	1007163490	979869483	1144697901

Lumbini

x	y	xy	x ²
1	655.57	655.57	1
2	713.66	1427.3	4
3	966.43	2899.3	9
4	1137.8	4551.1	16
5	1425.9	7129.3	25
6	1429.1	8574.4	36
15	6328.4	25237	91

$$b = 176.00$$

$$a = 614.72$$

$$y = 614.72 + 176x$$

NIDC

x	y	xy	x ²
1	526.68	526.68	1

2	565.47	1130.9	4
3	717.02	2151.1	9
4	1007.2	4028.7	16
5	979.87	4899.3	25
6	1144.7	6868.2	36
15	4940.9	19605	91

$$b = 135.56$$

$$a = 484.57$$

$$y = 484.57 + 135.56x$$

Trend analysis and Propensity of Growth of Earning Per Share

	Linear Eq ⁿ s	2063	2068	2069	Propensity to Growth
	(2062=0)				
Lumbini	$y = 31.45 + 4.66x$	36.10	59.38	64.07	4.66
NIDC	$y = 27.03 + 5.69x$	32.72	61.18	66.86	5.69
Combined Mean					5.17

EPS

EPS	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68
Lumbini	5.44	63.19	69.68	60.93	44.88	14.39
NIDC	14.63	48.51	43.09	53.16	59.24	28.93

Lumbini

x	y	xy	x ²
1	5.44	5.44	1
2	63.19	126.38	4
3	69.68	209.04	9
4	60.93	243.72	16
5	44.88	224.4	25
6	14.39	86.34	36
15	258.51	895.32	91

$$b = 4.66$$

$$a = 31.45$$

$$y = 31.45 + 4.66x$$

NIDC

x	y	xy	x²
1	14.63	14.63	1
2	48.51	97.02	4
3	43.09	129.27	9
4	53.16	212.64	16
5	59.24	296.2	25
6	28.93	173.58	36
15	247.56	923.34	91

$$b = 5.69$$

$$a = 27.03$$

$$y = 27.03 + 5.69x$$