CHAPTER 1

INTRODUCTION

Introduction

Nepal is an agricultural economy based country, where industrial development is still in initial stage. For the rapid economic development, higher per capita income, higher rate of capital formation and satisfactory resource utilization, industrial development is another important sector that should be concentrated. It is well known fact that for the development of the country's economy, it is necessary to concentrate in terms of education, communication & transportation. With the development of these sectors, long term improvement in the economy can take place. For the development of these sectors huge investment and financial sources is required. Least developed country like Nepal is highly suffered from deficit of investment and financial sources. Hence such country survives with foreign investment and foreign aid. To what extent and for how long period, these countries depend upon foreign aid and foreign investment. No doubt, for the relaxation of deficit of investment and finance, government should go for the development of investment institutions.

After the liberalization policy is carried out, government of Nepal also focused for the development of the investment institutions in order to fulfill the need of financial and investment deficit that had seen in financial sectors. Hence, in the Eight Plan (1992-97), it was clearly stated that "The vacuum in the present national financial system needs to be filled by institutionally developed capital market institutions like investment companies, financial companies, leasing and housing companies in order to create a healthy, competitive financial sectors."

To expedite the economic development, there should be sufficient flow of capital in the economy. In order to generate capital flow in the market, financial institutions play major roles for the proper functioning of the economy. It is how, these institutions act as intermediary between the individuals who lend and who borrow. I.e. These institutions accept deposit and in turn lend it to those who are in need of financial resources. Financial institutions are concentrated with financing trade, commerce and industry. These financial institutions pools scattered funds for the market and mobilizes it in the productive sector of the economy and hence make flow of investment easier. Investment made in the particular sector results multiplier effect in the economy and makes the flow of investment one after another. This is how financial institution play significant role for the development of the economy. And we can say that services provided by financial institutions are fuel to providing energy to move vehicle of economic growth. The growth of trade, commerce, industry and agriculture with the development of education, transportation and communication leads the economic development of the country. The development of these sectors is almost impossible without sound existence of banking system in the economy of the country.

1.1 Background

In Nepal, Nepal Rastra Bank (NRB) is central bank. It regulates and monitors all financial aspects of banks, finance companies, development banks and micro credit. NRB lays down various rules and regulations for all financial institutions and they have to obey such rules and regulations.

Central bank of Nepal, NRB acts as a promoter as well as regulator. It promotes financial institutions in order to make sound competitive financial environment in order to protect from collapse of such institution. It is because fail of one financial institution is symptoms of economic crisis. Hence it should be regulate. As a regulator, NRB makes rules regarding licensing, operating, reporting, auditing, etc. NRB issues various guidelines, policies, directives to financial institutions to operate such institution effectively.

When we pioneered the history of banking development of Nepal, Tejarath Adda was the first government owned financial institution, which was established in 1933 B.S, with the view to provide credit to the public on the security of gold & silver. Tejarath Adda did not accept deposit due to which Adda was suffered from financial crisis. Later on Nepal bank Limited was the first commercial bank which was established in Kartik 30, 1994 B.S, having charge of all government transactions. With the establishment of this bank, the necessity was felt to reform central bank dedicated to develop the financial institute to promote trade, commerce and industry, to manage the circulation of national currency and maintaining foreign exchange rate. Hence, Nepal Government introduced "Nepal Rastra Bank Act 2012". After introduce of this Act Nepal Rastra Bank was established as a Central Bank in Baishak 14, 2013 B.S, with the empowerment of direct control over banking institutions and having charged of treasury functions of Government. NRB is responsible of management and supervision of the monetary and credit system of the country. NRB has been given wide power under the various policies of the following legislation, Nepal Rastra Bank Act, 2058, Bank and Financial Institution Act, 2063, Foreign Exchange Regulation Act, 2019. The provision of the Acts is applicable to all Banks and Financial Institutions of the country, whether it is domestic owned or joint venture.

As a Central Bank, NRB issues directions time to time to all financial institutions regarding banking operations. BFI Act in which all banks, development banks, financial companies and micro credit are now in single umbrella Act known as **"Bank & Financial Institution Act, 2063"**. The Act has categorized financial institutions into four parts.

A. Commercial Bank
B. Development Bank
C. Finance company
D. Micro Credit.

In this study, concentration is made on only financial companies and central bank of Nepal. Even though activities of finance company are not far difference from banking activities, some of activities are restricted by NRB. Central bank of Nepal, NRB defines finance companies as those institutions having financial institutions rated in "C" category.

In context of Nepal, after the restoration of multiparty parliamentary democracy system set up in the country and liberal policy is carried out 26 commercial banks, 63 development banks, 77 finance companies, 45 NGOs with limited banking activities, 15 micro credit Development Banks and 1 postal saving bank are in operation till date. Now these companies are functioning to contribute in the major agenda of 10^{th} Plan "Poverty Alleviation".

1.2 Justification of study

Now a day's market is being so competitive that even the commercial banks are also interested for the small investment. Most of the investment made for the projects had failed to get return. Banking sector captured a huge part of investment areas of financial institutions. In such critical condition what will be the performance of financial companies? It is crucial part of monitoring and evaluation.

In most of the financial companies, investment is made as per willing of promoters and directors. They may have ignored several steps for investing only due to personal relation with the customers. These sorts of the loan can be cronic loan or as a bad loan for the company. Company may have to made provisions on such loans, which in turn reduce the profit and hence reduce the earning per share.

After the adaptation of economic liberalization, Government of Nepal has given more emphasized for the establishment, growth and development of financial institutions on a competitive basis. Hence till date 77 finance companies are in operation.

In recent days addressing journals, NRB has urged that being competitive in financial market banks and other finance companies have cartel while fixing the deposit rate in other to reduce their cost of fund. Due to which they have ignored to serve depositors. After NRB delegated an authority to decide the deposit rate and loan disbursement rate, financial institutions have increased the spread rate. As a regulator NRB has urged financial institutions to increase the deposit rate. In such condition NRB may go up to fixing the deposit rate and take over monetary measures in other to increase the rate. But this argument between NRB and financial institutions are quite controversial, it is because cartel in the market means fixing same rate for all financial institutions, but in practice it is not so. Deposit rates are different from one institution to another. So cartel is not exists in such condition. And another major factor is spread rate. In present market condition deposit rate is negative. In an average deposit rate is around 2 % while inflation rate is around 5 %. Such condition in financial market results capital flight to neighboring countries. Higher spread rate signifies that financial institutions are only focusing for earning maximum profit alone. And they have ignored to share it with depositors and industrialists. Even though spread rate is higher, most of the financial companies are not earning higher profit. What may cause for finance companies for earning less profit. It is an essential part to study.

NRB as a central bank of Nepal plays crucial role to monitor, supervise and regulate these financial companies. And recently Government has promulgated new umbrella Act as "Bank & Financial Institution Act, 2063", which aims to bring all financial institutions into single Act. Hence this study aims to analyze the investment policies of financial companies as per Bank & Financial Institution Act, 2063.

1.3 Statement of the problem

Investment is major factor that determines the life of the financial institutions. Even though several financial institution have been acting their services in the country, sufficient return could not be achieved due to lack of strong, stable and appropriate investment policies. Stiff competition in financial market leads finance companies to be much more liberal in granting loans and advances and other facilities to their clients. Due to over expectation, these loans and advances may become unsecured and may results failure in investment, which may ultimately result failure of institutions and may go for liquidation of those financial institutions. Investment made without analyzing financial risk, concentration risk, business risk and other related factors, may result bad loan and sometimes company may not able to recover principal amount too. Due to this company will unable to get sufficient return on investment. Every company makes their own investment policies as per rules and regulation made by NRB but there is no optimum utilization of available funds to have significant return.

For analyzing investment pattern of financial institution, NRB has also play important role. It had made various rules and regulation to bring financial institutions into right track and to invest their funds into good sector.

Due to stiff competition in the market and un-proper investment policies, most of the financial companies are unable to invest their entire fund in profitable sectors. Due to this, more portion than the actual need on cash and bank balance are seems to be ideal. While investment made in loan and advances, sometimes they bear as a risk taker and sometimes they did not take risk to mobilize their ideal fund even though the investment have low risk and comparatively higher rate of return. Some of the finance companies are not able to invest their fund in diversified sectors in order to minimize concentration risk. Some of the companies invest in diversified sectors and also provide services through merchant banking which can earn higher return with low investment. Most of the financial companies are concentrated on investing in the field like housing, hire purchase, and institutional investment. Some may go for consortium financing in big projects too. In context of Nepal, most of big project investments made by consortium financing are failure. It is due to incapability of consortium leader, political uncertainty etc. Hence the investment policies should be carefully analyzed.

In this study I have chosen Butwal Finance Ltd, Nepal Finance & Saving Company Ltd, National Finance Company Ltd, Nepal Share Market Company Ltd and Nepal Merchant Banking & Finance Ltd. (which recently upgraded to 'A' Class Commercial Bank named as NMB Bank). In this study policies made for investment by these companies will be analyzed and compare with each other. The study also focused on the effect of Bank & Financial Institution Act, 2063 towards investment policies of these companies.

Beside this, following problems are being identified in terms of finance company in comparison to other companies.

1. Comparison of investment & loan and advances with total deposit.
2. Comparison of spread rate with net profit.
3. Effectiveness of investment policies.
4. Efficiency of fund mobilization.
5. Earning of companies with investment decisions.
6. New investment strategy as per Bank & Financial Institution Act, 2063.
7. Stability of fund mobilization.

1.4 Objectives of the study

The study aims to analyze the investment policies of finance companies in accordance with Bank & Financial Institution Act, 2063. The study examines the impact of Bank & Financial Institution Act, 2063 to investment decision of finance companies. The study compares the investment policies of each finance company with other finance companies.

Regarding this, fund mobilization, its effectiveness, growth trend are also compared. The specified objectives are as follows:

1. To examine the relation of total deposits with respect to loan and advances to net profit of above listed companies.
2. To examine the trend of deposit utilization of above listed companies.
3. To examine the growth rate of deposits, loans and advances and net profit.
4. To examine the fund mobilization of listed companies in respect to their off balance sheet and on balance sheet transaction.
5. To evaluate the liquidity, assets management efficiency and profitability position in relation to fund mobilization.
6. To examine the effect of Bank & Financial Institution Act, 2063 in investment decisions, in accordance with total deposit above listed companies.
7. To identify the difficulties on investment decision.
8. To suggest and recommend some measures on comparative fund mobilization and investment policies of above listed companies for the improvement of finance performance in future.

1.5 Importance of Study

As also has been to some extend outlined in the Justification of the study, the importance of this study is expected to be helpful in digging out the root problems in the investment policies of the finance companies and also the overall country policies. The findings and suggestions in the thesis will be very helpful not only for academic purpose but also from the practical perspective to work for necessary reforms in the days to come.

1.6 Limitation Of the study

Each and every study is affected by certain constraints. Even though title holds broad concept, certain constraints/limitations narrowed the generalization. The study is subjected to the following limitation:

1. The whole study is based on secondary data collected from the above listed companies and Nepal Rastra Bank.
2. The study is based on the last eight years data beginning from fiscal year 2057/58 B.S to 2064/65 B.S.
3. This study assumes that the related published documentation and other related journals and articles are realistic.
4. Even though 77 finance companies are in operation only 5 finance companies are taken as population standard and the average of the same is taken as industry average to compare with the investment policies of each finance companies.
5. The non availability of various references and resources act as constraints.
6. Lack of time and research experience is also major limitation of the study.

1.7 Organization Of the study

The study is divided into five chapters.

First chapter is **Introduction**. It includes introduction, background of the study, justification of the study, statement of the problem, objective of the study and organization of the study itself.

Second chapter is **Review of Literature**. This chapter is sub divided into two parts, **conceptual framework** of the study and **review of related studies**.

Third chapter is **Research Methodology**. In this chapter methodology used to evaluate the investment policies of finance companies in Nepal.

Fourth chapter is **Presentation and Analysis of Data**. This is the main key chapter of the study that explains the reality of the company.

Fifth and last chapter is **Summary, Conclusion and Recommendation**. It explains the findings of the study and suggestions and recommendations.

CHAPTER 2

REVIEW OF LITERATURE

2.1 Evolution of Financial Institution:

When we traced out the ancient past of the evolution of financial institutions, it had its roots in the earlier stage in the society. As a money lender, goldsmith and merchant were men of honest, integrity, reliability and solvency. They could become easier therefore they could become custodians of the spare monies of the public. Each of them was particularly closely concerned with dealings in money in the days when all money was still in the form of coins made of precious metal.

In the words of Geoffrey Crowther, "The present banker shows traces of each of his three ancestors. Like the merchant he still makes a specialty of financing foreign trade. ….Like the money lender he still collets the saving of the one set of persons and lends them to another set of person…………But the unique functions of the banker is the provision of a convenient mechanism by which people can make payments to each other without having to walk round each others houses with bags of coins."

Later on in Philadelphia, USA in 1764, the first investment bank was established for serving financial activities. After that in 1781, Bank of Northern America was established as a first commercial bank. The Massachusetts Hospital Life Insurance Company was established in 1816 in Boston as a first investment bank, which is usually designated as the first saving bank insurance company which is an old as the country itself.

In 20th century in US credit market rapid growth in consumer credit was seen. Goods like pianos, encyclopedias and sewing machines and total household expenditures were used for investment credit. Consumer credit did not remain up to this; it increased towards consumer durable goods like automobiles, boats and household appliances.

When we analyses the early development of financial institutions, they can be categorized into three types on the basis of their activities and structure.

- Sales Finance Companies
- Consumer Finance Companies
- Credit Unions

2.1.1 Sales Finance Companies

Sales finance companies emerge to serve consumers back needs and expectation. Sales finance companies have been oriented towards the financing of automobiles, business equipment lease and loans against account receivable. The transaction made in sales finance companies might go like, "A dealer in some consumer durable goods (auto, household appliance) sell an item in the installment plan. The dealer received his payment from the sales finance company and the installment payment will be made directly by the customer to the sales finance company.

Sales finance companies are different from other consumer credit institutions by virtue of their indirect extension of credit. Sales finance companies typically purchase the installment contract the notes signed by purchaser of consumer durable goods from the dealer involved. The other consumer credit sources deal directly with the borrower. Hence, Sales finance companies act as mediator between obtaining credit from commercial bank channeling it into the purchase of consumption goods.

2.1.2 Consumer finance company

"Consumer finance companies are more specified than sale finance companies. In the early of 1960, some large company began to diversify their operation in U.S.A. Household Finance Corporation acquired a major interest in city products corporation, a large retail chain. Household already had acquired coast to coast store and badger paint and hardware stores. Consumer finance companies obtained their funds from banks and then do sales finance companies of similar size."

2.1.3 Credit Union

"The concept of credit union had been spectacular throughout the post world war period in USA. The credit union may operate under either federal or state charter. Credit unions are co operative associations where member must be linked by some board such as employment, church or labour union membership. Funds are obtained from members share accounts, which typically are accumulated in small increments under payroll deduction schemes. They are used largely for installment cash loans to members, although credit unions also hold relatively small amounts of other financial assets such as cash, US government securities and saving and shares loans."

2.2 Development of finance companies in Asia

From the mid of 1950's, finance companies was initiated in Asia. So it is resent innovation for Asia. When we go through the first establishment of finance company in Asia, Philippines & Singapore had credit of it. These firstly established finance companies were suffered from so many difficulties. But later on the companies which was established growth and development in Hong Kong, Thailand and Malaysia have been developed efficiently to accomplished their target goals and objectives.

Most of the government in Asian countries have been enacted legislation to protect both depositors and investors investment in the industry. Governments of Singapore and Malaysia have been enacted protective legislation regulating all finance companies. Government of Hong Kong requires a banking license for those finance companies that accepts deposit. In Philippines, general policies are allowed to deposit as a result of the passage in 1963 of a truth in lending account.

The activities of finance companies in different countries can be explained as follows.

2.2.1 Philippine:

Philippines is the first country in Eastern Asia, where finance company was firstly established in 1950 A.D. Since 1950 to 1962 finance companies where widely spread in Philippine and the number grew rapidly over 250 companies. The Philippine congress also passed Truth-in-rapidly Act to correct some of the abuses evident in the posts. Now a day, three large finance companies are in existences and several more than 10 small finance companies.

The major large finance companies are

- International Finance Corporation
- Filipinos Investment & Finance Corporation
- Filipinos Mutual Finance Incorporated

The shares of these companies are traded on Manila Stock Exchange. These large companies operate in goods and service financing. Thus the operation can be categorized into three sectors.

1. Vehicle finance
2. Applicable finance
3. Air travel finance

Beside these activities, operations like leasing and credit card facilities etc are also most.

2.2.2 Thailand:

Bangkok Investment Company limited is the first finance company, which is established in 1961 in Thailand. Then after, Commercial Credit Corporation Thailand Limited is established in 1965. These companies are primarily operates Auto Financing and the volume of these operations have been increasing rapidly. The shares of these finance companies are listed on the Bangkok Stock Exchange.

In late of 1967 half of the shares of CCC Thailand were purchased by CCC Philippine and on additional 30 percent was held by first National City Overseas Investment Corporation, a subsidiary of first National City Bank of New York. As a result of these relationships the CCC Thailand has a joint Filipino-Thai management.

In Thailand, these finance companies are contributing in general economic development particularly through providing medium term consumer credits, which were not available in the past from other financial institution.

2.2.3 Hong Kong:

At the end of 1967, finance companies were come into existences in Hong Kong. The establishment of finance companies basically comes from the automobiles dealers who asked the financial community to provide hire purchase facility.

"The main sources of finance companies are their deposits funds provided by the parent bank and their own capital. Lending activities by the finance companies are not limited to consumer durable. The activities towards financing automobiles, refrigerators, television sets and other consumer durable, companies and also finance some heavy machineries for industry air conditioners and bull dozers."

2.3. The globalization and development of finance

During the past two decades financial markets around the world have become increasingly interconnected. Financial globalization has brought considerable benefits to national economies and to investors and savers, but it had also changed the structure of the market participants and policy makers.

In the resent past about three decades ago, a manufacturer building a new factory would probably have been restricted to borrowing from a domestic bank. Today it has many more options to choose from. Financing for building a new factory or starting a new entrepreneur can be stop around a world with a lower interest rate and borrow in the foreign currency, if a foreign currency loan offers more attractive terms than domestic currency loans. Now a day, the finance companies can issue stocks or bonds in the domestic or international capital markets and can choose a variety of financial products design to help in hedge against possible risks. It can sell equity capital to foreign company.

This trend showed the globalization has occurred in the financial sector. The major forces that had driven the globalization of finance can explain as follows:

2.3.1 Forces driven globalization

There are four main factors stand out that brings the finance for globalization.

1. Advances in information and computer technologies are the major factor that drives finance into globalization. It has made the market participants and the country authorities to collect and process the information's they need to measure, monitor and manage the financial risk. It has made them easier to price and to trade the complex new financial instruments that had been developed in recent years. It has made them easier to maintain the book of transaction spread across international financial centers in Asia, Europeans and the Western hemisphere.
2. The globalization of national economy has advanced significantly as real economies activity i.e. production, consumption, and physical investment, has been dispersed over different countries. New multinational companies have been created, each producing and distributing its goods and service through networks that span the world, while established multinational have expanded internationally by merging with or acquiring foreign companies. Many countries have lowered barriers in international trade and cross boarder flows in goods and services have increased significantly. These changes have

stimulated demand for cross boarder finance with financial liberalization and creation of international pool of capital and liquidity.

3. The liberalization national financial and capital markets with the rapid improvement in information technology and the globalization of national economies has catalyzed financial innovation and spurred the growth of cross boarder capital movement. The globalization of financial intermediation is partly a response to the demand for mechanism to intermediation cross boarder flows and partly a response to declining barriers to trade in financial services and liberalized rules governing the entry of foreign financial institutions into domestic capital markets.
4. Competition among the providers of intermediary services has increased because of technological advances and financial liberalization. The regulatory authorities in many countries have altered rules governing financial intermediated to allow a boarder range of institutions to provide financial services, and new classes of non-bank financial institutions including institutional investors, have emerged.

2.3.2 Changes in capital markets

Now a day, the structure of national and international financial capital market has dramatically changed. What forces led the capital market to change, is essential part to study. It is essential because it deals with the finance and its development.

The forces can be explained as follows:

- Greater shares of financial intermediation in the major countries are now taking place through tradable securities rather than bank loans and deposits. This explains now banking system has gone through a process of disinter mediation. Financial and non-financial entities as well as savers and investors have played key role in, and benefited from, this transformations. Financial institutions have increasingly moved financial risks, especially credit risks, off their balance sheets and into securities markets, in response both to regulatory incentives such as capital requirements and to internal incentives to improve risk adjusted returns on capital for shareholders and to be more competitive. Corporations and governments have also can to rely more heavily on national and international capital markets to finance their activities. A growing and more diverse group of investors are willing to an array of credit and other financial risks. Due to improvement in information technologies, that have made easier to monitor, analyze and manage these risks.
- Now a day, cross boarder financial activity has increased. Investors are trying to enhance their risk-adjusted returns by diversifying their portfolios internationally and are seeking out the best investment opportunities from a wider range of industries, countries and currencies. In deep national financial markets have become increasingly integrated into a single global financial system. Multinational companies can tap a range of national and international capital market to finance their activities and funds cross border mergers and acquisitions, while financial intermediaries can raise funds and manage risks more flexible by accessing markets and pool the capital in the major international financial centers.

  The banking financial institutions are completing with banks for household savings and corporate finance mandates in national and international market, driving down the prices of financial instruments. They are gathering raising shares of savings, as households bypass bank deposits to hold their funds in higher-return instruments such as mutual funds, issued by institutions that are better able to diversify risks, reduce tax burdens, and take advantage of economics of scale and have grown dramatically in size as well as in sophistication.

Banks have expanded beyond their traditional deposit-taking and balance-sheet-lending business as countries have relaxed regulatory barriers to allow commercial banks to enter investment banking, asset management and even insurance, enabling them to diversify their revenue sources and business risks. The deepening and broadening of capital markets has created another new source of business for banks such as underwriting of corporate bond and equity issues, as well as a new source of financing, as banks increasingly turn to capital markets to raise funds for their own investment activities and rely as over-the-counter (OTC) derivatives markets i.e. decentralized markets, where derivatives such as currency and interest rate swaps are privately traded usually between two parties to mange risks and facilitate intermediation. Due to growing competition turn non bank financial intermediaries has reduce profit margin from banks traditional business to extremely low levels. Hence, banks have been forced to seek additional sources of revenue, including new ways of intermediating funds and fee based business. This is especially true in continental Europe, where there has been relatively little consolidation of financial institutions. Elsewhere particularly in North America and the United Kingdom, banks are merging with other banks as well as with securities and insurance firms in efforts to exploit economies of scale and scope to remain competitive and increase their market shares.

2.3.3 Benefits and risks of financial Globalization

The radical change in financial market has offered unprecedented benefits and on the other hand it has also changed market dynamics which are yet not fully understood. Some is explain as follows:

- One the main benefit of financial globalization is it reduces the risk of "credit crunch". When the financial institution in their own country are under strain, borrowers can now raise funds by issuing stocks or bonds in domestic securities markets or by seeking other financing sources in international capital market. Securitization makes the pricing and allocations in financial risks are reflected much more quickly in asset prices and flows than as balance sheets. On the other hand these changes have financial market more volatile and this volatile could pose a threat to financial stability.
- Another benefit of financial globalization is that with more choice open to them, borrowers and investors can obtain better terms on their financing. Institutions can finance physical investments more cheaply, and investors can more easily diversify internationally and tailor portfolio to their preferences. This encourages investment and saving, which facilitate rent economic welfare. On the other hand asset prices may overshoot fundamentals during booms and busts, causing excessive volatility and distorting the allocation of capital.
- Now a day, due to financial globalization credit worthy financial institutions in emerging market counties can reduce their borrowing costs and they are able to take a broader pool of capital firm a more diverse and competitive array of providers. On the other hand emerging market countries with weak of poorly regulated banks are particularly vulnerable. And Risks as reversal of capital flows, international and spillovers and contagious can threaten the stability if the international financial system.

2.4 Establishment and growth of financial institutions in Nepal.

Nepal is one of the poorest countries in the world. Out of 180 members of the International Monetary Fund, Nepal is ranked in 168 and its Gross Domestic Product (nominal) per capita for the year 2004 was figured as 240 USD per annum, where as the first country Luxemburg whose capita for same year is 69,737 USD. Various factors contributed to the economic under developing including terrains, lack of resources, land locked positions, lack of institutions for modernization, weak infrastructure, and a lack of policies conducive to development.

Even though economy of Nepal is affected by various factors, development of financial institutions was rooted since 1937 AD. Beside this period, Tejarath Adda as a government institutions functioning to grants loans to public against collateral of gold and silvers. It was suffered from cash crisis because of not accepting deposits. Later on in 1937, Nepal Bank Limited was established as first commercial bank of Nepal. The government owned 51% of the shares in the bank and controlled its operation to large extent. Nepal Bank Limited was headquartered in Kathmandu and had branches in other parts of the country.

Rastriya Banijya Bank, a stated owned commercial bank, was established in 1966. The land Reform Saving Corporation was established in 1966 to deal with finance related to land reforms. Nepal Industrial Development Corporation, a stated owned development finance organization head quartered in Kathmandu, was established in 1959 with the United Stated assistance to offer financial and technical assistance to private industry. Although the government invested in the corporation, representatives from the private business sector also sat on the board of directors. The cooperative bank, which became the Agriculture Development Bank in 1967, with the main source of financing the small agribusinesses and co-operatives. Almost 75% of the bank was stated owned; 21% was owned by Nepal Rastra Bank and 5% by co-operatives and private individuals. Agriculture Development Bank also served as the governments implementing agency for small farmers' group development projects assisted by the Asian Development bank and financed by the United Nations Development Programs. The ministry of Finance reported in1990 that the Agriculture Development Bank, which is vested with the leading role in agriculture loan investment, has granted loans to only 9% of the total number of farming families since 1965.

Since 1960s, both commercial banks and specialized banks have expanded. More business and households had better access to the credit market although the credit market had not expanded.

In the mid 1980s, three foreign commercial banks opened branches in Nepal. The Nepal Arab Bank was co owned by the Emirates Bank International (Dubai), the Nepalese government, and the Nepalese public. The Nepal Indosuez Bank was jointly co owned by the French Banque Indosuez, Rastriya Banijya Bank, Rastriya Beema Sansthan, and the Nepalese public. Nepal Grindlays Bank was co owned by a British firm called Grindlays Bank, local financial interest, and the Nepalese public.

Nepal Rastra Bank was created in 1956 as a central bank. It was established to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector. Its function was to supervise commercial banks and other financial institutions and to guide the basic monetary policy of the nation. Since then, there has been a huge growth in both the number and the activities of the domestic financial institutions. To reflect this dynamic environment, the functions and the objectives of the Bank have been recast by the new NRB Act of 2002, the preamble of which were to regulate the issue of money, secure country wide circulation of Nepalese currency and achieve stability in its exchange rates, mobilize capital for economic development and for trade and industry growth, develop the banking system in the country, thereby ensuring the existence of banking facilities and maintain the economic interest of the general public. Nepal Rastra Bank also was to oversee foreign exchange rates and foreign exchange reserves.

The bank is an eminently aware that for the achievement of the above objectives in the present dynamic environment sustained progress and continued reform of the financial sector is of utmost important. Continuously aware of this great responsibility, Nepal Rastra Bank is seriously pursuing various policies, strategies and actions, all of which are conveyed in the annual report in monetary policy which provides a comprehensive review and evaluation of the previous monetary policy and justifications and the analysis of the following years monetary policy. The re-engineering of the Nepal Rastra Bank itself is one of the critical components of the reform agenda. To improve the financial sector legislative framework, some new acts came out and there have been amendments to some existing Acts. And as per Bank & Financial Institutions Act, 2063 and Nepal Rastra Bank Act, 2058, Nepal Rastra Bank has issued new directives effective from Shrawan 1st, 2066.

Finance companies are new type of institutions in Nepalese context. They could be registered as public limited companies as per the finance Company Act 2042 BS, and Company Act, 2053 BS. Now the respective Acts have been changed. As mentioned above Finance Company Act, 2042 has been repealed by Bank and Financial Institution Act, 2063. And Company Act, 2053 has been repealed by Company Act, 2063. Finance companies are registered with Company Registrar's Office, Government of Nepal and Nepal Rastra Bank grants license for operation.

Finance companies have authorized capital that varies from Rs. 100 million to Rs. 300 million. Finance companies have, "To channel the funds by gradually shifting priorities from hire purchase and trading to industry to help in the capital formation in the country. The overall growth of the natural and extent of capital formation in the country. This in course of time, industrial financing should get higher priority in the lending strategy of finance companies in view of their future sustainability and full fledged growth". Finance companies are the effective scientific instrument for mobilizing public, private and external financial resources and channel them into productive areas as short-term loans and long-term loan on different commercial business activities.

2.4.1 Role of Nepal Rastra Bank

As a central bank, Nepal Rastra Bank has crucial role as a promoter as well as a regulator in banking system in Nepal. It is established with the main aim of monetary stability and economic development in the country. As Nepal is taking various efforts in the light of its accession to the WTO, it is necessary to continue with the financial sector liberalization policy and accord priority to both quantitative and qualitative development of financial institutions. In this perspective, as a central bank of Nepal, NRB should take the initiative in implementing as well as enforcing the compliance of the prudential regulation based on international standard.

Our country Nepal is facing some negative effects, some difficulties and challenges in the past few years. To maintaining the balanced economic growth, to countering some negative effect of difficult economic environment, NRB should play its role as a promoter in the economy. In response to the deterioration of the financial institutions, NRB has to urge the financial institutions to maintain assets quality to strengthen the risk management practices and ensure them for implementing proper mechanism in place to continuous measure, monitor and control the risk portfolio. Effective financing supervision of NRB is essential in present competitive environment. Especially when the introduction of new service delivered channels through technological development, assessing new financing risk, continuous supervision is required. Not only understanding the risk and management techniques of that prevailing risks, NRB should go through early warning system, how to read and react appropriately, when serious problem eventually surface. Hence, NRB has crucial role as promoter, supervisor and as a regulator in order to make sound existence of financial environment.

2.4.2 Regulation to finance companies by NRB

Central bank of Nepal, NRB acts as a promoter as well as regulator. NRB lays down various rules and regulations for all financial institutions. Some of the major regulations made by NRB are as follows:

A. Establishment of finance company in Nepal:

In Nepal, finance company is registered only as a public limited company. As per Company Act, 2063, finance company is registered at "Company

Registrar's Office", which is under the Ministry of Industry, situated at Tripureswor, Kathmandu. Any company wishing to establish to function as Financial Company, they have to first obtain in-principal approval from Nepal Rastra Bank and they have to be registered with the Company Registrar's Office as a Limited Company. Only the NRB may provide them Operating Licence. The following policies guidelines had been issued on the establishment of finance company.

(a) Paid up capital:

- National level company conducting financial transaction including leasing- Rs. 300 million
- National level company conducting financial transaction excluding leasing- Rs.200 million,
- Company conducting financial transaction in any one to three district(s) of the Country (excluding Kathmandu Valley) including leasing- Rs. 300 million, and
- Company conducting financial transaction in any one to three district(s) of the Country (excluding Kathmandu Valley) excluding leasing- Rs. 100 million

(b) Special priorities will be given to the company to operate in any one of the districts of any development region where the density of the financial intermediaries and financial institution are low.

(c) The promoters and general public has to invest 70 percent and 30 percent, respectively on the total share capital of all the above financial companies.

(d) Finance companies, which are in operation in Kathmandu Valley, have to settle themselves in one of the national level companies as described above. In case of the companies operating outside Kathmandu Valley, they have to decide about the jurisdiction they want to remain within 6 months from the date they are informed.

Likewise, finance companies being desirous to upgrade their operations should successively fulfill the conditions, such as paid up capital reaching to one step higher, 3 year operating experience, etc.

(e) The policy spells clearly about promoters' paid up capital, actions on the application for opening a company , disposal of promoters' share and black listing , prohibition in the access to loans by promoters and their families and refraining them to become a director in other banks or financial institutions.

B. Capital Adequacy Ratio:

CAR is the relationship between capital funds to total risk weighted assets of the financial institution. It is calculated on quarterly basis. Minimum Capital adequacy is summation of core capital and supplementary capital. Risk base Asset is summation pf balance sheet transaction.

To calculate the capital adequacy ratio following formula can be used:

$$\text{Capital adequacy ratio} = \frac{\text{Core Capital + Supplementary Capital}}{\Sigma \text{ Risk weighted Asset}} \times 100$$

In context of Nepal, cash balance at NRB government bond is categories as risk less asset i.e. asset having 0% risk. As per new directives amount balanced in top thousands banks as per The Banker Magazine are categories as asset.

As per the Unified Directives, 2066 issued under Nepal Rastra Bank Act, 2058, minimum capital adequacy ratio should be 11% of the total risk weighted assets in which core capital should be 5.5%. This provision is brought into practice from fiscal year 2062/63.

Every Financial Institution should maintain at least 11% capital adequacy ratio all the time otherwise it should correct its capital within next 6 months by showing proper capital planning and programs for maintaining capital adequacy by way of issuing new share capital or asset allocation. Financial Institution if failed to maintain minimum capital adequacy ratio, will be restricted for issuing bonus share, for distributing of dividends, for opening new branch, for accepting deposit and providing loan as per the Prompt Corrective Action issued by NRB.

C. Cash Reserve Ratio:

As per NRB Directive No. 13 of Unified Directive, 2066 finance companies are required to maintain balance at Nepal Rastra Bank 5.5% of total deposit liabilities. This Directive has increased cash reserved balance at NRB from 1% to 5.5%. Failing to maintain the required CRR, finance companies will be penalized at the rate of penal rate prevailing in the market for the first time, twice of prevailing market interest rate for second time and thrice of prevailing market interest rate for third time and above.

D. General Reserve:

As per Unified Directive, 2066, finance company should transfer 20% of their net profit to general reserve.

E. Interest Rate:

Finance companies can fix interest rate on deposits and loans and should published notice regarding interest rate in national newspaper and should communicate with NRB. There is allowing of 0.50% deviation from the prevailing rate on all types of deposits.

F. Loan Classification & Provision:

Finance companies are directed to classify their loan on the basis of overdue ageing schedule and make provisions on such loans on quarterly basis as per following criteria.

Type	Provision required	Criteria
Good Loan	**0-3 Months**	**1%**
Sub Standard Loan	**3-6 Months**	**25%**
Doubtful Loan	**6-12 months**	**50%**
Bad Loan	**12 months above**	**100%**

G. Limitation on deposit collection:

Finance companies are authorized to accept deposit up to 10% of core capital only. If finance companies are in profit for last 3yrs having 100 million core-capitals along with public offering are liable/ authorized to accept deposit up to 12% of core capital.

H. Sectoral Credit Limit:

Bank & Financial Institution Act, 2063, granted permission to finance companies to provide 100% loan in a single sector, but to do so board of directors should pass the minute first and it should be renewed annually. Regular monitoring and communication with concerned department of NRB is required. If it is of 50 to 100% quarterly monitoring and evaluation by own company is required and information regarding such should communicate with NRB.

I. Single Borrower Limit :

Finance Companies are authorized to provide loan to their single party, customer, firm or group of clients having personal relation up to single borrower limit of 25% for fund based and non fund based core capital. For financing up to such limit, capital ratio should be based on the capital of last quarterly balance sheet audited by internal auditor.

But for providing loan on own fixed deposit receipt, government bonds, NRB Treasury Bills, and guarantee paper of Asian Development Bank, International Finance Corporations, Multilateral companies, and International Rated Bank, above directive will not implemented.

2.5 Introduction of finance companies:

2.5.1 Nepal Finance and Saving Co. Ltd. Bittiya Sanstha (Nefinsco)

Nepal Finance and Saving Co. Ltd. was established in 2049 BS and in the same year it has registered in the company registered office. In 2050 BS it has got license from Nepal Rastra bank and started its operation.
The company started its operation with the capital of Rs. 39,56,000.00. Now it has an authorized capital Rs 240,000,000.00 and issued and paid up capital of Rs. 145000000 and 45000000.00 respectively. The company was established with the aim of mobilizing the small levels of deposits of general public into the business and industry. The company office is situated in kamaladi, Kathmandu. The broad structure of the company begins with the

President Mr. Ashok Bd. Amatya, and the board of directors Mr. Bhagwan Pradhan, Mr. Kiran Man Shrestha, Mrs Manisha Thapa, Mr. Mr. Madhusudan Sapkota, and Mr. Aswin Man Pradhan.

2.5.2 National Finance Co. Ltd. Bittiya Sanstha

National Finance Co. Ltd was established in 2049 BS and in the same year it has registered in the company registered office. In 2050 BS, it got license from Nepal Rastra Bank and started its operation.

The company started its operation with the authorized capital of Rs.6,00, 00,000.00 and issued and paid up capital of Rs. 3,00,00,000.00. At the establishment period it was situated in Basantapur, in front of Kathmandu Durbar Square. Later on in 2057 BS, it has shifted into its own building at Pako, New Road. The company was established with the aim of achieving 2055 BS, it proved to be the successful within the very short span of time. In the same year the company was listed in the stock exchange.
Now it has an authorized capital of Rs. 240000000.00, issued capital of Rs. 120000000.00 and paid up capital of Rs. 104576700.00. The broad structure of the company begins with the President Mr. Ram Krishna Manandhar, Managing Director Mr. Gaynendra Prasad Shrestha, Directors Mr. Brama Lal Shrestha, Mr. Rajendra Man Sherchan, Mr. Laxmi Das Manandhar, Mr. Ramdas Hada, Mr. Sunil Dev Manandha and Mr. Arun Bade Shrestha.

2.5.3 Nepal Share Markets Co. Ltd. Bittiya Sanstha

Nepal Share Markets Co. Ltd. was registered in Company Registrar's Office in the beginning of 2050 BS. In the same year it has got its license from Nepal Rastra Bank and started its operation with authorized capital of Rs. 2, 00,00,000.00 and issued and paid-up capital of Rs. 1,00,00,000.00. In the year of 2050 BS the company floats its shares in general public.

The company was established with the following objectives:

1. Development of share market, trading of stock and mediation in Nepal.
2. Trading of all kind of stocks with the policy open trading.
3. Introduction new schemes of business opportunities and service to general public.
4. The service after the issuances of general public shares such as issuing shares certificates, debentures, bonds and other services.
5. The hire purchase, leasing and other kinds of services for industry, trade and other kind of business.

The company is situated in the heart of Kathmandu Valley, Putalisadak. Now it has an authorized capital of Rs. 4000000000.00 and issued and paid-up capital of Rs. 432000000.00. The board structure of the company started with Executive Chariman Mr. Yogendra Bhakta Shrestha, and Directors Mr. Ramesh Manadhar, Mr. Arjun Kumar Shrestha, Mr. Prakash Bd. Shresth, and Mr. Bhawani Bhakta Joshi .

2.5.4 Nepal Merchant Banking & Finance Limited (NMB)

NMB was registered in Company Registrar's Office in the beginning of 2052.06.29 BS and it has got its license from Nepal Rastra Bank in 2053.09.04 and started its operation in 2053.09.11 with authorized capital of Rs. 40, 00,00,000.00, issued capital of Rs. 20,00,00,000.00 and paid-up capital of Rs. 7,50,00,000.00. In the year of 2057.10.2 BS the company floated its shares in general public. The Company upgraded into Ä"Class

Commercial Bank from 2065.02.17. Now its Authorized, issued and paid up Capital is Rs. 1000000000.

NMB is promoted by national economist, industrialist, Rastra Banijya Bank, Employees Provident Fund and joint venture with Foreign Housing Company of Malaysia Yong Lien Royalty SDN BHD.

With its establishment, the company had the following objectives:

1. Collection of deposit of small depositors.
2. Flow middle term and long term loan and advances to industrialist and business houses.
3. Providing services regarding capital market.
4. Deals with portfolio management.
5. Providing share registration services to listed companies in Nepal stock exchange.
6. Acting as financial consulting and providing financial services.
7. To manage sales of government bond as stock, promissory note in secondary market being market maker.
8. Working as a sales agent for primary issue of ordinary shares, right shares, bond, debenture, commercial paper, certificates of deposit of listed companies.
9. Providing services of underwriting of stocks issued by listed companies and HMG, Syndication, Bridge loan and consortium financing.
10. Purchase and sales of stock of listed companies in Nepal stock Exchange as market maker in secondary market.
11. Performing other activities allowed by prevailing laws of Nepal and other objective listed in memoranda of Article.

Mr. Mahavir Pd. Goyal is the chairman of the Board and Mr. Harischandra Subedi, Mr. Purushottam Lal Sanghai, Mrs Shanti Byahut, Mr. Atmaram Murarka, Mr.Pawan Kumar Golyan, Mr. Pradip Nepal and Mr. Sharad goyal are the Directors.

2.5.5 Butwal Finance Limited Bittiya Sanstha (BFL)

BFL was registered in Company Registrar's Office in the beginning of 2054.10.14 BS and it has got its license from Nepal Rastra Bank in 2055.03.07 and started its operation in 2055.03.25 with authorized capital of Rs. 8,00,00,000.00, issued capital of Rs. 5,00,00,000.00. In the year of 2060.02.22 BS the company floated its shares in general public. Now its authorized capital is Rs. 160000000.00, Issued capital is Rs. 80000000.00 and paid up capital is Rs. 69672100.00. The broad structure of the company begins with the Executive Chairman Mr. Devendra Prasad Dhoju and the board of directors Mr. Rajendra Prasad Dhoju, Mr. Indra Lal Shrestha, Mr. Chiranjibi Ghimire, Mrs. Nirmala Suwal and Mr. Ravindra Man Shrestha.

With its establishment, the company holds following objectives:

1. Providing hire purchase loan and advances to individuals, firm, company and organizations related with agriculture and other sectors for purchases of movable properties like vehicles, machinery equipments, household goods and immovable properties.
2. Providing housing loan and advances to individuals, firm, company and organizations for construct or built residential houses and warehouses.
3. Providing leasing facilities of vehicles, machinery equipments, households goods etc taking license from concerned authority.
4. Providing loan and advances to such industries, trade, business houses which can have inputs in countries economic development, and providing services of intermediary and issue guarantees.
5. To purchase and sales of bond issued by Government of Nepal and other companies and organization, services of underwriting, services of syndication for such work and participate in syndication, provide services as per Stock Exchange Act 2040.
6. Collection of deposit.

7. Providing services of Merchant Banking after getting license from NRB.
8. Providing other services demanded as per time as per financial company Act 2042.
9. Providing all modern services based in companies memorandum of article, laws of Nepal and coordinating with NRB.

2.6 Features of a sound lending and investment policy

The income and profit of the financial company depend upon its lending procedure, lending policy and investment of its fund different securities. The greater the credit created by the company, the higher will be the profitability. A sound lending and investment policy is not only pre-requisite for company's profitability, but also crucially significant for the promotion of commercial savings of a backward country in Nepal.

Some necessities for sound and investment policies which most the banks must consider can be explained as under:

a) Safety and security

The financial company should never invest its fund in those securities, which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest funds into speculative businessman who may be bankrupt at once and who may reap millions in a minute in also. The bank should accept that type of securities, which are commercial, durable, marketable and high market prices. In this case, "MAST" should be applied for the investment.

Where,

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

b) Profitability

A financial institution can maximize its volume of wealth through maximization of return on their investments and lending. So, they must invest their fund where they gain maximum profit. The profit of these companies mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

c) Liquidity

People deposit money at these companies with the confidence that they will be repaid their money when they need. To maintain such confidence of he depositors, the company must keep this point in mind while investing its excess fund in different securities or at the time of lending so that it can meet current or short-term obligations when they become due for payment.

d) Purpose of loan

Why is a customer in need of loan? This is very important question for any banker. If borrower misuses the loan granted by these companies, they can never repay and company will possess heavy bad debts. Detailed information about the scheme of project or activities should be e4xmained before lending.

e) Diversification

"A financial institution should not lay all its eggs on the same basket". The statement is very important for these companies and it should always be careful not to grant loan in only one sector. To minimize risk, diversification on its investment on different sectors should be adopted.

Diversification of loan helps to sustain loss according to the law of average because securities of a company deprived, there may be appreciation on the securities of other companies. So, the loss can be recovered.

f) Tangibility

Though it may be considered that tangible property doesn't yield an income apart from direct satisfaction of possession of property, many times, intangible securities have lost their value due to price level inflation. Therefore a finance company should prefer tangible security to intangible one.

g) Legality

Illegal securities will bring out many problems for the investor. The financial companies must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank and other concerning bodies while mobilizing its funds.

2.7 Meaning of some important terms

Since the study is based on financial and managerial accounting subject, efforts have been made to clarify the meaning of some important terms, which are frequently used in this study.\` \` \`

2.7.1 Banking Terms

a. Loan and advances

Loan and advances is the main sources of the income of the financial institution. The deposits can be crossed beyond a desired level but the level of the loan, advances and overdrafts will never cross it. The facility of granting loans and advances is one of the main services, which customers of the finance company can enjoy.

Funds borrowed from financial institutions are much cheaper than those borrowed from unorganized money lenders. The demand of loan has excessively increased due to cheaper interest rate. Further, an increase in economic and business activities always demand the increase for funds. Due to limited resources and increasing demand for loans, there is some fear that financial institutions and other commercial banks too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. These are undesirable effects of too low interest rate.

b. Investment on Govt. securities, share and debentures

Though a finance company can earn some interest and dividend from the investment on government securities, shares, and debentures, while it is not the major portion of income. But it is treated as a secondary source of banking business. A financial institution may extend credit by purchasing govt. securities, bond and shares for several reasons.

- It may want to space its maturates so that the inflow of cash coincide with expected withdrawals by depositors of large loan demands of its customers.

- It may wish to have high-grade marketable securities to liquidate if its primary of
- It may also be forced to invest because the demands for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of finance company is established and maintained primarily with a view to nature of financial company's liabilities. That is since depositors may demand funds in great volume without previous notice; the investment must be of a type that can be marketed quickly with little or no shrinkage in value.

c. Investment on other company's shares and debentures

Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of Nepal Rasta bank's directives, many financial companies have to utilize their funds to purchase shares and debentures of many other financial and non financial institutions, purchase of treasury bills issued by NRB and Government as well as Government and NRB bonds too.

d. Off balance sheet activities

It involve contract of future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some of good examples of these items are letter of credit, letter of guarantee, bills of collection etc. Now a day, such activities are stressfully highlighted by some economists and finance specialists to expand the modern transactions of these companies.

e. Deposits

For a financial institution, deposit is a most important source of the liquidity. For its financial strength, it is treated as a barometer. Though they constitute the great bulk of liabilities, the success of a finance company greatly depends upon the extent to which it may attract more and more deposits.

2.8 Review of related thesis

Several theses had been carried out prior to this thesis. But these entire theses are focused on the investment policies analysis of the finance companies in Nepal. Whereas this thesis aim to analyze in terms of investment policies analysis of finance companies as per Bank and finance Institution Ordinance 2061. This concludes that no thesis have been made that is relevant to and this Bank and finance Institution Ordinance 2061. Even though it happens, prior thesis and its conclusion cannot be ignored, which can be presented as follows.

"Investment analysis of the finance companies in context of Nepal," study made by Mrs. Ruru Kusom concludes that the government policy of economic liberalization has encouraged the establishment and growth of finance companies in the country within short span of time. In a situation, only commercial bank is not able to carry out financial activities like supply credit timely and carry capital market activities. In such, finance companies have contributed a lot.

In her study, the overall financial performance of concerned finance companies is satisfactory and NRB has to pay more active role to enhance the operation. The analysis of loan and advances and investment activities shows that only few finance companies have aggressive strategy in compare to others conservative strategy. Most of the loan and advances are made in consumer durable goods through hire purchase and housing loans. However trend is changing towards term loan. It signifies that the loans and advances are shifting from consumer financing towards productive financing through business and industrial loan.

In her study, she focused that the unhealthy competition on interest rate should be controlled by putting upper and lower selling rate instead of spread rate system. It will make the proper functioning of the company and reduces confusion of the customer. In other to control the number of defaulters, repayment mechanism and its implementation should be placed in the first.

She focused that for the better performance of financial companies strengthening and the institutionalization of financial companies is most. It is through consolidation of finance companies, good relationship between finance companies and commercial banks, direct attention to venture capital financing, appropriate risk return trade off by linking credit to timely repayment schedules, avoiding imperfections, allowing flexibility in leading, one window policy from NRB, strong supervision and monitoring from NRB, diversify scope of activities to fee based services, allow fund transfer, refinancing facilities for finance companies etc are most.

Finally she concludes that finance companies have to prove that they can really contribute the national economy, are efficient and viable agencies for mobilization of savings and its channel into productive sectors are professionally managed and competent enough to ensure adequate rate of return on investment, and we strategically well planned to be competitive with banks and other agencies and are truth worthy.

Ruru Kusom Gautam,"Investment analysis of the financial companies of Nepal" T.U 2005

"An analysis of financial performance of finance companies in context of Nepal", study made by Mr. Min Bahadur RanaBhat, concludes that services provided by; finance companies for the customers are made mostly in consumed financing, which should be shifted towards the business financing. This activity is most for achieving long term objectives of the finance companies so as to have adequate capital formation for overall national development.

He has focused on elimination of unhealthy competition of interest rate towards finance companies for collection of deposit fund and uses of that fund.

He stressed that NRB should play vital role as a motivator and should conduct seminars and workshop to chief executives of the finance companies concerned regulating authorities to identify the problems and implement the effective solutions. Beside this he focused that NRB has to keep a strict watch over their activities to protect the interest of public. For this, regular follow up and information must be made mandatory to NBR to have correct evaluation and monitoring of their performance and minimize any irregularities dictated in course if investigation.

He stretch on the further strengthened and institutionalized of NRB monitoring and supervision department and also credit flows and unhealthy credits practices by identifying the main credit defaulters and also preparing a black list of the credit defaulters.

He explains that there should be professional representation in the credit information Bureau instead of having only member to it. It should conduct fine to time by contracting with private consulting firms to produce and independent report on the credit performance status of finance companies.

The focused on the collection of depositing of from boarder and neighboring areas from Indian citizens deposits public to stop capital flight to India. There is an urgent need to have a gradual shift of focus from traditional financing business to the dynamic and innovative areas such as Merchant banking, Consortium financing and venture capital, project financing etc. Also there is need to offer innovative schemes and instruments in resource mobilization.

Min Bdr Ranabhat, "An analysis of investment policy of financial companies of Nepal" July 1997.

"A comparative study in investment polices of finance companies in the context of Nepal", study conducted by Mr. Ganga Ram Manandhar, concludes that none of the companies possesses well functioning in all aspects. Some of them are stronger in profit making but failed to maintain the consistency, some are weaker in mobilizing their deposits few of them have concentrated into very limited diversified investments.

According to him, portfolio, condition of each company should carefully examine time to time and attention should be made to maintain equilibrium in the portfolio condition as far as possible.

He emphasize that for the economic development through capital formation, shifting towards productive financing is a most rather than consumer financing. He focused that for the long terms sustainability among finance companies should be controlled. According to him, NRB should show open to all, flexible and string supervision rather than imposing rules and regulations only.

At last he focused that the success of finance company mainly depends upon the banking awareness by the general public. New approach of investment should be made; awareness programs regularly conducted in terms of workshop, seminars should be practiced. These results feedback information, regular changes or implementation of new rules and regulations can be carried out.

Ganga Ram Manandhar " A comparative study in investment policy of Finance Companies in context of Nepal" March 2003.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction:

After completion of introduction and review of literature chapters, it is now to deal with Research Methodology. In this chapter, various sequential steps are being adopted while studying a problem with certain objective in view. Research Methodology deals with the methods and process applied in the entire aspect of the study.

As the aims to evaluate the investment policy of finance companies as per Bank and Financial Institution Act, 2063, comparing each other, the study tries to recommend the useful and meaningful points so that all stakeholders can have the relevant knowledge. The study follows the research methodology describe in this chapter.

3.2 Research Design

Research design is an organized approach for the collection and analysis of data, which guides the researcher in formulating, implementing and controlling the study. Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance.

To answer the research questions i.e. to fulfill the research objectives, descriptive research and analytical research designs have been used, and based mainly on the desk research to extract more pertinent information.

Descriptive research have been used to portray the facts of collected data, its classification and correlated data to describe what exist, even though it does not predict and explain the phenomena behave as they do.

Analytical research has been applied to examine facts that had adopted by using some statistical and accounting tools.

3.3 Population and Sample.

In context of Nepal, 77 finance companies are in operation till date. Hence these 77 finance companies are regarded as population. But it is not possible to study all data related with these 77 finance companies. Hence, 5 finance companies are being compared with the average of the same, which are selected from the population.

The samples for the study drawn from the population are as follows.

- Butwal Finance Limited
- National Finance Limited
- Nepal Merchant Banking and Finance Limited
- Nepal Finance & Saving Limited
- Nepal Share Market Limited

3.4 Nature and source of data.

Every research has its own data needs and data sources. This study is based on the secondary data which are gathered from respective finance companies. Some of external secondary data are also collected from periodicals reports of Nepal Rastra Bank, published articles, reports and computer data bank. Data related with deposits, loan and advances, investments, profits are directly extracted from the balance sheet and profit and loss account of concerned finance companies.

In this study collected data are complied, processed and tabulated in time series. All secondary data are true and reliable to my knowledge, because they are extracted from the complied annual report of an auditor of respective finance companies. Beside this, table talks with concerned authority of respective finance companies with a set of questionnaires are major tools to extract pertinent information regarding related problems.

3.5 Research Question:

In other to fulfill the aim of the study different methods, tools and technique are being used. The methods being undertaken will solved the following queries.

- Fund mobilization by the finance companies are in satisfactory manner or not?
- How the growth rate of loan and advances and total investment affected with respect to growth rate deposits and net profit?
- Do the liquidity, assets management and profitability ratios the standards of all finance companies?
- What is the trend of deposit utilization of these companies?
- What are the relationship between deposits and total investment, deposits and loan and advances and net profit and outside assets? Are they showing the good indication or not?
- Does the Bank and Financial Institution Act, 2063 affects the investment patterns of finance companies?

- Does changes in directives to maintaining liquid cash balance at NRB affects in terms of maintaining liquidity management, profit ratio, deposit mobilization and loan and advances?

3.6 Tools and Techniques.

Major data are collected from the annual report published by finance companies for their annual general meeting. Beside the study of various articles related with financial activities in Nepal published by Financial Institutions Supervision Department were also used. Some financial tools such as Ratio Analysis, Trend Analysis have been used for financial analysis. And accounting tools such as Cash Flow Analysis, Profit and Loss Analysis, Balance Sheet Comparison have been used. In some circumstances, personal interview technique has also been perused to fill the gap of information. A set of questionnaires has been developed for further related information collection process.

Presentation and Analysis of the collected data is the core of the research work. The collected raw data are first presented in systematic manner in tabular forms and are then analyzed by applying different financial and statistical tools to achieve the research objective. Besides theses some graph charts and tables have been presented to analyze and interpret the findings of the study. Likewise some of the tools applied are as follows.

3.6.1 Financial Tools

It helps to analyze the financial strength and weakness of a firm. Tools like ratio analysis are used for financial analysis. Even though there are many ratios to analyze and interpret the financial statement. Only those ratios that are related to the investment operation of the banks have been covered in this study. Financial ratios are the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output and credit decision.

Thus ratio analysis is used to compare a firm's financial performance and status to that of other firms or to it overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis. Before we examine the main liquidity ratios in detail, we should be clear what a ratio is, and what it is designed to tell us. Ratios express one thing in terms of another or, most often, as a percentage of another; they are a numerical expression of the relationship between two values. Their usefulness in analysis is as a tool that allows us to compare aspects of a company's performance, either internally, over time or with those of other companies, or with industry benchmarks. In the present study, the researcher has attempted to compare the aspects of Financial Companies' performance regarding investment policy over time by analyzing various ratios.

3.6.1.1 Liquidity Ratios

These ratios are used to judge the ability of finance companies to meet its short-term liabilities that are likely to mature in the short period. It measures the speed with which finance companies assets can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are evaluated under liquidity ratios.

1. ***Current* Ratio:**

Current ratio is calculated by dividing current assets by current liabilities. Current assets are those for which firm/ institutions will not made payment in the future and current liabilities are those obligations maturing within a year. So current ratio indicates the ability of the company to meets its current obligations. This ratio is computed by dividing current assets dividing by current liabilities. It is presented as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

2. *Cash* **& Bank Balance to Total Deposit**

Cash and bank balance are the most current liquid assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is computed by dividing cash and bank balance by the total deposit. It is presented as,

$$\text{Cash and Bank Balance to total deposit} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic and foreign banks. The total deposits consist of current deposit, saving deposit, fixed deposit, money at call or short notice and other deposit.

3. *Investment* **on Government Securities to Total Deposit**

Investment on Government Securities to Total Deposit ratio reflects investment on government securities, treasury bills and development bonds. This ratio can be computed by dividing investment on government securities by total deposit.

Investment on Government to Total Deposit=

$$\frac{\text{Investment on Government Securities}}{\text{Total Deposit}}$$

3.6.1.2 Asset Management Ratio/Activity Ratio:

It measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liabilities ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing function. Assets management ratio measures how efficiently the finance companies manage the resources at its command. The following are the various ratios relating to assets and liability management, which are used to determine the efficiency of the subjected finance companies in managing its assets. The ratios related to assets management are presented as:

1. *Total* **Investment to Total Deposit:**

   Investment is one of the major credits created to earn income. This implies the utilization of firm's deposits on investment in government securities and shares and debentures of other companies and banks.

   The total investment consists of investment on government securities, investment on debentures and bonds, shares in other companies and other investment. It can be computed as follows.

   $$\text{Total investment to total deposit ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

2. *Total* **Investment to Total Assets:**

   Total assets include all assets as of on balance sheet items which includes current assets and other fixed assets, loans for development of finance companies, other miscellaneous assets but excludes off balance sheet items.

   Total investment consists of investment on government securities, debentures and bonds, shares in other companies and other companies. The ratio can be computed as follows:

   $$\text{Total Investment to Total Assets} = \frac{\text{Total Investment}}{\text{Total Assets}}$$

3. *Investment* **on Government Securities to Total Investment:**

This ratio shows that finance companies' investment on government securities in comparison to total investment a high ratio indicates better mobilization of funds as investment on government securities and vice versa. Here investment on government securities includes treasury bills and development bonds. The ratio is computed as follows:

$$\text{Investment on Government Securities to Total Investment} = \frac{\text{Investment on Government Securities}}{\text{Total Investment}}$$

4. *Investment* **on shares and debentures to Total Investment:**

This ratio shows the finance companies investment in shares and debenture of the subsidiary and other companies in terms of total investment. This ratio is computed by dividing shares and debentures by total investment. This can be shown as,

Investment on share & debenture to total investment ratio

$$X \frac{\text{Investment on share \& debenture}}{\text{Total Investment}}$$

5. *Loans* **and Advances to Total Deposit:**

This helps to find out, how successfully the finance companies are utilizing their total deposit on loans and advances for profit generating purpose. Greater ratio implies the better utilization of total deposits; this can be obtained by dividing loans and advances to total deposits, which can be stated as

$$\text{Loans and advances to total deposit} = \frac{\text{Loan and advances}}{\text{Total Deposit}}$$

6. *Loans* **and Advances to Total Assets:**

Loan and advances is the major component in the total assets (total working fund), which indicates the ability of finance companies to channels its deposits in the form of loans and advances to earn high return.

Here total assets includes, all assets as of on balance sheet items. Includes current assets and other fixes assets, loans for development of finance companies and other miscellaneous assets The ratio is calculated as,

$$\text{Loan \& advances to total assets ratio} = \frac{\text{Loans \& advance}}{\text{Total Assets}}$$

7. *Non* **Performing Loans to Total Loans and Advances:**

This ratio measures the proportion of non- performing loans on the total volume of loans and advances. This ratio reflects the quantity of quality assets that the finance companies are holding. It signifies the degree to which a finance company is lending money to borrowers who are not paying it back. Higher ratio reflects the bad performance of the finance company in mobilizing loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the non- performing loans by total loans and advances. It is computed as follows:

$$\text{Non Performing Loans to Total Loans and Advances} = \frac{\text{Non Performing Loans}}{\text{Total Loans and Advances}}$$

8. *Total* **Operating Expenses to Total Assets:**

Total operating expenses to total assets ratio shows that out of total asset how much asset is investment made by the Finance companies for several purposes. It includes expenses relating to emloyes and office over head expenses.

3.6.1.3 Profitability Ratio:

Profits are the lifeblood of any Financial Companies. By making adequate earnings, a Finance Company like any other firm, will be able-barring exceptional circumstances- to maintain solvency, survive, and Finance Company, in a suitable environment, grow and prosper. Robust profits enable a Finance Company to build up its capital internally through retained income and thereby absorb economic shocks, attract outside capital and to earn its way out of problems. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indicator of the financial performance of any institution. It is notable that higher the profitability ratios better the financial performance and vice versa. The various

1. *Interest* Income to Total assets Ratio

Interest income on total assets ratio shows how much interest the Finance Companies have generated by mobilizing its assets. Interest occupies significant place in income for the Finance Companies. Generally, Finance Companies earn interest through the provision of loans and advances, overdrafts and investments in securities. The ratio can be calculated in the following way,

$$\text{Interest Income to total assets ratio} = \frac{\text{Interest Income}}{\text{Total Assets}}$$

2. *Interest* **Expenses to Total Assets:**

Interest expenses to total assets ratio shows how much expenses the Finance Companies have incurred by mobilizing its assets. Expenses occupies significant place in income for the Finance Companies. Generally, Finance Companies are provided the interest the on deposit liabilities on borrowings and others. The ratio can be calculated in the following way:

3. *Return* **on Loans and Advances:**

Return on loan and advances ratio shows how efficiently the banks and the other financial institutions have utilized their resources to earn good return from providing loan and advances. This ratio is computed by dividing net profit/loss by the total amount of loan and advances. This can be shown as,

$$\text{Return to loan and advances ratio} = \frac{\text{Net profit}}{\text{Loan \& Advances}}$$

4. *Return* **on Total Assets:**

Return on total assets measures net profit against total assets, which for a finance company consists largely of financial assets such as loans. Return on assets indicates how effectively the finance companies' assets are being managed to generate revenues. In other words, return on assets measures the efficiency with which an enterprise is employing its assets.

Return on total assets ratio measure the profitability with respect to the total assets. In the present study, this ratio is calculated and analyzed to measure the profitability of all financial resources invested in the finance companies' assets, A higher ratio usually indicates efficiently in utilizing its overall resources and vice versa. The ratio can be computed by following process:

$$\text{Return to total assets ratio} = \frac{\text{Net Profit}}{\text{Total assets}}$$

5.*Return* **on Equity**

Return on Equity (ROE), Return on average common equity, return on net worth, Return on ordinary shareholders' funds) (equity) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth.

The rate of investment return a company earns on stockholders' equity. Return on equity is calculated by dividing net earnings by average stockholders' equity. It is presented below:

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Shareholders' equity}}$$

6.*Earning* **Per Shares:**

The term **earnings per share (EPS)** represents the portion of a company's earnings, net of taxes and preferred stock dividends, that is allocated to each share of common stock. The figure can be calculated simply by dividing net income earned in a given reporting period (usually quarterly or annually) by the total number of shares outstanding during the same term. Because the number of shares outstanding can fluctuate, a weighted average is typically used.

$$\text{Earning Per Shares} = \frac{\text{Net Profit}}{\text{Total number of shares}}$$

3.6.1.4 Growth Ratio:

Growth ratios are directly related to the fund mobilization and investment of a finance company. It represents how well the financial companies are maintaining the economic position.

To examine and analyze following growth ratios are calculated in this study.

- Growth ratios of loan and advances
- Growth ratio of total investment
- Growth ratio of deposits
- Growth ratio of net profit

3.6.2 Statistical Tools/Statistical Analysis:

Statistical tools help to find out the trends of financial position of the Finance companies. It also analyzes the relationship between variables and helps finance companies to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation, Karl Pearson's coefficient of correlation, trend analysis adopted which are as follows:

A) Arithmetic Mean (Average):

It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

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

Where:

$\overline{X}$ = Arithmetic mean

N = Number of observations

X = Sum of observations

B) Standard Deviation:

Standard deviation is an important and widely used to measure dispersion. A standard deviation is the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. It is denoted by the letter ∃ (sigma). In this study standard deviation of different ratios are calculated.

$$\exists\, X \sqrt{\frac{X^2}{N} \; Z \; \frac{X}{N}^{2}}$$

Where,

± = Standard Deviation

$\frac{\phi\varepsilon^{2}}{N}$ XSum of Squares of Observation

$\frac{\phi\varepsilon}{N}^{2}$ XSum of Squares of Mean

3.6.2.1 Trend Analysis:

Under this topic we analyze and interpret the trend of deposits, loan and advances, investment and net profit of finance companies that helps to make forecasting for next five years. The following trend value analyses have been used in this study.

i. Trend analysis of total deposit

ii. Trend analysis of loan and advances

iii. Trend analysis of total investment

iv. Trend analysis of loan loss provision

The trends of related variables can be calculated as, $Y = a + bx$

3.7Primary data analysis

We have discussed above in the financial tools that have been used in this study and all the related ratios that have been calculated. But the tool used in this study is the questionnaire. The questionnaire has questions related to fund mobilization, growth rate, liquidity position, assets management and deposit utilization etc.

CHAPTER 4

PRESENTATION & ANALYSIS OF DATA

4.1 Introduction:

Financial institutions registered under company act and operate under supervision of NRB are public limited companies, where public are participating in share holding. Not only that, these institutions are using public funds, where public deposited their money as deposit and these institutions used that deposit providing loan and advances and in other investments. That means public have rights to know about the current performances of financial institutions. Being pillars of national economy, financial institutions should be sound in every aspect like in deposit collection, lending practices, investment practices, recovery patterns etc. if one institution falls down i.e. goes to liquidation; it explains many more negative results in economy. These institutions are link up with various sectors, like engaged in financing in corporate houses, individuals, services industries, manufacturing industries etc for various purposes. Failure of these financial institutions means when these institutions will unable to recollect their invested funds that might be cause of failure of all these corporate houses, individuals, services industries, manufacturing industries. That is increase in numbers of defaulter's results failure of financial institutions. In our context, medium level of industry if liquidate and have loan practices with listed finance company, which might bring loss to that finance company. It is because, finance company have to arrange loan provisions directed by NRB and to get return back from collateral that are pledged before might take times to complete all legal provisions. In that time finance companies might have to made provision on all loan amount too and it is direct loss to finance company. Likewise many more defaulters might liquidate company. So we can say that failure of financial institution is the signal of failure of various sectors in the economy and if it is controlled timely then that might be signal of recession in economy. On the other hand financial institutions have meaningful relationship with national development through providing employments, various kinds of loans and advances facilities and using idle money worth fully. So each and every operation of finance institutions should be monitored carefully and their performance should be well known by the public.

This chapter aims to evaluate each mentioned financial institutions by analyzing their major financial performances related with investment management and fund mobilization comparatively.

4.2 Analysis and Interpretation of Financial Ratios:

As being powerful tools of financial analysis, various ratios have been undertaken for evaluating the investment position, liquidity position and performance of finance companies. Results of financial ratios used to compare and is used to interpret the financial statements of mentioned finance companies. Here only those ratios are only analyzed which the researcher aims for.

On the basis of Financial and Statistical analysis financial ratio is categorized under four segments as

4.2.1 Liquidity Ratio

4.2.2 Assets Management Ratio

4.2.3 Profitability Ratio

4.2.4 Growth Ratio

4.2.5 Trend Analysis

4.2.1 Liquidity Ratio:

These ratios are used to judge the ability of finance companies to meet its short-term liabilities that are likely to mature in the short period. It measures the speed with which finance companies assets can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are evaluated under liquidity ratios.

4.2.1.1 Current Ratio:

Current ratio is calculated by dividing current assets by current liabilities. Current assets are those for which firm/ institutions will not made payment in the future and current liabilities are those obligations maturing within a year. So current ratio indicates the ability of the company to meets its current obligations. Current ratio measures short term solvency of the company. It indicates the availability of current assets for a unit rupee of current liability. Current ratio measures the quantity not a quality. Conventional rule considered current ratio as 2:1 as satisfactory because if the value of assets decreases by 50%, in that condition too firm/ company will be able to meet its current obligation. Being measure of quantity only, calculation of current ratio is not sufficient enough to results firm/ company liquidity condition. For that quality of current assets should be considered. However here current ratios of listed companies are evaluated and interpreted.

A 1

Current Ratio

Company Name	FISCAL YEAR								Mean	St.Dev	Co.Var
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	0.7513	0.9504	0.9716	1.6686	1.3583	0.6791	0.1293	0.5923	0.8870	0.4424	49.8752
Nepal Merchant Banking & Fin Ltd	5.0867	1.7349	3.6399	3.2152	10.0432	1.3808	7.2735	0.1898	4.0705	3.0747	75.5362
Nepal Share Market Ltd	1.1393	0.7057	2.5967	3.2448	2.9620	5.6192	0.1868	0.1945	2.0811	1.7621	84.6705
National Finance Ltd.	1.2285	1.0460	2.8391	2.7567	1.9375	1.3265	0.1909	0.1860	1.4389	0.9542	66.3145
Butwal Finance Ltd	1.3125	1.1127	1.0877	2.8718	2.6333	1.7852	0.1759	0.2281	1.4009	0.9284	66.2717

Average of all Company	1.9037	1.1099	2.2270	2.7514	3.7869	2.1581	1.5913	0.2781	1.9757	1.4324	68.5336

From Above table Shows that current ratio of NF and BFL are within the standard norms (between1&2) which is considered healthy, however NMB bank and NSM have high current assets on the other hand, NFS has lower current assets. From the analysis of the ratios of all finance companies we can say that liquidity position of NF and BFL is stronger than others.

4.2.1.2 Cash and Bank Balance To Total Deposit:

Cash and bank balance are the most current liquid assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor However here Cash and bank balance of listed companies are evaluated and interpreted.

A2

Cash & Bank Balance to Total Deposit											
Company Name	**FISCAL YEAR**								**Mean**	**St.Dev**	**Co.Var**
	2057/58	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**			
Nepal Finance & Saving Co Ltd	0.0280	0.0342	0.1855	0.1495	0.1246	0.0920	0.0815	1. 1883	0.2354	0.1396	59.2907
Nepal Merchant Banking & Fin Ltd	0.0362	0.4708	0.1529	1.0310	0.0859	0.0397	0.0264	3.2802	0.6403	1.0487	163.7602
Nepal Share Market Ltd	0.1568	0.0925	0.2386	0.1813	0.2015	0.1608	0.1917	0.1943	0.1771	0.0399	22.5185
National Finance Ltd.	0.1728	0.0586	0.1967	0.2252	0.1874	0.2854	0.1499	0.1239	0.1749	0.0634	36.2311
Butwal Finance Ltd	0.2010	0.1400	0.1387	0.1812	0.2647	0.2620	0.0531	0.0556	0.1620	0.0764	47.1496
Average of all Company	0.1189	0.1592	0.1825	0.3536	0.1728	0.1680	0.1005	0.9135	0.2779	0.2736	65.7900

The above table shows that the ratios of cash and bank balance to total deposit of all finance companies are in fluctuating trend. From the ratio analysis, it seems that NMB bank has highest ratio which indicates that NMB bank has sufficient cash & bank balance available to make payment to the depositors and to meet other expenses amongst other finance companies, whereas BFL has the lowest and table also shows that the liquidity position of NMB bank is greater than other.

4.2.1.3 Investment on Government Securities to Total Deposit : Investment on Government Securities to Total Deposit ratio reflects investment on government securities, treasury bills and development bonds. Though the govt. securities are not so liquid as cash and bank, they can be easily sold in the market   This ratio can be computed by dividing investment on government securities by total deposit. Investment on Government Securities of listed companies are evaluated and interpreted.

A3

Investment on Government Securities to Total Deposit

Company Name	FISCAL YEAR								Mean	St.Dev	Co.Var
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	0.2189	0.1997	0.2323	0.0476	0.1020	0.2217	0.4600	0.0820	0.1955	0.1204	61.5737
Nepal Merchant Banking & Fin Ltd	0.4894	0.3385	0.3796	0.9708	0.6529	0.8953	0.4600-	1.2276	0.7104	0.2894	40.7358
Nepal Share Market Ltd	0.0143	0.0150	0.0112	0.0024	0.0033	0.0084	0.0091	0.0054	0.1483	0.3692	248.814
National Finance Ltd.	0.0702	0.0702	0.0564	0.0322	0.0298	-	0.02708	0.0273	0.0391	0.023	58.8458
Butwal Finance Ltd	-	-	-	0.1101	0.0046	0.0003	0.09737	0.0787	0.0363	0.0464	127.529
Average of all Company	0.1585	0.1247	0.1359	0.2326	0.1585	0.2252	0.21071	0.2842	0.2259	0.1696	107.499

Above table shows that NMB bank has highest ratio of 1.2276 in the FY 2064/65and the mean ratio & cv of the ratios are is 0.7104&40.735 respectively, which indicates that NMB has invested most of the amount in securities instruments

4.2.2 Assets Management Ratio:

It measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liabilities ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing function. Assets management ratio measures how efficiently the finance companies manage the resources at its command. The following are the various ratios relating to assets and liability management, which are used to determine the efficiency of the subjected finance companies in managing its assets. The ratios related to assets management are presented as:

4.2.2.1 **Total Investment to Total Deposit:** The total investment consists of investment on government securities, investment on debentures and bonds, shares in other companies and other investment. It can be computed as follows

B1.1

Total Investment to Total Deposit											
Company Name	FISCAL YEAR								Mean	St.Dev	Co.Var
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	0.4382	0.4045	0.4108	0.1805	0.2641	0.2217	0.1949	0.1875	0.2786	0.0112	4.0201
Nepal Merchant Banking & Fin Ltd	0.4894	0.5332	0.5469	1.3276	0.9281	0.8953	0.6655	0.7505	0.817	0.314	38.4297
Nepal Share Market Ltd	0.1429	0.0452	0.0442	0.0271	0.0110	0.0084	0.0394	0.4001	0.0881	0.125	141.884
National Finance Ltd.	0.1546	0.2682	0.2173	0.1667	0.2075	0.2431	0.2837	0.1132	0.1932	0.0578	29.9152
Butwal Finance Ltd	-	0.1192	0.0730	0.1486	0.0555	0.0780	0.1943	0.1319	0.1048	0.0565	53.88
Average of all Company	0.3062	0.2740	0.2584	0.3701	0.2932	0.2893	0.2755	0.3166	0.2963	0.1129	53.6258

Above table shows that ,total investment to total deposit ratios is in fluctuating trend of all the finance companies .Among all, NMB bank has highest ratio in the 8 years as compared to other finance companies. It shows that most of the deposited amount has been invested in risk free items.

4.2.2.2 Total Investment to Total Assets: Total assets include all assets as of on balance sheet items which includes current assets and other fixed assets, loans for development of finance companies, other miscellaneous assets but excludes off balance sheet items.

Total investment consists of investment on government securities, debentures and bonds, shares in other companies and other companies. The ratio can be computed as follows:

B 1.2

Total Investment to Total Assets

Company Name	FISCAL YEAR								Mean	St.Dev	Co.Var
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	0.2647	0.2545	0.2303	0.1390	0.1993	0.1284	0.1435	0.0752	0.1766	0.066	37.3567
Nepal Merchant Banking & Fin Ltd	0.3889	0.3298	0.4291	0.3804	0.4479	0.3090	0.1951	0.1396	0.3323	0.1027	30.8976
Nepal Share Market Ltd	0.1144	0.0358	0.0348	0.0229	0.0093	0.0071	0.0333	0.0289	0.0337	0.0339	100.37
National Finance Ltd.	0.1136	0.2084	0.1721	0.1318	0.1575	0.1601	0.2064	0.0791	0.146	0.0451	30.8719
Butwal Finance Ltd	-	0.0953	0.0593	0.1210	0.0456	0.0623	0.1547	0.1044	0.0836	0.0449	53.676
Average of all Company	0.1763	0.1848	0.1851	0.1590	0.1719	0.1334	0.1466	0.0854	0.1544	0.0585	50.6344

Above table shows the ratios of total investment to total assets are in fluctuating trend and all finance companies ,out of their total assets certain portion have been invested in low risk assets. However the ratio of NMB bank is higher than other companies which indicate that NMB bank financial position is more secured.

4.2.2.3 Investment on Government Securities to Total Investment:

This ratio shows that finance companies' investment on government securities in comparison to total investment a high ratio indicates better mobilization of funds as investment on government securities and vice versa. It can be computed as follows

B.1.3

Investment on Government Securities to Total Investment

Company Name	FISCAL YEAR								Mean	St.Dev	Co.Var
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	0.4995	0.4937	0.5657	0.2635	0.3861	1.0000	0.4066	0.4375	0.5065	0.2043	40.329
Nepal Merchant Banking & Fin Ltd	1.0000	0.6348	0.6941	0.7312	0.7034	1.0000	0.5531	0.6218	0.7423	0.1576	21.231
Nepal Share Market Ltd	0.0998	0.3312	0.2532	0.0882	0.3047	1.0000	0.1829	0.2348	0.3118	0.2727	87.445
National Finance Ltd.	0.4539	0.2617	0.2596	0.1930	0.1437	-	0. 0954	0.2416	0.2573	0.3147	122.28
Butwal Finance Ltd	-	-	-	0.74	0.08	0.00	0.5012	0.5964	0.3257	0.3034	93.146

Average of all Company	0.4106	0.3443	0.3545	0.4034	0.3243	0.6009	0.4109	0.4264	0.4287	0.2505	72.886

Above table shows that the ratios of investment on government securities to total investment is also in fluctuating trend. This table also indicates that out of the total investment NMB and NFS has made more than half of their investment in govt. securities, which is more secured.

4.2.2.4 Investment on shares and debentures to Total Investment:

This ratio shows the finance companies investment in shares and debenture of the subsidiary and other companies in terms of total investment. This ratio is computed by dividing shares and debentures by total investment. This can be shown as,

B.1.4

Investment on Shares & Debentures to Total Investment

Company Name	FISCAL YEAR								Mean	St.Dev	Co.Var
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	0.3391	0.2644	0.3160	0.6551	0.2551	-	0.2493	1.8651	0.493	0.5448	110.504
Nepal Merchant Banking & Fin Ltd	-	0.0254	0.0160	0.0125	0.0053	-	0.0216	0.0310	0.0139	0.0108	77.2808
Nepal Share Market Ltd	0.2042	0.1058	0.4309	0.9118	0.6953	-	0.1904	0.1818	0.3400	0.2953	86.8551
National Finance Ltd.	0.0655	0.1382	0.1735	0.1787	0.0513	-	0.0358	0.1067	0.1384	0.0969	70.0826
Butwal Finance Ltd	-	-	-	0.0016	-	-	0	0.0719	0.0091	0.0237	258.056
Average of all Company	0.1218	0.1067	0.1873	0.3519	0.2014	-	0.09942	0.4513	0.1988	0.1943	120.555

The above table shows that the ratios of NFS &NSM has higher as compared to other finance companies ,which indicates that these two companies have invested more amounts in the purchase of shares &debentures which is more risky.

4.2.2.5 Loans and Advances to Total Deposit:

This helps to find out, how successfully the finance companies are utilizing their total deposit on loans and advances for profit generating purpose. This can be shown as, follows.

B 2.1

Loan & Advances to Total Deposit											
Company Name	**FISCAL YEAR**								**Mean**	**St.Dev**	**Co.Var**
	2057/58	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**			
Nepal Finance & Saving Co Ltd	0.8881	0.7996	0.8052	0.7488	0.7745	1.1170	1.1292	1.0252	0.9109	0.1467	16.1036
Nepal Merchant Banking & Fin Ltd	0.6668	0.5624	0.5351	1.0257	0.9598	1.1641	1.1202	1.2096	0.9055	0.2585	28.5531
Nepal Share Market Ltd	0.6145	0.7236	0.6652	0.7783	0.8158	0.9109	0.8752	1.0694	0.8067	0.1366	16.9374
National Finance Ltd.	0.8234	0.7603	0.6539	0.7198	0.7857	0.8197	0.9035	1.1408	0.8259	0.1378	16.6893
Butwal Finance Ltd	0.9811	0.8716	0.9172	0.8263	0.8285	0.8413	0.8819	0.862	0.8762	0.0486	5.5505
Average of all Company	0.79478	0.7435	0.7153	0.8197	0.8329	0.9706	0.982	1.0614	0.8650	0.1456	16.7668

The above table shows that loan& advances to total deposit of all companies are in increasing trend. The standard level of this ratio is 0.7 but in case of NFS &NMB, they have exceed 90%, which is higher than standard level .High ratio indicate high risk therefore they might fall short of capital for future lending.

4.2.2.6 Loan and advances to total Assets:

Loan and advance is the major component in the total assets (total working fund), which indicates the ability of finance companies to channels its deposits in the form of loans and advances to earn high return.

Here total assets includes, all assets as of on balance sheet items. Includes current assets and other fixes assets, loans for development of finance companies and other miscellaneous assets .The ratio is calculated as,

B 2.2

Loan & Advances to Total Assets											
Company Name	**FISCAL YEAR**								**Mean**	**St.Dev**	**Co.Var**
	2057/58	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**			
Nepal Finance & Saving Co Ltd							0.8315	0.4116	0.5678	0.1221	21.4999

	0.5365	0.5032	0.4514	0.5768	0.5846	0.6466					
Nepal Merchant Banking & Fin Ltd	0.5300	0.3478	0.4199	0.2939	0.4632	0.4018	0.3285	0.2251	0.3763	0.0912	24.2258
Nepal Share Market Ltd	0.4919	0.5737	0.5242	0.6580	0.6919	0.7740	0.7157	0.7494	0.6474	0.0987	15.2512
National Finance Ltd.	0.6047	0.5907	0.5179	0.5689	0.5963	0.5397	0.6575	0.7980	0.6092	0.0816	13.3980
Butwal Finance Ltd	0.7741	0.6971	0.7453	0.6730	0.6817	0.6727	0.7025	0.6825	0.7036	0.0346	4.9152
Average of all Company	0.5874	0.5425	0.5317	0.5542	0.6035	0.6070	0.6471	0.5733	0.5809	0.0856	15.8580

This ratio shows portion of loans&advances in the total assets. BFL'S ratio is highest which means among other companies .So that its loan&advances is maximum out of total assets

4.2.2.7 Non Performing Loans to Total Loans and Advances: This ratio measures the proportion of non- performing loans on the total volume of loans and advances. This ratio reflects the quantity of quality assets that the finance companies are holding Higher ratio reflects the bad performance of the finance company in mobilizing loans and advances and bad recovery rate and vice versa .The ratio is calculated as,

B 2.3

Non Performing Loans to Total Loans and Advances											
Company Name	FISCAL YEAR								**Mean**	**St.Dev**	**Co.Var**
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	0.995	0.1257	0.1167	0.1014	0.0888	0.0864	0.0821	0.0577	0.2067	0.2986	144.439
Nepal Merchant Banking & Fin Ltd	0.0301	0.0488	0.0298	0.0440	0.0387	0.0185	0.0173	0.0152	0.0303	0.0119	39.3460
Nepal Share Market Ltd	0.0412	0.0495	0.0831	0.0546	0.0557	0.0469	0.0381	0.0280	0.0496	0.0153	30.7278
National Finance Ltd.	0.0116	0.0125	0.1402	0.1369	0.0884	0.0992	0.0762	0.0636	0.0786	0.0458	58.3259
Butwal Finance Ltd	0.0110	0.0195	0.0238	0.0282	0.0376	0.0261	0.0267	0.0333	0.0258	0.0076	29.5750
Average of all Company	0.2178	0.0512	0.0787	0.0730	0.0618	0.0554	0.0480	0.0395	0.0782	0.0758	60.4827

Science the lowest NPL is healthy sign of the company's credit. NFS'S NPL is above the 20% which is very high and is not considered as healthy at all.NFL has also exceeded 5% standard level, but other companies have healthy risk assets.

B 2.4

Total Operating Expenses to Total Assets											
Company Name	**FISCAL YEAR**								**Mean**	**St.Dev**	**Co.Var**
	2057/58	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**			
Nepal Finance & Saving Co Ltd	0.0530	0.0618	0.0673	0.0723	0.0649	0.0544	0.0661	0.0378	0.0597	0.0103	17.1796
Nepal Merchant Banking & Fin Ltd	0.0123	0.0169	0.0159	0.0102	0.0181	0.0113	0.0089	0.0071	0.0126	0.0037	29.6067
Nepal Share Market Ltd	0.0887	0.0970	0.0908	0.0787	0.0869	0.0796	0.0762	0.0749	0.0841	0.0074	8.7858
National Finance Ltd.	0.0532	0.1240	0.0735	0.0687	0.0612	0.0602	0.0190	0.0636	0.0654	0.0270	41.3682
Butwal Finance Ltd	0.1101	0.0250	0.1115	0.1111	0.1026	0.0931	0.0931	0.0880	0.0918	0.0267	29.0530
Average of all Company	0.0634	0.0649	0.0718	0.0682	0.0667	0.0597	0.0527	0.0543	0.0627	0.0150	25.1987

From the above table we can see that the ratio of the NMB has lower than other companies therefore it has comparatively managed its operating expenses very well to build its total assets. BFL has highest operating expenses among others; it could be due to small portfolio (total assets).

4.2.3 Profitability Ratio:

Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indicator of the financial performance of any institution. It is notable that higher the profitability ratios better the financial performance and vice versa. The various ratios are as follows

4.2.3.1 **Interest** Income to Total assets Ratio

Interest income on total assets ratio shows how much interest the Finance Companies have generated by mobilizing its assets. Interest occupies significant place in income for the Finance Companies. Generally, Finance Companies earn interest through the provision of loans and advances, overdrafts and investments in securities. It can be shows as follows:

C1

Interest Income to Total Assets											
Company Name	FISCAL YEAR								**Mean**	**St.Dev**	**Co.Var**
	2057/58	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**			
Nepal Finance & Saving Co Ltd	0.1077	0.1235	0.0900	0.1142	0.0922	0.0851	0.1015	0.0526	0.0959	0.0203	21.2128
Nepal Merchant Banking & Fin Ltd	0.1078	0.0801	0.0870	0.0593	0.0960	0.0544	0.0538	0.0281	0.0708	0.0247	34.8299
Nepal Share Market Ltd	0.0762	0.0938	0.0922	0.0799	0.0848	0.0931	0.0839	0.0885	0.0866	0.0060	6.9878
National Finance Ltd.	0.1191	0.1106	0.1207	0.0997	0.0875	0.0794	0.0905	0.0855	0.0991	0.0149	15.0512
Butwal Finance Ltd	0.1451	0.1512	0.1195	0.1155	0.1055	0.0944	0.1015	0.0985	0.1164	0.0200	17.1563
Average of all Company	0.1112	0.1118	0.1019	0.0937	0.0932	0.0813	0.0862	0.0706	0.0937	0.0171	19.0476

Above table shows that in comparatively study BFL has highest interest income to assets ratio; it may due to smaller assets size. There is no significant variance in other companies' ratios.

4.2.3.2 **Interest** Expenses to Total assets Ratio

Interest expenses to total assets ratio shows how much expenses the Finance Companies have incurred by mobilizing its assets. Expenses occupies significant place in income for the Finance Companies. Generally, Finance Companies are provided the interest the on deposit liabilities on borrowings and others. The ratio can be calculated in the following way,

C 2

Interest Expenses to Total Assets											
Company Name	FISCAL YEAR								**Mean**	**St.Dev**	**Co.Var**
	2057/58	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**			
Nepal Finance & Saving Co Ltd	0.0667	0.0680	0.0568	0.0655	0.0558	0.0370	0.0500	0.0253	0.0531	0.0142	26.8078
Nepal Merchant Banking & Fin Ltd	0.0725	0.0494	0.0537	0.0325	0.0511	0.0289	0.0317	0.0156	0.0419	0.0168	40.1748
Nepal Share Market Ltd	0.0715	0.0809	0.0645	0.0593	0.0623	0.0581	0.0547	0.0533	0.0631	0.0086	13.6846
National Finance Ltd.	0.0686	0.0643	0.0562	0.0498	0.0417	0.0360	0.0414	0.0397	0.0497	0.0114	22.8604
Butwal Finance Ltd	0.0961	0.0978	0.0852	0.0816	0.0774	0.0677	0.0657	0.0590	0.0788	0.0132	16.7726
Average of all Company	0.0751	0.0721	0.0633	0.0577	0.0577	0.0455	0.0487	0.0386	0.0573	0.0128	24.0600

Above table shows that in comparatively study BFL has highest Interest Expenses to total assets ratio; it may due to smaller assets size. There is no significant variance in other companies' ratios

4.2.3.3 **Return on Loans and Advances:**

Return on loan and advances ratio shows how efficiently the banks and the other financial institutions have utilized their resources to earn good return from providing loan and advances .It can be shown as follows

C 3

Return on Loan & Advances											
Company Name	**FISCAL YEAR**								**Mean**	**St.Dev**	**Co.Var**
	2057/58	**2058/59**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**			
Nepal Finance & Saving Co Ltd	0.0093	0.0542	0.0003	0.0035	0.0598	0.0690	0.0472	0.0408	0.0355	0.0254	71.6322
Nepal Merchant Banking & Fin Ltd	0.0547	0.0547	0.0477	0.0551	0.0447	0.0363	0.0517	0.0362	0.0476	0.0074	15.5669
Nepal Share Market Ltd	0.0002	0.0057	(0.0058)	0.0044	0.0138	0.0211	0.0259	0.0274	0.0116	0.0116	99.7403
National Finance Ltd.	0.0458	0.0411	0.0308	0.0398	0.0665	0.0367	0.0466	0.0309	0.0423	0.0107	25.3342
Butwal Finance Ltd	0.0216	0.0231	0.0134	0.0102	0.0134	0.0136	0.0140	0.0190	0.0160	0.0043	26.7903
Average of all Company	0.0263	0.0358	0.0173	0.0226	0.0396	0.0354	0.0370	0.0309	0.0306	0.0119	47.8128

Above table ratio shows that NFS, NMB&NFL has comparatively better rate of return on their lending. On other hand NSM&BFL needs improvement in this ratio.

4.2.3.4 **Return** on Total Assets:

Return on total assets ratio measure the profitability with respect to the total assets. In the present study, this ratio is calculated and analyzed to measure the profitability of all financial resources invested in the finance companies' assets, A higher ratio usually indicates efficiently in utilizing its overall resources and vice versa. It can be shown as follows

C 4

Return on Total Assets											
Company Name	FISCAL YEAR								Mean	St.Dev	Co.Var
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	0.0050	0.0273	0.0002	0.0020	0.0350	0.0446	0.0403	0.0168	0.0214	0.0167	78.0377
Nepal Merchant Banking & Fin Ltd	0.0290	0.0190	0.0200	0.0162	0.0207	0.0146	0.017	0.0082	0.0181	0.0055	30.5999
Nepal Share Market Ltd	0.0001	0.0033	(0.0031)	0.0029	0.0095	0.0164	0.0186	0.0205	0.0085	0.0085	99.2689
National Finance Ltd.	0.0277	0.0243	0.0160	0.0226	0.0396	0.0198	0.0309	0.023	0.0255	0.0068	26.7420
Butwal Finance Ltd	0.0167	0.0161	0.0100	0.0069	0.0091	0.0092	0.0099	0.013	0.0114	0.0033	29.0760
Average of all Company	0.0157	0.0180	0.0086	0.0101	0.0228	0.0209	0.0233	0.0163	0.0170	0.0082	52.7449

Above table shows that NSM has lowest rate of return on total assets. On other hand NMB has higher rate of return as compared to other companies and NFS, NFL&BFL have reasonable return on their assets

4.2.3.5 **Return** on Equity:

Return on Equity (ROE, Return on average common equity, return on net worth, Return on ordinary shareholders' funds) (equity) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earning. It can be shown as follows

Return on Equity											
Company Name	FISCAL YEAR								Mean	St.Dev	Co.Var
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	0.0714	0.3047	0.0018	0.0186	0.2931	0.3808	0.2661	0.1200	0.1821	0.1366	75.0202
Nepal Merchant Banking & Fin Ltd	0.2388	0.2054	0.1992	0.2174	0.1644	0.1587	0.2641	0.0600	0.1885	0.0586	31.0820
Nepal Share Market Ltd	0.0013	0.0378	(0.0225)	0.0273	0.1023	0.1311	0.1654	0.0959	0.0673	0.0619	91.9037
National Finance Ltd.	0.2317	0.1909	0.1162	0.1667	0.2542	0.0990	0.1269	0.1075	0.1616	0.0553	34.2259

Butwal Finance Ltd	0.1881	0.1621	0.1193	0.0668	0.0979	0.1108	0.1044	0.1595	0.1261	0.0376	29.8258
Average of all Company	0.1463	0.1802	0.0828	0.0994	0.1824	0.1761	0.1853	0.1085	0.1451	0.0700	52.4115

C5

The above table shows that return to the shareholders investment in the company, NSM has lowest rate of return whereas NFS has highest rate of return as compared to other. It means NFS has provided more return to its shareholders.

4.2.3.6 Earnings per Share:

The term **earnings per share (EPS)** represents the portion of a company's earnings, net of taxes and preferred stock dividends, that is allocated to each share of common stock. The figure can be calculated simply by dividing net income earned in a given reporting period (usually quarterly or annually) by the total number of shares outstanding during the same term

C 6

Earnings Per Share

Company Name	FISCAL YEAR								Mean	St.Dev	Co.Var
	2057/58	2058/59	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65			
Nepal Finance & Saving Co Ltd	10.2667	56.7798	0.3797	4.0029	67.2745	115.6700	66.21	48.09	46.0842	37.0090	80.3073
Nepal Merchant Banking & Fin Ltd	15.5945	14.5419	15.1202	21.0821	16.0229	14.0350	37.57	7.28	17.6558	8.3076	47.0528
Nepal Share Market Ltd	0.1421	4.1813	(2.3176)	2.8966	10.9387	15.8725	13.57	11.23	7.0642	6.2639	88.6709
National Finance Ltd.	67.1972	55.6971	35.7478	42.1908	69.1213	19.6559	25.36	14.62	41.1988	19.7417	47.9182
Butwal Finance Ltd	20.4375	21.0681	14.4971	8.0772	13.0709	12.8643	12.62	18.82	15.1819	4.2255	27.8327
Average of all Company	22.7276	30.4536	12.6854	15.6499	35.2856	35.6196	31.0660	20.0080	25.4370	15.1095	58.3564

Above table shows that NFS has provides greater return to the shareholders on their investment in the company. Whereas NSM has provides lower return to its shareholders and other companies gives average return to their shareholders.

4.2.4 Growth Ratio:

Growth ratios are directly related to the fund mobilization and investment of a finance company. It represents how well the financial companies are maintaining the economic position.

Nepal Finance/FY	2061/62	2062/63	2063/64	2064/65	Growth Rate(%)
Deposit	285758941	300046889	372878712	517828618	21.9
Loans & Advances	328300781	32973848	421047944	530880550	17.37
Investment	78761802	66532127	72670960	97082319	7.22
Net Profit	19210421	16124589	19864826	21641849	4.05

The above table shows that the growth ratio of total deposit, loan&advances, total investment and net profit of NFS during four years which indicate that NFS has sufficient growth in total deposit. And its loan &advances are also in increasing trend .The growth rate of l&A is 17.37% over the four years periods

NMB	2061/62	2062/63	2063/64	2064/65	Growth Rate(%)
Deposit	747259172	8628558552	1296388884	1661604750	30.52
Loans & Advances	753599978	1047166068	1452230057	2009933239	38.68
Investment	710136860	775380716	862739704	1247010180	20.64
Net Profit	36490764	32045850	75138054	72822042	25.9

The above table shows that the growth ratio of total deposit, loan&advances, total investment and net profit of NMB during four years is increasing which indicate that NMB has sufficient growth in total deposit. And its loan &advances are also in increasing trend .The growth rate of l&A is 38.68% over the four years periods. Growth rate of investment and Net Profit is 20.64 and 25.9 respectively. It appears from above that increase in the total investment has contributed in the net profit.

NSM	2061/62	2062/63	2063/64	2064/65	Growth Rate(%)

Deposit	1510891026	1310907515	1563869975	1657895589	3.14
Loans & Advances	1471871573	1274032600	1368691557	1772890561	3.1
Investment	49207881	15220184	63834806	68568653	20.64
Net Profit	36984405	27066710	35381682	48504823	9.4

The above table shows that the growth ratio of total deposit, loan&advances, total investment and net profit of NSM during four years which indicates that NSM has minimal growth in total deposit and its loan &advances are also in slightly increasing trend .The growth rate of l&A is 3.1% over the four years periods. Growth rate of investment and Net Profit is 20.64 and 9.4respectively.

NFL	2061/62	2062/63	2063/64	2064/65	Growth Rate(%)
Deposit	634128658	621834835	629561720	650989419	0.8
Loans & Advances	554416257.7	454541506	520188748	688518519	7.4
Investment	132242587	148453581	176535340	71738840	-81.9
Net Profit	21986115	16505178	26520433	22932734	1.4

The above table shows that the growth ratio of total deposit, loan&advances, total investment and net profit of **NFL** during four years which indicates that **NFL** has negligible growth in total deposit and its loan &advances are also in slightly increasing trend . Since the Growth rate of investment is negative therefore Net Profit is also decreasing.

BFL	2061/62	2062/63	2063/64	2064/65	Growth Rate(%)
Deposit	696411251.3	644146716	645157703	799929335	4.7
Loans & Advances	574169760.5	521889623	542751509	657868149	4.6
Investment	93699833.33	50225000	125325000	105549500	4
Net Profit	9920059.467	8664440.98	7982355.05	13113382.4	9.7

The above table shows that the growth ratio of total deposit, loan&advances, total investment and net profit of **BFL** during four years which indicates that **BFL** has negligible growth in total deposit and its loan &advances are also in slightly increasing trend. However the growth rate of net profit is comparatively in higher side.

4.2.5Trend Analysis

Under this topic, we analyze and interpret the trend of deposits, loan & advances, investment and net profit of financial companies that help to make forecasting for next five years. The following trend value analysis has been used in this study.

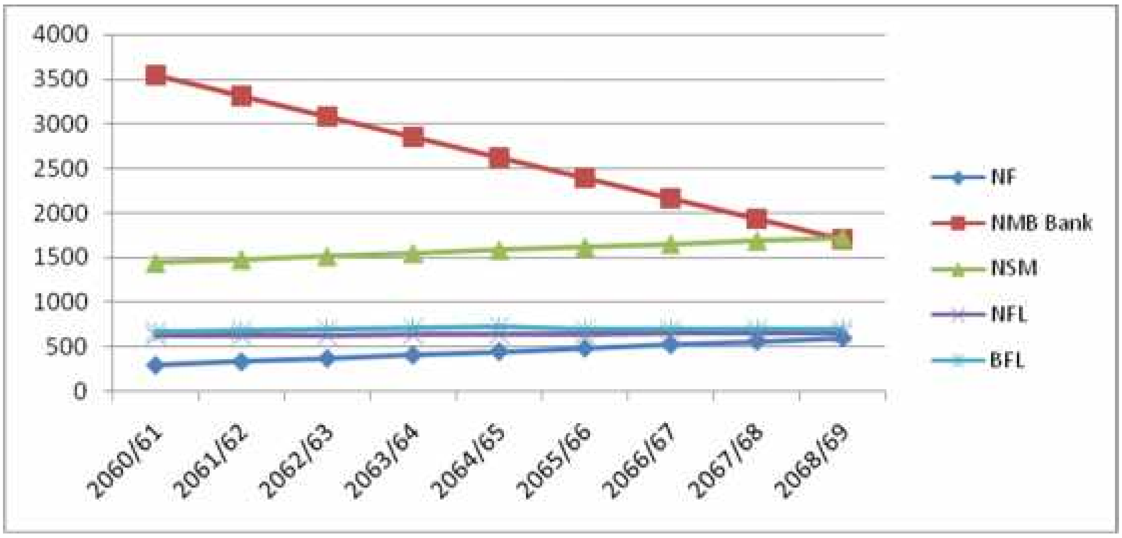
4.2.5.1 Trend Analysis of Total Deposits:

Here, an effort has been made to calculate the trend values of total deposits of finance companies for four years from FY 2060/61 to 2063/64 and forecasted the same for next five years till 2068/69. The following tables show the trend values of total deposits of the finance companies for 9 years from 2060/61 to 2068/69.

FY	Trend Values yc = a + bx				
	NF	NMB Bank	NSM	NFL	BFL
2060/61	292224204.6	3542366133	1441493411	628297741.2	665254728
2061/62	330676247.3	3312909486	1476192219	631213199.6	680832989
2062/63	369128290	3083452840	1510891026	634128658	696411251
2063/64	407580332.7	2853996193	1545589834	637044116.4	711989513
2064/65	446032375.4	2624539546	1580288641	639959574.8	727567775
2065/66	484484418.1	2395082899	1614987449	642875033	696411251.3
2066/67	522936460.8	2165626253	1649686256	645790492	696411251.3
2067/68	561388503.5	1936169606	1684385064	648705950	696411251.3
2068/69	599840546.2	1706712959	1719083871	651621408	696411251.3

From the above table, it is clear that the total deposit of NMB is in decreasing trend. The remaining companies' total deposit is in increasing trend amongst which NSM's total deposit increasing trend is quite visible. This can be shown with help of the following figure as well.

(Million)



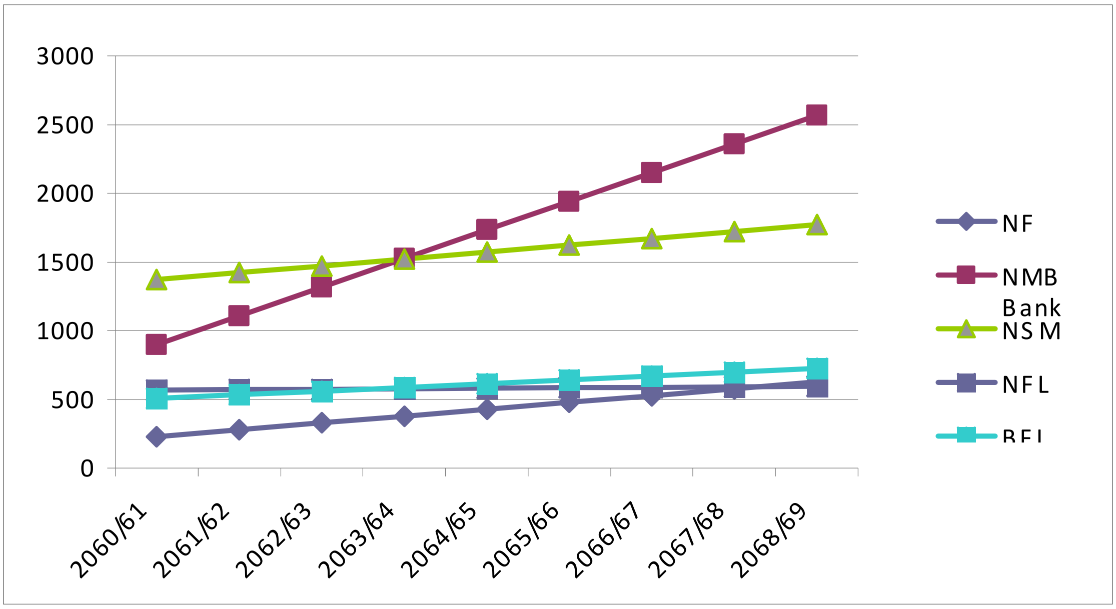
4.2.5.2 Trend **Analysis of Loans & Advances:**

Here, the trend values of total loan &advances from FY 2060/61to 2063/2064and forecast for next five years till 2064/65to2068/69 have been done.

FY	Trend Values yc = a + bx				
	NF	NMB Bank	NSM	NFL	BFL
2060/61	228719440	898,325,958.30	1,372,099,980.65	567,620,855.09	504974055
2061/62	278510111	1,107,029,146.90	1,421,985,776.70	571,018,556.38	532571908
2062/63	328300781	1,315,732,335.50	1,471,871,572.75	574,416,257.68	560169760
2063/64	378091451	1,524,435,524.10	1,521,757,368.80	577,813,958.97	587767613
2064/65	427882121	1,733,138,712.70	1,571,643,164.85	581,211,660.27	615365466
2065/66	477672791	1,941,841,901.30	1,621,528,960.90	584,609,361.56	642,963,318.10
2066/67	527463461	2,150,545,089.90	1,671,414,756.95	588,007,062.86	670,561,170.68
2067/68	577254132	2,359,248,278.50	1,721,300,553.00	591,404,764.15	698,159,023.25
2068/69	627044802	2,567,951,467.10	1,771,186,349.05	594,802,465.45	725,756,875.83

From the above table of Loans and Advances all the finance companies are going in upward direction. And reverse to the trend of total deposit NMB is going to clear upward trend regarding the Loans and Advances. This can be shown with help of the following figure as well.

(Million)



4.2.5.3Trend Analysis of Investment:

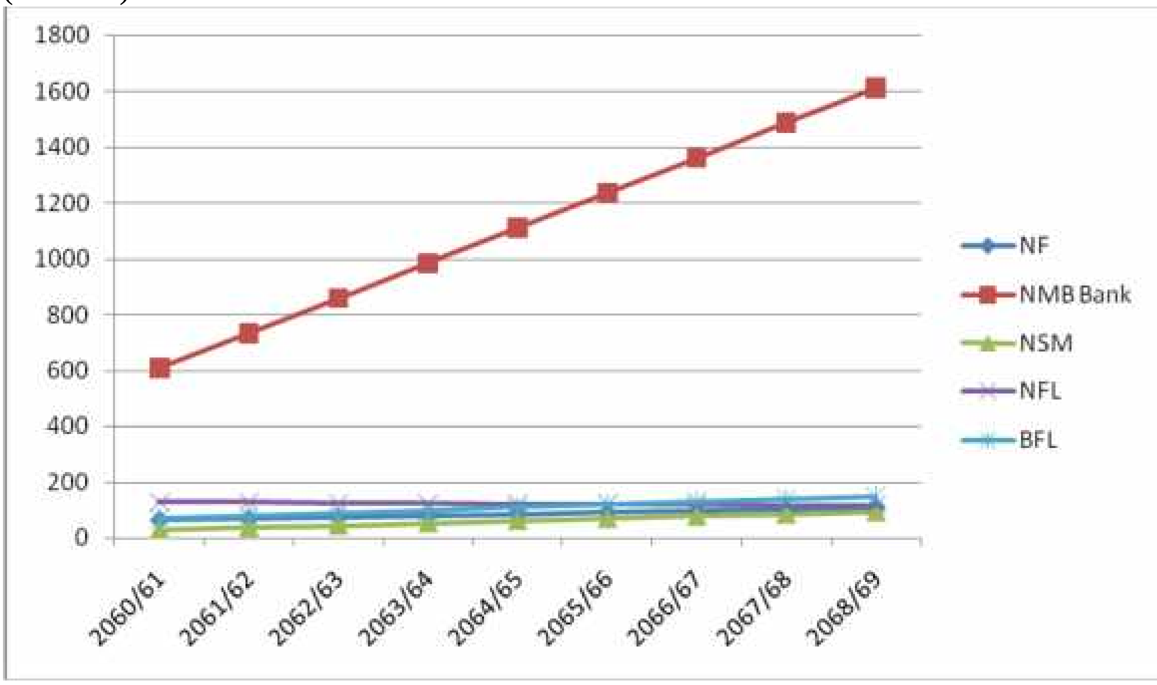
Here, the trend values of total Investment from FY 2060/61to 2063/2064 and forecast for next five years till 2064/65 to 2068/69 have been done.

FY	Trend Values yc = a + bx

	NF	NMB Bank	NSM	NFL	BFL
2060/61	65335077.4	606877122.6	30432595.2	128299697.4	69724985.73
2061/62	70828992	732490019.2	38469306.1	127056835.9	79560751.6
2062/63	76322906.6	858102915.8	46506017	125813974.4	89396517.47
2063/64	81816821.2	983715812.4	54542727.9	124571112.9	99232283.33
2064/65	87310735.8	1109328709	62579438.8	123328251.4	109068049.2
2065/66	92804650.4	1234941606	70616149.7	122085389.9	118903815.1
2066/67	98298565	1360554502	78652860.6	120842528.4	128739580.9
2067/68	103792479.6	1486167399	86689571.5	119599666.9	138575346.8
2068/69	109286394.2	1611780295	94726282.4	118356805.4	148411112.7

From the above table of Investment all the finance companies are going in upward direction. Whilst as for Loans and advances NMB is going to clear upward trend in Investment as well, other finance companies have slightly increasing trend. This can be shown with help of the following figure as well.

(Million)



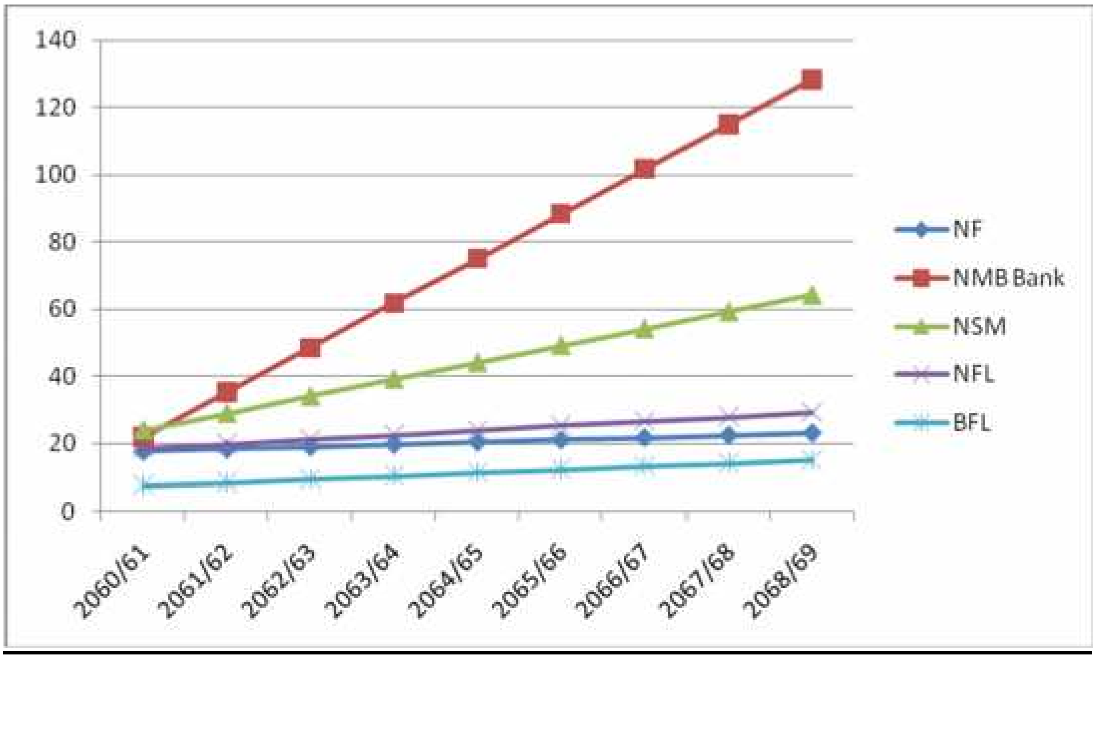
4.2.5.4 **Trend** Analysis of Net Profit:

Here, an effort has been made to calculate the trend values of Net Profit of finance companies for four years from FY 2060/61 to 2063/64 and forecasted the same for next five years till 2068/69. The following tables show the trend values of Net Profit of the finance companies for 9 years from 2060/61 to 2068/69.

FY	Trend Values yc = a + bx				
	NF	NMB Bank	NSM	NFL	BFL
2060/61	17713771	21830307	23981031.8	18609307.4	7592846.175
2061/62	18396563.1	35129697.8	29030093.3	19949161.8	8516881.989
2062/63	19079355.2	48429088.6	34079154.8	21289016.2	9440917.803
2063/64	19762147.3	61728479.4	39128216.3	22628870.6	10364953.62
2064/65	20444939.4	75027870.2	44177277.8	23968725	11288989.43
2065/66	21127731.5	88327261	49226339.3	25308579.4	12213025.25
2066/67	21810523.6	101626651.8	54275400.8	26648433.8	13137061.06
2067/68	22493315.7	114926042.6	59324462.3	27988288.2	14061096.87
2068/69	23176107.8	128225433.4	64373523.8	29328142.6	14985132.69

From the above table of Net Profit all the finance companies are going in upward direction. As in the above tables except for total deposit NMB is again in clear upward trend in Net Profit as well. However, other finance companies have less visible in increasing trend as compared with NMB. This can be shown with help of the following figure as well.

(Million)



4.2.6.Major Findings of the Study:

The preceding chapter have discussed and explored the facts and matters for the various parts of the study. Analytical part, which is the core of the study, makes an analysis of various aspects of the investment policy of Finance Companies by using some of important financial as well as statistical tools.

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist finding issues and gaps of the study and give suggestions for further improvement. This would be meaningful to the Finance Companies to initiate action and achieve the desire result.

The main findings of the study that are derived on the basis of financial data analysis of the Finance Companies are presented below:

4.2.6.**1 Findings** from Liquidity Ratio Analysis:

From analysis of current ratio, it can be said that some finance companies are not able to meet their short term obligation. Amongst all, NF and BFL's ratios are within the standard norms which are considered healthy, therefore the liquidity position of NF and BFL is satisfactory but NMB Bank and NSM have high current ratio which indicates that liquidity position of NMB Bank and NSM is not profitable. NFS has lowest ratio which is below than standard level which indicates that NFS is also not able to maintain its liquidity position and fails to meet its short term obligation.

Cash and Bank balance to total deposit of all finance companies are in fluctuating trend. From the analysis of ratios in table A2, we can see that NMB Bank has highest ratio which indicates that it has sufficient cash and Bank balances available to make payment to the depositors and to meet other expenses amongst other finance companies on the other hand it has slightly higher idle fund without generating any income, whereas BFL has the lowest. The ratios of NFS, NSM and NFL show that they have average level of cash and Bank balance and liquidity position is also average, which means they have optimum level of liquidity or ideal liquidity position.

Investment on Government Securities to total deposit reflects that deposit invested on Government Securities, Treasury Bills and Development Bonds which are risk free assets. From the analysis of ratios in table A3, It can be said that NMB Bank has invested more than 100% of its deposits in Government Securities in FY 2064/65. But other Finance Companies have invested lower amount in these Securities which indicates that NMB Bank's financial position is very secured as compared to other Finance companies.

4.2.6.2 **Findings** from Asset Management Ratio Analysis

Total Investment to Total Deposit ratios is on fluctuating trend. From the table B1.1 analysis, we can see that NMB Bank has highest ratio from FY 2057/58 to FY 2064/65 as compared to other Finance Companies which indicates that most of the deposits of the NMB Bank have been invested in low risk.

From table B1.2, we can see the ratios of total investment to total assets is in fluctuating trend and all Finance Companies out of their total assets certain portion have been invested in low risk assets. However, the ratio of NMB Bank is higher than other four Finance Companies which indicates that NMB Bank's financial position is more secured.

The table B1.3 shows that the ratios of investment on Govt. securities to total investment are also in fluctuating trend. Out of total investment NMB and NFS have made more than half of their investment in Govt. securities, which is more secure.

The ratio in table B1.4 shows that amongst the five Finance Companies, NSM&NFS, out of their total investment, have invested huge amount in purchase of shares and debenture which is considered as more volatile/speculative, in other word, they invested in high risk area.

Loans and advances to total deposit of all Finance Companies are in increasing trend. The standard level of this is considered as 0.7, in case of NFS&NMB Bank, they have exceeded 90% higher ratio which shows higher risk. Loan and advances are most risky assets for any company. Therefore NFS&NMB Bank's financial position is affected and they might fall short of capital for future lending.

This ratio shows portion of loans and advances in the total assets. The table B2.2 shows that more than 50% of total assets of these Finance Companies have been invested in loans and advances as more risky and productive assets. Amongst these five companies BFL's ratio is highest which indicates that its loans and advances are maximum out of total assets whereas NMB's ratio is lowest.

The table B2.3 shows that NFS's NPA is above 20% which is very high and is not considered healthy at all. NFL has also exceeded 5% standard level; other companies have healthy risk assets. Lowest NPA is the healthy sigh of the company's credit.

This ratio shows NMB has comparatively managed its operating expenses very well to build its total assets. BFL has highest operating expenses amongst others; it could be due to small portfolio (total assets).

4.2.6.3 **Findings from Profitability Ratio Analysis**

Table C1 shows that in comparatively study of all Finance Companies' ratios, we found that BFL has highest interest income to total assets ratio, it may be due to smaller asset size. There is no significant variance in other ratios.

The table C2 indicates that amongst five Finance Companies, BFL has highest interest expenses to total assets ratio, as mentioned above it also may be due to smaller assets size.

From above table C3 analysis we can say that amongst all five Finance Companies: NFS, NMB&NFL have comparatively better return ratio, on their lending. NSM&BFL needs improvement in this ratio.

Above table C4 shows that the ratios are in fluctuating trend. Amongst all Finance Companies NSM's ratio is lowest which indicates that NSM has lowest rate of return on total assets whereas other Companies have reasonable return on their assets.

The above table C5 shows that return to the shareholders investment in the company, NSM has lowest rate of return whereas NFS has highest rate of return as compared to other. It means NFS has provided more return to its shareholders.

Above table C6 shows that NFS has provides greater return to the shareholders on their investment in the company whereas NSM has provides lower return to its shareholders and other companies gives average return to their shareholders.

4.2.6.4 **Findings** from Growth Ratio Analysis:

The growth ratio of total deposit, loan&advances, total investment and net profit of NFS during four years indicates that NFS has sufficient growth in total deposit. And its loan &advances are also in increasing trend .The growth rate of L&A is 17.37% over the four years periods. The growth ratio of total deposit, loan&advances, total investment and net profit of NMB is increasing which indicates that NMB has sufficient growth in total deposit. And its loan &advances are also in increasing trend .The growth rate of l&A is 38.68%. Growth rate of investment and Net Profit is 20.64 and 25.9 respectively. It appears that increase in the total investment has contributed more in the net profit in case of NMB. The growth ratio of total deposit, loan&advances, total investment and net profit of NSM which indicates that NSM has minimal growth in total deposit and its loan &advances are also in slightly increasing trend .The growth rate of l&A is 3.1%. Growth rate of investment and Net Profit is 20.64 and 9.4 respectively. It appears from above that increase in the total investment has contributed in the net profit.

The growth ratio of total deposit, loan&advances, total investment and net profit of **NFL** indicates that **it** has negligible growth in total deposit and its loan &advances are also in slightly increasing trend. Since the Growth rate of investment is negative, the Net Profit is also decreasing. The growth ratio of total deposit, loan&advances, total investment and net profit of **BFL** indicates that it has negligible growth in total deposit and its loan &advances

are also in slightly increasing trend. However the growth rate of net profit is comparatively in higher side.

4.2.6.5 **Findings** from Trend Analysis

It has been observed that the total deposit of NMB is in decreasing trend. The remaining companies' total deposit is in increasing trend amongst which NSM's total deposit increasing trend is quite visible. Regarding Loans and Advances all the finance companies are going in upward direction. And reverse to the trend of total deposit NMB is going to clear upward trend.

Investment of all the finance companies has been observed to be going in upward direction. Whilst as for Loans and advances NMB is going to clear upward trend in Investment as well, other finance companies have slightly increasing trend. In regard to the net profit all the finance companies are going in upward direction. Except for total deposit NMB is in net profit again in clear upward trend as well. However, other finance companies have less visible in increasing trend as compared with NMB.

4.2.6.6 **Findings** from Primary Data Analysis.

Details of the samples and respondents of the questionnaire related to fund mobilization, growth rate, liquid asset management ratios standard, trend of deposit utilization, various relationships and impact of Central Bank's policy change.

After collecting the questionnaires, they were tabulated. For each question the responses were converted to percentage based on the total no of respondents so that the percentage analysis can be done.

Answer regarding question on Fund mobilization by the finance companies received to be in satisfactory manner. Answer regarding question on growth rate of loan advances was that the growth rate of loan and advances and total investment affected to growth rate of deposits and net profit as it is the main source of earning. Answer regarding the liquidity, assets management and profitability ratios: the standards of all finance companies are not the standard. Answer regarding trend of deposit utilization of these companies was good. Regarding the question on the relationship between deposits and total investment, deposits and loan and advances and net profit and outside assets and whether they are showing the good indication or not; the answer was good. Question on whether the Bank and Financial Institution Act, 2063 affects the investment patterns of finance companies the answer was no. And regarding the question whether changes in directives to maintaining liquid cash balance at NRB affects in terms of maintaining liquidity management, profit ratio, deposit mobilization and loan and advances the answer was yes.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary:

Investment is major factor that determines the life of the Financial Institutions. It is the most important function of the Financial Institutions. Even though several Financial Institutions have been providing their services in the Country, sufficient return could not be achieved due to lack of strong, stable and appropriate investment policies.

A sound investment policy should attract both borrowers and depositors which help to increase the volume and quality of deposits, loans and investment.

Investment policy provides guidelines for their investment in right track and smoothly ensuring maximum return with minimum exposure towards risk. A Finance Company should mobilize its deposits and other funds to secured, profitable and marketable sector so that it can be easily liquidated when necessary. Investment made without analyzing financial risk, concentration risk, business risk and other related factors, may result bad loan and sometimes Companies may not be able to recover principal amount too. Due to this, they should analyze all aspects of good lending practices for getting maximum profit on the transaction of loan.

Formulation of sound lending policies for all Finance Companies is pre-requisite not only for Company's profitability but also for significant promotion of commercial savings of a developing Country as Nepal. For sound lending and investment policies, Finance Companies must be considered on over some factors like safety and security of loans, credit worthiness of borrower, and profitability of company where profit depends on the interest rate, volume of loan, time period and nature of investment in different securities. Liquidity position of a company, purpose of loan, diversification, tangibility and legality help to minimize risk.

The financial globalization around the world has also affected the national economy. It has brought considerable benefits to national economy and to investors and depositors. Whilst the remittance from Nepalese people remained the breath of the economy global economic meltdown affected somehow by decreasing the remittance. Such bad impacts are there. But in overall it is good as it promote competition and betters the services. In case of Nepal Foreign Banks are allowed recently by the Central Bank (NRB) as a WTO commitment. This will not only provide local Banks and Financial Institution world class competition but also reduces the risk of 'Credit Crunch' for big projects such as Hydro projects.

The major source of income of Finance Companies is the income from loans and investments. Loans and advances provided by Finance Companies are very risky. Risk of non repayment of loan is known as credit risk or default risk. Non-performing loans of companies treated as bad debt which decreases net profit and erodes existing capital. The Directives issued by NRB are the major policies for Financial Companies which all the Financial Companies must follow to utilize their fund.

Financial as well as statistical tools have been used in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to the investment function of Finance Companies i.e. liquidity ratio, asset management ratio, profitability ratio and growth ratio have been analyzed and interpreted. To find out the effect of Investment portfolio on capital adequacy, a separate analysis on capital adequacy and investment portfolio was assessed. Under statistical analysis, some relevant statistical tools i.e. standard deviation and trend analysis have been used. These analyses give clear picture of the performance of the Finance Companies with regard to its investment operation and policy.

5.2 Conclusion:

Being based on the analysis of various tools and techniques as detailed in the previous chapters of this presentation the conclusions are drawn as below which were set as objective of the Study:

1. Loans and advances to total deposit of all Finance Companies are in increasing trend. Loans and advances of a company should be increased in the proportion of the increase in Deposits, otherwise this may take finance companies into liquidity crunch. Since loans and advances are said to be risk assets, Non Performing Assets of the company should be maintained at lower level so that the profit of the company is not deteriorated with high loan loss provisioning. Hence, higher ratio in Loans and advances shows higher risk. However the growth ratio of net profit is in increasing trend of almost all the companies. It shows positive relationship between deposit and net profit.

2. Whilst a few finance companies have higher investment in shares and debentures of other companies, some have higher exposure on Govt. Securities, others have higher exposure on loans advances. Some of them have not utilized the fund to the optimum level.

3. Growth rate of total deposits, loans and advances and net profit of all the Finance Companies are in increasing trend. Increase in deposit has resulted in increase in loans and advances and subsequently the net profit also have increased. This shows the positive relationship amongst the three components.

4. The fund mobilization of all the companies were in 'On Balance Sheet' items which includes Loans and Advances, Current Assets and other Fixed Assets, loans to other finance companies, other miscellaneous assets. Off Balance Sheet items are non-fund based items and hence does not require fund mobilization.

5. Listed Finance Companies have not been found to be very sound in liquidity. Fluctuating trend in investment in various investment areas shows that the asset management efficiency is not very keen in them. Whilst the profitability is in increasing trend, effective management of their assets would have been more productive.

6. From the study of the Bank & Financial Institution Act, 2063, it appeared that the Act is liberal in terms of investment decisions; it is upto the concerned Financial Institutions to determine on this. NRB has been empowered by this Act to prescribe directive/guidelines in this regard. Resultantly it is upto the concerned Finance Companies and the NRB as a regulatory body.

7. Mostly it has been observed that no clear cut policy in investment in writing have been found may be because of the confidentiality purpose the studied Finance Companies were not willing to provide the document. But feeling of the author is that they don't have a compiled document on investment policy. It is scattered in various internal decisions and being guided through NRB directive issued time to time. This is the main difficulty on investment decision. Change in management and people have been observed as other difficulties.

5.3 Recommendation:

On the basis of analysis, findings, issues of the study, the following have been recommended to avoid shortcomings, to enhance efficiency and to revive and improve present fund mobilization and investment policy of Finance Companies.

1. Financial companies have to invest their entire fund in profitable sectors. By which the cash and bank balance will not be idle. Loan and advances, bears risk but the Finance Companies are recommended to take such risks on a calculated basis to mobilize their idle fund and to achieve comparatively higher rate of return. Finance Companies have to invest their fund in diversified sectors in order to minimize concentration risk.

2. Given that the proportion of non-performing assets on total loan and advances of the some listed companies are above than the standard level (the standard level is 5%) and also that the lowest NPA is healthy sign of company's credit it is recommended that the Finance Companies have to give more attention towards quality of credit so that it can improve their NPA level.

3. Liquidity position for financial companies is of great importance. The deposit and lending has to be managed in such a way that one has sufficient cash and bank balances available to make payment to the depositors. Following NRB Directive strictly regarding minimum liquidity requirement will help finance companies to improve in this regard. Investment in govt. securities may help the finance companies to improve their financial position.

4. In the present situation deposits appears to be like difficult to have and to manage given the liquidity crunch and as result increased interest rates in deposit. Hence a proper balance (thresh hold) between interest rate in lending and in deposit is recommended.

5. Since it has been observed that most of the finance companies don't have a consolidated written document which could be named as "Investment Policy", changes in management and in staffs have significantly impacted in the investment decisions. Therefore to avoid such inconsistency, a complete Investment Policy document approved by the Board of each finance company is highly recommended.

6. Central Bank is tightening in lending in housing and real estate where most of the finance companies have high exposure. Therefore it has been recommended that they should start immediately diversifying their lending.

7. Finance companies have been involved in cut throat competition which has led them towards taking high risks without having identifying mitigants of such risks. It is advised that the Finance companies should have a very good investment policy with clear analysis of pros and cons, risk and mitigants having short term as well long term vision.

8. It has been observed that People have not much confidence with Finance Companies. Some have the opinion that they are as cooperative. Whilst the Finance Companies have been given opportunity to work in a wider range of functions by the Bank and Financial Institution Act, 2063, they have to identify new sectors, new business opportunities and grow to avoid such opinions.

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