CHAPTER I

INTRODUCTION

1.1 Background

1.1.1 Investment and Investment Patterns

The word investment has gained so much popularity among the people that everyone is talking about it. People want to earn more that is why they sacrifice their present consumption. Thus, the investment is the sacrifice of present consumption for future income. It is the use of money for the purpose of making `more money, to gain income or to increase capital, or both . It is a process of exchanging income during one period of time for an asset that is expected to produce earnings in future periods. Thus, consumption in the current period is foregone in order to obtain a greater return in the future.

The word investments bring forth visions of profit, risk, speculation, and wealth. It can be financially rewarding and exciting for the knowledgeable investors where as it may result in disaster for the uninformed. The investors make choice among the various available investment alternatives on the basis of their objectives and time horizon. They must consider the expected return and risk of the portfolio and must also develop an appropriate investment strategy . The investment, generally, has a higher risk than saving and the return can come in the form of income or capital gain, or a mixture of both. Until the investors have adequate savings to meet any unforeseen financial emergency, he/she should not invest .

Investors expect some positive return from the funds they have invested. If the investment is properly undertaken, the return will be commensurate with the risk the investors assume. It is just the means of employing money to generate more money in future because the return is the primary motive of investment with some degree of risk. Thus, it is the sacrifice of current rupees for future rupees. It is a commitment of money that is expected to generate additional money. It requires a present certain sacrifice for a future uncertain benefit with some degree of risk.

Investment is one of the main sources of economic growth in an enterprise. It is required not only to increase the total capital stock of plant, equipment and buildings but also to employ labour in productive activity. Thus, enterprise can be seen as a collection of investment projects, with the expectation of receiving a return commensurate with the risk involved.

The essence of investment is to give up current resources in anticipation of generating a larger quantity of future resources. But all the investments are not made with the intention of securing a return in excess of cost. Some investments are made to meet legal and safety criteria; while some are made for more public-spirited motives such as investment in the arts and in education. Most of the investments intended to have a financial inducement. The investor's aim will be to secure the maximum net cash flow (after tax) from the investment, and this will be achieved only from investments having the highest rate of return.

Investment is the expenditures on capital goods or on inventories of goods or raw materials that are used to produce other goods and services, causing future production and income to rise. It increases the productivity of labour and leads to a higher standard of living. It is necessary for production, employment and income.

The essence of investment is to forego present consumption of resources in order to increase the total amount of resources which can be consumed in the future. On the other hand, it is making an outlay of cash now in the expectation of extra cash coming in the future.

Investment policy is the plan that directs an investor's efforts towards goals. Without it, an investor is likely to pursue inefficient approaches that lead to unsatisfactory results. It is a combination of philosophy and planning as it expresses the investor's attitudes towards important investment management issues. It is the set of guidelines and procedures that directs the long term management of the investor's assets. It delineates the investor's specific goals and how s/he expects to achieve them .

A comprehensive investment policy should address a group of issues that includes

- Mission statement

  A description of long-run financial goals.

- Risk tolerance

The amount of risk that an investor is willing to bear in pursuit of the designated investment missions.

- Investment objectives

  The specific investment results that will indicate when the investment program has been successful.

- Policy asset mix

  The investor's long-run allocation to broad asset classes that should meet the above issues.

- Active management

  The extent to which the investor attempts to beat the market by hiring investment management firms that analyze and select individual securities or groups of securities expected to exceed the performance of specified benchmarks.

An investment policy is any government regulation or law that encourages or discourages investment in the local economy. Investment policy in many nations is tied to keep local assets in local investments, in exchange for a substantial investment in a business that will create jobs there (www.fiscalreference.com/topics/investment_policy.htm).

1.1.2 Introduction of Selected Finance Companies:

- **Peoples Finance Limited:**

  People's Finance Limited was established in 2049 B.S. The corporate office of the company is located at K. K. M. building, Tripureshwor, Kathmandu. It started its operation from the date 2050/01/03 B.S. Authorized Capital of the company is NRs 320.0 million. And the present paid up capital is NRs.202.1038 million. Out of the total paid up capital 51% is owned by the promoters and the rest is by public.

- **Shree Investment and Finance Co. Limited:**

  Shree Investment and Finance Co Ltd. was incorporated in the year 2051 BS. The company is located at Dillibazar, Kathmandu. It started its operation from the date 2051/3/22 B.S. Authorized Capital of the company is NRs 640.0 million, Issued capital of Rs. 200 million and paid up capital is NRs.108.0 million. Out of the total paid up capital 60% is owned by the promoters and the rest is by public.

- **National Finance Limited:**

National Finance Limited was established in 2049/05/14 B.S. The company is located at Pako, Newroad, Kathmandu. It started its operation from the date 2050/01/28 B.S. Authorized Capital of the company is NRs 240 million. And the present paid up capital is NRs. 217.4 million. Out of the total paid up capital 60% is owned by the promoters and the rest is by public.

- **Kathmandu Finance Limited:**

Kathmandu Finance Limited was established in 2051 B.S. The corporate office of the company is located at Dillibazar- Radhemarg. Authorized Capital of the company is NRs 240.0 million. And the present paid up capital is NRs 75.9 million. Out of the total paid up capital 60% is owned by the promoters and the rest is by public.

- **Universal Finance Limited:**

Universal Finance Ltd. was established in 2049 B.S. The company is located at Kantipath, Kathmandu. It started its operation from the date 2052/01/14 B.S. Authorized Capital of the company is NRs 400.0 million. And the present paid up capital is NRs. 131.4 million. Out of the total paid up capital 60% is owned by the promoters and the rest is by public.

Union Finance Limited:

Union Finance Limited was established in 2049 B.S. The corporate office of the company is located at Kamaladi, Kathmandu. It started its operation from the date 2051/08/26 B.S. Authorized Capital of the company is NRs 320.0 million. And the present paid up capital is NRs.159 million. Out of the total paid up capital 60% is owned by the promoters and the rest is by public.

1.2 Statement of the Problem

Economic development in the country is possible only through the establishment and sound operation of financial institutions. Thus, various financial institutions have been established in our country for economic development. Such financial institutions help in capital formation and its proper utilization. But the developing country like Nepal is suffering from such problem. Financial institutions are also not able to operate in full fledge. The development of the country is possible only if such financial institutions are able to invest in productive sectors.

Nepalese finance companies have not formulated their investment policy in an organized manner. They have no consideration towards portfolio optimization. They just rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have their own clear vision towards investment portfolio.

Nepal is known as a capital scarce country. It is said that Nepal has low saving rate and as a consequence of which investment rate is also low. The low investment rate has also constrained the growth rate of GDP. As the growth rate of country during ninth plan is adequately slim from the target growth rate of 6%. The economic performance of the country is not satisfactory as expected. Against the targeted ratio of 17% of gross savings and 25% of gross investment to GDP during the ninth plan period, it is estimated that such ratios of gross savings and gross investment would be far below to the tune of 10% and 17% respectively .

There are various problems in resources mobilization by financial institutions in Nepal. The major one is the poor investment climate due to heavy regulatory procedure. While investing the financial institutions have to think about the various risk associated with it like financial risk, business risk, etc. If such risks are ignored then there is chance of losing their principal also. Thus, unsecured loan and investment may cause the liquidation of those institutions. Nepal Rastra Bank has also played important role to make these institutions to invest their funds in a good sector. It has imposed various rules and regulations, to have sufficient liquidity and security.

Almost all finance companies are following the same patterns for investment projects. This has created the problems of investment management for the finance companies. Due to this the financial companies are not achieving desired results in their resource mobilizations and returns on investments. Such competition is increasing in fast pace due to increase in finance companies but the investment opportunity is not increasing comparatively.

There have been various studies conducted on this topic. Most of the earlier studies are concentrated only on the investment patterns, but failed to show their relationship between the companies and investment sectors. This study attempts to fill the gap, and will be helpful for finance companies, investors, public and researchers to avail their requirement.

Thus, under such circumstances, the present study will try to analyze the investment patterns of the finance companies. The study will deal with following issues:

- The investment patterns adopted by the finance companies and their effectiveness and efficiency.
- What is the relationship between investment and loan & advances with total deposits and net profit?
- Does the investment portfolio affect the total earnings of the finance companies?

1.3 Objectives of the Study

The major objectives of the study are as follows:

- To study and highlight the overall investment pattern of the finance companies of Nepal.
- To evaluate the investment pattern of the sampled finance companies of Nepal.
- To analyze the existing financial situation of finance companies of Nepal and analyze the effect of investment pattern on Net Profit, Interest on investment, Interest on Loan & Advances of the finance companies of Nepal.
- To provide suggestions to the concerned finance companies for the improvement of investment scenario in the future.

1.4 Focus of the Study

This study will focus on the investment patterns of the finance companies and analyze whether they are successful in utilizing its available funds.

After the adoption of liberal policy by the government for the growth and development of financial institutions, lots of them are being emerging in the country. During this study period there are 78 finance companies operating in the various part of the country. This study mainly focuses on the investment scenario of the finance companies. It shows what finance companies are doing to mobilize their funds. Whether the return from investment is appropriate for them or not. Thus this study evaluates the performance of finance companies.

As the study is related to investment patterns of finance companies, the report will be beneficial to them. The suggestions made by this report will help to improve their resource mobilization and returns on investments.

1.5 Significance of the Study:

Need of the study is to explore the existing situation as well as future prospects of markating and financial returns. The collected fund is utilized in a good manner as investment then only good return and sustainability is possible. Return on investment first, sustain the institution and provides handful income to the investors. The better the investment analysis, the more valuable the company, the higher return the shareholders etc and vice versa. Since the different parties, shareholders, general public and goverment are directly affected by the investment analysis of the financial institutions, the researcher feels the need to study it. As it is a well-fact that the commercial finance can affect the economic condition of the whole country, the efforts is made to highlight the investment analysis of finance companies expecting that the study can bridge the gap between deposits and investment policies. Thus the present study will make a modest attampt to analyze investment analysis of Peoples Finance Limited, Shree Investment & Finance Co. Limited, National Finance Limited Kathmandu Finance Limited, Universal Finance Limited, Union Finance Limited

1.6 Limitations of the Study

Every study has its own limitations. , this study has also some limitations which are as follows:

- As the study is simply the partial fulfillment of MBS program, the time assigned for it is limited i.e. within the speculative time the report has to be completed which weakened the adequacy of the study.
- The whole study is based on the secondary data so the accuracy of the data is based on the reliability of the source.
- The study covers only a period of ten years from 2060/61 to 2065/66 and conclusion drawn confines only to above period.
- The sample of six finance companies is taken as there are only few finance companies operating for more than ten years. Therefore it is assumed that these finance companies represent all other finance companies.

1.7 Organization of the Study

The entire study has been organized into five chapters.

First chapter deals with the introduction part. It comprises of background of investment and investment policy, focus of the study, statement of problem, objective of the study, limitations and scheme of the study.

Second chapter deals with the review of available literature. It comprises of conceptual review about investment and investment patterns; historical background, growth and development, functions, characteristics, source and use of funds of finance companies and its presence in Nepal. It also includes review from journals, articles and unpublished master's dissertations.

Third chapter deals with the research methodology used in this study. it includes research design, population and sample, sources and collection of data and data analysis techniques.

Fourth chapter deals with the data presentation and analysis. It includes the presentation, analysis and interpretation of data by using various financial, statistical tools and major findings.

Fifth chapter includes summary, conclusion and recommendation of the study.

Besides these chapters, bibliography and appendices will be presented after the end of Chapter five.

CHAPTER II

REVIEW OF LITERATURE

2.1. Conceptual Review

2.1.1. Investment and Investment Policies

Finance companies are those companies that deal in money. Generally, they collect the money from the general public as deposits and also from the sale of commercial paper, bond. Those collected money is then invested in good sector, as a loan to both the consumers and businesses. Thus the profitability of the finance companies depends upon its sound investment policy.

“Investment, in its broadest sense, means the sacrifice of the certain present value for (possibly uncertain) future values” .

“Investment is the employment of funds with the aim of achieving additional income of growth in value” .

Thus, it is clear that the investment is the mobilization of the funds today to gain some benefits in the future. So, the finance companies directly deal in investment of the funds collected in profitable, secured and marketable sector.

“The term investing can cover a wide range of activities. It often refers to investing money in certificates of deposits, bonds, common stocks or mutual funds. More knowledgeable investors would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompasses very conservative positions and aggressive speculation” .

“Financial investment is a form of this general or extended sense of the term. It means an exchange of financial claims, stocks and bonds (collectively termed securities), real estate mortgages etc. Investors to differentiate between the pseudo-investment concept of the consumer and the real investment of the businessman often use the term financial investment. Semantics aside, there is still a difference between an “Investment” in a ticket on a horse and the construction of a new plant; between the pawning of watch and the planting of a field of corn. Some investments are simple transaction among people, other involve nature. The later are “real” investment. The former is “Financial Investment”. We now turn to a closer examination of finance and investment decisions themselves” .

For doing investment, one should make an investment policy. “Investment policy is the set of guidelines and procedures that direct the long-term management of investor’s assets .

“A banker seeks optimum combination of earning, liquidity and safety, while formulating investment policy” .

“Investment policy fixed responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets” .

As per Peter S. Rose & Donald R. Fraser, in their book “*Financial Institutions*”, the investment policy should specify precisely what is meant by the investment portfolio – that is, what assets compose the investment portfolio. In formulating the investment policy, management of financial institutions must consider the definition and scope of the investment portfolio, the amount of risk it is willing to tolerate, and how aggressive it wishes to be in managing the portfolio. The investment portfolio usually consists of longer-term securities however there are periods when the investment portfolio will be comprised principally of short-term, highly liquid securities. For example, when the interest rates are expected to increase, it would be desirable investment strategy for the financial institutions to shift some of its investments from long to short term securities.

Management of financial institution must balance the return and risk of the individual security and entire portfolio. Return refers to the total return over the anticipated holding period of the security. The investment policy that stresses high total returns must accept relatively high risk. Conversely, an investment policy that will tolerate only a small amount of risk must be willing to accept a relatively low return.

a) Return

Any investor can anticipate the possibility of two types of return from holding a bond: interest return and capital gain. The rate of return can be calculated as:

$$R = \frac{P_t - P_{t-1} + I}{P_{t-1}}$$

where,

R = Rate of return

P_t = Price of the security in period t

P_{t-1} = Price of the security in period t-1

I = Interest payment

The above equation clearly shows the importance of price variability in influencing the rate of an investor obtains from a bond (or any other security).

b) Risk

The risk is the important factor that influences the financial institutions investment strategy. The finance companies are exposed to three types of risks:

i. Credit Risk (Default Risk)

Credit risk refers to the prospect that the issuer of a bond will be unable and/or unwilling to pay interest and repay principal as agreed. “The majority of the finance companies are allocated as loans to consumers and businesses; default risk is a major concern. Customers that borrow from finance companies usually exhibit a moderate degree of risk. The loan delinquency rate of finance companies is typically higher than that of other lending financial institutions. However, their higher average rate charged on loans can possibly more than offset a higher default level. The relative high return and high risk loan characteristics of finance companies can make their performance quite sensitive to prevailing economic conditions” .

ii. Interest Rate Risk

The volatility of bond prices due to changing interest rates is referred to as interest rate risk. Managers of financial institutions who wish to minimize interest rate risk will hold a relatively short maturity portfolio and vice versa. “Both liability and asset maturities of finance companies are short or intermediate term. Therefore, they are not as susceptible to increasing interest rates as are savings institutions. However, they can still be adversely affected, because their assets are typically not as rate sensitive as their liabilities. They can shorten their average asset life or make greater use of adjustable rates if they wish to reduce their interest rate risk.

iii. Liquidity Risk

Liquidity risk is the ability of the holder to sell or liquidate the asset without substantial fluctuation in its price. Though the liquidity is a secondary consideration for the investment portfolio, nevertheless, liquidity risk is a factor that must be considered in managing the investment portfolio. “Finance companies generally do not hold assets that could be easily sold in the secondary market. Thus, if they are in need of funds, they have to borrow. However, their balance sheet structure does not call for much liquidity. Virtually also their funds are from borrowings rather than deposits anyway. Consequently, they are not susceptible to unexpected deposit withdrawals. Overall, the liquidity risk of finance companies is less than that of other financial institutions" .

Frank J. Fabozzi and Harry M. Markowitz in their book "*the theory & practice of Investment Management*" have said that the investment policy is the guidelines to satisfy the investment objectives. The setting of the policy begins with the asset allocation decision. That is, a decision must be a made as to how the funds to be invested should be distributed among the major classes of assets. The asset allocation decisions are based purely on the understanding of the risk-return characteristics of the various asset classes and expected returns. The asset allocation will take into consideration any investment constraints or restrictions.

In the development of an investment policy, the following factors must be considered:

a) Client Constraints

A client imposed constraints would be the restrictions that specify the types of securities in which a manager may invest and concentration limits on how much or little may be invested in a particular asset class or in a particular issuer. It may be in the form of a maximum on the level of the risk exposure or a permissible range for the risk measure relative to the benchmark.

b) Regulatory Constraints

There are many types of regulatory constraints. These involve constraints on the asset classes that are permissible and concentration limits on investments. Moreover, in making the asset allocation decision, concentration must be given to any risk-based capital requirements. For depository institutions, the amount of capital required is related to the quality of the assets in which the institutions have invested.

c) Tax and Accounting Issues

Tax considerations are very important in investment. There are tax factors that must be incorporated into the investment policy. There are some earnings from investment which may be taxed. Generally accepted accounting principles

(GAAP) and regulatory accounting principles (RAP) are important considerations in developing investment policies.

Norman M. Boone and Linda S. Lubitz in their forthcoming book *"Creating an Investment Policy Statement—Guidelines & Templates"* gives emphasis on the preparation of investment policy statement as a part of investment policy. In creating an investment policy statement, the advisor and the client agree upon all the essential issues surrounding how and why the money is to be managed. It is the document that guides the advisor as future decisions are made. (www.fpanet.org/journal/articles/2003_issues).

The investment policy statement serves four basic purposes:

1. Identifying objectives—to establish clear, reasonable and definable expectations, risk and return objectives, and guidelines for the investment of the assets.
2. Defining the asset allocation policy—to set forth a structure and identify the investment asset classes that will achieve a diversified portfolio, as well as to determine how those assets are to be best allocated to help achieve the investor's objectives.
3. Establishing management procedures—to provide a guide for selecting, monitoring and evaluating the performance of those charged with managing and investing the assets, and making changes as appropriate.
4. Determining communication procedures—to provide a concise method of communicating the process and objectives among all parties involved with the investments and to assign responsibility for implementation.

2.1.2. 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 in different securities. The greater the line 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 to sound lending and investment policies which most of the financial institutions must consider can be explained as under:

a) Safety and Security

The financial company should never invest its funds 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 earn millions in a minute 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 the 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 examined 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 if securities of a company deprived, there may be appreciation in 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 values 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 fund.

2.1.3. Finance Companies and Investment Policies

Of all the financial institutions, finance companies are the one that provide the short and intermediate term credit to consumers and businesses. Although other financial institutions provide this service, only the finance company specializes in it. Many finance companies operate with a single office. They have to compete with other depository institutions such as commercial banks, savings institutions, credit unions, etc. that provide loans to consumers and businesses. The main source of finance company funds are loans from banks, sales of commercial paper, bonds, and capital. Likewise, the main uses of finance company funds are consumer loans, business loans, leasing, and real estate loans .

The early finance companies provided services that commercial banks did not, pioneering the field of asset-based lending for industrial firms and consumers. Major manufacturers of vehicles and other products developed well-functioning captive finance companies. Today consumers may obtain small loans for a wide variety of purposes and larger second mortgage loans. Through finance companies, consumers also may purchase high-ticket items and arrange financing with retail installment contracts. Some finance companies issue credit cards and own savings banks. Finance companies are very much essential for financing the industrial firms because the industrial firms have a greater selection of services including inventory floor plans, working capital loans, lease financing, highly leveraged transaction loans, and private-label credit cards .

Consumer credit is the short and intermediate term credit that is extended through regular channels to finance the purchase of commodities and services for personal consumption, or to refinance debts incurred for such purposes. The finance companies play a vital role in providing the consumer credit. Today, finance companies are a major lender to consumers and businesses needing money to buy cars, television sets, boats, industrial equipment, retail inventories, home repairs or hospital services. Thus, finance companies serve as financial intermediaries, by purchasing wholesale quantities of money and then reselling it to individual consumers and businesses in retail quantities at retail prices. The growth of these financial institutions can be directly tied to changes in life-styles, preference for private home ownership, and the related demand for consumer durables .

Finance companies comprise a heterogeneous group of financial institutions. Their activities are specialized and they account for a very small proportion of total lending by financial institutions. Their main business is the provision of installment credit. They also provide a significant amount of finance to companies in terms of installment loans as well as through leasing and factoring. Thus, the finance companies act as financial intermediaries by obtaining funds mainly from banks, and therefore ultimately individuals and companies, and lending to individuals and companies. They undertake a transformation of the funds, which reflect relatively high interest charges on their installment loans . Finance companies, which although now designated as banks, interact between the retail and wholesale markets, providing loans to both the personal and commercial sectors. Now they are not confined within installment lending only, but also provide personal loans and offer leasing, factoring, stocking loans and block discounting to the commercial and industrial sector .

2.1.4. History of Finance Companies

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

The world economy nowadays is dominated by the ups and downs of financial activities, which play the vital role for the development of the nation as well as for the world economy. The world economy activity trends are affected by open market policy and liberalization policies of the government. Economic liberalization policy has to create the environment for the establishment, growth and development of financial institutions in the world.

Initial step to organize financial services originated from the establishment of the first Investment Bank in Philadelphia, USA in 1764. The first commercial bank "The Bank of North America" opened in the same city in 1781. Then the first investment company, "The Massachusetts Hospital Life Insurance Company" was founded in 1816 which is usually designated as the first Saving Bank Insurance Company which is as old as the country itself.

It has been found, activities like that of hire purchase hand commenced from 1807 when cowperwaits sons, a furniture company of New York sold it furniture payable in installment credit, marking the beginning of the functioning of non-banking institutions. In the year1850, the famous Singer sewing machine company also sold its sewing machine payable on installment as installment credit. Similarly in year 1915, with a view to increase its sales, the automobile companies of developed countries even established their own finance companies and sold its vehicles payable on installment as installment credit.

The more interesting development in US credit market has taken place in the 20th century, and then there has been the rapid growth in consumer credit. Installment credit was used for only a few items such as Pianos, Encyclopedias and Sewing machines and total household expenditures. But the activities increase towards consumer's durable goods such as automobiles boats and household appliance .

Finance company is the recent innovation in South Asia. Its establishment, growth and development took place from the mid 1950s. The first group of finance companies was established in Philippines and Singapore but they are suffering from so many difficulties. But the companies have been established in Hong Kong, Thailand and Malaysia and have developed efficiently to accomplish their objectives and goals.

Most governments in South Asian countries have enacted legislation to protect both depositors and investor in this invested industry. Singapore and Malaysia have enacted protective legislation regulating all finance companies. The Hong Kong requires a banking license or those finance companies that accept deposits. In Philippines, there is also allowed deposits of general public as a result of the passage in 1963 of a "Truth-in lending act".

There are different views about finance company by different countries. Most of the countries don't have clear cut directions to the finance company in terms of their function and area of coverage. However, finance act has mentioned certain areas of operations such as receiving time deposit of different maturity dates; providing loans for hire purchase, house construction, business and also undertaking merchant banking function such as share issue, management portfolio management mutual fund, project counseling merger, etc.

For over years, finance companies have offered services to fill the gap between the needs of industrial and consumer clients and the services provided by commercial banks. At the inception of the finance company industry, various types are emerged,

- Commercial finance companies
- Sales finance companies
- Consumer finance companies
- Credit unions

Commercial Finance Companies:

Commercial finance companies are those that make loans to industrial firms on the basis of accounts receivable. "In exchange for the loan, the borrowing firm signed over its right to the receivables to the finance company and upon collecting the receivables, turned over all proceeds to the finance company. Since the borrowing firm's original customer was not aware of this arrangement, the technique became known as non-notification accounts receivable financing". Thus, the commercial finance companies were offering loans collateralized by equipment and inventory and gaining the reputation of finding innovative ways to finance small business .

Sales Finance Companies:

Commercial banks did not offer automobile loans as they were considered to be consumer purchases, not productive investment. “Commercial finance companies started sales finance departments or subsidiaries that offered installment loans. Soon firms exclusively involved in sales finance sprang up and were so successful that they began to finance also the retail purchases of radios, refrigerators, washing machines, dryers, furniture, vacuum cleaners, and other consumer durables. Some sales finance companies operated as *captive finance companies,* a finance company that is wholly owned by a manufacturing firm and handles the retail and wholesale financing of only that manufacturer” .

“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 purchases of consumer durable goods from the dealers involved. The other consumer credit sources deal directly with the borrower. Thus we can say that sales finance companies acted as go between obtaining credit from commercial bank channeling it into the purchase of consumption goods” .

Consumer Finance Companies:

“Consumer finance companies made loans available to wage earners on the basis of their gainful employment for purposes including medical expense and emergency needs. Household furnishings were commonly used as collateral. Customers of these firms were generally considered to be high credit risks and unable to obtain financing from commercial banks” .

Credit Union:

“The concept of credit union has been spectacular throughout the post-war period in the USA. This credit union may operate under either federal or state charter. Credit unions are co-operative associations where members must be linked by some common board such as employment, church or labour union membership. Funds are derived almost entirely from member’s 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 loan shares” .

2.1.5. Growth and Development of Finance Companies in Asian Countries

The concept of finance companies is recent innovation in South Asia and its growth establishment and development was initiated from mid 1950's. The first finance company was established in Philippines in the wide 1950's. The finance companies established in Philippines and Singapore was suffering from so many difficulties. But the companies which were established in Hong Kong, Thailand and Malaysia have been developed efficiently to accomplish their target goals and objectives.

Most governments in South Asian countries have been enacted legislation to protect both depositors and investors invested in the industry. Singapore and Malaysia have been enacted protective legislation regulating all finance companies. Then Hong Kong requires a banking license for those finance companies that accept deposit. In Philippines also general publics are allowed to deposit as a result of the passage in 1993 of a truth in lending act.

2.1.6. Finance Companies of Nepal

Finance companies, licensed under the finance companies act 2042, are the second largest group of deposit taking financial institutions in Nepal. Though the finance companies act was published in gazette in 2042 (finance company act, 2042). The real establishment and functioning come only after the economic liberalization policy of the government in the 8th plan (National Planning Commission, eight plan, 2049-053).

In Nepal, various financial institutions are in operation from many years. Finance companies came in operation under the Finance Company Act, 1985. They are registered as limited liability companies with the office of the registrar of companies according to the provisions made in the Companies Act, 1965. They accept time deposits and advance loans to individuals, firms, companies or institutions for agriculture as well as non-agriculture purposes in order to increase economic activities. They also perform functions of merchant banking with prior approval of NRB. They have become popular among low-income and medium class people as they make loans available for hire purchase and for the purchase of vehicles, machinery, tools, equipment, durable household goods or other similar movable properties.

After adopting the financial liberalization policies, there has been a growing tendency to establish new finance companies. Many finance companies came into operation especially in Kathmandu and other urban areas. The first finance company, the Nepal Housing Development Finance Company Limited, began operations in 1992. Since then many finance companies came into operation within a short span of time. In the fiscal year 1995/96 there was 32 finance companies, of which 24 were based in Kathmandu. In the fiscal year 2001/02 the number of finance companies reached to 50, of which 34 were based in Kathmandu. Similarly, in the year 2005/06 the number has rose up to 67, of which only 47 were operating within Kathmandu. Now in 2009 there are 78 finance companies operating in our country. The minimum paid up capital for the finance companies are fixed at Rs. 15 crore, 2 crore and Rs. 1 crore 5 crore, for leasing and finance company based in Kathmandu, outside the valley (Eastern, Central and Western Development Region), and in only one district (Western and Far Western development Region) respectively.

The real growth of these finance companies aroused mainly due to inability of the commercial banks to compete for attract deposit through interest rate. These rapid growths of finance companies have established themselves as an emerging force in mobilization of funds in the financial system of the country. Since, the operation were having a growing impact on domestic monetary situation, the government decided to bring them under the control of central supervisory authority, namely Nepal Rastra Bank through Finance Company Act, 2042 to appropriately regulate and supervise the activities of all the finance companies which accept deposits (other than current and saving account deposits) from public with main objective of safeguarding the interest of depositors.

Effective from July 17, 1999, the finance companies were permitted to issue a secured guarantee letter. However, such guarantee letter issued per customer should not exceed limit of 50 percent of the capital fund of the finance company and the total outstanding guaranteed liability which is not overdue should not be more than three times of the capital fund (NRB, Annual Report, 1999/00).

2.1.7. Functions of Finance company

According to Sec. 3 (2) of the Finance Company Act, 2042, a finance company may perform any or all of the following functions:

1. To provide credit, installment or hire purchase loan to a person, firm or company organization of agricultural or non-agricultural sector for the purchase of vehicles, machines, equipments or for domestic durable materials.
2. To provide loans to a person, firm or company for the purchase or construction of residential building or warehouse or for the purchase of land necessary to construct such residential building or warehouse.
3. To provide leasing finance to a person, firm or company getting vehicles, machines, equipments, durable domestic materials and other properties on lease.
4. To provide medium and long-term loans or to perform intermediary or guarantee functions for conducting trade and industry helping in economic development of the country.
5. To buy and sell stock and bonds issued by government and other companies and to render underwriting and brokerage services according to Security Transactions Act, 2040.
6. To mobilize savings and
7. To perform merchant banking functions by taking pre-consent from Nepal Rastra Bank.

2.1.8. Characteristics of Finance Companies

The major characteristics of finance companies are

- Services and Credits

  The finance companies offer a wide range of services. Term loans, housing loans, hire purchase, and leasing are the main fund based services while merchant banking services including issue management, underwriting, investment management, portfolio management services, and so on are the main non-fund based services.

- Resource Mobilization

  Finance companies have been very effective in mobilizing resources. There has been an increase in the fixed deposits. In order to supplement their funds, these companies have also borrowed from commercial banks. Finance companies are also allowed to issue debentures with the prior approval of the Nepal Rastra Bank to supplement their financial resources.

- Investment in Government Securities

  Finance companies make investments in government securities and Nepal Rastra Bank bonds.

- Profitability

  A majority of finance companies have been able to make profits. These profits are motivating the new comers to open new finance company that is why the numbers of finance companies have been increasing.

2.1.9. Sources and Uses of Fund of Finance Companies in Nepal

The main sources of funds for finance companies are loans from banks, commercial paper, deposits, bonds and capital. Finance companies use funds for consumer loans, business loans and leasing, and real estate loans .

NRB has given permission to the finance companies to raise funds equal to ten times of their net worth. They are also allowed to mobilize deposits rights from the day they starts their business operations and there are no other entry norms prescribed. Another notable feature of the NRB directives governing deposit interest rates and the lending interest rates and no floor or ceiling rates has been fixed.

In the fiscal year 1999/00, there were 42 finance companies operating. The aggregate source of funds of finance companies was recorded to Rs. 13.05 billion, of which 74.6 percent is the public deposit. The capital fund was Rs. 1.73 billion and deposit liability was Rs. 9.74 billion. Finance companies borrowed fund from commercial banks only. Total borrowing was Rs. 175.9 million and other liabilities were Rs. 1.41 billion.

On the uses side, aggregate liquid assets of finance companies were Rs. 1.74 billion. The aggregate investment was Rs. 1.13 billion, of which 74.6 percent was invested in government securities. The loan and advances occupied 69.4 percent of the total sources of funds. It was Rs. 9.06 billion. Of the total loans and advances, 46.7 percent (Rs. 4.23 billion) accounted for term loan, 25.9 percent (Rs. 2.34 billion) for housing, 18.1 percent (Rs. 1.64 billion) for hire purchases, 2.6 percent (Rs. 235.3 million) for leasing and the rest 6.7 percent (Rs. 607.6 million) for other purposes. Other assets of finance companies were Rs. 1.13 billion.

In the fiscal year 2001/02, there were 50 finance companies operating. The aggregate source of funds of finance companies was recorded to Rs. 18.4 billion, of which 72.9 percent is the public deposit. The capital fund was Rs. 2.9 billion and deposit liability was Rs. 13.5 billion. The aggregate borrowing of finance companies was Rs. 244.8 million and other liabilities were Rs. 1.8 billion.

On the uses side, the aggregate liquid assets of finance companies were Rs. 2.9 billion. The aggregate investment was Rs. 1.6 billion, of which 93.3 percent was invested in government securities. The loan and advances accounted to 64.8 percent of the total sources of funds. It was Rs. 12 billion. Of the total loans and advances, 44.3 percent (Rs. 5.3 billion) accounted for term loan, 26.3 percent (Rs. 3.1 billion) for housing, 20.4 percent (Rs. 2.4 billion) for hire purchases, 3.0 percent (Rs. 363.6 million) for leasing and the rest 6.0 percent (Rs. 713.1 million) for other purposes. Other assets of finance companies were Rs. 2.02 billion.

During mid-July, 2008 the number of finance companies reached to 78. The aggregate sources of fund were Rs. 80.34 billion. The capital fund was Rs. 7.44 billion and public deposit was Rs. 52.28 billion. The aggregate borrowing from commercial banks was Rs. 3.58 billion and other liabilities were Rs. 13.24 billion. On the uses side, the loan and advances amount to Rs. 51.49 billion. The aggregate investment amount to Rs. 717.5 million and the liquid assets amount to Rs. 17.74 billion.

The other assets were Rs. 2.93 billion.

It shows that despite of slowdown in the economy of the country, finance companies recorded reasonable growth in their loans and advances as well as investments.

2.1.10. Problems of Finance Companies

The major issues or problems faced by the finance companies in Nepal are

- Low Credibility

  Many of the finance companies have low credibility in the financial markets. Weak managerial capability, family domination, lack of transparency in their transactions, poor accessibility, weak accounting and auditing practices, long delays in the publications of their financial statements, delays in the issuance of shares to the general public, lack of innovation, and poor professional background of the promoters are some of the factors that have lowered the credibility of these companies, posing constraints to their growth.

- Poor Regulatory Framework

  One of the critical issues for the finance companies is the inappropriate, rigid and poor regulatory framework of the NRB which also constraints their growth. The present regulations, particularly relating to capital adequacy, liquidity, ceiling on deposit mobilization, single borrower limits, and sectoral lending limits have been found rigid and inappropriate and have hindered their financial resource mobilization efforts and thereby limited their capability to lend with negative impact on the sustainability of their operations. Presently, NRB is preparing comprehensive regulations for these companies against which existing directives are expected to be reviewed. Although these companies furnish financial information to the NRB, the information is of poor quality and inadequate to provide a full picture of their true financial health.

- Financial Sustainability

  Their low capital base and higher transaction costs, combined with growing competition from other financial institutions in the areas of resource mobilization and allocation, have raised the issue of the sustainability of these companies. Lack of detailed information on the operations of the finance companies, particularly information on non-performing loans, repayment rates, management costs have made the analysis of the sustainability of these companies extremely difficult. Given their low capital, small resource base, and an interest rate structure with relatively high rates on deposits – sustainability is an issue. Many of these companies are thought to be surviving on the strength of inflows of new deposits as opposed to their income stream.

- Higher Concentration and Growing Competition

  Since the finance companies are concentrated in urban areas, they face increasing competition from other financial institutions. While their main competitors are the commercial banks and development banks, the large and growing numbers of cooperatives are also beginning to affect their operations, in financial resource mobilization, allocations, as well as the cost of capital. Although these companies are focusing on areas neglected by the commercial banks and others – such as hire purchase, leasing and housing – the general perception is that they attract clients that have been rejected by the banks. More recently, with increasing excess liquidity and declining interest rates in the banks, these companies have become even more vulnerable.

- Weak Supervision

  The NRB has established a Non-banking supervision and inspection department which supervises and inspects finance companies mainly to ensure their compliance with various NRB directives and to check that operations are in line with their credit policy guidelines. However, the frequency and the comprehensiveness of the supervision – both off-site and on-site – by the NRB is low and inadequate. This lack of prudential oversight has led to a further deterioration of the financial discipline within these companies which could emerge as a problem in the future.

- Self Dealing

  The risk of family combines using the finance companies to obtain public deposits to fund high risk activities within their business groups (self dealing), is high, and a cause for concern. There was also a perception that some weak units were functioning like ponzi schemes, sustaining high interest payments on deposits by incoming new deposits.

2.2. Contribution of Finance Companies towards National Economy

Financial institution is the pillars of a nation's economy. Finance companies are recent feature in our country. For the continuous growth and development of any business organization or sector, continuous public trusts and confidence is imperative. Finance companies are potential institutional tools of collecting and mobilizing funds for investment in the country. The role of finance companies has to channel funds by gradually shifting priorities from hire purchase and trading to industry to help in the capital formation. The overall growth of the national economy is to be basically linked to the nature and extent of capital formation in the country. In another word, we can say that the establishment growth and development of finance companies is applicable as financial instruments to attract small saving. This will provide investment opportunities to the small and medium savers. The need to strengthen the institutionalization of finance companies is important to have meaningful relationship between finance company and national development through shift of credit to the productive industrial sector.

Financial activities play vital role in the development of country. Financial development is one of the key indicators of economic development of any country. Financial activities are the integral part of national plan to accelerate the rate of economic development. The main objective of finance company should be directed to support industries first and then after that consumer credit should follow to link credit to industries for production and consumer's credit for consumption. The relationship between productions and consumption's function is important to make credit worthwhile to have a meaningful contribution to the development of national economy. As industry grows on the support and funding of finance companies, other economic development indicators follow such as creation of employment, income generation and saving to recycle for further collection of deposits by finance companies and then again extending credit to industries. The process should repeat to have significant relationship between growth of finance companies and overall economic developments on the other hand.

Finance companies have to channel funds by gradually shifting priorities from hire purchase and trading to industry to help in the capital formation within the country. Thus in the course of time, industrial financing should get higher priority in the lending strategy of the finance companies. This will ensure their future sustainability for mobilizing public, private and external financial resources and channeling them into productive areas as short-term loans and long term loans on different commercial business activities. Expansion and growth of both small and medium scale industries help the development of industrialization, which creates the market for industrial products within the country. Finance can help consumers to consume domestic products and at the same time helping industries both in financing and creation of market for their products.

2.3. Review of Relevant Studies

2.3.1. Review of Related Journals

Under this heading, the related journals reviewed from different sources have been presented.

<u>"Investment Policy Explains All"</u>

Ronald J. Surz, Dale Stevens and Mark Wimer conducted the study to critised the study done by Gary P. Brinson, Randolph Hood and Gilbert L. Beebower. This study distinguish between actual asset allocation and long-term, target asset allocation, otherwise known as policy. The investment policy, they said, has a greater effect on the portfolio's return than either the sponsor or manager, or the transaction costs or timing and selection.

In the original study, by Gary P. Brinson, Randolph Hood and Gilbert L. Beebower, "Determinants of Portfolio Performance"; the authors examined the quarterly investment returns of 91 large pension plans over a 10-year period (1974-1983), concluding that investment policy explained an average 93.6% of the variation in total plan returns. An update to the study in 1991, which used data from 1977 tp 1987, similarly found that 91.5% of returns could be explained by policy decisions. The authors determined the impact of investment policy by regressing the actual returns for each plan against policy returns and then calculating the simple average of the R-squares from these regressions. Based on their findings, the authors concluded that careful determination of investment policy – specifically asset allocation – was the most crucial element in determining fund performance.

However, the study's use of R-squared has prompted recent critics to contend that the analysis focused on explaining short term volatility, not returns earned over time. In this, they are right. R-squared is not the correct way to measure the percent of return attributable to policy. The high average R-squared result cited by their study tells us only that the average plan in the sample adhered very closely to its policy targets and used broad diversification within asset classes. It tells us nothing about the importance of asset allocation. R-squared measures the percent of volatility explained by policy, not the percent of return.

However the study was critised by Ronald J. Surz, Dale Stevens and Mark Wimer in their paper "Investment Policy Explains all" presented in the Journal of Performance Measurement in summer 1999. According to them, the use of R-squared, by Brinson, to measure the importance of investment policy is inappropriate, and leads to an assessment of portfolio volatility rather than portfolio returns. Although these detractors suggest a variety of alternative measures, they ultimately concluded that the percentage of performance attributable to policy is not 93.6%, as stated in the 1986 study, but a significant lower number.

"Exactly how much of a portfolio's return can be explained by policy?" to address this question, they took a critical look at the original study. They do not think that the question of policy importance had been conclusively asked and answered by the authors. The critics' arguments do contain some truth – some errors. Investment policy is not only most important contributor to performance – it is even more important than originally thought.

They think investors are really asking how much of their wealth was earned through investment policy versus other sources of growth, namely selection and timing. If the ratio of the policy return divided by this fund's total return, we get 0.6, implying that 60% of this fund's return is attributable to policy, with the balance attributable to good selection and timing. By contrast, the ratio for the underperforming fund is 1.4, implying that 140% of this fund's return is explained by policy, with the difference between this and 100% explained by poor stock election and timing.

However, critics of the authors' study go astray when they debate the correct measure for estimating the importance of investment policy, by focusing on the distinction between cross-sectional R-squared, which measures the tendency for policy to differentiate performance across funds, and cross-temporal R-squared, which is measured for each individual fund. In both cases, R-squared is an incorrect measure because it relates to the variability of returns, rather than the magnitude of returns. In their studies, they take the (in their opinion) correct approach to the question of asking how much of a portfolio's return can be explained by policy, by examining the magnitude of return.

This study concludes that the policy return was calculated as the return that would have been earned if target policy allocations had been consistently followed, using index funds to represent each asset class. In other words, policy return is the weighted average return across appropriate markets where weighting is determined by policy allocation; and rebalancing is performed in each time period.

"Portfolio Selection"

Harry M. Markowitz, in his study "Portfolio Selection", has shown the geometrical relationship between belief and choice of portfolio according to the "expected returns and variance of returns" rule. This paper is concerned with the relevant beliefs about the future performance and the choice of the portfolio. Thus, he establishes the relationship between expected return and its level of risk as the criteria for selecting the optimum portfolio. so as to find the efficient set of portfolios and select the most efficient one, the portfolio manager will need to know the expected returns and the risk of these returns. The portfolio model developed by Markowitz is based on the following reasonable assumptions:

- The risk of an individual asset or portfolio is based on the variability of the returns (standard deviation or variance).
- Investors depend solely on their estimates of the return and risk in making their investment decisions. This means that an investor's utility (indifference) curves are only a function of expected return and risk.
- Investors adhere to the dominance principle. That is, for only the given levels of risk, investors prefer assets with a higher expected return to assets with lower expected return, for assets with the same expected return, investors prefer lower to higher risk.

According to the Markowitz, the expected return of the portfolio is the weighted average of the expected returns of the individual assets in the portfolio. The weights are defined as the portion of the investor's wealth invested in a particular asset.

Conclusion:

- The mean return on a portfolio used as a good portfolio performance can be used as a good proxy for the theoretically correct ¯ value, which incorporates both the return and variability of return measures.
- Portfolio managers will generally have the greatest success in the maximizing the portfolio's return rather than try to minimize its variability (risk). That means investment in stock with high expected return than stable income is due to the return measures dominated the risk measures in the calculation of ¯ value.

2.3.2. Review of Related Articles

Under this heading, the relevant articles reviewed from different sources have been presented.

In the article published by Schultz Collins Lawson Chambers Inc. in 1999 explained that "Selecting investment options for a defined contribution plan can be an extremely difficult task. Many plan sponsors find that they are faced with an endless supply of opinions regarding how the problem should be addressed. Further, they lack a rational framework for coherently addressing the selection process. An investment policy statement can be an invaluable tool for streamlining investment selection and documenting the prudence of the sponsor's selection process. The effort implicit in drafting a high quality investment policy statement will be well rewarded" (www.investmentpolicy.com).

Thomas K. Philips has stated in his article, "***An Opportunistic Approach to Alternative Investing***", in 1997, that capital should be commited to alternative investments based on both their expected returns and the nature of the current opportunity set. An investor seeking the best return from alternative investments would, as a result, direct most new commitments at a given time to a few asset categories, and invest in the remaining categories only on a very selective basis. Over time, such an investor would build a diversified portfolio of private partnerships with outstanding managements that have had the foresight to launch their partnerships when good properties or deals were available at fair prices in their market segment.

The research-oriented articles prepared by Mr. Ajay Ghimire, "***Process involved in financing a corporation: a Nepalese context***". In this article he puts stress on the establishment of finance companies as "Financing and investment are two sides of the same coin. A firm F taking money from firm G (G could be any legal entity including a financial institutions) to finance activities of firm F can be as firm G investing in firm F. such investments do not necessarily have to be in the form of equity or common stock (Residual Claim). Further, firm G's financing of firm F does not necessarily have to be in the form of debt or loan (fixed claim). Between common stock and plain vanilla debt a firm could design and sell many claims in order to finance its assets".

In a hypothetical world where person managing a corporation acts with the sole objective of maximizing value of the firm, the firm seeking finance will chose the financer and mode of financing that maximizes the value of the firm. Similarly a hypothetical financial institution whose managers act with the sole consideration of maximizing value of the institution, will invest in firms and business in such a way that maximizes value of the institution.

At conclusion, he states that “Financing and investment decision, or for that matter any decision, of a firm is an outcome of a complex equilibrium process. Multitude of complex relationship is between the firm and owners of various resources (material, skill, capital, etc) and among various resource owners. Even the relationship of the consumer of output with various resource owners within and outside the firm affects the outcome. Therefore, there is no “one best investment policy” of all organizations. The organizations interested in optimizing its investment decision should formulate its investment policy taking into considerations the skilled, taste and preference of managers involved in the decision making process”.

Shiba Raj Shrestha, Deputy Chief Officer of Nepal Rastra Bank, Banking Operation Department has given a short glimpse on the “***Portfolio Management in Commercial Bank, Theory and Practice***”. According to him, the portfolio management becomes very important for both individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to following aspect:

- Higher return which is comparable with alternative opportunities available according to the risk class of investor.
- Good liquidity with adequate safety of investment.
- Certain capital gains
- Maximum tax concession
- Flexible investment
- Economic, efficient and effective investment mix

However, Mr. Shrestha has also presented following approach to be adopted for designing a good portfolio and its’ management.

- To find out the investible assets having scope for better returns depending upon individual characteristics like age, health, need, disposition, liquidity etc.
- To find out the risk of the securities depending upon the attitude of investor towards risk
- To develop alternative investment strategies for selecting a better portfolio, which will ensure a tradeoff between risk and return to attach the primary objective of wealth maximization at lower risk.
- To identify securities for investment to refuse volatility of return and risk

Mr. Shrestha has drawn following conclusion for smooth running and operation of banks and financial institutions:

- The survival of the banks depends upon its own financial health and various activities.
- In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standards and give their clients the benefits of global strengths, local insights and product philosophy.
- With the discipline and systematic approval to the selection of appropriate countries, financial assets and the management of various risks, the portfolio manager could enhance the opportunity for each investor (client) to earn superior returns overtimes.
- The Nepalese Banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the client base and to contribute in national economy.

In the above aspect, he has suggested following strategies:

- Do not hold any single security i.e. try to have a portfolio of different securities.
- Try to have a diversified investment i.e. do not put all eggs in a one basket.
- Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower of return but with added objective of wealth maximization.

2.3.3. Review of Related Dissertations

Under this heading, the relevant master's thesis of Tribhuvan University (T.U.) has been presented.

Mr. Arun Prasad Neupane conducted the study titled ***"A Comparative Financial Analysis of Listed Finance Companies in Nepal"*** to evaluate the financial performance & to see the trend of deposit, profit & investment of the listed finance companies of Nepal.

He has found from the study that the general positions of the listed finance companies ratios are fluctuating though the performance of selected finance companies are satisfactory to moderate & good position. The performance of selected finance companies experiences a wide range of variation among ratio analysis experts.

Secondly, the analysis shows a wide range of variation in result of even five years period of same company.

Mrs. Shreejana Subba conducted the study titled ***"A Study on Lending Practices of Finance Companies of Nepal"*** to measure the lending performance in quality, efficiency & its contribution in profitability analyzing the portfolio behavior of lending & measuring the ratio & volume of loans & advances made in hire purchase, housing loans, term loans & lease financing of finance companies.

The finding says that the investment pattern of finance companies are fluctuation. Some finance company are investing in hire purchase & housing loan mare & low investment in term loan than their authorized quota to invest according to the NRB directives. So, she suggests that finance companies should try to invest more in term loans rather than excessive over limit investment in hire purchase & housing loan. In overall loan & advances of finance companies are increasing, so are non-performing loans & loan loss provision. So, extra effort should be enforced to control over NPL.

Mrs. Shalini Niraula conducted the study titled ***"An Evaluation of Financial Performance of Finance Companies in Nepal"*** to evaluate the performance of financial situation by studying about the composition & trend of deposit, investment, income & expenditure.

The finding says that the finance companies needs to manage its investment portfolio efficiently under the dynamic implication of financial market. There are various services provided by finance companies for the customer. Among them the uses of funds towards hire purchase & housing loans must be shifted towards the business & industrial finance. These activities must be taken by finance companies to shift their investment & credit strategy to the productive sectors such as industrial & business sector of the economy that will help to decrease the level of imports & hence balance of payments difficulties may be solving in the country. There is urgent need to have a gradual shift of traditional financing business to dynamic & innovative areas such as merchant banking, consortium financing.

Loan recovery is one of the most challenging jobs to the finance companies. They have many problems of loan recovery. They grant more loans without proper evaluation of guarantees. Therefore finance companies must be careful in formulating credit collection policy.

Mr. Ganga Ram Manandhar conducted the study titled ***"A Comparative Study in Investment Policies of Finance Companies in the context of Nepal"*** to show the present investment policies adopted by the finance companies and to compare them whether they were mobilizing the fund efficiently.

He has found from the study that none of the finance companies possesses well functioning in all aspects. Some of them are stronger in one aspect like profit making but weaker in another like deposits mobilization. He has also suggested that the finance companies should concentrate on productive sector rather than consumer goods which will contribute on capital formation for overall national development. They should strictly monitor and control their credit outflows and repayment schedules.

He had concluded that the trend of lending of finance companies was changing from consumer durables to term loan. Few finance companies follow the aggressive investment strategy while more are following conservative strategy. They are having the unhealthy competition on interest rate on deposit collection which might be leading them to failure. So they should work together and build the public confidence and enhance their image in the minds of the public.

Mrs. Ruru Kusom Gautam has presented in her study titled ***"Investment Analysis of the finance companies in context of Nepal"*** that finance companies are contributing on supply of credit timely. She found that the overall performance of finance companies is satisfactory and Nepal Rastra Bank has played more active role to enhance the operation. Few aggressive and more conservative strategies is adopted by finance companies. Initially the major part of lending was on consumer durables but the trend is changing towards term loan. And the unhealthy interest rate competition was also prevailing.

Finally she had stressed on the part those finance companies

- Have to prove that they can really contribute to 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

- Are strategically well planned to be competitive with banks and other agencies and are trust worthy.

Mr. Min Bahadur Ranabhat, in his study titled ***“An Analysis of Financial Performance of Finance Companies in context of Nepal”*** has stated that finance companies have provided various services for the customers. It includes hire purchase and housing loan and recently shifting towards term loan. He also found the unhealthy competition of interest rate for the collection of deposits and uses of the same. There must be some demarcation line for it.

Finance companies are playing with public money. Thus their activities should be monitored and controlled, which is being conducted by Nepal Rastra Bank. They should make their performance transparent to the investing public. The finance companies have 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 a need to offer innovative schemes and instruments in resources mobilization.

2.4. Directives issued by Nepal Rastra Bank for Finance Companies

Directive No. 8 has addressed the investment related provision of Finance Companies in reference to section 79 of NRB Act 2058.

1. **Investment Policies & Procedures should be approved**

   Finance companies should get approval from board of directors to invest on government securities, NRB saving certificate and shares and debentures of other companies.

2. **Provision related to investment on Government Securities and NRB saving certificate**

   Finance companies are not restricted to invest on government securities and NRB saving certificate.

3. **Provision related to investment on shares and debentures of other companies**

i. Finance companies can invest in shares and debentures of listed companies or are going to be listed within one year in security market of Nepal.

ii. If these shares and debentures could not get listed as specified by subsection (i) the finance companies should transfer the invested fund to Investment Adjustment Reserve. This fund can not be used for other purposes.

iii. Finance companies can not invest more than 10% of core capital in the shares and debentures of a particular company. Finance companies can not invest more than 30% of core capital in the shares and debentures of different companies in total. If finance companies invest more than this limit, the fund, equal to excess amount, should be deducted from core capital and transferred to capital reserve.

iv. Finance companies cannot invest more than 10% of core capital in the shares and debentures of a particular company on which they have financial motive. Finance companies cannot invest more than 20% of core capital in the shares and debentures of different companies with financial motive. Amounts equal to such investment should be deducted from core capital and transferred to capital reserve.

v. Finance companies cannot underwrite more than 10% of core capital in the shares and debentures of a particular company. Finance companies cannot underwrite more than 30% of core capital in the shares and debentures of different companies in total. If finance companies underwrite more than this limit, the fund, equal to excess amount, should be deducted from core capital and transferred to capital reserve.

vi. If Finance companies underwrites as specified in subsection (v) and if shares can't be sold and the finance companies have to purchase the shares then such shares should be sold within one year of the share underwrite date. If finance companies cannot sale the shares within given date, the fund equal to that amount should be transferred to Investment Adjustment Reserve as created in subsection (ii).

4. Provision related to investment review

Finance companies should review its investment half yearly. In such review, internal auditors should certify that investments are in accordance with investment policy and the directives and this should be approved by board of directors within one month of half yearly period. Copies of these approved decisions should be submitted to Banking and Financial institution regulating department and Financial institution supervision department within 15th of Falgun and 15th of Bhadra every year.

5. Valuation of shares and debentures

Finance companies should evaluate the shares and debentures of different companies separately in accordance to purchase price or market price whichever is less half yearly to show in its assets. If the market price is less than purchased price, such difference should be shown as expenses in profit/loss account and added to Provision for Probable Loss on Investment.

6. **Timeframe to adjust the investment**

   If any finance companies have invested more than the limits fixed by this directive they should adjust their investment within the specified limit by the end of Ashad.

7. **Action against defaulters**

   If any finance companies do not follow the provision of this directive, actions will be taken against them as specified by section 99 or section 100 of NRB Act 2058.

Directive No. 7 has addressed the Sector-wise Loan Limit related provision of Finance Companies in reference to section 79 of NRB Act 2058.

1. **Sector-wise loan limit**

i. Any finance companies operating on more than one main area like loan and advances, lease investment and others, such finance companies should not provide and invest more than specified percentage in their total loan and advances and lease investment. Likewise, if any finance companies established to operate in only one main area, then they should not provide and invest more than specified percentage in the sub area of main area.

Areawise Loan Limit

	Main areas	**Sub-areas under main area**	**Specified percentage**
1	Hire Purchase Loan	1) Vehicles 2) Machinery and Equipments 3) Household durables and other transferable assets	40
2	Real Estate Loan	1) Private housing, land and godowns 2) Institutional land and building 3) Institutional godowns	40
3	Lease Investment	1) Vehicles	60

		2) Machinery and Equipments 3) Household durables and other transferable assets	
4	Term Loan: (mid and long term only)	1) Agricultural and agro-based industries 2) Industries 3) Business 4) Education 5) Health 6) Tourism 7) Hydropower 8) Others	75 40 40 40 40 40 40 40 40
5	Fund based Merchant Banking transaction	Venture capital Bridge finance Other merchant banking transaction	40

ii. Term loan including its various sub areas should not provide loan and advances more than 75% of total loan and advances. But in any one sub area it can provide upto 40% of total loan and advances.

iii. To conduct fund based merchant banking transaction, prior approval should be taken from non-banking regulating department.

iv. Portfolio management under merchant banking transaction should be done equal to core capital.

v. Companies should issue mid and long term guarantee upto three times of core capital.

2. Additional provision on loss on loans if more than limit of loan is provided

As specified in subsection (i) of section (1), if finance companies provide the loan and advances more than its limit then such companies should make the additional provision on loss on loan with 25% of extra loan provided within the end of Pouse and Ashad of every fiscal year.

3. Timeframe to adjust sector-wise loan limit

If any finance companies have provided loan more than the limits fixed by this directive they should adjust their loan and advances within the specified limit by the end of Ashad. Within this timeframe the finance companies are not allowed to provide the outstanding loan.

4. **Action against defaulters**

   If any finance companies do not follow the provision of this directive, actions will be taken against them as specified by section 99 or section 100 of NRB Act 2058.

2.5. Research Gap

This study will try to show the current issue, latest information on investment pattern of finance companies. To show latest picture of investment pattern researcher covered the data of periods from 2005 to 2009 A.D. and collect the latest information or changes that occur in this periods. Hence, this study fulfils the prevailing research gap about the in depth analysis of the movement or fluctuation investment patterns. Also, previous researchers analyzed the investment pattern by using secondary source of information in term of investment practices. But, investment pattern can be determined by various factors and real picture of the finance company is known by their staffs. So, this research also tried to cover views of concerned staffs by means of questionnaire filled by them. Most of the earlier studies are concentrated only on the investment patterns, but failed to show the relationship between the companies and investment sectors. This study attempts to fill the gap, and will be helpful for finance companies, investors, public and researchers to avail their requirement.

CHAPTER III
RESEARCH METHODOLOGY

3.1. Introduction

Research methodology is the process of arriving at a solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. It sequentially refers to the various steps to be adopted by a researcher.

3.2. Research Design

"A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure". Generally research design is the plan, structure and strategy of fixed deposit conceived so as to obtain answer to research question. To achieve the objectives of this study descriptive and analytical research designs have been used. Descriptive research design describes the general pattern of the Nepalese investors, business environment, problems regarding the portfolio management etc. Similarly, the analytical research design makes a thorough analysis of gathered facts and information and critically evaluates it as well.

3.3. Nature and Sources of Data:

The basic objective of this study was to evaluate investment patterns of sampled finance companies and compare one another assuming they represent almost all of the entire finance companies.

Different procedures had adopted to collect the required data for thesis. The study was simply based on primary & secondary data. Primary data were collected using different procedures such as interview method and questionnaire method. First of all a questionnaire was developed for primary data with some questions concerning the subject matter. Interview was taken with different customers, staffs of respective finance companies to obtain the additional information about the related topic.

Secondary sources refer to those already gathered by other. The source of secondary data can be divided into two groups as internal & external. The internal secondary data found within the company sources. Such data include deposit collection, accounting data & internally generated reports. External secondary data were collected from sources outside the company. Such sources may include books, periodicals & published reports. Since there no direct access to the data of sampled finance companies, the study was largely based on secondary data.

So, following sources of data & information were used in the study:

- NRB reports
- NRB directives
- Annual reports
- Questionnaire
- Academic books
- Various publications concerning the subject matter.
- Various articles published in the Newspaper.
- Authorized wed sites.

3.4. Population & Sample:

Since the subject matter is based on finance companies, all finance companies represent the population. As it is very difficult to study the whole population, a part of population is selected in order to draw conclusion of the whole population. This process in sampling & the part selected is called sample. Currently there are 78 finance companies. Out of them, following six finance companies had been selected as sample for the study with financial statements of fiscal years 2005-2009 were used in the study:

a) People's Finance Limited
b) Shree Investment and Finance Limited
c) National Finance Limited
d) Kathmandu Finance Limited
e) Universal Finance Limited
f) Union Finance Limited

3.5. Tools for Analysis

For the analysis of the data, to achieve the objective of the study, both financial and statistical tools were used. The various tools used for this study were given below in detailed.

3.5.1. Financial Tools

The financial tools are the major tools to examine the financial strength and weakness of the finance companies. The financial tool used in this study was the ratio analysis.

It is the widely used tool. It shows the relationship between two variables. Analysis and interpretation of various ratios gives better understanding of the firm. Though there are many ratios, only those ratios had been enclosed, which were related with this study.

Total Investment to Total Deposit ratio

The ratio was obtained by dividing total investment by total deposit. It shows how much is being invested out of total deposit collected. The ratio can be mentioned as:

$$\frac{Total\ Investment}{Total\ Deposit}$$

The numerator includes the investment on government securities, investment on shares and debentures, trade investment, Investment on other financial institutions.

Total Loan and Advances to Total Deposit

The ratio was obtained by dividing total loan and advances by total deposit. It shows how much loan and advances are provided out of total deposit. The ratio can be mentioned as:

$$\frac{Total\ Loan\ \&\ Advances}{Total\ Deposit}$$

The numerator includes the hire purchase, real estate finance, term loan, loan against fixed deposit and others.

Hire Purchase to Total Investment and Loan and Advances

The ratio was obtained by dividing hire purchase by total investment and loan and advances. It shows how much of total investment and loan and advances are used on hire purchase. The ratio can be mentioned as:

$$\frac{Hire\ Purchase}{Total\ Investment\ and\ Loan\ and\ Advances}$$

Investment on Government Securities to Total Investment and Loan and Advances

The ratio was obtained by dividing investment on government securities by total investment and loan and advances. It shows how much of total investment and loan and advances are used on investment on government securities. The ratio can be mentioned as:

$$\frac{Investment\ on\ Government\ \sec urities}{Total\ Investment\ and\ Loan\ and\ Advances}$$

The numerator includes investment on national saving certificates and NRB saving certificates.

Term Loan to Total Investment and Loan and Advances

The ratio was obtained by dividing term loan by total investment and loan and advances. It shows how much of total investment and loan and advances are used on term loan. The ratio can be mentioned as:

$$\frac{Term\ Loan}{Total\ Investment\ and\ Loan\ and\ Advances}$$

Real Estate Finance to Total Investment and Loan and Advances

The ratio was obtained by dividing real estate finance by total investment and loan and advances. It shows how much of total investment and loan and advances are used on real estate finance. The ratio can be mentioned as:

$$\frac{\mathrm{Re}al\ Estate\ Finance}{Total\ Investment\ and\ Loan\ and\ Advances}$$

Loan against Fixed Deposit to Total Investment and Loan and Advances

The ratio was obtained by dividing loan against fixed deposit by total investment and loan and advances. It shows how much of total investment and loan and advances are used on loan against fixed deposit. The ratio can be mentioned as:

$$\frac{Loan\ against\ Fixed\ Deposit}{Total\ Investment\ and\ Loan\ and\ Advances}$$

Other Investment to Total Investment and Loan and Advances

The ratio was obtained by dividing other investment by total investment and loan and advances. It shows how much of total investment and loan and advances are used on other investment. The ratio can be mentioned as:

$$\frac{Other\ Investment}{Total\ Investment\ and\ Loan\ and\ Advances}$$

The numerator includes investment on shares and debentures, trade investment and investment on other financial institutions.

Total Liquidity to Total Deposit

The ratio was obtained by dividing total liquidity by total deposit. It shows how much liquidity is maintained. The ratio can be mentioned as:

$$\frac{Total\ Liquidity}{Total\ Deposit}$$

The numerator includes cash and bank balance, investment on government securities and NRB deposit.

Interest on Investment to Total Investment

The ratio was obtained by dividing interest on investment by total investment. It shows how much interest is earned through investment out of total investment. The ratio can be mentioned as:

$$\frac{Interest\ on\ Investment}{Total\ Investment}$$

Interest on Loan and Advances to Total Loan and Advances

The ratio was obtained by dividing interest on loan and advances by total loan and advances. It shows how much interest is earned through loan and advances out of total loan and advances. The ratio can be mentioned as:

$$\frac{Interest\ on\ Loan\ and\ Advances}{Total\ Loan\ and\ Advances}$$

Net Profit to Total Capital Employed

The ratio was obtained by dividing net profit by total capital employed. It shows how efficient the finance companies in using the owner's funds. The ratio can be-mentioned as:

$$\frac{Net\ \mathrm{Pr}ofit}{Total\ Capital\ Employed}$$

The denominator includes paid up capital and reserves and surplus.

Net Profit to Total Assets

The ratio was obtained by dividing net profit by total assets. It measures the overall profitability of total assets of finance companies. The ratio can be mentioned as:

$$\frac{Net\ \mathrm{Pr}ofit}{Total\ Assets}$$

Operating Expenses to Total Revenues

The ratio was obtained by dividing operating profit by total revenues. It shows how much expenses are used for the operation of company out of total revenues. The ratio can be mentioned as:

$$\frac{Operating\ Expenses}{Total\ \mathrm{Re}venues}$$

Total Income to Total Expenditure

The ratio was obtained by dividing total income by total expenditure. It shows how efficient the finance companies are in covering their expense through their incomes. The ratio can be mentioned as:

$$\frac{Total\ Income}{Total\ Expenditure}$$

3.5.2. Statistical Tools

Various statistical tools had been used to achieve the objective of the study.

Mean

The mean was calculated to represent the entire values of the variables by one value and to compare between those values. The mean can be calculated by using following formula.

$$\overline{X}\ \mathrm{X}\ \frac{X}{N}$$

where,

$\overline{X}$ = mean of the variables

X = sum of the values of the variables

N = number of observations

Coefficient of Variation (CV)

The coefficient of variation was used to measure the variability between two or more than two variables. If the CV is less, more will be the consistency. The ratio can be calculated by using following formula.

$$CV\ \mathrm{X}\ \frac{s\tan dard\ deviation}{mean}\ |100$$

Correlation Coefficient

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps is in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number which indicates to what extent two variables are related with each other and to what extent variations is one leads to the variation in the other.

Correlation may be positive or negative which lies between $\pm$ 1. Simple correlation between interest rate on deposit and deposit amount interest rate on lending and credit or lending amount and is computed in this thesis. The correlation between interest rate on deposit and deposit amount is positive. Interest rate on lending and lending amount is negative when inflation increases, interest rate also increases in same direction and vice versa.

Correlation may be positive or negative and ranges from -1 to +1 when r = +1 there is positive or negative and ranges when r = 1 there is prefect negative. Correlation, when r =0, there is no correlation and when r < 0.5 then there is low degree of correlation.

When 'r' ties between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

When 'r' lies between 0.5 to 0.699 there is a moderate degree of correlation.

The correlation coefficient can be calculated as:

$$r = \frac{N\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - (\sum x)^2}\sqrt{N\sum y^2 - (\sum y)^2}}$$

where,

r = coefficient of correlation

x and y = two variables, correlation between them are calculated

N = number of pairs of observations

Coefficient of Determination (R2)

The coefficient of determination is the primary way to measure the extent or strength of the association that exists between two variables, x and y. It refers to a measure at the total variance in a dependent variable that is explained by its linear relationship to and independent variable. The coefficient of determination is denoted by R2 and the value lies between zero and infinity. The close to infinity means greater the explanatory power. A value or one can occur only is the in explained diagram falls exactly on the regression line. The R2 is always a positive number. It can't tell whether the relationship between the two variables is positive or negative. The square of the simple correlation coefficient is called coefficient of determination and it is very useful in interpreting the value of simple correlation coefficient. The main significance of the coefficient of determination is to represent the portion of total variations due to independent variable.

Coefficient of determination (r212) = (r12)2

t - test for Significance of Correlation Coefficient

If 'r' is the observed sample correlation coefficient of 'n' pairs of observations from bivariate normal population the test statistics for significance of correlation under null hypothesis is given.

$$t\,X\frac{r}{\sqrt{1Zr^{2}}} \mid \sqrt{n\,Z2} \rceil t_{nZ2}$$

Where (n-2) = degree of freedom

n= sample

t = t- distribution

The (1-ℑ) % confidence limits for estimating population correlation coefficient (∂) are given by

$$r \{ t_{\sim}(n\,Z2) \mid S.E(r)$$

$$X r \{ t_{\sim}(n\,Z2) \mid \frac{1Zr^{2}}{\sqrt{n}}$$

One Way Analysis of Variance (ANOVA)

To test whether there is statistically significant correlation between the related variable of the sampled finance companies, F – test is done. The F –test, sometimes called Variance Test Ratio is based on F distribution.

R. A. Fisher introduced the variance in the analysis of statistical data. Fisher developed an elaborated technique of analyzing the variance of two or more series for the purpose of studying their characteristics.

In the analysis of variance, an attempt is made to try to find out whether the means given by a number of samples are significantly different from one another. The technique of variance analysis developed by Fisher is very useful to study the significance of the differences of the mean value of samples.

F test was calculated by dividing the variance between samples by variance within samples. The following formula was used,

$$\text{F-test} = \frac{\text{Variance between the samples}}{\text{Variance within the samples}}$$

For the analysis of variances (ANNOVA) following formula was used, Correction Factor (c.f.) = $\frac{T^2}{n}$

Total Sum of Squares (SST) = $(X_1^2 \,\Gamma\, X_2^2 \,\Gamma\, X_3^2)\, Z \frac{T^2}{n}$

Sum of Squares between samples (SSC) = $\frac{(\quad X_c)^2}{n_r} - \frac{T^2}{n}$

Sum of Squares within samples (SSE) = Total sum of Squares (SST) – Sum of Squares between samples (SSC)

Analysis of Variance (ANNOVA) Table

Source of Variation	**SS (Sum of Squares)**	***df* Degrees of freedom**	***MS* Mean Square**	**Variance Ratio of F**
Between Samples	SSC	df_1 = c-1	MSC = SSC / (c-1)	**MSC / MSE**
Within Samples	SSE	df_2 = n-c	MSE =SSE / (n-c)	
Total	**SST**	**n-1**		

Where,

SST = Total Sum of squares

SSC = Sum of Squares between samples

SSE = Sum of Squares within samples

MSC = Mean sum of Squares between samples

MSE = Mean sum of Squares within samples.

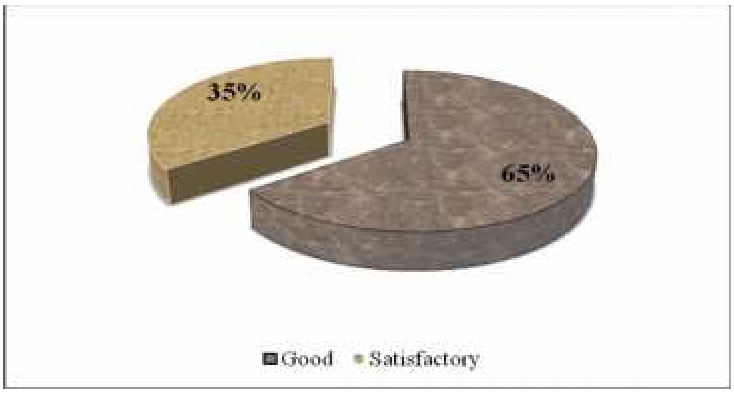
4.3. Presentation and Analysis of Primary Data

In this section primary data is analyzed. The primary data collected through the questionnaire distributed to the executives and others personals officers of sample finance companies. Those people related to the field of company were familiar about real position of the company. Please see annex for questionnaire.

Question No 1. Is the earning of your finance company is satisfactory?

The first question is related about the present condition of finance companies in Nepalese financial market. The view points of the different respondents are presented in figure below.

Figure No.10

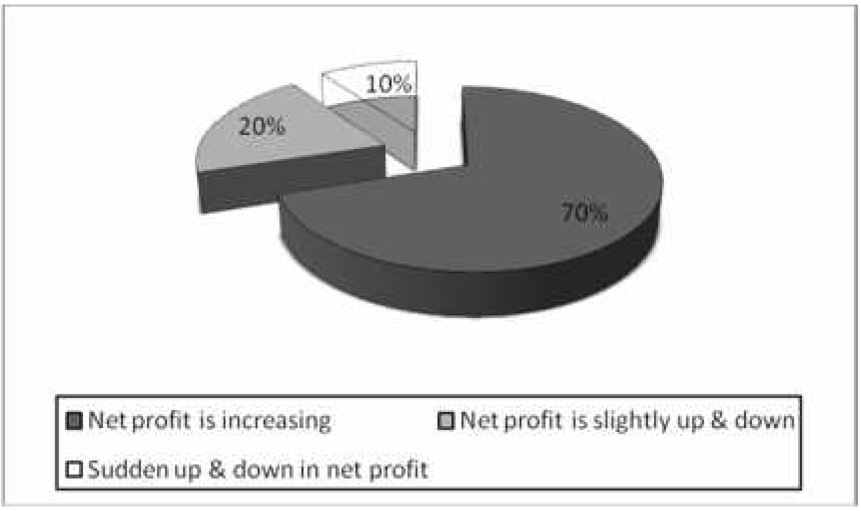


The above figure shows about the present condition of finance companies in Nepalese Financial Market. 65% of the respondents agree that the finance companies are in good condition. But 35% of the respondents believe that the condition of company is satisfactory and no are argue with the poor condition of the finance company. Satisfactory condition indicates that the condition either may go up or go down and the economy of the country is worsening day by day so the attention must be given.

Question No 2. If good, what is the earning pattern of your finance company since few years?

This question is related to the net profit pattern of the finance companies. The view points of the different respondents are presented in figure below.

Figure No.: 11

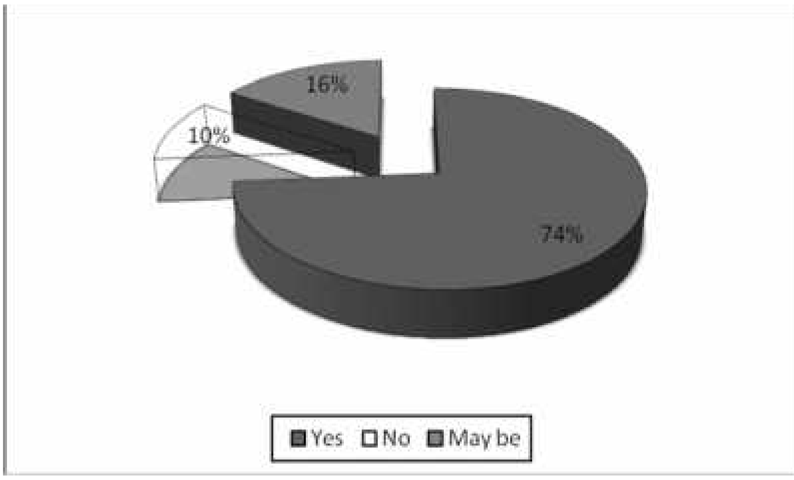


The above figure shows the 70% of respondents agree that the net profit is increasing each year. But 20% agree that net profit is slightly up & down and remaining 10% have view of sudden up & down in net profit. From the figure it is clear that most of the respondents think that net profit is increasing.

Question No 3. Are the shareholders satisfied to its present financial condition?

The question wants to be clear about satisfaction level of the shareholders of the finance companies. The view points of the different respondents are presented in figure below.

Figure No.: 12

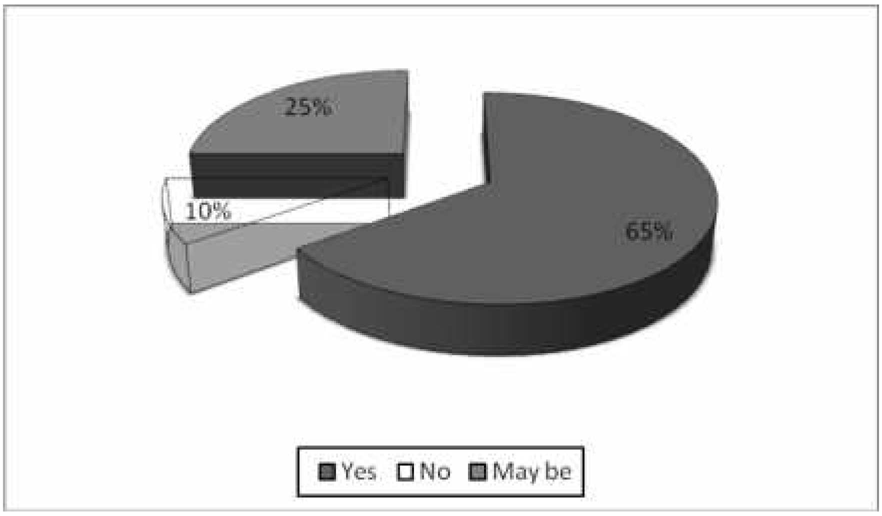


The above figure shows the 75% of the respondents agree that the shareholders are satisfied to present condition of finance company. But 10% do not agree and remaining 15% ate unknown about the satisfaction level.

Question No 4. Is your finance company is competitive to its rival in market?

This question tries to find out the competition level of finance companies in financial market. The viewpoints of the different respondents are presented in figure below.

Figure No.:13

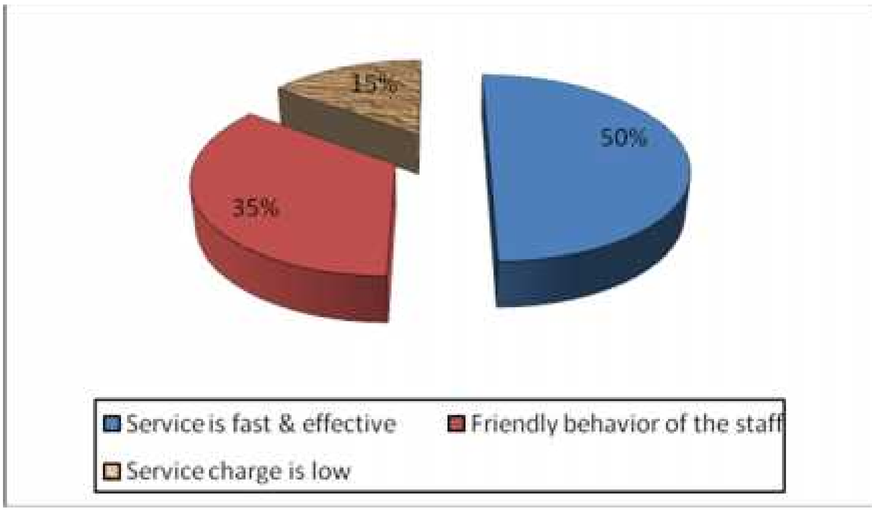


The above figure shows that the 65% of the respondents agree that the company is competitive in current financial market. But 10% do not agree and remaining 25% are unknown about the question.

Question No 5. What is the most strength point of your finance company?

This question tries to know strategy of company for customer satisfaction. The result obtained from different respondents is presented below.

Figure No.: 14

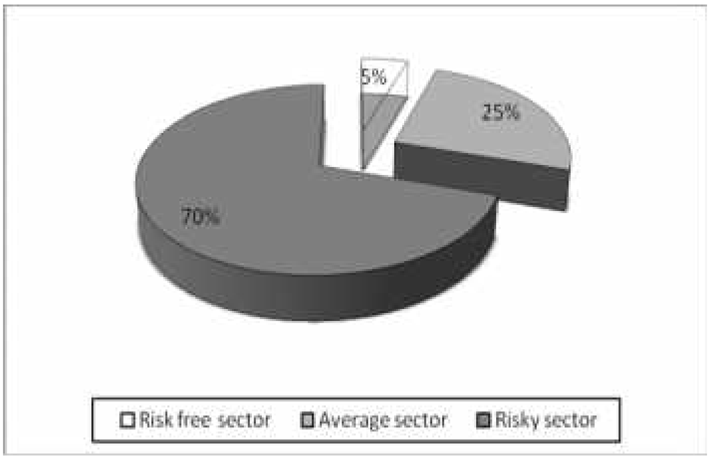


The above figure shows that 50% of the respondents agree that service is fast & effective, 35% agree for the friendly behavior of the staff and only 15% agree for low service charge. This shows that finance companies are adopting different strategies for customer satisfaction.

Question No 6. In which sector your finance company has made major portion of investment?

This question wants to find out risk portfolio of the finance companies. Here is what our respondents have replied.

Figure No.: 15

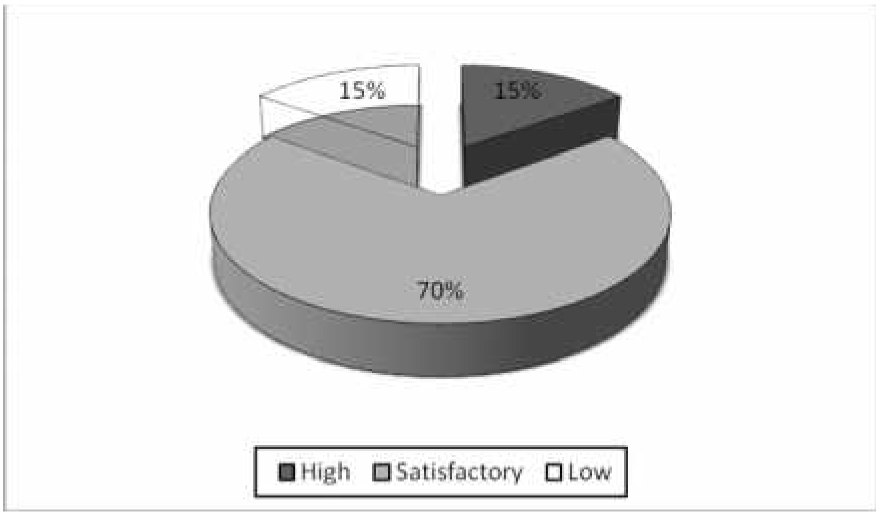


The above figure shows that about only 5% of the respondents agree that the company is investing in risk free sector. 25% agree for the average sector investment and 70% agree for risky sector investment. This shows that finance companies are investing in all sectors for profit maximization and risk minimization with different percentage of portfolio the company can bear.

Question No 7. What is your opinion about the interest rate charged by your finance company in loans & advances in comparison to other finance companies?

This question wants to find out interest rate charged by finance companies in loans & advances. The figure shows what the respondents have said.

Figure No.: 16

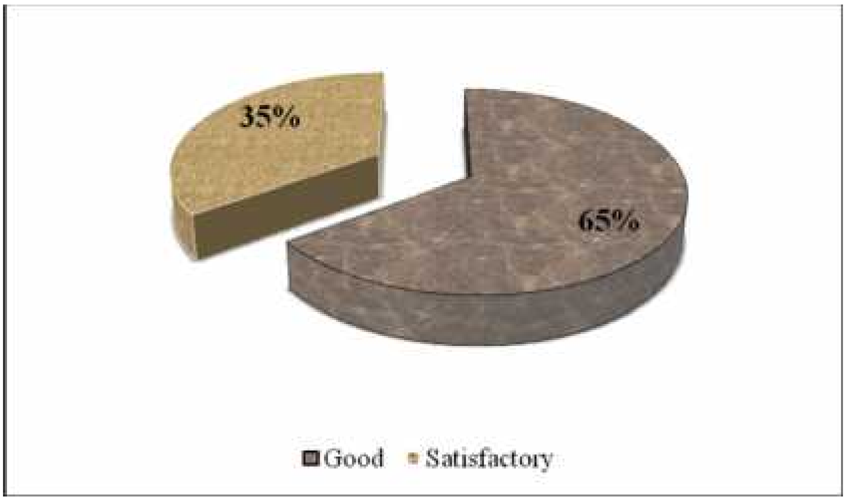


The above figure shows that the 15% of the respondents are agree that the company has high interest rate in loans and advances in current financial market. But major portion of respondents i.e. 70% are agree with satisfactory level of interest and remaining 15% are agree with low interest rate.

Question No: 8 Are you satisfied with credit risk analysis of your finance company before granting loan?

This question wants to clear analysis part before granting loan. The result is presented in given figure.

Figure No.: 17

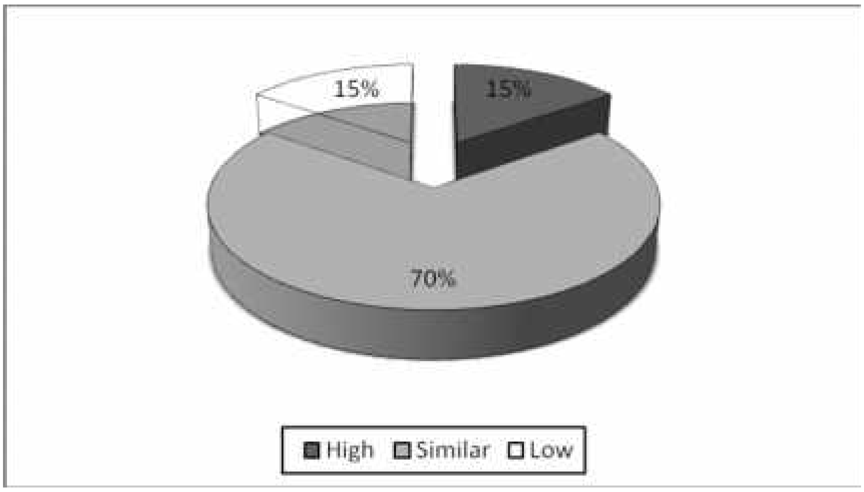


The above figure shows that 65% of the respondents agree that the finance companies have good credit risk analysis but 35% of the respondents believe that the credit risk analysis of company is satisfactory and no are argue with the poor risk analysis of the finance company. Satisfactory condition indicates that the extra effort should be given in credit risk analysis as the current market is not favorable.

Question No 9. What is the service charge rate of your finance company in loan & advances in comparison to other finance companies?

This question wants to find out service rate charged by finance companies in loans & advances. The figure shows what the respondents have said.

Figure No.: 18

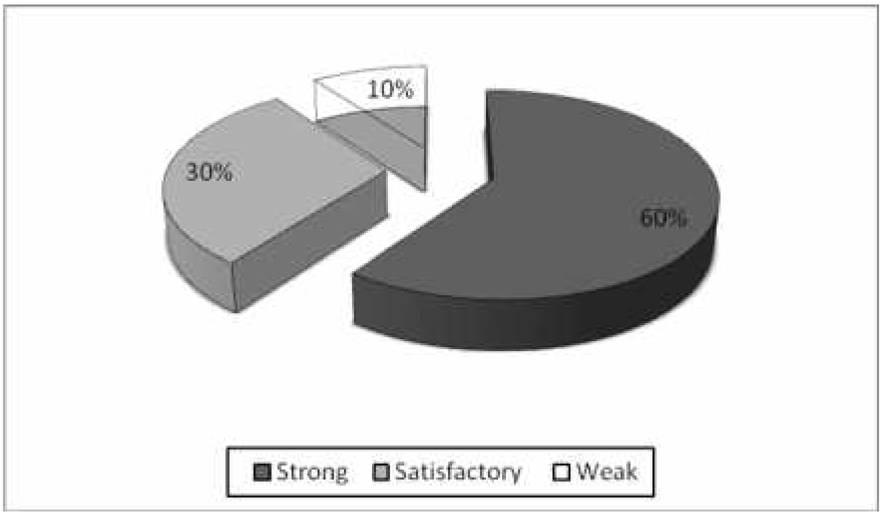


The above figure shows that the 15% of the respondents are agree that the company has high service charge rate in loans and advances in current financial market. But major portion of respondents i.e. 70% are agree with similar chare rate of interest and remaining 15% are agree with low service charge.

Question No 10. What do you think about documentation process in loan & advances of your finance company?

This question wants to strength of documentation while granting loan. The result obtained from different persons is presented below.

Figure No.: 19

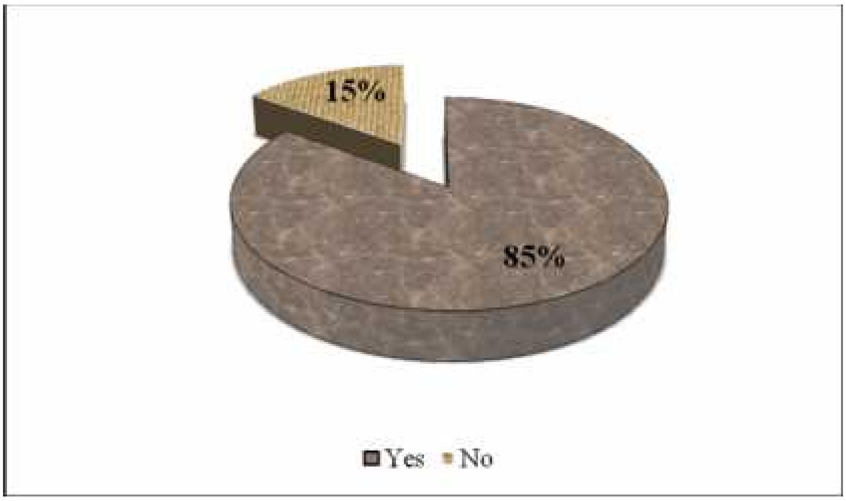


The above figure shows that major part of the respondents think that documentation process is strong . About 30% of respondents agree that the documentation is satisfactory and remaining 10% think as weak due to the company also use to provide loan to high class business without or with few documentation.

Question No 11. Does any finance company officer visit your project site at the time of granting loan?

This question is related about the site visit during providing loan to minimize risk. The viewpoints of different respondents are presented in figure below.

Figure No.: 20

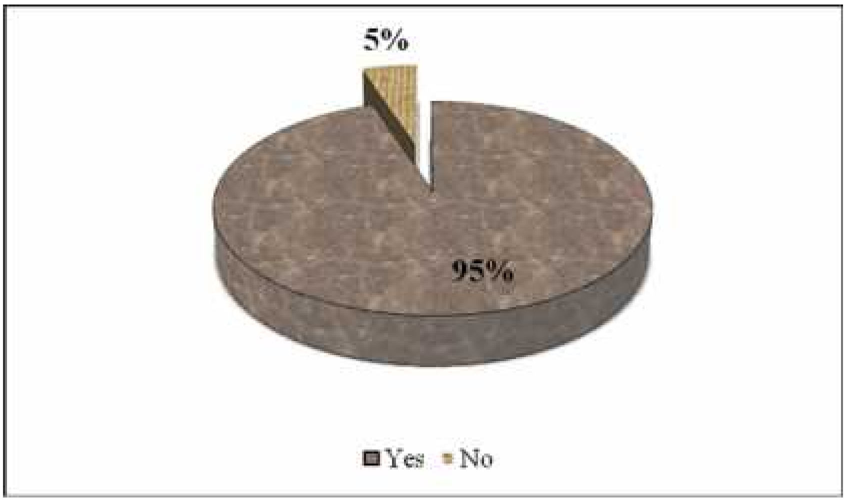


The above figure shows that major i.e. 85% sites are visited to grant loan but 15% do not agree with the statement because site visit is not done is loan client is high valued.

Question No 12. Does your finance company inform notice to loan client before time of loan repayment or installment?

This question wants to find out the information to loan client for loan repayment. The figure shows what the respondents have said.

Figure No.: 21

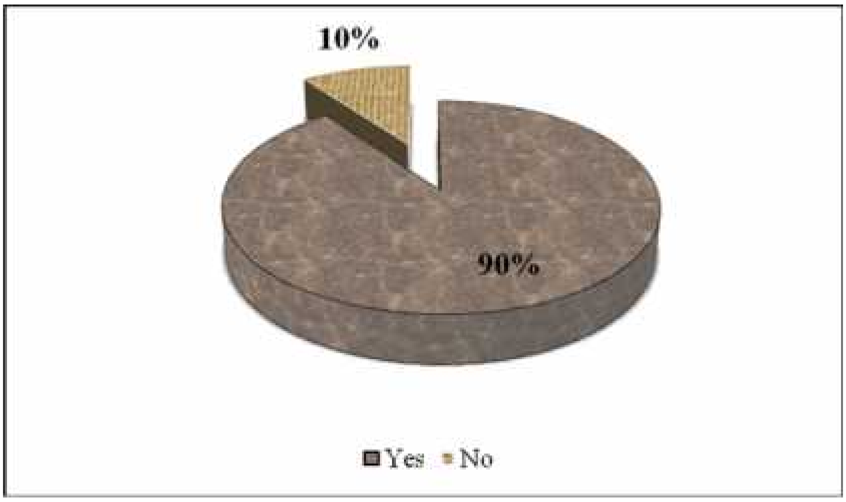


The above figure shows that major i.e. 95% loan client are informed for repayment or installment of loan but 5% loan clients are not informed as these loans are already booked in provisions and other steps are in consideration for loan recovery.

Question No: 13. Have the loan clients utilized the entire loan to the same sector as specified at the time of taking loan?

This question wants to find out the information to loan client for loan repayment. The figure shows what the respondents have said.

Figure No.: 22

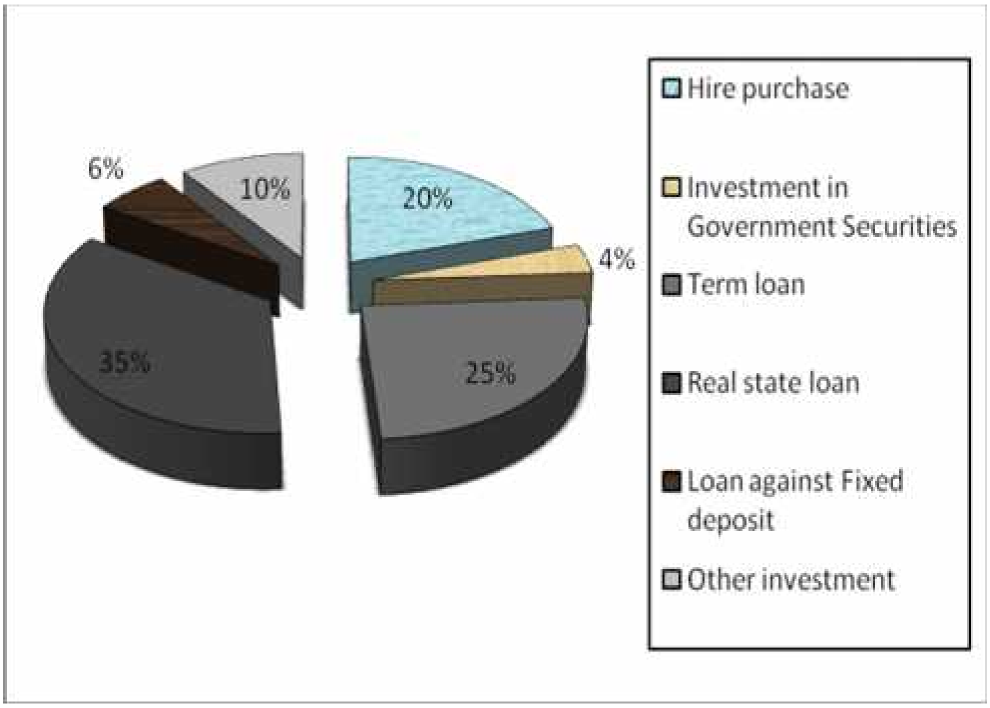


The above figure shows that major i.e. 90% loan clients have utilized the entire loan as specified while taking loan but 10% loan clients are not utilizing entire loan as specified because cases are found that the client has also used in other sector which visiting the site after certain period.

Question No 14. In which your finance company has made more investment?

This question wants to find out investment portfolio of the finance companies. Here is what our respondents have replied.

Figure No.: 23



The above figure shows that about different percentage of investment in different sector. According to the questionnaire filled by the respondents of different finance companies, there is difference in major portion of investment from one company to another i.e. one company has higher portion of investment in one portion and another company has in another portion. However above figure is presented on the basis of average of questionnaire filled by all respondents. The above figure shows that 20% is invested in hire purchase loan, 4% in government securities, 25% in term loan, 35% in real estate, 6% against fixed deposit and 10% in other investment.

4.4. Major Findings

On the basis of the analysis of the data from fiscal year 2005 to 2009, the following findings have been drawn.

- The National Finance is significant in mobilizing its deposits in investment and People's Finance in loan and advances in comparison to others. Likewise, the People's Finance is less significant in mobilizing its deposits in investment and Union Finance in loan and advances. While mobilizing deposits in investment, National Finance is more consistent and Union Finance is less consistent.

Likewise, mobilizing deposits in loan and advances, Shree Investment and Finance is more consistent and Union Finance is less consistent.

- The Union finance is significant in financing hire purchase; Union Finance in government securities and loan against fixed deposits; Universal Finance in term loan; Shree Investment and Finance in real estate finance; People's finance in other investment in comparison to others. Likewise, the Shree Investment and Finance is less significant in financing hire purchase, National Finance in government securities and loan against fixed deposits, Union Finance in term loan and real estate finance, and National Finance in loan against fixed deposit and other investments. While considering investment in these sectors, the Union Finance is more consistent in hire purchase, National Finance in government securities; Universal Finance in term loan, real estate finance and other investment and National finance in loan against fixed deposits. Likewise, the Kathmandu Finance is less consistent in hire purchase; Union Finance in government securities, term loan, real estate finance, loan against fixed deposits and other investments.
- The People's Finance has maintained the high liquidity where as Universal Finance has maintained less liquidity in comparison to others. But the Kathmandu Finance is more consistent in maintaining liquidity where as People's Finance is less consistent in comparison to others.
- The People's Finance is earning more interest on investment and Kathmandu Finance on loan and advances in comparison to others. Likewise, National Finance is earning less interest on investment and People's Finance on loan and advances. But the People's Finance is more consistent in earning interest on investment and Universal Finance on loan and advances. Likewise, the Union Finance is less consistent in earning interest on investment and loan and advances.
- The Shree Investment and Finance is significant as well as more consistent at mobilizing its equity where as People's Finance is less significant in comparison to others. But Union Finance is less consistent in comparison to others.
- The National Finance is significant at utilizing its assets to earn profit where as Union Finance is less significant as well as less consistent in comparison to

others. But the Universal finance is more consistent at utilizing its assets to earn profit.

- The Union Finance has high operating expenses in terms of their incomes with less consistency where as Universal Finance has low operating expenses in terms of their incomes and Shree Investment and finance is more consistency in comparison to others.
- The Kathmandu Finance is significant at covering its expenditure through its income where as Kathmandu Finance is less significant in comparison to others. But the Shree Investment and Finance is more consistent at covering its expenditure through its income where as Union Finance is less consistent in comparison to others.
- The correlation analysis shows that there is a positive relationship between the net profits and interest on investment and interest on loan and advances and are highly correlated individually. This means that the net profit of finance companies is highly affected by those items mentioned above. Not only individually but also there is combined effect of them on net profit.
- The analysis shows that the total investment and loan & advances have high positive correlation with hire purchase, term loan, real estate finance and loan against fixed deposit than other variables. Similarly, hire purchase is highly correlated with total investment and loan & advances, real estate finance and other investment; government securities with real estate finance and other investment; term loan with total investment and loan & advances, real estate & loan against fixed deposit; real estate finance with total investment and loan and advances, hire purchase, term loan, government securities & loan against fixed deposit; loan against fixed deposit with total investment and loan and advances, term loan and real estate; and other investment with hire purchase and government securities.
- The trend of average investment of total investment and loan & advances, hire purchase, government securities, term loan, real estate finance, loan against fixed deposit and other investments shows the increasing pattern of total investment and loan & advances, term loan, real estate finance & loan against fixed deposit since fiscal year 2005 to 2009. The trend also show decrease of hire purchase, other

investment & government securities on fiscal year 2007, decrease of hire purchase & other investment on fiscal year 2008. But there is increase on all sectors investment on fiscal year 2009.

Although correlation analysis shows all calculated relation are positive, the t- test shows the relation of interest on investment and interest in investment; total investment and loans & advances and term loan; total investment and loans & advances and real estate; total investment and loans & advances and loan against fixed deposit; term loan & real estate finance; term loan and loan against fixed deposit; and real estate finance and loan against fixed deposit are significant.

- Between the finance companies, there is a significant difference i.e. the risk availability between them are different in comparison to their investment. This shows that the finance companies are adopting different investment policy. Thus there is a great disparity among the finance companies as far as the investment is concerned.
- Between the investment sectors, there is a significant difference i.e. the risk availability among the sectors of investment are different as made by the finance companies. This shows that there is a great disparity among the sectors of investment as far as the finance companies are concerned.

Primary Data

Questionnaires filled up by the respondent's shows that the finance companies are performing well in investing their funds with different investment patterns. But respondents traced out some problem regarding high valued clients as loan are provided with weak documentation and without site visit to them. It is also found that some clients don't use their loan to specified area at time of taking loan.

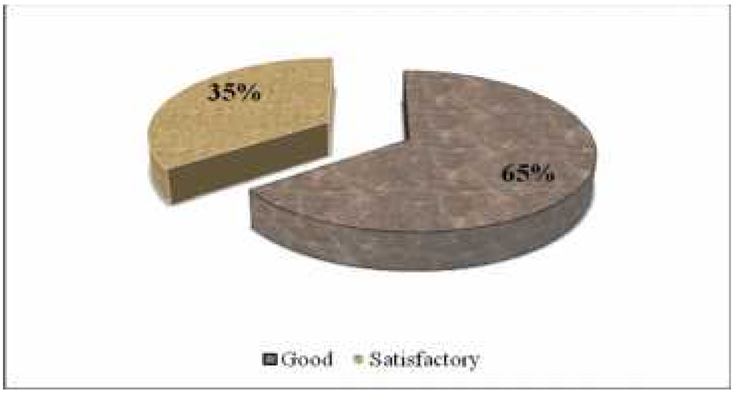
4.3. Presentation and Analysis of Primary Data

In this section primary data is analyzed. The primary data collected through the questionnaire distributed to the executives and others personals officers of sample finance companies. Those people related to the field of company were familiar about real position of the company. Please see annex for questionnaire.

Question No 1. Is the earning of your finance company is satisfactory?

The first question is related about the present condition of finance companies in Nepalese financial market. The view points of the different respondents are presented in figure below.

Figure No.10

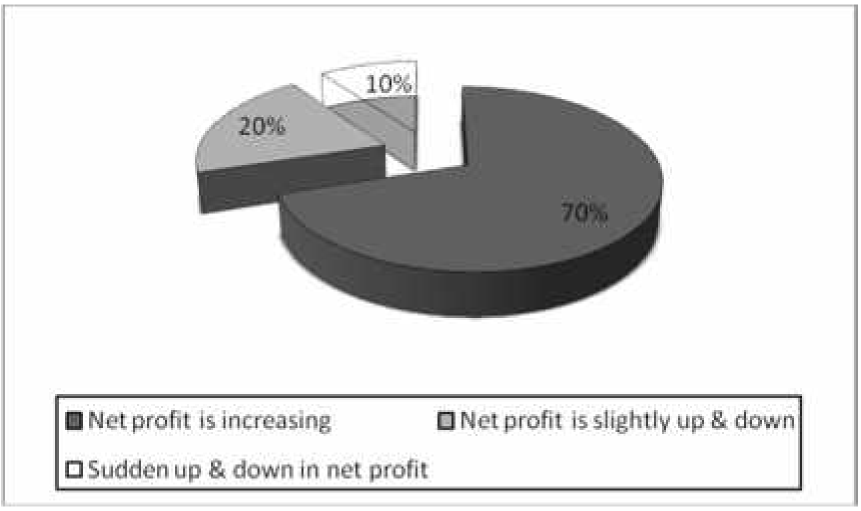


The above figure shows about the present condition of finance companies in Nepalese Financial Market. 65% of the respondents agree that the finance companies are in good condition. But 35% of the respondents believe that the condition of company is satisfactory and no are argue with the poor condition of the finance company. Satisfactory condition indicates that the condition either may go up or go down and the economy of the country is worsening day by day so the attention must be given.

Question No 2. If good, what is the earning pattern of your finance company since few years?

This question is related to the net profit pattern of the finance companies. The view points of the different respondents are presented in figure below.

Figure No.: 11

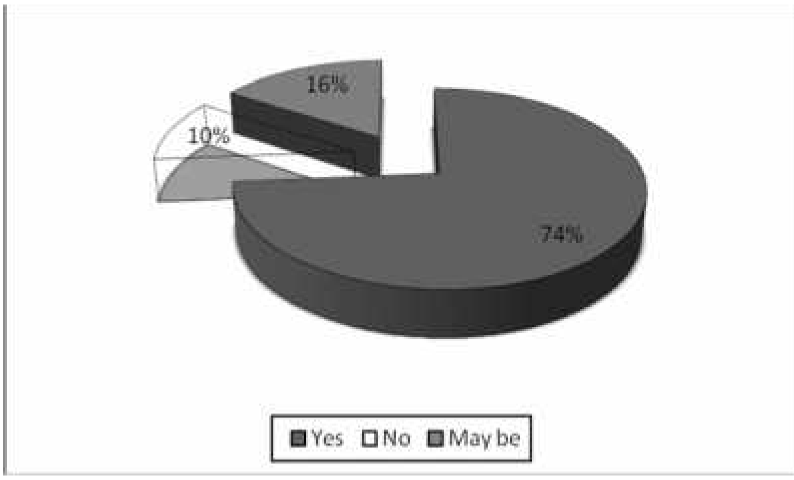


The above figure shows the 70% of respondents agree that the net profit is increasing each year. But 20% agree that net profit is slightly up & down and remaining 10% have view of sudden up & down in net profit. From the figure it is clear that most of the respondents think that net profit is increasing.

Question No 3. Are the shareholders satisfied to its present financial condition?

The question wants to be clear about satisfaction level of the shareholders of the finance companies. The view points of the different respondents are presented in figure below.

Figure No.: 12

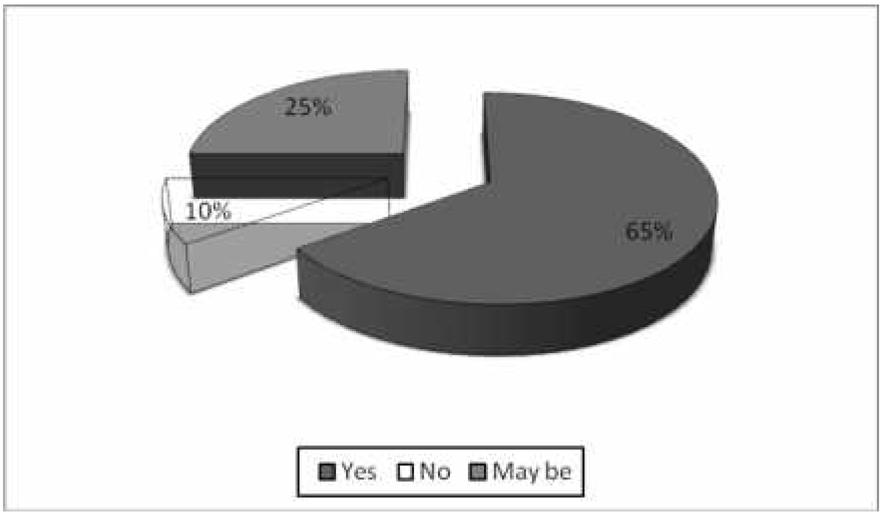


The above figure shows the 75% of the respondents agree that the shareholders are satisfied to present condition of finance company. But 10% do not agree and remaining 15% ate unknown about the satisfaction level.

Question No 4. Is your finance company is competitive to its rival in market?

This question tries to find out the competition level of finance companies in financial market. The viewpoints of the different respondents are presented in figure below.

Figure No.:13

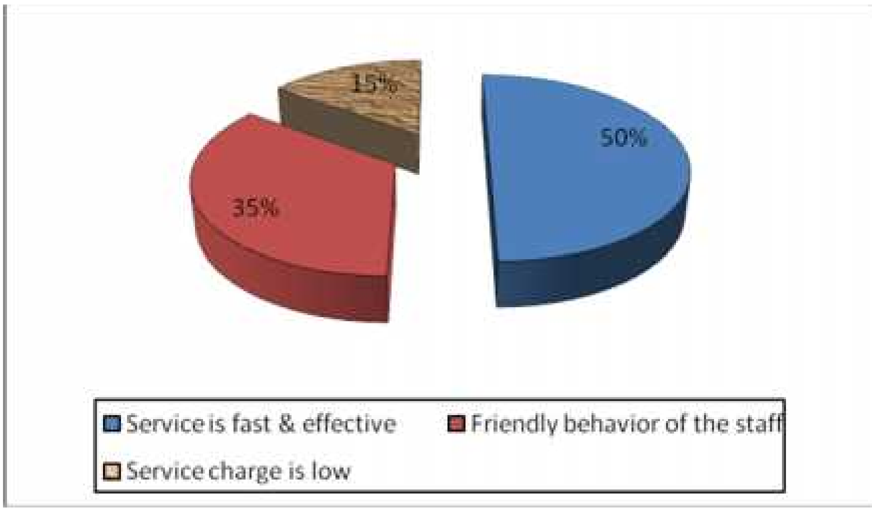


The above figure shows that the 65% of the respondents agree that the company is competitive in current financial market. But 10% do not agree and remaining 25% are unknown about the question.

Question No 5. What is the most strength point of your finance company?

This question tries to know strategy of company for customer satisfaction. The result obtained from different respondents is presented below.

Figure No.: 14

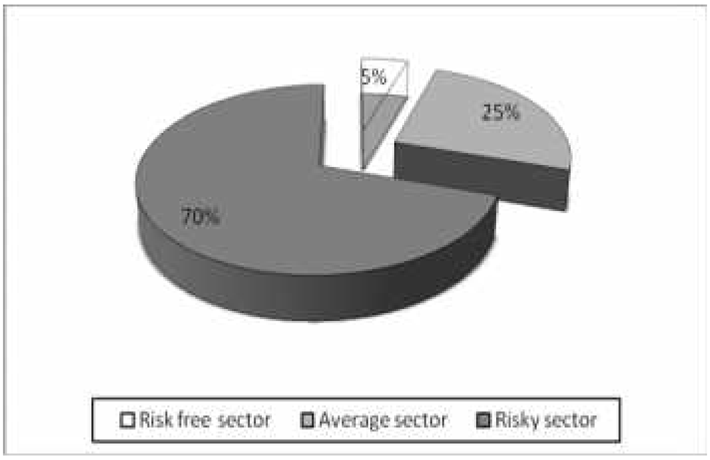


The above figure shows that 50% of the respondents agree that service is fast & effective, 35% agree for the friendly behavior of the staff and only 15% agree for low service charge. This shows that finance companies are adopting different strategies for customer satisfaction.

Question No 6. In which sector your finance company has made major portion of investment?

This question wants to find out risk portfolio of the finance companies. Here is what our respondents have replied.

Figure No.: 15

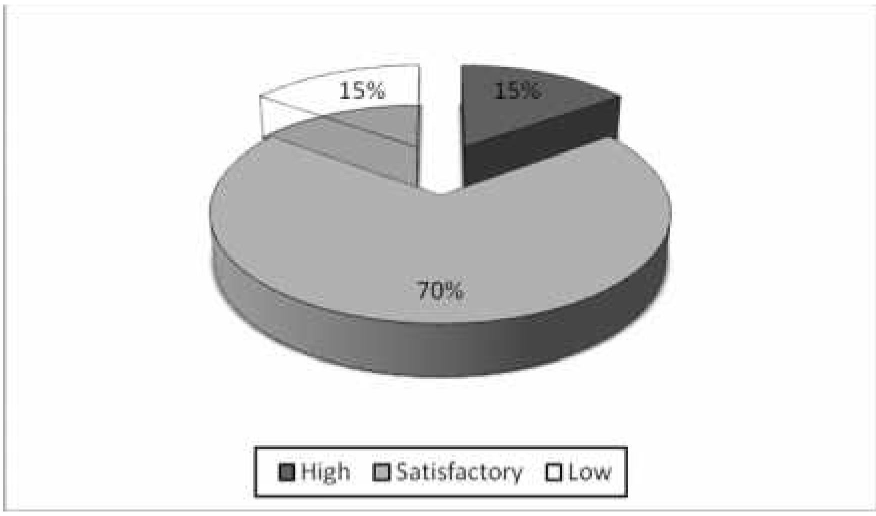


The above figure shows that about only 5% of the respondents agree that the company is investing in risk free sector. 25% agree for the average sector investment and 70% agree for risky sector investment. This shows that finance companies are investing in all sectors for profit maximization and risk minimization with different percentage of portfolio the company can bear.

Question No 7. What is your opinion about the interest rate charged by your finance company in loans & advances in comparison to other finance companies?

This question wants to find out interest rate charged by finance companies in loans & advances. The figure shows what the respondents have said.

Figure No.: 16

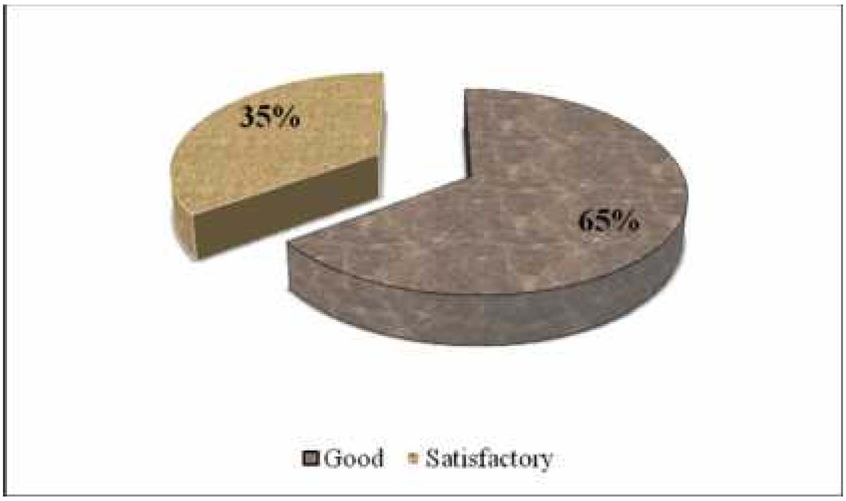


The above figure shows that the 15% of the respondents are agree that the company has high interest rate in loans and advances in current financial market. But major portion of respondents i.e. 70% are agree with satisfactory level of interest and remaining 15% are agree with low interest rate.

Question No: 8 Are you satisfied with credit risk analysis of your finance company before granting loan?

This question wants to clear analysis part before granting loan. The result is presented in given figure.

Figure No.: 17

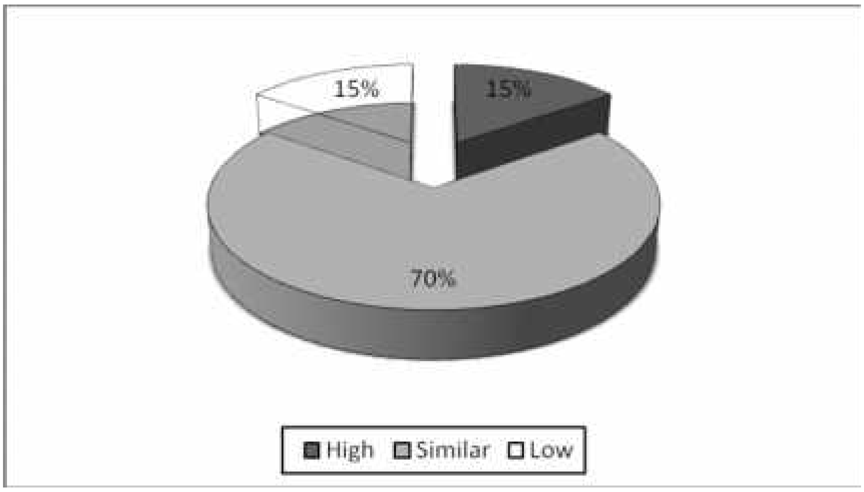


The above figure shows that 65% of the respondents agree that the finance companies have good credit risk analysis but 35% of the respondents believe that the credit risk analysis of company is satisfactory and no are argue with the poor risk analysis of the finance company. Satisfactory condition indicates that the extra effort should be given in credit risk analysis as the current market is not favorable.

Question No 9. What is the service charge rate of your finance company in loan & advances in comparison to other finance companies?

This question wants to find out service rate charged by finance companies in loans & advances. The figure shows what the respondents have said.

Figure No.: 18

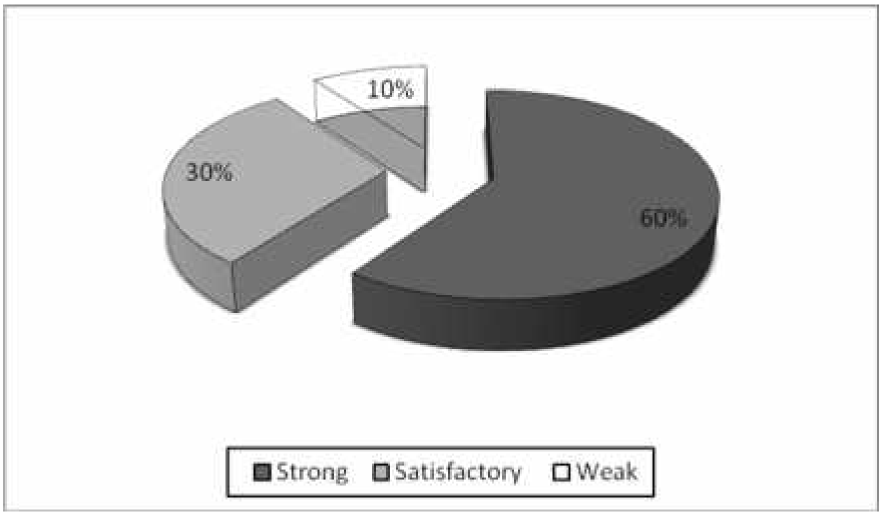


The above figure shows that the 15% of the respondents are agree that the company has high service charge rate in loans and advances in current financial market. But major portion of respondents i.e. 70% are agree with similar chare rate of interest and remaining 15% are agree with low service charge.

Question No 10. What do you think about documentation process in loan & advances of your finance company?

This question wants to strength of documentation while granting loan. The result obtained from different persons is presented below.

Figure No.: 19

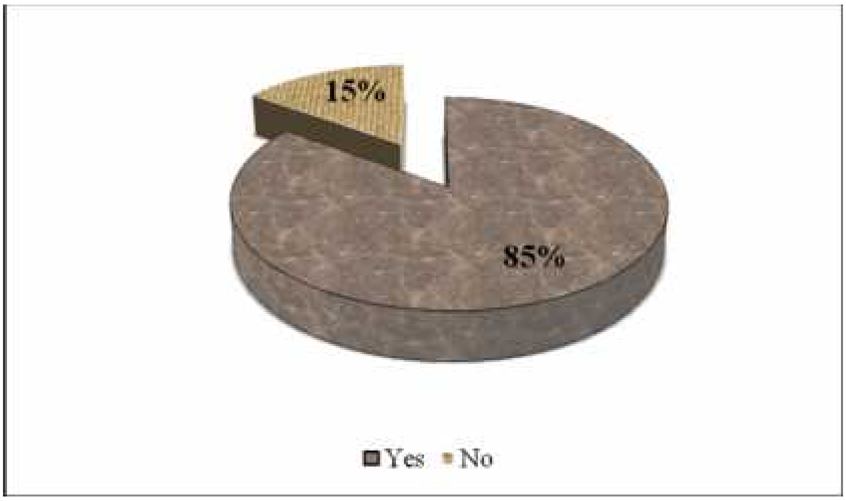


The above figure shows that major part of the respondents think that documentation process is strong . About 30% of respondents agree that the documentation is satisfactory and remaining 10% think as weak due to the company also use to provide loan to high class business without or with few documentation.

Question No 11. Does any finance company officer visit your project site at the time of granting loan?

This question is related about the site visit during providing loan to minimize risk. The viewpoints of different respondents are presented in figure below.

Figure No.: 20

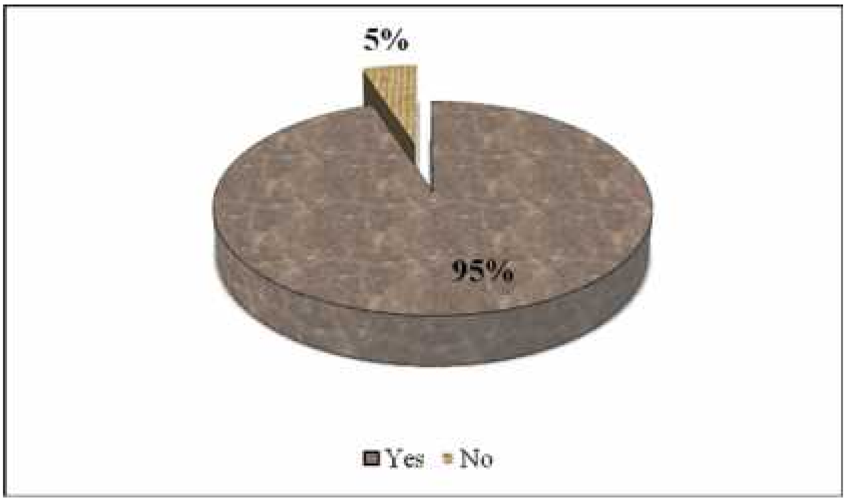


The above figure shows that major i.e. 85% sites are visited to grant loan but 15% do not agree with the statement because site visit is not done is loan client is high valued.

Question No 12. Does your finance company inform notice to loan client before time of loan repayment or installment?

This question wants to find out the information to loan client for loan repayment. The figure shows what the respondents have said.

Figure No.: 21

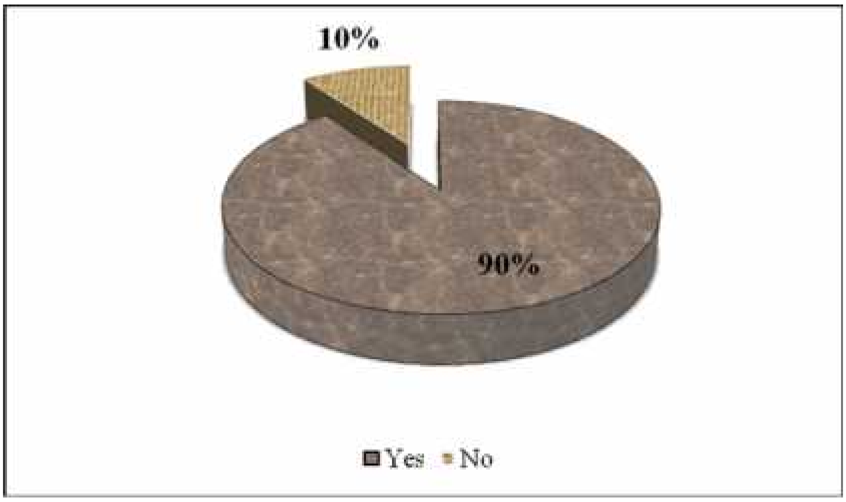


The above figure shows that major i.e. 95% loan client are informed for repayment or installment of loan but 5% loan clients are not informed as these loans are already booked in provisions and other steps are in consideration for loan recovery.

Question No: 13. Have the loan clients utilized the entire loan to the same sector as specified at the time of taking loan?

This question wants to find out the information to loan client for loan repayment. The figure shows what the respondents have said.

Figure No.: 22

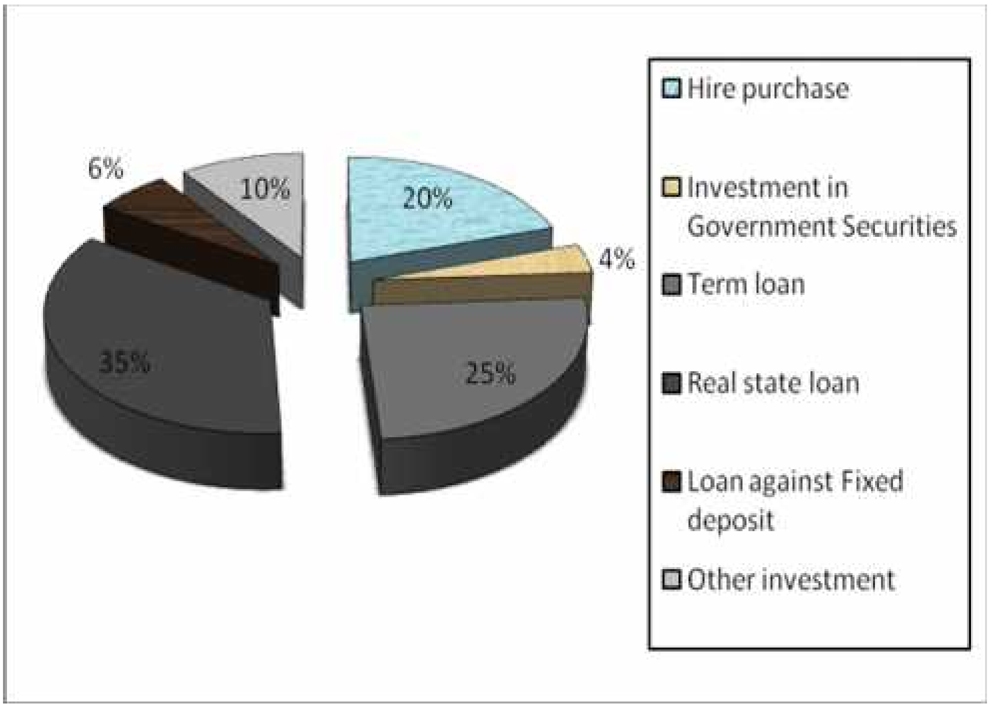


The above figure shows that major i.e. 90% loan clients have utilized the entire loan as specified while taking loan but 10% loan clients are not utilizing entire loan as specified because cases are found that the client has also used in other sector which visiting the site after certain period.

Question No 14. In which your finance company has made more investment?

This question wants to find out investment portfolio of the finance companies. Here is what our respondents have replied.

Figure No.: 23



The above figure shows that about different percentage of investment in different sector. According to the questionnaire filled by the respondents of different finance companies, there is difference in major portion of investment from one company to another i.e. one company has higher portion of investment in one portion and another company has in another portion. However above figure is presented on the basis of average of questionnaire filled by all respondents. The above figure shows that 20% is invested in hire purchase loan, 4% in government securities, 25% in term loan, 35% in real estate, 6% against fixed deposit and 10% in other investment.

4.4. Major Findings

On the basis of the analysis of the data from fiscal year 2005 to 2009, the following findings have been drawn.

- The National Finance is significant in mobilizing its deposits in investment and People's Finance in loan and advances in comparison to others. Likewise, the People's Finance is less significant in mobilizing its deposits in investment and Union Finance in loan and advances. While mobilizing deposits in investment, National Finance is more consistent and Union Finance is less consistent.

Likewise, mobilizing deposits in loan and advances, Shree Investment and Finance is more consistent and Union Finance is less consistent.

- The Union finance is significant in financing hire purchase; Union Finance in government securities and loan against fixed deposits; Universal Finance in term loan; Shree Investment and Finance in real estate finance; People’s finance in other investment in comparison to others. Likewise, the Shree Investment and Finance is less significant in financing hire purchase, National Finance in government securities and loan against fixed deposits, Union Finance in term loan and real estate finance, and National Finance in loan against fixed deposit and other investments. While considering investment in these sectors, the Union Finance is more consistent in hire purchase, National Finance in government securities; Universal Finance in term loan, real estate finance and other investment and National finance in loan against fixed deposits. Likewise, the Kathmandu Finance is less consistent in hire purchase; Union Finance in government securities, term loan, real estate finance, loan against fixed deposits and other investments.
- The People’s Finance has maintained the high liquidity where as Universal Finance has maintained less liquidity in comparison to others. But the Kathmandu Finance is more consistent in maintaining liquidity where as People’s Finance is less consistent in comparison to others.
- The People’s Finance is earning more interest on investment and Kathmandu Finance on loan and advances in comparison to others. Likewise, National Finance is earning less interest on investment and People’s Finance on loan and advances. But the People’s Finance is more consistent in earning interest on investment and Universal Finance on loan and advances. Likewise, the Union Finance is less consistent in earning interest on investment and loan and advances.
- The Shree Investment and Finance is significant as well as more consistent at mobilizing its equity where as People’s Finance is less significant in comparison to others. But Union Finance is less consistent in comparison to others.
- The National Finance is significant at utilizing its assets to earn profit where as Union Finance is less significant as well as less consistent in comparison to

others. But the Universal finance is more consistent at utilizing its assets to earn profit.

- The Union Finance has high operating expenses in terms of their incomes with less consistency where as Universal Finance has low operating expenses in terms of their incomes and Shree Investment and finance is more consistency in comparison to others.
- The Kathmandu Finance is significant at covering its expenditure through its income where as Kathmandu Finance is less significant in comparison to others. But the Shree Investment and Finance is more consistent at covering its expenditure through its income where as Union Finance is less consistent in comparison to others.
- The correlation analysis shows that there is a positive relationship between the net profits and interest on investment and interest on loan and advances and are highly correlated individually. This means that the net profit of finance companies is highly affected by those items mentioned above. Not only individually but also there is combined effect of them on net profit.
- The analysis shows that the total investment and loan & advances have high positive correlation with hire purchase, term loan, real estate finance and loan against fixed deposit than other variables. Similarly, hire purchase is highly correlated with total investment and loan & advances, real estate finance and other investment; government securities with real estate finance and other investment; term loan with total investment and loan & advances, real estate & loan against fixed deposit; real estate finance with total investment and loan and advances, hire purchase, term loan, government securities & loan against fixed deposit; loan against fixed deposit with total investment and loan and advances, term loan and real estate; and other investment with hire purchase and government securities.
- The trend of average investment of total investment and loan & advances, hire purchase, government securities, term loan, real estate finance, loan against fixed deposit and other investments shows the increasing pattern of total investment and loan & advances, term loan, real estate finance & loan against fixed deposit since fiscal year 2005 to 2009. The trend also show decrease of hire purchase, other

investment & government securities on fiscal year 2007, decrease of hire purchase & other investment on fiscal year 2008. But there is increase on all sectors investment on fiscal year 2009.

Although correlation analysis shows all calculated relation are positive, the t- test shows the relation of interest on investment and interest in investment; total investment and loans & advances and term loan; total investment and loans & advances and real estate; total investment and loans & advances and loan against fixed deposit; term loan & real estate finance; term loan and loan against fixed deposit; and real estate finance and loan against fixed deposit are significant.

- Between the finance companies, there is a significant difference i.e. the risk availability between them are different in comparison to their investment. This shows that the finance companies are adopting different investment policy. Thus there is a great disparity among the finance companies as far as the investment is concerned.
- Between the investment sectors, there is a significant difference i.e. the risk availability among the sectors of investment are different as made by the finance companies. This shows that there is a great disparity among the sectors of investment as far as the finance companies are concerned.

Primary Data

Questionnaires filled up by the respondent's shows that the finance companies are performing well in investing their funds with different investment patterns. But respondents traced out some problem regarding high valued clients as loan are provided with weak documentation and without site visit to them. It is also found that some clients don't use their loan to specified area at time of taking loan.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

In this section, all the collected data are presented in the filtered form and are analyzed thoroughly. This is the one of the major chapter of this study because it includes detail analysis and interpretation of data from which concrete result of Nepalese market can be obtained. In this chapter the relevant data and information necessary for the study are presented and analyzed keeping the objectives set in mind. This chapter consists of various calculations made for the analysis of investment patterns of sample finance companies. This chapter consists of detail analysis and interpretation of data relating to interest rate on deposit investment and lending. The analysis is based on secondary and primary data available. In presentation section, data are presented in terms of table, graph chart of figures, according to need. The presented data are then analyzed using different statistical tools which are mentioned in chapter three. At last the results of analysis are interpreted. Though there is no distinct line of demarcation for each section (like presentation section, analysis section and interpretation section) but the arrangement of writing is made by aforementioned way. The data has been used are both secondary and primary type. For our simplicity, in this thesis, presentation and analysis of data are made according to the nature.

Financial Ratio Analysis

Under this heading, various financial ratios have been calculated to evaluate the financial condition and performance of the finance companies. All the finance companies activities are monitored and controlled as per the directives of Nepal Rastra Bank.

As per our second objectives to examine the investment patterm of finance companies of Nepal, total deposit, investment and total loan & adv. and their ratios of six finance companies are presented.

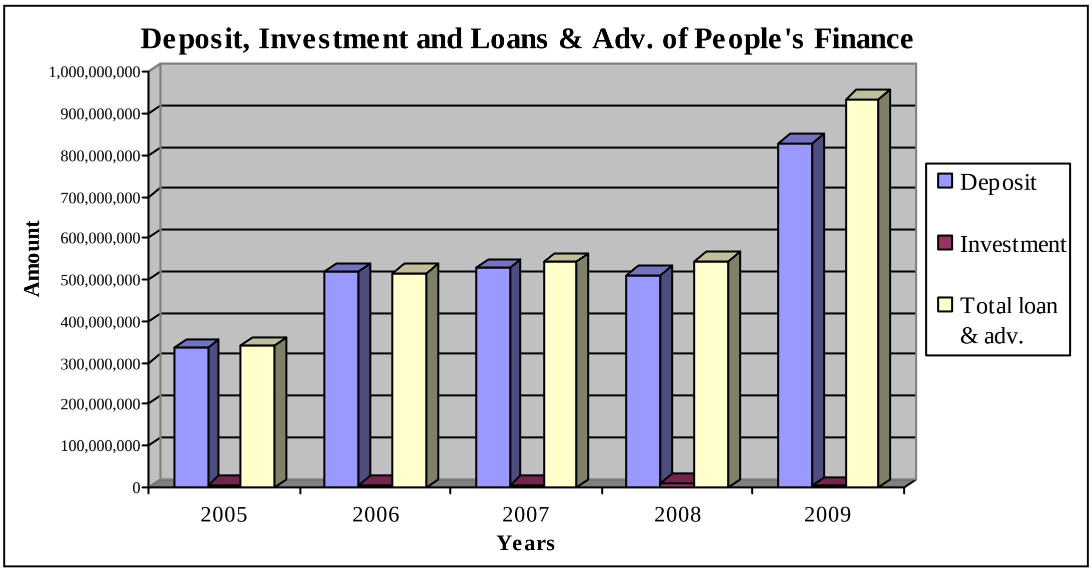
The pattern of total deposit, investment and total loan & adv. of sampled finance companies over last five years (i.e. 2005-2009) is tabulated in tables and plotted in figures.

<u>People Finance</u>:

Table No. 1

Fiscal Year	Total Deposit	Investment	Total loan & adv.
2005	337,566,922	7,027,000	342,593,720
2006	517,919,166	7,027,000	517,050,362
2007	529,179,809	7,027,000	544,268,734
2008	511,294,653	12,027,000	545,912,901
2009	830,238,648	4,203,000	936,400,362

Figure No. 1



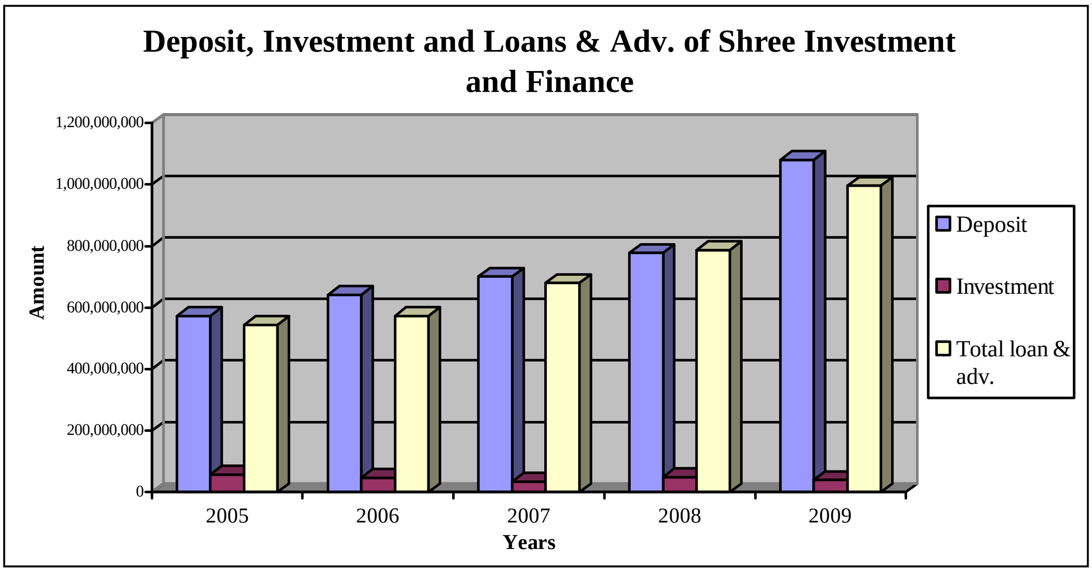
Above pattern of total deposit, Investment and total loan & adv. of five years (2005-2009 shows that People’s finance has increasing pattern of total deposit (increased to 830,238,648 in 2009) and total loan & advances (increased to 936,400,362 in 2009). But the data shows fluctuation in pattern of investment of the company i.e. investment is decreased to 4,203,000 in 2009 from 12,027,000 of 2008.

Shree Investment and Finance:

Table No. 2

Fiscal Year	Deposit	Investment	Total loan & adv.
2005	572,653,020	58,092,900	543,684,769
2006	641,001,861	46,834,000	573,023,099
2007	700,648,567	35,000,000	680,244,232
2008	777,953,036	49,501,000	787,530,004
2009	1,079,898,122	40,301,000	996,273,149

Figure No. 2



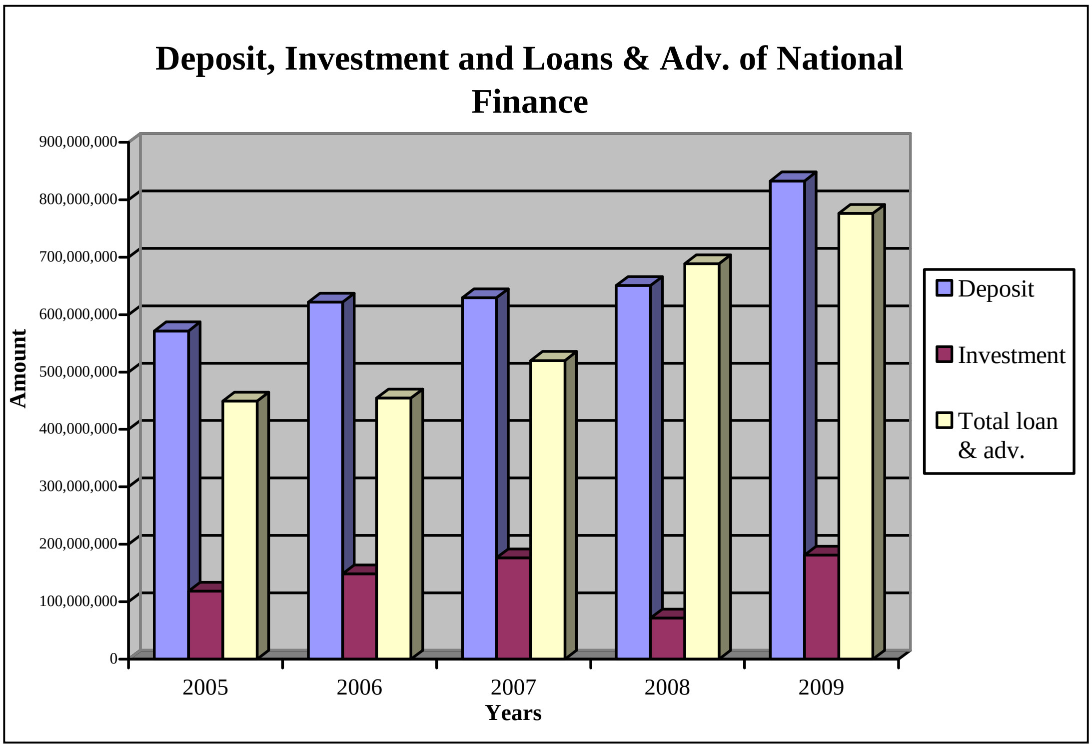
Above pattern of total deposit, Investment and total loan & adv. of five years (2005-2009 shows that Shree Investment and finance has increasing pattern of total deposit (increased to 1,079,898,122 in 2009) and total loan & advances (increased to 996,273,149 in 2009). But the data shows fluctuation in pattern of investment of the company i.e. investment is in 2006, 2007 and decreased to 40,301,000 in 2009 from 49,501,000 of 2008.

National Finance:

Table No. 3

Fiscal Year	Deposit	Investment	Total loan & adv.
2005	571,667,146	118,637,030	449,157,954
2006	621,834,835	148,453,581	454,541,506
2007	629,561,720	176,535,340	520,188,748
2008	650,989,419	71,738,840	688,518,519
2009	832,815,742	181,191,281	776,230,216

Figure No. 3



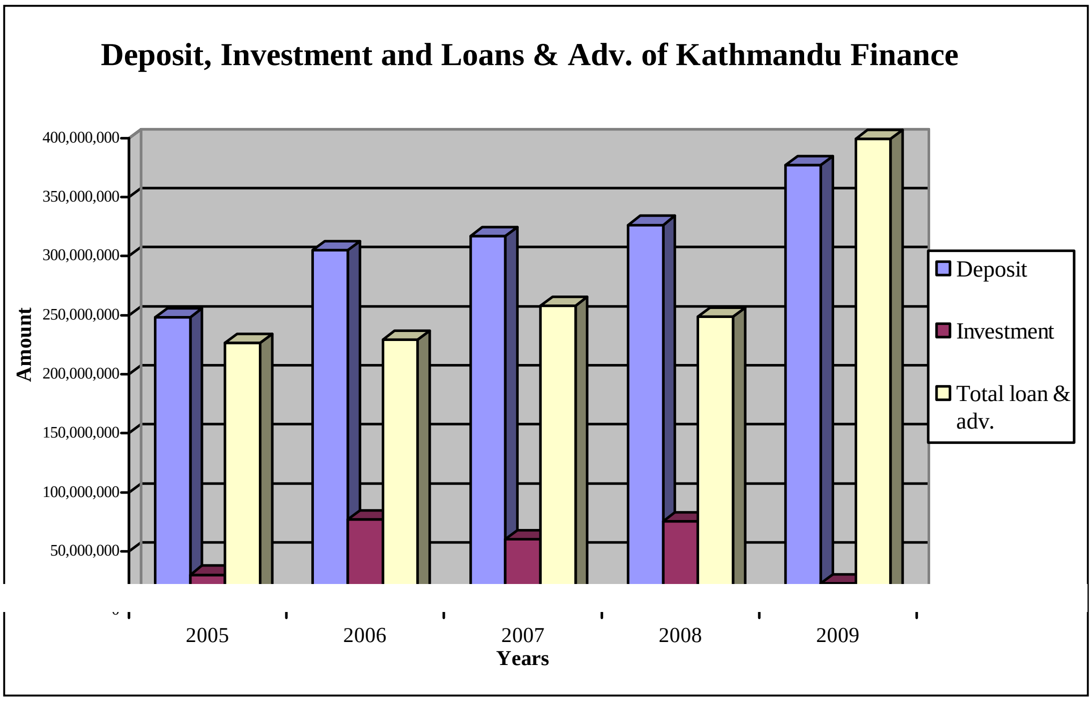
Above pattern of total deposit, Investment and total loan & adv. of five years (2005-2009 shows that National finance has increasing pattern of total deposit (increased to 832,815,742 in 2009) and total loan & advances (increased to 776,230,216 in 2009). But the data shows fluctuation in pattern of investment of the company i.e. investment is decreased to 71,738,840 in 2008 from 176,535,340 of 2007 again increased to 181,191,281 in 2009.

Kathamandu Finance:

Table No. 4

Fiscal Year	Deposit	Investment	Total loan & adv.
2005	248,324,243	30,285,925	226,719,764
2006	305,007,797	77,283,515	229,436,340
2007	316,729,859	60,283,515	257,845,501
2008	326,390,136	75,462,515	248,687,934
2009	377,152,326	22,779,426	399,303,245

Figure No. 4



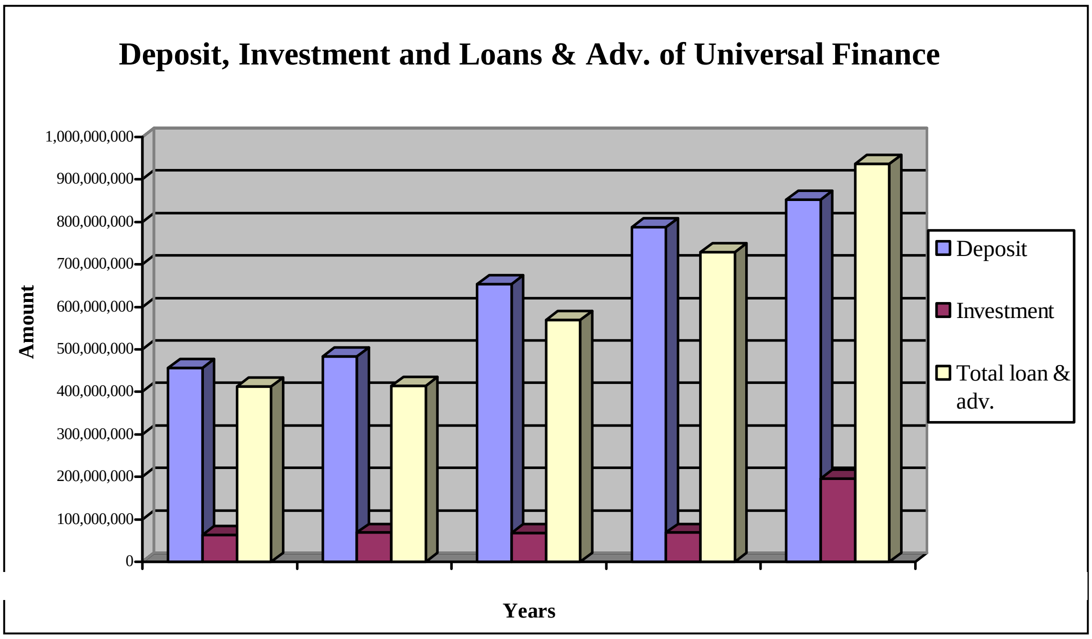
Above pattern of total deposit, Investment and total loan & adv. of five years (2005-2009 shows that Kathmandu finance has increasing pattern of total deposit (increased to 377,152,326 in 2009) and total loan & advances (increased to 399,303,245 in 2009). But the data shows fluctuation in pattern of investment of the company i.e. investment is decreased to 60,283,515 in 2007 from 77,283,515 of 2006 again increased to 22,779,426 in 2009 from 75,462,515 of 2008.

Universal Finance:

Table No. 5

Fiscal Year	Deposit	Investment	Total loan & adv.
2005	456,994,325	64,007,023	413,058,626
2006	482,903,061	68,579,250	413,543,355
2007	653,774,952	68,079,250	569,822,889
2008	788,118,616	68,646,750	728,750,985
2009	852,572,000	195,843,650	936,827,845

Figure No. 5



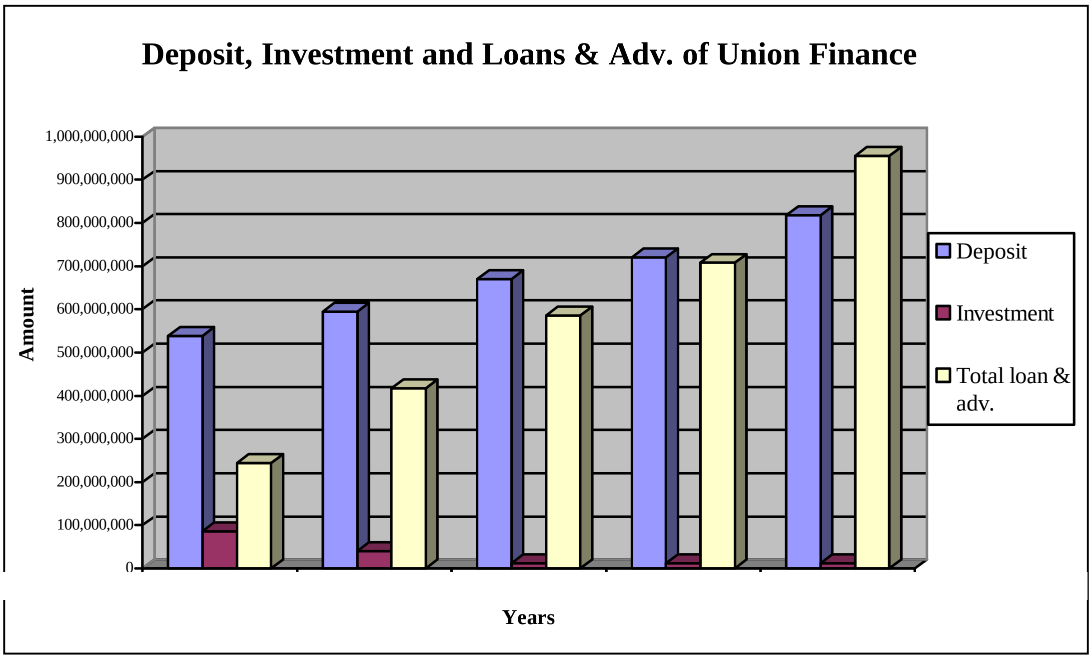
Above pattern of total deposit, Investment and total loan & adv. of five years (2005-2009 shows that Universal finance has increasing pattern of total deposit (increased to 852,572,000 in 2009) and total loan & advances (increased to 936,827,845 in 2009). But the data shows fluctuation in pattern of investment of the company i.e. investment is decreased to 68,579,250 in 2006 from 68,579,250 of 2007 and increased to 195,843,650 in 2009.

<u>Union Finance</u>:

Table No. 6

Fiscal Year	Deposit	Investment	Total loan & adv.
2005	538,734,681	86,182,803	243,599,759
2006	594,518,642	40,572,746	416,612,304
2007	670,401,438	12,566,928	586,263,431
2008	720,677,252	11,441,561	707,745,031
2009	817,720,845	11,442,357	955,255,562

Figure No. 6



Above pattern of total deposit, Investment and total loan & adv. of five years (2005-2009 shows that Universal finance has increasing pattern of total deposit (increased to 817,720,845 in 2009) and total loan & advances (increased to 955,255,562 in 2009). But the data shows decreasing in pattern of investment of the company i.e. investment is decreased to 11,442,357 in 2009.

All the ratios has not been calculated as the study only focuses on the investment section of the finance companies so only those ratios have been calculated which are related to the study. The average mean ratio of six financial companies as per five financial year(2005 to 2009) statement is as follows:

Table No. 7:

Mean of Ratios of Finance Companies

Ratios	PF	SF	NF	KF	UF1	UF2
Total Investment to Total Deposit	0.0152	0.0651	0.2109	0.1715	0.1406	0.0554
Total Loan & Adv to Total Deposit	1.0475	0.9498	0.8665	0.8600	0.9311	0.8355
Hire purchase to total investment and loan and adv	0.2893	0.0316	0.1351	0.1647	0.0468	0.5321
Government Securities to total investment and loan & adv	-	0.0437	0.0267	-	-	0.0466
Term loan to total investment and loan & adv	0.3688	0.4765	0.3566	0.3056	0.5109	0.2545
Real estate finance to total investment and loan & adv	0.3065	0.4076	0.3001	0.3370	0.2952	0.1037
Loan against fixed deposit to total investment and loan & adv	0.0209	0.0205	0.0097	0.0235	0.0187	0.0299
Other investment to total investment and loan & adv	0.0145	0.0201	0.1717	0.1692	0.1284	0.0331
Total liquidity to total deposit	0.2198	0.1734	0.2161	0.1734	0.1591	0.1807
Interest on investment to total investment	0.2788	0.0883	0.0628	0.1372	0.0996	0.1722
Interest on loan and adv to total loan and adv	0.1079	0.1225	0.1217	0.1472	0.1224	0.1120
Net profit to total capital employed	0.1038	0.1910	0.1452	0.1366	0.1674	0.0395
Net profit to total assets	0.0150	0.0214	0.0306	0.0231	0.0182	0.0095
Operating expenses to total revenues	0.1301	0.1512	0.1793	0.1621	0.1144	0.3030
Total income to total expenditure	1.3973	1.4282	1.7735	1.3259	1.4461	1.4492

Refer Annex 1 to 15 for details

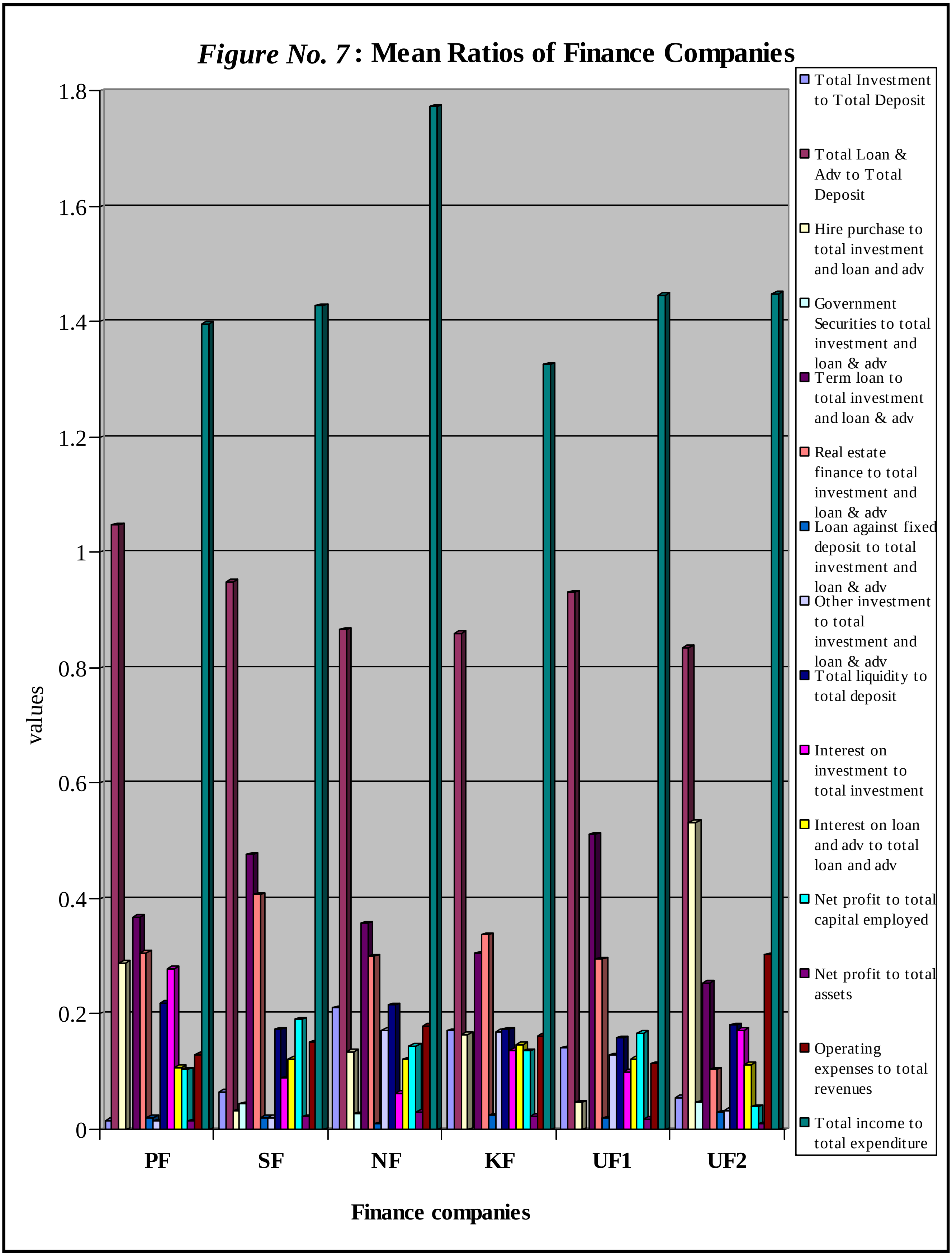


Figure No. 7 : Mean Ratios of Finance Companies
1.8
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
values
PF
SF
NF
KF
UF1
UF2
Finance companies
Total Investment to Total Deposit
Total Loan & Adv to Total Deposit
Hire purchase to total investment and loan and adv
Government Securities to total investment and loan & adv
Term loan to total investment and loan & adv
Real estate finance to total investment and loan & adv
Loan against fixed deposit to total investment and loan & adv
Other investment to total investment and loan & adv
Total liquidity to total deposit
Interest on investment to total investment
Interest on loan and adv to total loan and adv
Net profit to total capital employed
Net profit to total assets
Operating expenses to total revenues
Total income to total expenditure

The above table and graph shows the mean of the calculated ratios of the finance companies for the period of 2005 to 2009. The total investment to total deposit ratio shows the deposit mobilization of finance companies in terms of the total investment. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, total investment to total deposit, of National Finance is higher i.e. 0.2109 and People's Finance is lower i.e. 0.0152

The total loan and advances to total deposit ratio shows the deposit mobilization of finance companies in terms of the total loan and advances. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, total loan and advances to total deposit, of People's Finance is higher i.e. 1.0475 and Union Finance is lower i.e. 0.8355, in comparison to others. It shows that the People's Finance is good at mobilizing its deposits in loan and advances.

The hire purchase to total investment and loan and advances ratio shows the hire purchase finance of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, hire purchase to total investment and loan and advances, of Union Finance is higher i.e. 0.5321 and Shree Investment and Finance is lower i.e. 0.0316, in comparison to others. It shows that the Union Finance is good in financing hire purchase.

The government securities to total investment and loan and advances ratio table shows the investment in government securities of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, government securities to total investment and loan and advances, of Union Finance is higher i.e. 0.0466 and National Finance is lower i.e. 0.0267, in comparison to others. People's Finance, Kathmandu Finance & Universal Finance haven't invested in Government Securities. Among Finances who have invested in Government securities, it shows that the Union Finance is good in investing in government securities.

The term loan to total investment and loan and advances ratio shows the term loan of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, term loan to total investment and loan and advances, of Universal Finance is higher i.e. 0.5109 and Union Finance is lower i.e. 0.2545, in comparison to others. It shows that the Universal Finance is good in term loan.

The real estate finance to total investment and loan and advances ratio shows the real estate finance of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, real estate finance to total investment and loan and advances, of Shree Investment and Finance is higher i.e. 0.4076 and Union Finance is lower i.e. 0.1037, in comparison to others. It shows that the Shree Investment and Finance is good in real estate finance.

The loan against fixed deposit to total investment and loan and advances ratio shows the loan against fixed deposits of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, loan against fixed deposits to total investment and loan and advances, of Union Finance is higher i.e. 0.0299 and National Finance is lower i.e. 0.0097, in comparison to others. It shows that the Union Finance is good in providing loan against fixed deposits.

The other investment to total investment and loan and advances ratio shows the other investments (investments on shares and debentures, trade investment and investment in other financial institutions) of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, other investments to total investment and loan and advances, of People's Finance is higher i.e. 0.1717 and National Finance is lower i.e. 0.0145, in comparison to others. It shows that the People's Finance is good in other investments.

The total liquidity to total deposit ratio shows the liquidity maintained by finance companies out of the total deposits. While talking about liquidity, it includes cash and bank balance, NRB balance and investment in government securities & money at call.

According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, total liquidity to total deposit, of People's Finance is higher i.e. 0.2198 and Universal Finance is lower i.e. 0.1519, in comparison to others. It shows that the People's Finance is maintaining high liquidity than others.

The interest on investment to total investment ratio shows the income from the interest on investment of finance companies in terms of the total investment. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, interest on investment to total investment, of People's Finance is higher i.e. 0.2788 and National Finance is lower i.e. 0.0628, in comparison to others. It shows that the People's Finance is earning more interest on investment than others.

The interest on loan and advances to total loan and advances ratio shows the income from the interest on loan and advances of finance companies in terms of the total loan and advances. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, interest on loan and advances to total loan and advances, of Kathmandu Finance is higher i.e. 0.1472 and People's Finance is lower i.e. 0.1079, in comparison to others. It shows that the Kathmandu Finance is earning more interest on loan and advances then others.

The net profit to total capital employed ratio shows the equity mobilization of finance companies in terms of the net profit. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, net profit to total capital employed, of Shree Investment and Finance is higher i.e. 0.2509 and People's Finance is lower i.e. 0.1134, in comparison to others. It shows that the Shree Investment and Finance is good at mobilizing its equity.

The net profit to total assets ratio shows the profit earning capacity of finance companies by utilizing total assets. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, net profit to total assets, of National Finance is higher i.e. 0.0306 and Union Finance is lower i.e. 0.0095, in comparison to others. It shows that the National Finance is good at utilizing its assets to earn profit.

The operating expenses to total revenues ratio shows the expenses for operation out of total revenues. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, operating expenses to total revenues, of Union Finance is higher i.e. 0.3030 and Universal Finance is lower i.e. 0.1144, in comparison to others. It shows that the Union Finance has high operating expenses in terms of their income than others.

The total income to total expenditure ratio shows the total income to total expenditure ratios i.e. the finance companies potentiality to cover the expenditure through their income. According to the observation of the figures from the fiscal year 2005 to 2009, it has been found that the mean of yearly ratios, total income to total expenditure, of National Finance is higher i.e. 1.7735 and Kathmandu Finance is lower i.e. 1.3259, in comparison to others. It shows that the National Finance is good at covering its expenditure through its income.

The following table & graph shows the (average of 5 fiscal year) coefficient of variation of calculated ratios of finance company for the period of 2005 to 2009.

Table No. 8:

Coefficient of Variation of Ratios of Finance Companies

Ratios	PF	SF	NF	KF	UF1	UF2
Total Investment to Total Deposit	47.5053	37.5405	29.8047	46.4964	39.1730	113.2294
Total Loan & Adv to Total Deposit	4.9399	4.7707	14.9748	14.8958	10.4742	32.7102
Hire purchase to total investment and loan and adv	55.2011	26.6622	46.4479	55.8328	42.4486	9.8233
Government Securities to total investment and loan & adv	-	23.4394	9.5129	-	-	108.1230
Term loan to total investment and loan & adv	29.4061	23.3619	12.1585	22.1825	6.6316	34.7893
Real estate finance to total investment and loan & adv	19.8233	21.3638	21.7254	15.8977	8.2540	73.4023
Loan against fixed deposit to total invest. and loan & adv	38.6233	37.4907	20.2840	29.6879	37.3161	53.0810
Other investment to total investment and loan & adv	47.1759	86.4820	36.3308	48.7531	26.0173	170.4585
Total liquidity to total deposit	70.1319	24.3608	26.7538	15.4833	44.6258	25.9679
Interest on investment to total investment	29.6921	36.6940	101.4090	81.3567	40.7350	143.2620
Interest on loan and adv to total loan and adv	17.4361	9.8124	12.8034	16.3739	8.4482	22.2892
Net profit to total capital employed	32.6124	13.5822	44.1034	16.5191	20.7818	892.3278
Net profit to total assets	44.9832	15.3797	28.1204	29.6559	15.3325	347.5321
Operating expenses to total revenues	15.0175	7.2046	18.1463	16.4019	8.6287	105.4012
Total income to total expenditure	14.3413	5.2371	9.4799	18.3039	11.7136	33.9521

Refer Annex 1 to 15 for details

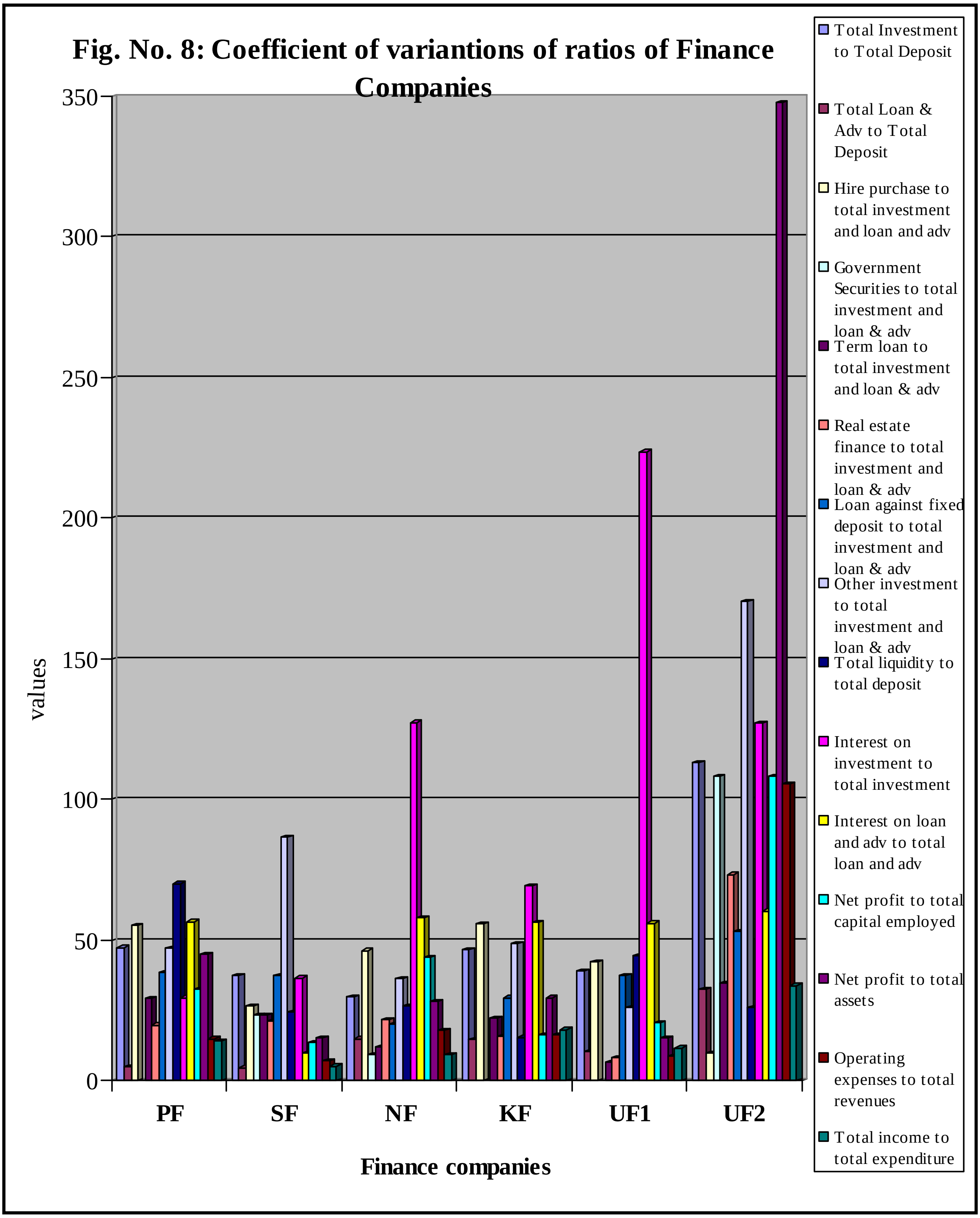


Fig. No. 8: Coefficient of variantions of ratios of Finance Companies
350
300
250
200
150
100
50
0
values
PF
SF
NF
KF
UF1
UF2
Finance companies
Total Investment to Total Deposit
Total Loan & Adv to Total Deposit
Hire purchase to total investment and loan and adv
Government Securities to total investment and loan & adv
Term loan to total investment and loan & adv
Real estate finance to total investment and loan & adv
Loan against fixed deposit to total investment and loan & adv
Other investment to total investment and loan & adv
Total liquidity to total deposit
Interest on investment to total investment
Interest on loan and adv to total loan and adv
Net profit to total capital employed
Net profit to total assets
Operating expenses to total revenues
Total income to total expenditure

The above table and graph shows the average of five fiscal year coefficient of variation of the calculated ratios of the finance companies for the period of 2005 to 2009. The C.V. of total investment to total deposit ratio shows that the National Finance is more consistent in mobilizing its deposits in investment as its CV is less i.e. 29.8047% whereas Union Finance is less consistent as its CV in more i.e. 113.2294%, in comparison to others.

The C.V. of total loan and advances to total deposit ratio shows that the Shree Investment and Finance is more consistent in mobilizing its deposits in loan and advances as its CV is less i.e. 4.7704% whereas Union Finance is less consistent as its CV in more i.e. 32.7102%, in comparison to others.

The C.V. of hire purchase to total investment and loan and advances ratio shows that the Union Finance is more consistent in financing hire purchase as its CV is less i.e. 9.8233% whereas Kathmandu Finance is less consistent as its CV in more i.e. 55.8328%, in comparison to others.

The C.V. of government securities to total investment and loan and advances ratio shows that the National Finance is more consistent in investing in government securities as its CV is less i.e. 9.5129% whereas Union Finance is less consistent as its CV in more i.e. 108.1230%, in comparison to others.

The C.V. of tem loan to total investment and loan and advances ratio shows that the Universal Finance is more consistent in term loan as its CV is less i.e. 6.6361% whereas Union Finance is less consistent as its CV in more i.e. 34.7893%, in comparison to others.

The C.V. of real estate finance to total investment and loan and advances ratio shows that the Universal Finance is more consistent in real estate finance as its CV is less i.e. 8.2540% whereas Union Finance is less consistent as its CV in more i.e. 73.4023%, in comparison to others.

The C.V. of loan against fixed deposit to total investment and loan and advances ratio shows that the National Finance is more consistent in loan against fixed deposits as its CV is less i.e. 20.2840% whereas Union Finance is less consistent as its CV in more i.e. 53.0810%, in comparison to others.

The C.V. of other investment to total investment and loan and advances ratio shows that the Universal Finance is more consistent in other investments as its CV is less i.e. 26.0173% whereas Union Finance is less consistent as its CV in more i.e. 170.4585%, in comparison to others.

The C.V. of total liquidity to total deposit ratio shows that the Kathmandu Finance is more consistent in maintaining liquidity as its CV is less i.e. 15.4833% whereas People's Finance is less consistent as its CV in more i.e. 70.1319%, in comparison to others.

The C.V. of interest on investment to total investment ratio shows that the People's Finance is more consistent in earning interest on investment as its CV is less i.e. 29.6921% whereas Union Finance is less consistent as its CV in more i.e. 143.2620%, in comparison to others.

The C.V. of interest on loan and advances to total loan and advances ratio shows that the Universal Finance is more consistent in earning interest on loan and advances as its CV is less i.e. 8.4482% whereas Union Finance is less consistent as its CV in more i.e. 22.2892%, in comparison to others.

The C.V. of net profit to total capital employed ratio shows that the Shree Investment and Finance is more consistent in mobilizing its equity as its CV is less i.e. 13.5822% whereas Union Finance is less consistent as its CV in more i.e. 892.3272%, in comparison to others.

The C.V. of net profit to total assets ratio shows that the Universal Finance is more consistent in mobilizing its equity as its CV is less i.e. 15.3325% whereas Union Finance is less consistent as its CV in more i.e. 347.5341%, in comparison to others.

The C.V. of operating expenses to total revenues ratio shows that the Shree Investment and Finance is more consistent as its CV is less i.e. 7.2046% whereas Union Finance is less consistent as its CV in more i.e. 105.4012%, in comparison to others.

The C.V. of total income to total expenditure ratio shows that the Shree Investment and Finance is more consistent as its CV is less i.e. 5.2371% whereas Union Finance is less consistent as its CV in more i.e. 33.9521%, in comparison to others.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is a last part of the research study which includes all the briefing of the whole study and extracts of all the previously discussed chapters. This chapter mainly consists of three parts summary, conclusion and recommendation. In summary portion revision of all four chapters are made viz. Introduction, Literature Review, Research Methodology and Analysis of Data. Then conclusion is drawn following analysis part and comparing the theoretical aspect and analysis. Conclusion part answers whether practically relates to theory. Based on conclusion necessary suggestions are presented in recommendation part i.e. various measures are recommended to concerned organization for the improvement of the current condition of investment patterns.

5.1. Summary

Financial institutions are the pillars of a nation's economy. Among them, finance company is the one that collects and mobilizes the funds for investment in the country. Only through such capital investment, the rate of economic growth in the country is possible. After the adoption of financial liberalization policy by the government, there has been a tremendous growth in finance companies. Their main objective is to collect the deposits from public and invest them in different sectors. For protecting such deposits, NRB has issued some directives under which they have to operate. Investment is the only factor which helps the finance companies to survive. So they have to give keen importance to their investment pattern

Every financial institution collects funds from different sources and mobilizes it into the different sectors, which is always surrounds with risk. Investment risk is one part of that risk. Investment risk is the potential financial loss resulting from the failure of customer to pay their debt in time. As in order form, investment risk is crucial part of risk arises among in the financial industry. The study had been carried based on finance companies i.e. People's finance, Shree Investment and finance, Kathmandu finance, National finance, Universal finance and Union finance.

The major objectives of the study are as follows:

- To study and highlight the overall investment pattern of the finance companies of Nepal.
- To evaluate the investment pattern of the sampled finance companies of Nepal.
- To analyze the existing financial situation of finance companies of Nepal and analyze the effect of investment pattern on Net Profit, Interest on investment, Interest on Loan & Advances of the finance companies of Nepal.

This study mainly focuses on whether the finance companies are adopting the appropriate patterns for investing their collected funds. For this some questionnaires are prepared and their feedback is collected from different staffs of the sampled finance companies as primary data and secondary data are collected from different sources for the period of 2005 to 2009 A.D. These collected data are analyzed on the basis of financial tools and statistical tools to know the investment pattern of the finance companies.

The analysis shows that the finance companies are performing well in investing their funds. They are having good return on their investment. The performance of the finance companies is satisfactory.

5.2. Conclusion

Based on presentation and analysis of data, their findings and summary, following conclusions has been drawn.

- Though Shree Investment and finance has the highest investment and loans & advances in amounts, National Finance is significant in mobilizing its deposits in investment and People's Finance in loan and advances in comparison to others. This ratio let us know what part of deposits has been mobilized in investment and loans & advances. This ratio also tells about the success of finance companies to convert their liabilities into assets.
- According to the directives of NRB, finance companies can investment only 40% of total loan in hire purchase else they have to make provision of 25% of the excess volume. But Union finance has been neglecting this criterion of NRB. Hire purchase covers more than 40% in the loan portfolio of Union finance as its average ration of hire purchase to investment and loan & advances is 53.87%.

- The annual reports of People's finance, Kathmandu finance & Universal finance shows that they haven't investment in government securities. This shows that risk diversification of investment is not done in government securities.
- The annual reports of all finance companies show the increasing trend of investment in real estate sector in each fiscal year though global financial sector crisis happened due to heavy investment in this sector.
- Though finance companies can invest 75% of total loan in term loan, but has limitation of 40% investment in sub sectors of term loan according to NRB directives, Shree investment and finance and Universal finance has average investment of 49.07 and 50.64 in term loan and their annual reports doesn't show clear picture of sub sector investment in term loan.
- In the current scenario of liquidity problem in Nepalese financial market, the People's Finance has maintained the high liquidity ratio where as Universal Finance has maintained less liquidity ratio in comparison to others. But the Kathmandu Finance is more consistent in maintaining liquidity where as People's Finance is less consistent in liquidity in comparison to others.
- The ratio of interest on investment to total investment and interest on loans and advances to total loans and advances explains the contribution of interest income in the total income. The People's Finance is earning more interest on investment and Kathmandu Finance on loan and advances in comparison to others.
- The ratio of net profit to total assets shows the capacity of company to utilization of assets to earning profit. The National Finance is significant at utilizing its assets to earn profit where as Union Finance is less significant as well as less consistent in comparison to others. But the Universal finance is more consistent at utilizing its assets to earn profit.
- The correlation analysis shows that there is a positive relationship between the net profits and interest on investment and interest on loan and advances and are highly correlated individually. This means that the net profit of finance companies is highly affected by those items mentioned above. Not only individually but also there is combined effect of them on net profit.

- The result of significant difference from the one way analysis of variances between the finance companies and between the sectors of investment and loan and advances shows that the finance companies are adopting different investment policy and the risk availability among the sectors of investment are different as made by the finance companies. This shows that there is a great disparity among the sectors of investment and finance companies as far as the finance companies are concerned.

In conclusion, the performance of the finance companies can be expected to be satisfactory as their incomes are in positive trend with increasing trend of investment and loans and advances in different sectors with different investment patterns. Likewise, they are creating good image in public by securing their deposits, making timely payment and maintaining good liquidity position. Nepal Rastra Bank has also played the major role to boost up the operation of the finance companies. The analysis shows that the finance companies are mostly investing in real estate finance and term loan. Their investment in productive sector is increasing than before. This is a positive sign to accelerate the economic development of the country.

5.3. Recommendations

The scribe from the study and analysis would like to draw following recommendations which will be helpful to improve the performance of the finance companies. It will also help to improve the utilization of available funds.

- The finance companies should focus on new schemes and instruments for fund mobilization which will help them to shift from traditional business financing to the dynamic and innovative areas. Merchant banking, venture capital and bridge finance might be some new areas for the future investment to expand their activities.
- The finance companies can form a portfolio as there is a saying that all the eggs should not be kept in same basket. They should have continuous monitoring on the portfolio from time to time to maintain good position.
- The finance companies are not gaining the public confidence as needed; they should work together to make the people believe that their deposits are safe in

finance companies. The public deposits are the major source of finance companies for the investments.

- The finance companies should consider the present political and economical scenario of the country to make their investment. They should prepare and follow the specific investment policy to invest. Considering the present scenario, the educational loan and real estate finance is sounder than term loan/business loan.
- Finance companies are facing the problem of low credibility. To overcome this problem they should improve their managerial capability, make their transaction transparent, improve accounting and auditing practices, improve innovativeness, avoid family domination. This will help in their growth.
- All finance companies have increasing trend of investment in real estate. As NRB has put different new restrictions in this sector, finance companies should also have close monitor according to the new provisions in this sector.
- Some finance companies are not investing on government securities. So they should invest on government securities to diversify risk portfolio of investment.
- Investment policy of finance companies should strong and treat same whether the loan client is high valued or not for documentation at the time of providing loan.
- Finance companies should have supervision the investment whether the loan client has utilized the provided loan in specified area at the time of taking loan or not.
- The inappropriate and rigid regulatory framework of NRB is hindering the growth of the finance companies. The NRB should have flexibility and timely review their regulatory framework which will provide more facilities for the growth of the finance companies.

BIBLIOGRAPHY

Bexley, James B., (1987), ***Banking Management***, New Delhi, India, Subject Publication.

Bhalla, V. K., (1987), ***Investment management*** – *Security Analysis and Portfolio Management*, New Delhi, India, S. Chand and Company Ltd.

Chandler, L. V., (1973), ***The economics of Money and Banking***, New Delhi, India, Prentice Hall of India Pvt. Ltd.

Charles, Parker Jones, (1988), ***Investments: Analysis and Management***, New Jersey, USA, John Wiley & Sons, Inc.

Dixon, R., (1994), ***Investment Appraisal***, CIMA.

Gupta, S. P., (1982), ***Statistical Methods***, New Delhi, India, Sultan Chand & Sons.

Johnson, Hazel J., (1993), ***Financial Institutions and Markets – A Global Perspective***, USA, McGraw Hill, Inc.

Kothari, C.R., (1997), ***Research Methodology***, India: Vishwa Prakashn,.

Levin, R.I. & David S.R., (1997), ***Statistics for Management***, 7th Ed., New Delhi: Prentice Hall of India Pvt. Ltd..

Madura, Jeff, (1998), ***Financial Markets and Institutions***, Cincinnati, Ohio, South Western College Publishing.

Pant, G. D., & A. K. Chaudhary, (1998), ***Business Statistics and Mathematics***, Kathmandu, Nepal, Bhundi Puran Prakashan.

Piesse, Jenifer, Ken Peasnell, and Charles Ward, (1995), ***British Financial Markets and Institutions – An International Perspective***, UK, Prentice Hall International Ltd.

Ranlett, John G., (1990), ***The Supply of Loanable Funds***.

Rose, Peter S., (2000), ***Money and Capital Markets: Financial Institutions and Instruments in a Global Marketplace***, USA, McGraw-Hill Companies.

Sharpe, W. F., G. J. Alexander, & J. V. Bailey, (1999), ***Investments***, New Jersey, USA, Prentice Hall, Inc.

Singh, Dr. Preeti, (1991), ***Investment Management***, Bombay, India, Himalayan Publishing House.

Shrestha, K.N., & K. D. Manadhar, (1999), ***Statistics and Quantitative Techniques for Management***, Kathmandu, Nepal, Valley Publishers.

Singh, Dr. Preeti, (1991), ***Investment Management***, Bombay, India, Himalayan Publishing House.

Triffin, R. Gold, (1996), ***Financial Institution***, *South Asia*.

Van Horne, James C., (1991), ***Financial Management and Policy***, 8th Ed., New Delhi: Prentice Hall of India.

Weston, Fred J., Brigham, Eugene F., (1968), ***Essentials of Managerial Finance***, New York: Holt Rinewart & Winston.

Weston and Copland, (1991), ***Managerial Finance***, USA: The Dryden Press.

Wilson, R. M. S., and G. McHugh, (1987), ***Financial Analysis: a Managerial Introduction***, London, Cassell Education Limited.

JOURNALS AND ARTICLES

Bank & Financial Institution Regulation Department, Statistics Division, Nepal Rastra Bank, (Mid July 2008), ***Banking and Financial Statistics*** *Vol No. 51*, Kathmandu, Nepal.

Markowitz, Harry M., (1952),***Portfolio Selection***, Journal of Finance Vol. VII, 77-91.

Research Department, Statistics Division, Nepal Rastra Bank, 2006/07, ***Economic Report***, Kathmandu, Nepal,

Sharma, L.P Bhanu,(1999), ***Role of Finance Companies towards National Economy***.

Shrestha, Shiba Raj, 2055, ***Portfolio Management in Commercial Banks, Theory and Practice***, Nepal Bank Patrika, 13.

Surz, R. J., D. Stevens, & M. Wimer, (1999), ***Investment Policy Explains All***, The journal of Performance Measurement, 43-47

WEBSITES

www.fiscalreference.com/topics/investment_policy.htm

www.investmentpolicy.com

www.kathmandufinance.com

www.nationalfinanceltd.com

www.nepalstock.com

www.pefil.com.np

www.wikipedia.org

www.unionfinance.org

DISSERTATIONS

Gautam, Ruru Kusom, (2000), ***Investment Analysis of the Finance Companies in context of Nepal***, Unpublished Master's Thesis, Central Department of Management, T.U.

Manandhar, Ganga Ram, (2003), ***A Comparative Study in Investment Policies of Finance Companies in the context of Nepal***, Unpublished Master's Thesis, Central Department of Management, T.U.

Neupane, Arun Prasad, (2008), ***A Comparative Financial Analysis of Listed Finance Companies in Nepal***, Unpublished Master's Thesis, Central Department of Management, T.U.

Niraula, Shalini, (2008), ***An Evaluation of Financial Performance of Finance Companies in Nepal***, Unpublished Master's Thesis, Central Department of Management, T.U.

Ranabhat, Min Bahadur, (1997), ***An Analysis of Financial Performance of Finance Companies in context of Nepal***, Unpublished Master's Thesis, Central Department of Management, T.U.

Subba, Shreejana, (2008), ***A Study on Lending Practices of Finance Companies of Nepal***, Unpublished Master's Thesis, Central Department of Management, T.U.