Chapter I

INTRODUCTION

1.1 Background of the study

The world economy today is characterized by the ups and downs of financial activities across the globe. Development of healthy financial intermediaries plays a vital role in the growth of a nation as well as of the world economy as a whole. The world economic activities trends are affected by open market policy and liberalization policies of the government. Economic liberalization policy has to facilitate the creation of environment for the establishment, growth and development of financial institutions.

However, financial institutions other than banks, plays an important role in financial market and there has been a phenomenal growth of non-bank financial intermediaries too. The process of demand and supply of money assets through loan and savings consider such institutions as the way of monetizing the whole economy.

Financial intermediaries are generally classified into three broad groups which are as follows:

- Banking and System
- Non Bank Financial Institution (NBFI'S)
- Other Institution in Financial Activities

Apart from these, Nepal has still a large money market in informal sector that include indigenous moneylenders, merchants and traders.

Under the non-bank financial institution there are various types of institutions such as:

- Finance Companies
- Co-operative Society
- NGO'S involved in lending activities
- Postal Saving Banks
- Credit Guarantee Corporation
- Employee Provident Fund
- Nepal Stock Exchange Market
- Citizen Investment Trust
- Insurance Companies

Non- bank financial institutions are thus a heterogeneous group of financial institutions other than commercial banks. NBFI include such institutions as life insurance companies, mutual savings bank, pension funds, building societies etc.

Finance companies are one of the institutions of Non-Bank Institution's. Finance companies are currently viewed as catalyst in the process of economic growth of a country. A key factor in the development of an economy is the mobilization of the domestic resources. As intermediaries, therefore the finance companies help the mobilization of domestic resources for the economic development of any country. So, the finance companies emerge to perform the function of transferring funds from savers to investors as intermediaries. The government in turn is required to regulate their activities so that the financial policies so that financial policies are implemented as per the requirements of the country. With the help of financial institution, the government in developing economies tries to implement the policies such as lending to the priority sectors, lending to the educated unemployed people, creation of entrepreneurship in the society are certain examples.

The Dictionary of modern economics defines a finance company as a financial intermediary not a bank which may obtain funds from its own capital resources by accepting deposits (usually for fixed periods) or even by borrowing from other institutions which it then lends for variety of purpose, especially to finance hire purchase contracts but also leasing. (Poudyal; 1995)

There is actually not a lot of difference between a bank and a finance company as they both accept funds from the public to be used for any manner of lending. Lending can include loans for housing, car finance, business ventures, personal loans and more. The main difference would be the risk level, capital adequacy requirement and the fact that they are not allowed to undertake any transactions involving foreign exchange.

Finance companies are one of the institutions of Non-Bank Institutions. Finance companies are currently viewed as catalyst in the process of economic growth of a country. A key factor in the development of an economy is the mobilization of the domestic resources. As intermediaries, therefore the finance companies help the mobilization of domestic scattered resources for the economic development of any country. So, finance companies perform the function of transferring funds from savers to investors as intermediaries. The government in turn is required to regulate their activities so that the financial policies are implemented as per the requirements of the country. With the help of financial institution, the government in developing economies tries to implement the policies such as lending to the priority sectors, lending to the educated unemployed people, and creation of entrepreneurship in the society.

The increasing establishment and growth of finance companies in the country is the result of economic liberalization policy of the government. Therefore Nepal has adopted it after 1990, the policy of economic liberalization and open market policy. The policy has given more important role to the private sector. Under this policy the government has encouraged for the establishment, growth and development of Finance companies within a short period of time. The Finance companies are coming on this period because of different kind of commercial banks are unable to supply credit needs and expectation timely and carry capital market activities. So that finance companies have come timely to meet the individual credit needs, undertake merchant banking.

A company (limited company) with limited liability may be incorporated having raised capital through sale of shares for the objectives of carrying out the financial transactions.

Finance companies advance loans to individuals, firms, companies are allowed by the ordinance to undertake lease financing. They can also perform merchant banking activities with prior approval of Nepal Rastra Bank. These companies are popular among low income and medium class people for financing for hire purchases, vehicles machinery, tools, equipments, and durable house hold goods etc. As a consequence of the financial liberalization policy, finance companies are mushrooming in the Kathmandu valley whereas their presence out of the valley is thin.

Of course, finance companies render their economic services even to those sectors where commercial banks are not available i.e. Housing, hire purchase, leasing, share and securities. But Finance companies cannot collect short-term savings and current account of commercial bank. Unmonetaised economy is the unique feature of the Nepalese Economy. So it is difficult to get loan at the highest interest rate. In this situation finance companies can play vital role to reduce the interest rate by using their savings. Interest rate is determined by the demand and supply process.

As we know that the government regulates the finance companies and its activities .in Nepal Central Bank i.e. Nepal Rastra Bank is established to protect and regulate the finance companies. Finance companies are to be registered as per the policy of NRB and should be registered only as public limited companies as per the Finance Company Act 1982 (2042 B.S) and public limited companies Act 2053 B.S. Finance companies are registered within the Registrar of Company, and NRB grants license for operation. Finance companies are operating under BAFIA, 2006 and also classified as “C” class financial institutions under BAFIA 2006. A finance company can accept time deposit of the maturity of minimum three months to maximum six years to a limit of twelve times of the core capital of the company. Currently, a finance company can accept total deposits up to 15 times of its core capital.

The first Investment Bank began in Philadelphia; USA in 1764 is the initial step to organized financial services which originated from the establishment. 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 found in 1816 which is usually designated as the first saving Bank Insurance Company which is an old as the country.

“The more interesting development in US credit market in the 19th century. 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 increases towards consumer’s durable goods such as automobiles boats and household appliance” (Ranlett, 2004: 209-211)

Finance company is recent innovation in South Asia and its growth and developed started from mid 1950's. The first groups of Finance companies were established in Philippines and Singapore but they are suffering from many difficulties. But the companies that have been established in Hong Kong, Thailand and Malaysia have developed efficiently to accomplish their objectives and goals.

Most governments in South Asian countries have enacted laws to protect both depositors and investors in this industry. Singapore and Malaysia have enacted protective legislation regulating all finance companies. The Hong Kong requires a Banking license for those Finance Companies that accept deposits. In Philippines, they are also allowed to collect deposits from general public as a result of the passage in 1963 of a Truth-in-lending Act.

The purpose of this research is to focus on to analyze the resource mobilization of finance companies of Nepal. To accomplish the purpose of this study five finance companies are selected as samples. The brief introduction of these sample companies are as follows:

1.2 Focus of the Study

In the financial arena of Nepal most of the Banks and financial institutions are said to be not utilizing their resources in an effective manner. Recent developments in the world economy have not left the Nepalese economy unharmed. Though the effects are gradually being felt, inability to address these issues in advance might have an adverse impact on a small economy like ours. From the collapse of big banks in the US to the fall in real asset prices across the globe, the wave of recession has resulted in job losses around the world. This has slowly started to hamper our remittances flow as well. With a view to tackle unwanted scenarios, learning from the mistakes of other economies, Nepal Rastra Bank has already directed commercial banks and finance companies to reduce their investment in unproductive sector like real asset to 40 % of the total lending.

This study is mainly focused into the sources and uses of funds of finance companies in Nepal. Mobilization of resources is the most important factor from the finance company management point if view. Though several financial companies have been established in the country within short span of time, sufficient return have not been achieved and these institutions have been criticized for not following appropriate fund mobilization and risk management policies. Due to cut-throat competition in the financial sector, these companies seem to be ready to grant much more loan, advances and other facilities against their client’s insufficient deposit. Unsecured loan and adequate fund mobilization may cause the liquidation of those finance companies. If the funds are wrongly mobilized without considering any financial risk, business risk and other related facts, the company cannot obtain profitable return as well as sometimes it may lose its principal. So, this study is mainly focused on the utilization of resources like deposits, loan and advance and investment of some sample finance companies operating in Nepal.

1.3 Statement of the Problem

Resource mobilization is the most important factor from the finance company management point if view. Learning from the mistakes of big banks in the US and some other European countries that extension of too much credit to the unproductive sectors of the economy may have devastating impact in the safety of depositors money and the economy, the central bank has initiated measures to curb any kind of threats that might be coming, by trying to regulate the lending pattern of all the finance companies in addition to other financial intermediaries as well. NRB has also played important role to make these companies to mobilize their funds in a good sector. In the wake of liquidity crunch facing the economy, NRB has imposed many rules and regulations so that they can have sufficient liquidity and security. Though, most of the finance companies have been successful to earn desirable return on capital invested, none of them seems to be capable of investing their entire funds in a profitable and more secure sectors. Besides these, they seem to be maintaining unnecessarily more portion than the actual need on cash and bank balances. Only fewer portions of them have been mobilized due to limitations of narrow capital market and lack of proper investment opportunities. One of the main concerns is the in ability of finance companies to invest in big projects due to their small size. Sometimes they bear as a risk-taker and sometimes they don't take the risk to mobilize their idle fund to investments that have lower risk and comparatively higher return.

Another problem is diversification in loan and advances. It is found that some of the companies have diversified their investment in different fields like housing, hire purchase, etc whereas some of them are not successful to mobilize their funds in different areas.

The following are the major issues that the study has attempted to address:

- Is there optimum utilization of finance companies available fund?
- Is finance companies fund mobilization policy effective and efficient?
- What is the risk exposure level of finance companies in the unproductive sector?
- What is the relationship of loan and advances with total deposits?
- Is there any stability in fund mobilizing policy?

1.4 Objectives of the study

The main objective of the study is to analyze finance companies resource mobilization in the context of Nepal. There are all together 77 licensed finance companies which provide different kinds of financial services as per the need and demand of the market and customers. But there are very nominal and few research papers and relevant literatures on this subject. So as a student of management my aim is to focus towards it. Finance companies have to channelize funds by gradually shifting priorities from hire purchase industry to help in the capital formation within the country. This is the course of time where industrial financing should get higher priority in the lending strategy of finance companies in view of their future sustainability and full fledged growth. By parameter viz. Deposit growth, growth in the loan interest rate trend and sectoral classification of deposit and loan. The main objectives of this study are as follows:

- To analyze the financial performance of the sample finance companies.
- To assess the source of capital fund of the Nepalese finance companies
- To assess and examine the resource mobilization of Nepalese finance companies.
- To analyze the Loan and Advance portfolio of Nepalese finance companies
- To analyze the interest rate structure on Loan and advances of Nepalese finance companies

1.5 Significance of the Study

Nepal is an under developed country. There is need for additional capital investment which earns higher rate of economic growth. Domestic savings and foreign capital (grant and loan) are two principal sources of capital available for investment. Of the two, domestic saving is the most important and stable source of capital.

The growth rate to savings is very low in Nepal. Foreign capital mostly loan, is the long term liability which needs to be rapid in scare foreign currency. Moreover the country cannot depend on foreign loan forever. Therefore financial development is indispensable to meet the growing demand for capital in the country.

After 1990, Government has adopted the policy of economic liberalization. The government has adopted liberal policy for the establishment growth and development of new commercial banks and finance companies on a competitive basis.

This study is made comprehensive and clear by presenting recent information as far as policy has given an important role to the private sector. Financial liberalization policy is an important part of economic liberalization policy. Under this policy, the possible. It will be beneficial to those financial institutions and concerned entrepreneurs.

1.6 Limitations of the Study

This thesis is conducted in a partial fulfillment of the requirement for the Master Degree in Management. In order to prepare this it has some limitations like time resources, references, date limitations. The study is limited to financial companies that have been registered according to the provision of Finance Company Act 1985. The coverage of the study is after the economic liberalization. This study is made comprehensive and clear by presenting recent information as far as possible. It will be beneficial to those financial institutions and concerned entrepreneurs. Since the thesis is based on the reports provided by central bank, the limitations among them are as follows:

- Very limited references like some books and annual reports are used for making this Report.
- This reports consists the data available from concerned authorities. Therefore, the accuracy of the data fully depends upon them.
- The study concerns only limit period i.e. period of five years.
- The study covers only a few sample finance companies, so it might not be able to predict the true picture of the entire sector.

Despite above mention limitations present researchers have intensive effort to analysis research problem in respect to the study area as for as it is will be representative study.

1.7 Organization of the Study

The study has been organized into five chapters, each devoted to some aspect of the study of the resources mobilization followed by finance companies. The contents of each of these chapters are as follows:

Chapter I- INTRODUCTION

Includes the introductory part of the study as already mentioned, this chapter describes the general background of the study, statement of the problem, objective of the study, limitations of the study and organization of the study.

Chapter II- REVIEW OF LITERATIRE

This chapter describes the theoretical analysis and brief review of the related and the pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter III- RESEARCH METHODOLOGY

This chapter describes the research methodology techniques used to carry out this study. It consists of sample design, sources of data, data collection procedure, respondents profile, etc.

Chapter IV- DATA PRESENTATION AND ANALYSIS

This deals with the presentation of the data and its analysis.

Chapter V- SUMMARY CONCLUSIONS AND RECOMMENDATIONS

It states the summary, conclusions and major findings of the study.

The exhibits, bibliography and annexes are incorporated at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

In this chapter, the basic literatures related to the research topic are reviewed. It includes prior theories and review of the empirical evidences of previous studies. The first section of this chapter contains a brief description of the theories of finance companies. It includes the evolution, history, growth, sales and functions of finance companies. The second section provides reviews on empirical experience of previous studies.

2.1 Conceptual Framework

This chapter presents the conceptual aspects of the finance companies. This chapter includes the concepts of finance companies, historical background and functions of finance companies, evolution, growth and development of finance companies in the aspect of some developed as well as developing economies of the world.

2.1.1 Finance Company

Finance company has been subjective of growing importance. Many though and ideas have come to developed sound theoretical base in the management of finance company. So, the review of these ideas is important to know what is available and then what kind of gap exist in this literature. But in the country like Nepal, sufficient research work has not been performed in these topics. Every possible effort has been made to grasp knowledge and information that is available from the books, libraries and NRB Banking and Financial Statistics. Some of the definitions of Finance companies are as follows:

"An institution that uses its funds chiefly to purchase financial assets (Deposits, Loans and Bonds) is opposed to tangible property. Financial Institutions can be classified according to the nature of the principle claims they issue non deposit, intermediaries include among other life and property insurance companies and pension funds, those really claims are the policies they fail on the promise to provide income after retirement, depository intermediaries obtain funds mainly accepting deposit from the public. (*Rosenberg,1998:21*)

"Economist and historians agree that the process of modern economics growth has been closely associated with the expansion and increasing diversification of financial intermediation". (*Brayant,2002:231*)
"Financial institutions produce financial assets that are easily liquidated. With the existence of a large non-monetized sector in the economy and prevalence of widespread illiteracy and conversation among the masses in developing/underdeveloped economize, savings remain either unutilized or hoarded in the form of the cash, gold and silver or invested and real estate." (*Ghosal and Sharma,2008:25*)

"Financial institutions from a modern economy are beyond imagination in the current context. Without them the economy will drag behind to the period of the barter system where no intermediary, no financial assets, no liabilities of any kind, and hence no financial institutions existed. External financing becomes absent in a Barter economy.

Even in the least developed economies some forms of transfer of financial resources occur, mostly through activities of merchants and eventually moneylenders. In an economy without financial liabilities there would be no means where by the ultimate savers could be matched with unlimited visitors". (*Hemple and Yawtidz, 2002: 123*)

"The channel through which the impact of the financial institutions is failed in the savings- investment process and economic growth is the elimination of financial dualism that is co-existence of organized and non organized money market within the same economy. In the financial institutions non-monetized and non-organized barter market run parallel. Financial institutions try to bridge this gap in the economy of both sectors of the economy". (Alibadi, 1997:56)

2.1.2 Different views about Finance Companies

There are nominal researches conducted so far in this field. It is surprising that whatever the books, articles and journals reviewed here; all are written by one or two authors. But there are a few research and seminars programs conducted by Nepal Rastra Bank and other financial institutions. Some of them are analytical studies that are very important material for achieving my thesis main objectives and also it is very useful for all finance companies and research departments.

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Most governments in South Asian countries have enacted to protect both depositors and investors in this invested industry. Singapore and Malaysia have enacted protective legislation regulating all finance companies. The Hong Kong requires a Banking license for those Finance Companies that accept deposits.

2.1.3 Evolution of Finance Companies

Finance companies are currently viewed as catalyst in the process of economic growth and development of a country. The mobilization of the domestic resources is a key factor in the development of an economy. As intermediaries Finance companies helps the process of resource mobilization in which the government is required to regulate their activities so that financial polices are implemented as per the requirements of the country. Policies such as lending to the priority sectors, lending to the educated unemployed people, creation of entrepreneurship in the society are certain examples which the government in developing economics try to implement with the help of financial institutions.

2.1.4 Development of Financial Companies in Developed Countries

For highly developed countries in the world, the financial institutions (Finance Company) are not new institution for them. From the mid 1850, the concept of financing activities has been growing rapidly in consumer credit. Installment credit was used on Pianos, Sewing machine and total household expenditure in USA. But in Asian Countries the concept of Finance Company came in around mid 1950's. The first groups of finance companies were established in Philippines and Singapore. The numbers of Finance Companies grew rapidly (over 250) by 1962; the Finance Companies in Thailand are still in beginning stages. Two major Companies are listed on the Bangkok stock exchange, one was established in 1961 and the other in 1965. Finance Accompanier is established in Hong Kong at the end of 1967. There are about eight finance companies all sponsored by commercial banks.

The Finance Companies licensed under the Finance Companies Act 1969, are the second largest group of deposit taking financial institutions in Malaysia. Historically the finance companies were the creation of the early 1960s, established as moneylenders that are providing loans mainly to support the purchase of consumer business finance. At the end of first year enactment of the finance companies Act 1969, 28 finance companies with a total paid up capital of $40.2 million and 169 offices in Malaysia were authorized to carry out on finance business under the Act.

The department for the supervision of NBFI's which were established in 1988 took over its responsibilities from the development of bank supervision which earlier carried out the registration and supervision of Finance Companies in Sri Lanka. The monetary board, while registering Finance Companies in terms of control of Finance Companies Act No. 27 of 1979, also issued directions to such companies with regard to term of deposits: the need to maintain liquid assets, limitations and unscrewed advances maintenance of capital funds lending to directions, among other issues. Consequently to the failure of certain finance companies to adhere to regulations and their near collapse, the government introduce new legislation under section 5 of the public security ordinate on 17th June, vesting the monetary board of the central bank with special powers to direct and control the affairs of Finance Companies Act 1998, replaced all previous legislation relating to finance companies.

The Industrial Finance Corporation of India is the oldest of the financing institutions established in July 1948 under a special act of legislative. However, the passing of the Industrial Development Bank (IDB) of India Act 1964 made it inevitable to the certain changes in the Industrial Finance Corporation (IFC) Act also. The Indian Companies Act 1956, which came into force on April 1956, marks the important stages in the development of Company Law in India. In India, there had been a mushroom growth of finance Companies.

2.1.5 Development of Finance Companies in Nepal

Finance company is relatively a new concept in Nepalese market. The country adopted the liberal and open economy policy after 1990; the opening of non-banking financial institutions has showed an encouraging trend. This was done as per the objectives of the Government to make the national economy more liberal, dynamic and competitive through increased participation of the private sectors in the economic development. In the process of economic liberalization, the government introduced Finance Company Act 2042 to attain economic growth in the nation by increasing non-banking activities. The policy has given more important role for the establishment, growth and development of Finance Companies within a short period of time. Finance companies developed on this period because commercial banks were unable to fulfill credit needs of certain sector of the market. Also commercial banks at that time did not provide consumer financing.

After 7 years from the enactment of this Act, the government promoted the first finance company as Nepal Housing and Development Finance Company Limited. Soon after this, Nepal Finance and Saving Company Limited came into operation as the first company from the private sector. NIDC also promoted finance company in private sector as NIDC Capital Market Ltd. Thereafter, a wave of establishing finance companies increased, as a consequence the number of finance companies increased to 77 till mid July 2009.

As a mid-July 2009, there are 77 Finance Companies in operation throughout the country. Out of these, 53 finance companies are operating in Kathmandu Valley and the other 24 are rendering their services outside the Kathmandu Valley.

2.1.6 Establishment, Growth and Development of the Finance Companies

Financial development is one of the key indicators of economic development of any country. So, financial activities are an integral part of National planning to accelerate the rate of economic development. The main objective of Finance company is the collection of small and large resources from urban as well as rural regions and their mobilization into prospective, structured and high-priority areas thus helping in the economic development of a nation.

Finance companies have to mobilize funds by gradually shifting priorities from hire purchase industry and to industry to help in the capital formation within the country, the overall growth of the nature and extend of capital formation in the country. This is the course of time industrial financing should get higher priority in the lending strategy of finance companies in view of their future sustainability and full fledged growth.

Finance companies are the effective scientific instrument for mobilizing public, private and external financial resources and channelizing then into productive short term loan on different commercial business activities.

2.1.7 Government policy towards the finance Companies

Nepal is an under developed country which requires financial development and the financial activities for the development of a country. Nepal has adopted the policy of economic liberalization and open market policy after reinstate of the democracy in 1990. The policy has given more important role to the private sector. Under this policy the government has encouraged for the establishment, growth and development of finance companies in the country.

In the 9th plan, it has clearly stated, the vacuum in the present national financial system needs to be filled by institutionally developed capital market institution like investment companies, finance companies, leasing and housing finance companies.

2.1.8 Contribution of Finance companies towards National Economy

Financial institutions are the pillars of a nation's economy. For the continuous growth and development of any business organization or sector, continuous public trust confidence is imperative. Finance companies are potential institutional tools of collecting and mobilizing funds for investment in the country. It plays pivotal role in economic development of a country. Such companies are the institutional machinery that can drive the tempo of economic development forward and upward. The role of finance companies is to mobilize 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 are applicable as financial instruments to attract small savings. 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 productive industrial sector. The main function of finance company should be directed to support industry first and then after that the consumer credit should follow to link credit to industries for the production and consumer's credit for consumption. The relationship between production and consumptions 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.

2.1.9 Process of Registration of Finance Companies

Finance companies are registered only as public limited companies as per the Finance Companies Act 1985 (2042 B.S) and public limited Companies Act 2053 B.S and now operating under BAFIA, 2006. Finance companies are registered within the "Office of Company Registrar," which is under Ministry of Industry situated at Tripureswor Kathmandu. These companies are classified as "C" class financial institutions under BAFIA 2006. While registration of a company, an application for incorporation of a company along with memorandum paper and other necessary document is filled under section 4n the department shall, after making necessary inquiries, register the company under the company Act 2021 and they give the certificate for the opening of finance company.

2.1.10 Role of Nepal Rastra Bank towards the Finance Company

One of the principle duties of Nepal Rastra Bank, as the central bank of the country, is to develop the financial system, which will help to mobilize additional resources for investment into the economy. In this regard, the central bank should also safeguard the public interest so that these companies would not cheat them. If the finance companies practice unfair means in their transactions (depositors and borrowers), it may negatively affect the financial system. There are also possibilities of failure of these companies. Therefore, constant monitoring, examination and supervision of these companies become necessary.

After registration, Finance companies apply for license with Nepal Rastra Bank. A high level technical committee has been constituted for more serious and detailed study and analysis of feasibility report submitted by finance company under the management and leadership of Nepal Roaster Bank Deputy Governor to accomplish the objectives of creating a more competitive environment in the financial sector.

Based on the recommendation of this high level committee policy, guideline will be published to help and direct the establishment of the company. Also the committee will help to determine the basic eligibility criteria to be applied while issuing to new finance companies and also in monitoring those already established.

With regard to making regular revisions/amendments in policy directives and the issuance of new directives in order to make the services of finance companies more timely, reliable and trustworthy, NRB amended directives in 2001 and the finance companies implemented then from mid-July 2002.

As finance companies collect deposit from the public, NRB has fixed the minimum statutory liquidity requirement (SLR) of equivalent to 10% of total deposit liabilities. Of the total SLR, 8%

should be invested in the government securities of NRB bonds and the earning 2% is to be deposited as balance with the NRB or commercial banks. In order to prevent these companies from over exposures to one single company or party the single borrower limit has been fixed at 20% of the core capital (Share holders capital + retain earnings). Finance companies are prohibited to lend to the directors. The capital-gearing ratio has been fixed at 10%, which implies that the finance company cannot collect deposits, or extend loans exceeding 10 times of their core capitals.

2.1.11 Administration of Finance Company

Only one or two promoters should be allowed to hold executive positions and all the others should be recruited from outside to maintain a clear line of demarcation between policy making board and executive staff carrying the policy guidelines set by the board the executive staff become accountable to board for all decisions undertaken by them and nature punishment rewards upon the merits of the case.

2.1.12 Organizational Structure of the Finance Company

The organizational structure of almost every kind of finance company is similar. Each department reports to a person specially qualified for a particular function regarding financing deposit collection and other activities. The specialists are assigned to one function in all departments, but workman (Departmental Manager) has to work under required number of assistant for achieving their goals and objectives. The essence of this form of organization is that the delegation of authority is from the top to downwards in accordance with the function to be performed and as the workers have to receive orders from more than one person.

Each and every finance company is established, organized, managed and operated with a professional team of mixing innovation with money and experience. Local promoters have established most finance companies but some of the finance companies are joint ventures as well.

2.1.13 Functions of Finance Companies

The main objective of finance companies is to design various portfolios for customer and also help them to execute the investment portfolio that is very suitable. Another main function is to design for the investors, business or venture the optimal capital structure and help them raise the capital. Developing the industry within the country is must and finance companies should redirect their efforts and investment in this direction to finance the expansion and growth to both small and medium scale industries. Finance companies can help consumers to consume domestic products and with the creation of market for their products.

The relationship between production and consumption function is important to make credit worthwhile to have a meaningful development of national economy. As industry grows on the support and funding of finance companies, other economic development parameters follow such as creation of employment, income generation and saving to recycle or 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 industries on one hand and overall economic development on the other hand.

2.1.14 Impact of Finance Companies on the Development of National Economy

A financial activity, which is one of the key indicators of economic development of any country, is an integral part of national plan to accelerate the rate of economic development. The main objective of finance company is mobilization of small and large resources from urban as well as rural regions and their channeling into protective, structured and high-priority areas to assist in the economic development of nation.

Finance companies have to mobilize funds by gradually shifting priorities from hire purchase industry and to industry to help in the capital formation within the country, the overall growth of the nature and extend of capital formation in the country. This is the course of time industrial financing should get higher priority in the lending strategy of finance companies in view of their future sustainability for mobilizing public private and external financial resources and channeling them into productive areas as short terms loans and long term plans on different commercial business activities.

2.2 Review of the Development of Finance Companies

An institution, working as a bank with limited criteria, which are not covered by commercial bank in the field of capital market and money market, is called the Non-banking financial institutions (NBFI'S). As the economy grows and the financial system develops, financial intermediaries emerge to perform the function of transferring funds from saver to investors. This process of transferring saving funds to business investments is known as financial intermediation. Gurley and Shaw define intermediation as, the purchase of primary securities from ultimate borrowers and the issue of indirect debt for the portfolio of ultimate lenders. Finance Companies are considered as Non-banking financial institutions (NBFI'S). According to the Dictionary of Modern Economics, a Finance Company is a financial intermediary not a bank which may obtain fund from its own capital resources, by accepting deposit (usually for fixed periods) or even by borrowing from other institutions which it then lends for variety of purpose, especially to finance hire purchase contracts but also leasing. These firms buy one king of financial assets and sell another. Except for banks, such institutions as saving and loan associations, life insurance companies, mutual saving banks, common trust funds. Pension funds etc are the institutional example of NBFI's. NBFI's have made considerable progress after World War I. their growth has been much faster than that of commercial banks. NBFI's offer higher interest rates to the deposits and charge lower interest rates from the borrowers which means the NBFI's operates at very low level of interest spread. Thus in a way, the NBFI's compete with the commercial banks for public savings and sources of loan able funds.

2.2.1 Growth of Finance Companies in Developed Countries

The first investment bank began in Philadelphia in 1764. The first commercial bank "the Bank of North America" opened in the same city in 1981. The first investment Company, the Massachusetts hospital Life Insurance Company, was founded in 1818 in Boston. The Philadelphia saving bank insurance Companies are as the country itself but mutual life insurance companies first began operations in the 1940s. The postal saving system, credit union are funded system are all products of the 20^{th} century.

There are different views about "Finance Company" by different countries. Most of the countries have common view point that Finance Company in terms of their function and area of coverage is not clear cut present although Finance Act has mentioned creation area 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.

The more interesting development in US credit market in the 20th century. Then there has been the rapid growth in consumer credit. Installment credit was used fore only a few items such as pianos, Encyclopedias and Sewing machines and total household expenditures. But the activities increase towards consumers durable goods such as automobiles boats and household appliance. Generally there are three types of Finance Companies which are given below.

- Sales Finance Companies
- Consumer Finance Companies
- Credit Union

2.2.2 Sales Finance Companies

Each and every kind of commercial bank focuses their activities toward the non consumer sectors. They are not able to serve different areas, so the concepts of Sales Finance Companies have come out to serve consumers need and expectation.

Sales Finance Companies has always been oriented mainly toward the financing of automobiles business equipment lease and loans against account receivable.

A typical transaction of Sales Finance Company might go something like this "A dealer deals in some consumer durable goods (Auto, household appliances) payments for which is to be made the installment basis. The dealer receives his payment in installment from the Sales Finance Company and later, the payment of principle plus interest is made by the customer directly to the Sales Finance Company.

Sales Finance Companies are different form 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 borrower, thus we can say that Sales Finance Companies acts as go between obtaining credit from commercial bank channeling it into the purchase of consumption goods.

2.2.3 Consumer Finance Companies

"The Consumer Finance Companies are much more specialized than Commercial banks and sales Finance Companies. In the early 1960's however some of the larger Companies began to diversify their operation in USA. For example household Finance Corporation acquired a major interest in city Products Corporation and large retail chain in 1965. Household earlier had acquired coast to coast store and Badger paint hardware stores. The largest Consumer Finance Companies obtained more of their funds from banks than did Sales Finance Companies of similar size"

2.2.4 Credit Union

After the Consumer Finance Companies the last major Financial Institution in the installment credit market activities is the credit union. “The concept of credit union has been spectacular throughout the postwar period in the USA these credit unions may operate under either federal or state charter. Credit unions are co-operative associations. Members must be linked by some common board such as employment, church or labor union membership. Funds are derived almost entirely form member’s share accounts, which typically are accumulated in small increments under payroll deduction schemes. They are used largely for providing installment cash loans to members, although credit unions have relatively small amounts of other financial assets such as cash, government securities and saving and loan shares”

2.2.5 Growth and Development of Finance Company in Asian Countries

The concepts of Finance Companies are recent innovation in South Asia and its establishment growth and development was initiated from mid 1950’s. The first group of Finance companies were established in Philippines and Singapore but they are suffering form many difficulties. The companies that have been established in Hong Kong, Thailand and Malaysia have developed efficiently to accomplished their objectives and goals.

Most governments in South Asian countries have enacted legislation to project both depositors and investors investing in the industry. Singapore and Malaysia have enacted protective legislation regulation for all Finance Companies. Hong Kong requires a banking license for those Finance Companies that accept deposits. In Philippines they are also allowed to collect deposits from general public as a result of the passage in 1963 of a Truth in Lending Act. There are some special activities of Finance Companies for different countries which are described below.

Philippines

Finance Companies were established in the Philippines in and around 1950’s. The number grew rapidly and by 1962 – there were over 250. The Philippines congress also passed Truth-in rapidly Act to correct some of the abuses evident in the posts. Currently there are three large Companies and several more than hundred small Companies. In recent year there have been three major Finance Companies which are given below.

a. Vehicle Finance
b. Filipinos Investment and Finance Corporation
c. Filipinos Mutual Finance Incorporated

The shares of these Companies are traded on Manila stock exchange. These large Finance Companies operations are organized in like with type of goods or services financial. Thus, there are mainly three different units.

a. Vehicle Finance
b. Applicable Finance
c. Air travel Finance

Besides those activities large Finance Companies engage in leasing, credit card, operation and air travel financing.

Thailand

The Finance Companies in Thailand are still in the beginning stages. "Two major Companies are listed on the Bangkok stock Ex-change were established in 1961 and other in 1965. Both companies primarily Finance automobiles and the volume of their operations have been increasing rapidly.

a. Bangkok Investment Company Limited
b. Commercial Credit Corporation Thailand Limited

Late in 1967, half of its shares were owned by CCC Philippines and an additional 30 percent was held by first National City Overseas Investment Corporation a subsidiary of first National City bank of New York. As a result of this relationship the CCC Thailand has joint Filipino-and Thai management.

Finance Companies are making a useful contribution on to Thailand's general economic development particularly because medium term consumer credits were not allowed previously from other financial institution.

Hong Kong

Finance Companies were established in Hong Kong at the end of 1967. There are about eight Finance Companies all sponsored by commercial banks. Way Foog Finance Limited was established in 1990. When Finance Companies first began to operate in Hong Kong, the established Finance Companies basically came from the automobile dealers who asked the financial community to provide Hire Purchase facility.

The main sources of funds for Finance Companies are their deposit funds provided by the parent bank and their own capital.

Lending activities of the Finance Companies in Hong Kong are not limited to consumer durable. In addition to financing automobiles, refrigerators, Television sets and other consumer durable, companies also Finance some heavy machinery like conditioners and bulldozers.

2.2.6 Establishment, Growth and Development of Finance Companies in Nepal

Nepal is an under developed country. There is a need for additional capital investment to obtain higher rate of economic growth. Domestic and foreign capital (grants and loans) are two principal sources of capital available for investment. Of the two domestic savings is the most important and stable source of capital.

The growth and development of the financial institution in an economy depends to a very large extent on the quantum of funds they can command. With the rapid increase in the number of Finance Companies, the expansion of financing institutions is gaining ground. The institutions are making hard efforts to leave no stone unturned to mobilize maximum capital resources.

The growth rate of savings is very low in Nepal. For example in 1990 Gross domestic savings as percent of GDP remained at 19.9 percent. This shows the growing resources gap in the economy. Nepal obtains foreign capital to bridge this resource gap. Foreign capital, only loan, is the long-term liability which needs to be rapid in scare foreign currency. Moreover, the county cannot depend on foreign loans forever. Therefore, financial development is indispensable to meet the growing demand for capital in the country. After 1990 Nepal has adopted the policy of economic liberalization. The thrust of shift in policy boils down to add efficiency which in turn is assumed by operation of market forces. This policy has given more important role to the private sector. Financial liberalization policy is an important part of economic liberalization policy. Under this policy, the government has adopted liberal policy for the establishment of new commercial banks and Finance Companies on a competitive basis.

Finance Companies are new type of institutions in the Nepalese context. They can be registered only as a public limited Company as per the Finance Act 1985 and public limited company Act 2053 B.S. Finance Companies are registered with the Registrar of Company, and license for operation is granted by Nepal Rastra Bank. The minimum paid up capital of the Finance Company is fixed at Rs. 300 million for a national level finance company as well as for those operating in up to 3 districts and who perform leasing activity. For other finance company which does not wish to perform leasing activity, the paid up capital is fixed at Rs 200 million for a national level finance company and Rs 100 million for the company operating in only 3 districts.

There are 77 Finance Companies of various sizes registered in the Company Registrar's Office. Among 77 Finance Companies, 53 Finance companies are operating in Kathmandu Valley and the other 24 are rendering their services outside Kathmandu Valley.

2.2.7 Functions of Finance Company

As mentioned above there are various functions of Finance Company. But there are certain specific functions of Finance Company which are given below.

- Finance Company's most important function is to explore and innovate new business opportunities such as venture financing, managing investment plans.
- To provide various alternatives to depositors and enabling clients to satisfy their needs and preferences.
- Mobilization of small and large deposits from urban as well as rural areas and mobilization into productive, structured and high priority areas to assist in the economic development of the nation.
- Collecting and mobilizing funds for investment in the country.
- Providing investment and credit strategy to the productive industrial sector which assists in the economic development of nation.

Besides these functions Finance Companies play effective role for the development of nation through creation of employment opportunities, developing saving habits of people etc.

2.2.8 Special Services Offered by Finance Companies

Nowadays the role of Finance Company has been to design for customer various alternatives and also help them to execute the investment portfolio that is very suitable for. Another main function is to design for the investors business or venture the optimal capital structure and help them to raise the capital. There are some specific functions of Finance Company which are given as below:

A. I. Fund based activities

   II. Fee based activities

B. I. Financial service

   II. Investment banking

   III. Merchant banking

There are some Finance Companies whose activities are only towards leasing. Lease is a popular and creative financing technique that allows corporation and individual to secure use of equipment in exchange for lease payments. The main difference between a lease and an equipment loan is the case of lease, lessee or user of the equipment is not the owner of the equipment. The lesser is the owner. In other words, the lesser leases the lessee against the rental income for the use of an asset for specified period of time. This agreement helps the lessee in overcoming the Finance problems by having the facility of using an asset and enabling the lessee to take the ownership upon fulfillment of certain conditions of the lease agreement. There are two types of lease agreement:

- Finance Lease
- Operation lease

There are some specific item for which Finance Company provide lease finance for domestic goods or for direct import of various equipment's as follows:

- Industrial Machines and plants
- Aviation equipment
- Various hotel facilities equipment
- Office equipment such as computer
- Heavy construction equipment
- Transaction equipment's
- Medical equipment etc.

2.2.9 Difference Between Finance Companies and Commercial Banks

Financial institutions in a country can be broadly categorized into banking and non-banking (i.e. Finance Companies). The former comprise of banking institutions with a primary aim to mobilize resources in various forms and to channelize the same into the different sectors or an economy, which is more or less defined and controlled by the central bank of any county.

The non-banking categories of financial institutions are not allowed to do banking transactions such as issue of cheque, drafts, letters of credit and other negotiable instruments. They are not also allowed to accepted current deposits from public. A non-banking financial institution is also known as a Finance Company. They basically deal in finance i.e. money. Thus, one of their basic roles is to act as an intermediary in financial transaction on the basis of activities and service area. Therefore, the difference between commercial bank and Finance Company are given below:

a. Commercial banks focus their activities only on broad banking areas. But finance Companies focus their activities mostly towards the consumer financing.
b. Finance Company provide long and short term loan while commercial banks deal mostly with short term loans.
c. Finance Company can extend financial services and provided loans in those sectors where commercial banks have not reached.
d. Finance Company is able to provide higher interest rate and various alternates for depositors as compared to commercial bank.
e. The recycling of funds from individual to individual is done by Finance Company while commercial bank is not able to do it.
f. Finance Companies deal with individuals directly or through capital market to fulfill their individual credit needs and investment portfolio plans while commercial banks because of their size in terms resources deal more with institutional credit needs like developing business and industry.

2.2.10 Administration and Role of Nepal Rastra Bank towards Finance Companies

NRB, the central Bank of our country helps in the development of the financial system which helps to mobilize additional resources for investment in the economy. The main function of NRB is to safeguard the public interest so that they will not be cheated by these Companies.

Nepal Rastra Bank has recommended for the establishment of two Finance Companies namely Everest Finance and Saving Company Limited in the fiscal; year 12991/1992. This recommendation was in consistence with the provision of Finance Company act 2042 B.S. which aims at expanding the scope of capital market development in Nepal. This is expected to contribute to the transformation of the economy towards openness and market operations.

A high level technical committee has been constituted for serious and detailed study and analysis of feasibility report submitted by finance company under the management and leadership of Nepal Roaster Bank Deputy Governor to accomplish the objectives of creating a more competitive environment in the financial sector.

Based on the recommendation of this high-level committee policy framework is formulated that helps in direction towards establishment and regulation of Finance Companies in the country. The recommendation of the committee also helps to determine basic eligibility criteria to be fulfilled while issuing license to a new Finance Company and also in monitoring those already established and operating.

2.2.11 Impact of Finance Companies on Economic Development

Financial activities play vital role in the development of a country. Financial development is one of the key indicators of economic development of any country. Financial activities are an integral part of national plan to accelerate the economic development.

Finance companies have to channelize funds by gradually shifting priorities form hire Purchase and to industry to help in the capital formation with in the country. The overall growth of the nature and extend of capital formation in the country. This is the course of time industrial financing should get higher priority in the lending strategy of finance companies in view of their future sustainability and full fledged growth.

Expansion and growth of both small and medium scale industries helps the development of an economy. Finance Company can help consumers to consume domestic products and at the same time help industries both in financing and creation of market for their product.

2.2.12 Failure of Finance Companies

There are numerous examples of failure of finance companies. In the UK and the USA, many finance companies collapsed due to mismanagement or improper investment choices. This is true even in the case of Asian countries. In Malaysia, for example most of the finance companies failed in 1980's and went under liquidation. The principal reason for the failure of these finance companies can be listed as follows:

a. Lower investment of the capital by the promoters
b. They were established as private companies and run my families.
c. They had invested their capital to their own subsidiary companies.
d. The rate of repayment of loans was not satisfactory because they had invested mainly for the consumption purpose.
e. Capital outflow tendency.
f. Lack of regulation and supervision by the Central Bank or Monetary Authority.

When finance companies went bankrupt, there was a high hue and cry by the depositors; they put pressure on the central bank and to the government. In that situation, there was also growing erosion of faith in the country's financial system. Therefore, the central bank was bound to take steps to overcome such situations.

2.2.13 Resource Mobilization of Finance Companies

The growth and development of the financial institutions in an economy depends to a very large extent on the quantum of funds they can command. With the rapid increase in the number of Finance Companies and the expansion of the financing business undertaken by them besides other financial institutions is gaining around. These institutions are making hard efforts to leave no stone unturned to mobilize maximum capital resources.

In this context, Nepal Rastra Bank's (NRB's) has granted permission to the Finance Companies to raise funds equal to ten times of their net worth. The other important factor that has stimulated the growth of Finance Companies and the steady increase in deposits is that, unlike in most other countries, Finance Companies here have been allowed to mobilize deposits right from the day they star 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.

After the enactment of the Nepal finance Company Act 1985, 77 Finance Companies have already started their operations. Finance companies are a comparatively new scenario in the country, and they have to compete with other very well accepted financial institutions, including commercial banks, and are practically made to fight against the prevailing public psychology that works against Finance Companies. The sources of funds for financial institutions are not being widened, and the annual increment rate is very low. Accordingly, competition for funds, both inter-finance companies has really augmented.

Finance Companies are basically risk-institutions which collect institutional and retail funds and undertake term-leading functions. It one study of the structure of resources of Finance companies in other developed and developing economics, their dependence on institutional sources and retail funds comprise only a small portion of the resources mobilized by them.

Finance Companies have a completely different perspective of the whole gamut of resource and credit management. This deference in the perspective has resulted in wide dissimilarities between banks and Finance Companies and differences become more and more visible with the development of Finance Companies. Where commercial banks functions center around sourcing of retail funds and their channelization into trade, commerce and industries as short to medium term advances, Finance Companies concentrate on raising institutional and scheme/use –specific loans and their channelization as medium to long term loans onto various sectors of the economy.

This difference in the basic structure between a banking institution and a Finance Company needs to be understood well as these two institutions are competing for the same sources of funds. Such hold true on our case where Finance Companies are a new scenario and only traditional sources of funds exit for both Finance Companies as well as commercial banks and new sources are yet to be developed. But mentioned as above, experiences of other economies have proved it otherwise. Four basic practical steps are involved in resources mobilization of Finance companies, which are as follows:

- Awareness about various avenues for resource normalization, i.e. sources of funds
- Selecting a particular source or source for resources mobilization
- Selecting out strategies for resources mobilization (such strategies will naturally be company-specific) implementation of the resources mobilization strategy and conductive periodic reviews.

2.2.14 Source of Funds of Finance Companies

A finance company will have access to number of funding sources, broadly classified into capital (own funds and debt (borrowed funds). The capital may be in the form of equity shares, preference shares, convertible debentures, etc. besides these; a company may retain a part of its profit and plough it back in the business. The sources of borrowed funds of Finance Companies are generally as follows:

Capital Fund

- Paid up Capital
- General Reserve
- Share premium
- Retained Earnings
- Other Reserves

Borrowings

- A class financial Institutions
- Other Financial Institutions
- Bonds and Securities
- Debentures and tradable instruments
- Other money market instruments

Deposits

- Current Deposits
- Saving Deposits
- Fixed Deposits
- Call Deposits
- Others

Of the above, most of the mentioned sources, debentures and tradable instruments issue and money market sources are largely untapped in Nepal and carry immense potential as source of funds. What is needed in our context is the ability to identify and tap into new and unexplored avenues with instruments that suits the requirements of that particular avenue/segment.

Worldwide, commercial banks are the chief source of finance for Finance Companies, especially leasing companies. In India, for example, companies have relied upon bank funds to a very large extent, which is the reason that has prompted banks to float, their own subsidiaries finance. Because of the nature of their own funds, which mostly flow from demand and term deposits, banks lend money for short terms. These short terms loans are usually for not longer than 3to 5 years and serve as marching finance or back up finance for leasing and other transactions.

For effective mobilization of fixed deposits, it is necessary to identify a target group and then make persistent innovative efforts to capture it. Depositors today need a wide choice. With a little imagination, novel schemes can be formulated within NRB Rules; to replace the present stereotyped cumulative or periodic return schemes.

2.3 Review of Seminar papers

There is one very important seminar paper on establishment, growth and development of finance companies, which is mentioned on the topic, “Role of Finance Company in the National Economy” presented by L.P. Bhanu Sharma. In this seminar paper he focuses towards the promotion of finance companies. Few insights of the paper are given below:

On his seminar paper he emphasizes on the promotion of finance, “The promotion of finance companies in the country continues to be challenging. Finance company executives are engaged in promotion of their business activities on an individual basis using individual company resources. Promotion can be done in various ways: through media advertisements, highlighted product launches, dissemination of information about operational performance etc. This way through each company promotes its business activities in the way to it such promotion has been found to be directed towards disseminating company-specific details and basically described.

He suggests how a finance company could be promoted. For solving this problem “It is suggested that a finance company promotion committee (FCPC) should be constituted as a body for promotion of finance companies in the lines with banking promotion committee. The FCPC will engage in direct promotion of finance companies by instituting a mass awareness movement in the initial stages, to be consequently followed by other promotional activities. The major activities of the FCPC will include the following:

1. Creating a core team to conduct detail study of the existing laws, regulations, directives, policies and procedure concerning finance companies and the fiscal laws in the country.
2. Instituting a comprehensive mass awareness movement with the sole objective of explaining and convincing the general public about the finance companies by dissemination of the basis information concerning finance companies.

In his seminar paper he explains the study of the current interest rate structure practices among the finance companies.

Nepal Rastra Bank (NRB) directives prescribe a spread of 10% between the deposit interest rate and the lending interest rate and no floor or ceiling rates have been fixed. Accordingly, the decision regarding interest rates on the deposits as well as loans and advances has been left to the judgment of individual companies, thus creating the ground for market-determined competitive interest rates. Altogether, over 218 financial institutions including 78 finance companies ('C class financial institutions), 26 commercial banks ('A' class financial institutions), 73 development banks ('B' class financial institutions), 17 micro credit development banks (‘D’ class financial institutions) and 16 co-operative financing institutions and 45 Non Governmental Organizations licensed by NRB have already come into the market. Finance companies are comparatively a new scenario in the country and they have to complete with other very well accepted financial institutions including commercial banks and finance companies. The source of funds for financial institutions is not being widened and the annual increment rate is very low.

2.4 Review of Journals and Publications

There is one research oriented articles prepared by Mr. Ajaya Ghimire on the topic, “Process involved in financing a corporation: A Nepalese Context”. In this article he emphasizes towards the establishment of finance companies “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 institution) to finance activities of firm F can be interpreted as a firm G investing in firm F. Such investment 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 resign and sell many claims in order to finance its assets."

There are some important books for studying and which mentions about establishment, growth and development of finance companies. Among them one of the very useful book about Finance Company Namely " Finance companies in Nepal" (Shrestha M.K, Finance Companies in Nepal 1989) by Prof M.K. Shrestha. "Finance Companies have to be established, organized, managed and operated with a professional team of mixing innovative ideas with money and experience".

"Economic liberalization of the government has encouraged the establishment and growth of finance companies in the country within a short span of time. In a situation, when the existing financial institutions, especially commercial banks are unable to supply credit timely and carry capital market activities, finance companies have come timely to meet the individual's credit needs, undertake merchant banking functions and also curtail the operations of Upahar and Dhukuti Programmes".

There are clearly explained functions of finance company in his book "One of the important thing to be considered by finance companies is they have to generate income from fee based activities rather than always depending upon fund based activities. These include the broad range of merchant banking functions such as project planning, corporate counseling, syndication through underwriting and bridge financing, issue management, individual investment portfolio management, mutual fund, venture financing, leasing, mergers and acquisitions, brokerage and management consultancy services etc. This provides a simple answer to have a clear line of distinctions between finance company and commercial bank. Finance company deal with individuals directly or through capital market to fulfill their individual credit needs while commercial banks because of their bigger sizes in terms of resource deal more within institutional credit needs like developing business. The recycling of funds from individual to individual is done by finance company such as catering of the individual needs for timely credit financing".

He further explains about the role and function of Nepal Rastra Bank towards the finance company "After the finance company is registered and is applying for license with NRB, a high level Technical Committee has been constituted for more serious and detail study and analysis of feasibility report submitted by finance companies under the management and leadership of NRB's Deputy Governor to accomplish the objective of creating more competitive environment in the financial sector. Based on the recommendations of these high level of committee, policy, frame work and guideline will publish to help and direct the establishment and the regulation of finance companies in the country. The recommendation of this committee will also help to determine basically eligibility criteria to be applied while issuing license to new finance companies and also in monitoring to those already established and started operations.

2.5 Review of Previous Unpublished Thesis

Bhatta (1997) MBA student of Tribhuvan University, in his thesis “An analysis of Financial Performance of Finance Companies in context of Nepal” has stated that:

There are various services provided by finance companies for the customers. Among them the uses of funds towards hire purchase and housing financing must be shifted towards the business financing. This activities must be taken by finance companies because for achieving the long term objectives of finance companies to shift their investment and credit strategy to the productive industrial sector and business sectors of the economy so as to have adequate capital formation for overall national development. The unhealthy competition of interest rate amongst finance companies for collection of deposit fund and uses of that fund should not be there. There must be certain demarcation line between the various finance companies, which already started their functions.

Finance companies are playing with public money that consists of both depositors and investors. As such, Nepal Rastra Bank has to keep strict watch over their activities to protect the interest of public. For these, regular follow-up and timely audit of the company must be made mandatory by Nepal Rastra Bank to have correct evaluation and monitoring of their performance and minimize any irregularities discovered in the course of investigation. Reporting should be a continuous process and finance companies should make their performance transparent to the investing public. In this regard, Nepal Rastra Bank's monitoring and supervision department and also credit information bureau must be further strengthened and institutionalized. This is important to control on both credit flows and unhealthy credit practice by identifying the main credit defaulters and also preparing a black list of credit defaulters. Professionals with adequate logistic support should manage the monitoring and supervision department and staff to enable it to make independent evaluation of finance companies based on well-defined monitoring and super vision criteria. Moreover there should be professional representation in the credit information bureau instead of having only member to it. It should conduct studies from time to time by contracting with private consulting firms to produce an independent report on the credit performance status of finance companies.

The finance companies must be allowed to mobilize deposits from broader and neighboring areas from Indian citizen's deposit public outer against the government for non-stopping flight of capital from the country.

There is an urgent need to have a gradual shift of focus from traditional financing business to the dynamic and innovative areas such as merchant banking, consortium financing and venture capital, project financing, etc. Also there is a need to offer innovative schemes and instruments in resources mobilization.

The major findings of trend analysis of the study are as follows:

1. Uses of funds towards hire purchase loan are gradually decreasing. The highest amount used towards the hire purchase financing by National Finance Company (NCP) with amount of Rs 1027.6 lakhs and lowest amount is Rs 5.2 lakhs by Merchant Finance Company (MFC).

2. The use of fund towards housing is gradually decreasing with different rates 2.8%, 27.34%, 27% and 26.95% for the period of March 1996, July 1996, February 1997 and March 1997. the highest amount was used towards housing loans by National Finance Company (NFC) with amount 808.9 lakhs whereas the lowest amount is used by National Finance and Saving Company (NFSC) with amount of Rs 3 lakhs.
3. The use of fund towards the term loan id gradually increasing which can be shown in different period of figure. The term loans is increasing with different rate as 34%, 39%, 42% and 40.78% for the different four periods of mid March 1996, July 1996, February 1997 and March 1997. The highest amount has used towards term loan by National Finance Company (NFC with amount of Rs 1345.4 lakhs while the lowest uses of fund was of HISEF.
4. The fund used by finance companies is gradually increasing toward leasing with the increasing rate. The different period of figure is 3.45%, 2.94%, 5.3% and 5.5% for the period of mid March 1996, July 1996, February 1997 and March 1997.
5. There are special items of mobilization of fund on different areas in the headings “others”. These figures also increase with increasing rate with figure 1.55%, 1.72% 3.7% and 4.45% on the different period of the study as stated above.
6. There are increasing uses of funds towards government securities for different four periods with amount Rs 8014 lakhs, 975.5 lakhs, 1856.5 lakhs and 2144 lakhs for the respective periods. UNION has used highest amount of their fund worth amount Rs 382 lakhs whereas the lowest uses of fund worth Rs 7 lakhs by Samjhana Finance Company (SFC).

Mandala (1998) in his thesis paper, “ Comparative Financial Performance Appraisal of Joint Venture Banks” has mainly focused on the banking and financial facilities in rural areas by encouraging small entrepreneur development programs, to play merchant banking role, to mobilize the deposit funds in productive sectors and to grant more priority to the local manpower.

Gautam (2000) has made a study on the topics, “Investment Analysis of the Finance Companies in context of Nepal” in the partial fulfillment of the Master’s Degree in Business Administration from Shanker Dev College. She has pullout the following conclusions:

Economic liberalization of the government has encouraged the establishment and growth of finance companies in the country within a short span of time. In a situation when the existing financial institutions, especially commercial banks were unable to supply credit timely and carry capital market activities, finance companies have contributed a lot.

She found the overall performance of finance companies to be satisfactory and Nepal Rastra Bank has to play more active role to enhance the operation. The analysis of lending and investment activities shows that only very few finance companies have aggressive investment strategy as compared to most of the others following conservative strategy. Initially the major part of their lending was on consumer durable through hire purchase and housing financing. However, the trend is changing towards term loan. As term loan mainly consists of business and industrial loan, this is the indication of investment on productive sector.

The unhealthy competition of interest rate should be controlled by putting upper and lower selling rather than present spread rate system. This neither will nor only reduce the confusion of the customer, it will ensure the proper functioning of the company. Another important thing is strong repayment mechanism and its implementation. As the number of defaulters is increasing, this should be in first preference.

Strengthening and the institutionalization of the finance companies are very important to have a meaningful relationship between finance companies and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms such as consolidation of finance companies, good relationship between finance companies and commercial banks, directing attention to venture capital financing, appropriate risk return trade of by linking credit timely repayment schedule, avoiding imperfections, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB, diversify scope of activities to fee based services, allow funds transfer, refinancing facilities for finance companies, professional culture within finance companies, etc. all these are necessary to ensure better future performance of finance companies at have already been established and growing in Nepal.

Finally she had stressed on the part that 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, and are strategically well planned to be competitive with banks and other agencies and are trust worthy.

The major findings of trend analysis of the study are as follows:

1. From the aggregate data, it is shown that the investment on government securities was increasing rapidly form the period 1995 to 1998. However, it was decreased in the year 1999 and it may be because of low return on government securities as of mid October 1999, out of forty finance companies there are nine finance companies with zero investment on government securities. Out of remaining thirty-one finance companies, sixteen companies have up to 100 lakhs and other fifteen finance companies have more than 100 lakhs investment on securities. The highest investment is 3298 lakhs by Nepal Merchant and Finance Limited and lowest is 6 lakhs by General Finance Company.
2. The capital range of the Finance companies mainly lies in the range of 100-500 lakhs. Out of forty companies nine have less than 100 lakhs capital. Thirty have between 100-500 lakhs and only one has more than 500 lakhs. The maximum capital is 750 lakhs of SIDDH, NCM, JCFK and CFCI. Out of these forty companies, around twelve companies have floated shares to public.
3. The major source of fund of finance companies is utilized in loan and advances. The maximum, minimum and average percentage of utilization on loan and advances are 53, 74 and 65.69 percent respectively.
4. There are thirty-eight companies having investment on hire purchase loan. The study clearly shows the use of fund towards the hire purchase loan is decreasing

rapidly. The ratio of the loan and total loan and advances was 62 percent in 1994 to 1999 respectively. This shows there is gradual increase in this sector.

5. All the companies have investment on housing loan. The use of funds towards housing loan is almost linear except for the year 1994. The ratios of housing and total loan are 14, 26, 27 and 28 percent for the period 1994 to 1999 respectively.
6. Except few companies, all other companies have investment in term loan. The use of funds towards the term loan is gradually increasing. The ratio of term and total loan are 24, 20, 39, 46, 40 and 43 percent for the period 1994 to 1999 respectively.
7. There are only three companies having investment on lease loan. The ratios of lease and total loan are 0, 4, 3, 5, 6 and 4 percent for the period 1994 to 1999 respectively.
8. The interest rate structure of loans and advances of all the finance companies are almost same. It is varying from 17to 22 percent with an average interest rate of around 20 percent. Recently the interest rat has been decreased and the current practices of interest rate vary mainly between 18 to 20 percent.
9. As the direct data of good and bad loan was not available. The loan loss provision is used to analyze the loan quality. The percentage loan loss provision is 1.07, 1.18, 1.13, 1.45, 2.13 and 2.95 percent respectively for the period 1994 to 1999, as the minimum of 1 percent loan loss provision is mandatory. The percentage of loan loss provision for the period 1994 to 1999 was satisfactory.
10. The loan loss provision of some companies is more alarming on individual analysis. The maximum loan loss provision is 5.72,.38 and 7.89 percent for the year 1997 to 1998 and 1999 respectively. On the other hand, the average loan loss provisions for the same periods are 1.72, 2.16 and 2.75 respectively.
11. The ratio of interest earning assets and interest paying liabilities is decreasing gradually from 151 percent in 1994 to 104.5 percent in 1999. However it is very satisfactory. As the interest spread rate is 6 percent, minimum of 30 percent of interesting come will go to gross profit.

Neupane (2001) “Prospectus of Financial Companies in Nepal”, he concluded that prospective of finance companies in Nepal is not promising enough if, they keep on highly relying on same traditional lending and investment activities, are not able to increase the market pie by making adequate research and development programs, don’t manage efficient credit monitoring and don’t succeed to increase shareholders wealth with stronger financial performance and respectful investment practices. He recommends the finance companies to practices activities like project management, share issuing planning and management, mergers and acquisition, brokerage services, design of capital structure, helping buying and selling of collaborations to make easy loan syndication, under-writing, amalgamation and takeovers, factoring of receivable etc. to satisfactory extent giving clear line of demarcation between themselves and commercial banks, rather than simply relying in conservative investment practices.

2.6 Review of Articles and Journals

Neupane (1993) in his article “Development of Finance Companies in Nepal; Prospects and Challenges” has concluded that Finance Companies with new financial instruments and innovations are highly needed in the country. Regarding the establishment of these companies, there is still ample room for developing varieties of companies and financial instruments to attract the small savings. This will provide investment opportunities to the small and medium savers. Nepalese people have the bitter experience of being cheated by the so-called UPAHAR, INSTALLMENT and other prize awarding schemes. Therefore, efforts could be made to create a sound institutional base so that people will not be cheated."

Palikhe (1998) in her article, “Condition of Finance Companies in Changing Situation” has concluded that to trigger timely change in the economy of the country and the living standard of Nepalese people, the role of Finance Companies is important. But the quantity of Finance Companies does not count. Presently the trend of servicing in the urban areas should be discouraged and the rural regions should be made target area. In the political environment where commitment is lacking and boarder is open with India, the Finance Companies have a difficult task to a struggle against the minimum of prerequisites.

Sapkota (1998), in his magazine paper “Development and Present Condition of Finance Companies in Nepal”, has concluded that the Finance Companies have contributed much to use financial equipment in the system of Nepalese Finance. The habit of saving and deposits is on the rise among Nepali customers as the Finance Companies are servicing door to door. They are interested in prompting capital. The debtors are also facilitated by the quick service in loan. As the Finance Companies are focusing on consumer commodities, they have not been able to contribute in the productive sectors like agriculture, industry and others.

An article titled “Present Position and Future Challenges of Finance Companies in Nepal” written by Mr. Prem Shankar Shrestha was published in Banking Prawardhan Vol 8; the theme of the article is drawn in the following points:

1. Despite the existence of numbers of financial institutions, local lending and borrowing transaction covered about 80 percentage of total credit demand of Nepal.
2. In past customers used to approach to financial institution. But nowadays here came a condition that the institutions need to go to the clients for providing financial services. Thus finance companies need to modify their working style as demanded by time and
3. Should concentrate in quick and practical services.
4. Taking example of financial crises in some of the countries in Southeast Asia. Nepal should also learn the lesson from the countries in the context of increasing number of finance companies in the country.
5. There should be debt recovery act in Nepal.
6. Finance Companies collect deposit with maturity period of 3 months to 6 years. Finance companies are seen not getting able collect long-term deposit satisfactorily. So they need to try to increase public confidence towards them.

Another research oriented article, titled “Development Required in Policy and Legal Aspects of Finance Companies” was published in Banking Prawardhan Vol 9. Mr. Volaram Shrestha and Mr. Lokbhadur Khadka, the writer of the article has put forward some recommendations as the measures for the better running of finance companies in Nepal. The major part of the article is summarized in the following points:

1. Under the existing regulation, a new finance company should issue common share to public within 3 years of its establishment. A company in loss should go to public as soon as it starts getting profit. But it is seen that some companies are not seen to issue public share even after completing 4 or 5 years of operation. So NRB should make such companies to go to public by circulation regulations like not allowing a company to provide dividends to its promoters if it fails to issue public share within a specified period of time.
2. Promoters should not be allowed to sell their share unless the companies issue public share. Moreover there should be standards of eligibility of the buyers to purchase thus sold share, as there is a great role of promoter in planning and monitoring of a company.
3. There is a requirement of credit information system among all the financial institutions. Finance companies association of Nepal should play its role in this regard.
4. Under current regulation, a finance company cannot grant loan to a single sector more than 60 percent of the total loan and advances. And if exceeds the limit, additional 25 percent of the fund exceeding the limit should be maintained as loan loss provision. This provision should be increased, as 25 percent is not enough to control a company to exceed the limit.
5. As there is not credit rating agency in Nepal, depositors or investors are facing problem of choosing appropriate finance company to deposit or investment their savings. So NRB should develop system of ranking finance companies on the basis of capital structure, profit/loss condition, issuance of public share, quality of management, amount of bad debt, service diversification, service quality, etc. the companies in high rank should be slightly relaxed from restrictions regarding various aspects.

CHAPTER - III

RESEARCH METHODOLOGY

This Chapter mainly consists of the research design, nature and sources of data and data analyzing tools used. The last two chapters covered the introduction where backgrounds of the financial companies have been streamlined. There after the review of literature with subsequent reviews of ideas, theories and research findings have also been discussed.

Research methodology, which describes the methods and process applied in the entire aspect of the study, is the way to solve systematically, process that is adopted by the researcher in studying a problem with certain objective in view.

The main objective of the study is to analyze the investment/resource mobilization pattern of Finance companies in context of Nepal. To achieve the objective of the study, an appropriate research methodology has to be followed. Therefore this chapter deals with the methodology used by the researcher to analyze and interpret the relevant data, thus in this chapter focus have been made on research design, nature and sources of data population and sample, data gathering procedure, data processing procedure and tools used for analysis.

3.1 Research Design

The research design refers to the conceptual structure within which the research is conducted; it constitutes the blue print for the collection, measurement and analysis of data. As such, the design includes an outline of what the researcher will do from the writing of hypothesis and its operational implications to the final analysis of data. 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.

“Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the research question and to control variances” (Kerlinger, 1986).

Research design is very helpful while conducting research. It facilitates smooth operation of research work, there by making research as efficient as possible yielding maximal information with minimal expenditure of effort. Time and resources, a research design is helpful because it specifies the sources and types of information relevant to the research problem. Further, it is a strategy specifying which approach will be used for gathering and analyzing the data.

"A good design is often characterized by adjectives like flexible, appropriate, efficient, and economical and so on. Generally the design that minimizes bias and maximizes the reliability of the data collected and analyzed is considered a good design. The design that gives the smallest experimental error is supposed to be the best design in many investigations". (Kothari, 1995).

The research is based on the analytical as well as descriptive designs. To achieve the objective of this study, descriptive and analytical research designs have been used. The analytical research design is used to analyze the investment pattern of Finance Companies. With the help of research design, availability and utilization of financial resources, the interest rate structure on deposits and loans, flotation shares and ever marked on the basis of the financial statements and related data.

3.2 Nature and Sources of Data

This study is conducted on the basis of secondary data. The major sources of secondary data used in the study are as follows:

- Published financial static.
- Published reports and bulletins of Nepal Rastra Bank.
- Unpublished reports and papers.
- Pervious studies and bulletins.
- Different Finance Companies memorandum paper booklet and balance sheet.
- Other published and unpublished concerned documents and reports form different libraries.

For the primary data, field visits were made in different Finance companies. For those questionnaires, interviews and discussion with participants have been made which are the major sources of information. The other additional data required of the study is gathered form annual report available in Internet website of Nepal Stock Exchange. (www.nepalstock.com)

3.3 Data Collection Procedure

As explained above the main sources of secondary data are the publications of the Nepal Rastra Bank "Banking Operation and Department Baluwatar Kathmandu and the journals and periodic of government agencies. Secondary data were directly collected form the above sources. Extensive discussions were held with the different Finance companies staff, manager and other Rastra bank staff and view of the officials were acquired during the cause of the study.

3.4 Data Processing Procedure

For processing the data financial statements of various finance companies and economic data are reviewed, they are grouped in various tables and charts according to their nature. The data extracted form annual financial reports published by NRB is processed and interrupted considering the requirement of the study. The financial and statistical tools and techniques are applied in data processing procedure. The relevant data of five years are rearranged, analyzed and interpreted. In this study, gathered secondary data are presented with the help of index percentage changes, ratio and comparative changes, ratios and comparative analysis in a suitable table.

3.5 Statistical and Analytical Tools Used

To analyze and interpret the financial data of the finance company various statistical and financial tools and techniques are used in the study. They are percentage change, index correlation, hypothesis and comparative study.

3.5.1 Mean

Mean indicates average value of observation. Mean indicates average value of the data and which is denoted by X.

For a data set, the mean is just the sum of all the observations divided by the number of observations. an average, mean, or central tendency of a data set refers to a measure of the "middle" or "expected" value of the data set. There are many different descriptive statistics that can be chosen as a measurement of the central tendency. The most common method, and the one generally referred to simply as the average, is the arithmetic mean.

This is denoted by $\overline{X}$.

Mean is calculated sum of all observations divided by number of observation. Mean is also known arithmetic mean of arithmetic average. The Mean is expressed as

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

Where,

$\overline{X}$ = Mean value of observation

N = Number of observation

X = Total sum of observation

$$X = X_1 \Gamma X_2 \Gamma X_3 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.. + X_n$$

3.5.2 Standard Deviation

The standard deviation is the absolute measure of dispersion. It shows the degree of fluctuation of observation. If the value of standard deviation is high the degree of risk also high and if value of S.D. is low the degree of risk also low. Standard deviation is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean it is denoted by $\pm$

$$\sigma X \frac{\bar{X}}{N} \times 100$$

$$\text{S.D.}(\pm) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

X = Single observation

$\bar{X}$ = Average mean

3.5.3 Trend Analysis

The trend analysis has been used to find out the trend in total deposit, total loan and advance, total investment and total ratio of the sample finance companies. The general equation used for linear trend is given below;

The term "**Trend Analysis**" refers to the concept of collecting information and attempting to spot a pattern, or *trend*, in the information. In some fields of study, the term "trend analysis" has more formally-defined meanings. Although trend analysis is often used to predict future events, it could be used to estimate uncertain events in the past, such as how many ancient kings probably ruled between two dates, based on data such as the average years which other known kings reigned.

Y = a + bX……..

Where,

Y = Dependent Variable

X = Coded time in year

a = Y- Intercept

b = Slope

In the above model,

$$b = \frac{XY\,Z\,n\overline{XY}}{X^2\;Zn\overline{X}^2}$$

3.5.4 Annual Average Growth Rate

The average growth rate calculated using this equation. The higher growth rate indicates higher or better performance of the company.

$$\text{Growth rate} = \frac{D_t\,ZD_t\,Z1}{D_t\,Z1}$$

3.5 Limitations of the Research Methodology

The research is conducted to fulfill the academic requirement of Master of Business Studies degree. It is focused on analysis of resource mobilization of five finance companies during the period 2005/06 to 2009/10. Since the research work is conducted by taking only 5 finance companies, the study may not reveal reliability and validity in every field. The basic limiting conditions, within which the research work is conducted, are:

- The evaluation made herein of one sample unit of five finance companies only, hence cannot be reasoned for similar condition of the whole industry. However, it gives a particular direction to the industry if not actual.
- The study remains largely in the realms of Offsite Monitoring System hence qualitative assessment may not be reflected by the study. However, the proxy financial tools are helpful to give a close picture of such factors.
- The quarterly financial reports of the finance companies are not publicly available or if available not adequate whereas the effectiveness of resource mobilization assessment requires quarterly financial reports.
- The data figures from different other sources may not be congruent with the finance companies published data. However audited data published by the finance companies are treated as authentic. The study is carried out within the framework of case study research design. So, it is difficult to eliminate the limitations of the case study research design, in which the study as well as the methodology is bounded. Only a single unit is taken for the study, therefore, the study may not be able to represent the whole scenario.

CHAPTER - IV
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter is related to analysis of the finance companies in term of quantity parameters of various deposit and loans with relation on interest rate. Some qualitative analysis has been done to make the analysis realistic and complete as possible.

Financial institutions are the pillar of the nation's economy. Finance companies are a recent feature in our country. For the contribution, continuous growth and development of any business organization, a continuous public trust and confidence is imperative. Business ethics stems out from the social responsibilities that an organization has to fulfill as a good corporate citizen. Finance companies have been coming out with various deposit schemes through different interest rates.

Thus, the basic question now is how to make finance companies operationally viable, institutionally sound and steady and legally very clear about the area of operations although to some extent the finance acts has specified their area of operations. The need to strength the institutionalization of finance companies is important to have meaningful relationship between finance companies and national development through industrial sectors by providing different kinds of financial services such as Hire Purchase, Housing Finance, Term Loan and Leasing Financing.

The general public must know about the financial products provided by different finance companies. We must know about the financial performance of finance companies towards the national development, whether the finance company has been playing a positive role or negative role towards the national development of a country.

My aim on this chapter is to analyze 5 finance companies on different basis and as far as possible draw a scenario of this segment of financial institutions based on available data and information, collected through different sources, only some qualitative analysis has been done to provide a picture on the financial performance of finance companies in the country.

4.1.1 An Analysis and Ranking of Finance Companies Based on Capital Fund

After adopting the economic liberalization and privatization, the government has developed an efficient and effective policy towards the financial sector. In a short period, there has been rapid establishment, growth and, development of finance companies and increase in the financial activities through the finance companies. In this chapter 77 finance companies are ranked on basis of capital fund. From which we know the level, status, size and performance of the finance companies.

Table.1

RANKING OF FINANCE COMPANIES BASED ON THE CAPITAL FUND

For the Fiscal year 2065/2066 (Mid July 2009/10)

No.	Finance Companies	Core Capital	
		% of RWA	Rank (Descending)
1	Nepal Awas Bikas Bitta Co. Ltd.	36.37	5
2	Nepal Finance & Saving Co. Ltd.	22.37	19
3	NIDC Capital Market Ltd.	13.90	56
4	National Finance Ltd.	33.26	7
5	Annapurna Finance Co. Ltd.	13.68	59
6	Nepal Share Market & Finance Ltd.	24.92	15
7	Peoples Finance Ltd.	23.77	17
8	Merchantile Finance Co. Ltd.	53.06	3
9	Kathmandu Finance Ltd.	23.62	18
10	Himalaya Finance & Saving Co. Ltd.	19.23	28
11	Union Finance Co. Ltd.	19.69	26
12	Narayani Finance Ltd.	30.80	8
13	Gorkha Finance Co. Ltd.	24.19	16
14	Paschimanchal Finance Co. Ltd.	18.62	32
15	Nepal Housing & Merchant Finance Ltd.	19.36	27
16	Universal Finance Ltd.	16.45	41
17	Samjhana Finance Co. Ltd.	10.71	70
18	Goodwill Finance Ltd.	12.67	63
19	Siddartha Finance Ltd.	20.93	24
20	Shree Investment & Finance Co. Ltd.	14.44	52
21	Lumbini Finance & Leasing Co. Ltd.	24.99	14
22	Investa Finance Ltd.	85.77	1
23	Yeti Finance Co. Ltd.	21.99	20
24	Standard Finance Ltd.	58.72	2
25	ILFC	35.54	6

26	Mahalaxmi Finance Ltd.	15.12	46
27	Lalitpur Finance Co. Ltd.	13.82	57
28	Bhajuratna Finance & Saving Co. Ltd.	28.54	10
29	United Finance Co. Ltd.	15.34	43
30	General Finance Ltd.	8.21	76
31	Nepal Sri Lanka Merchant Banking & Finance Ltd.	(49.32)	77
32	Merchant Finance Co. Ltd.	14.54	51
33	Alpic Everest Finance Ltd.	14.21	54
34	Navadurga Finance Co. Ltd.	15.58	42
35	Janaki Finance Co. Ltd.	18.00	33
36	Pokhara Finance Ltd.	27.96	11
37	Central Finance Ltd.	15.19	44
38	Premier Finance Co. Ltd.	15.19	44
39	Arun Finance & Saving Co. Ltd.	17.63	36
40	Multipurpose Finance Co. Ltd.	17.02	38
41	Butwal Finance Ltd.	11.48	67
42	Srijana Finance Ltd.	47.08	4
43	Om Finance Ltd.	11.48	67
44	Cosmic Merchant Banking & Finance Co. Ltd.	10.25	73
45	World Merchant Banking & Finance Co. Ltd.	11.25	69
46	Capital Merchant Banking & Finance Co. Ltd.	19.11	29
47	Crystal Finance Ltd.	10.26	72
48	Royal Merchant Banking & Finance Ltd.	12.38	64
49	Guheswori Merchant Banking & Finance Ltd.	19.10	30
50	Patan Finance Co. Ltd.	16.60	40
51	Fewa Finance Co. Ltd.	14.73	50
52	Everest Finance Ltd.	15.06	47
53	Birgunj Finance Ltd.	13.69	58
54	Prudential Bittiya Sanstha Ltd.	14.27	53
55	ICFC	20.46	25
56	IME Financial Institutions Ltd.	15.02	49
57	Sagarmatha Merchant Banking & Finance Co. Ltd.	10.55	71
58	Shikhar Bittiya Sanstha Ltd.	16.93	39
59	Civil Merchant Bittiya Sanstha Ltd.	25.48	12
60	Prabhu Finance Co. Ltd.	11.55	66
61	Imperial Financial Institution Ltd.	21.76	21
62	Kuber Merchant Bittiya Sanstha Ltd.	15.06	47
63	Nepal Express Finance Ltd.	25.33	13
64	Valley Finance Ltd.	18.78	31
65	Seti Bittiya Sanstha Ltd.	28.95	9
66	Hama Financial Institution Ltd.	17.90	34
67	Reliable Investment Bittiya Sanstha Ltd.	12.71	62
68	Lord Buddha Financial Institiution Ltd.	21.58	22
69	Api Financial Institution Ltd.	21.45	23
70	Namaste Bittiya Sanstha Ltd.	*17.32*	37
71	Kaski Finance Ltd.	10.18	74
72	Suryadarsan	13.13	60
73	Zenith Merchant Financial Institution Ltd.	12.77	61
74	Unique Financial Institution Ltd.	13.96	55

75	Manjushree	12.16	65
76	Swastik Merchant	9.45	75
77	Subhalaxmi	17.88	35

Source: Nepal Rastra Bank Non- Bank Financial Statistics Mid-July 2009Vol No. 53

In the above table finance companies are ranked according to the core capital as a percentage of risk weighted asset. Investa finance, Standard finance and Merchantile finance are the top three ranked finance companies respectively on the basis of capital fund as the percentage of risk weighted asset. Similarly Swastik finance, Kaski finance and Nepal Sri

Of the finance companies that have been registered, More than 50 % have raised capital by floating shares to the public and they have been listed in Nepal Stock Exchange. Nepal Stock Exchange is organization, operating under exchange Act 1983.

Table 2
SOURCES AND USES OF FUNDS OFFINANCE COMPANIES WITHIN AND OURSIDE KATHMANDU VALLEY Mid-July, 2009

SOURCES AND USES	Within Ktm. Valley(53)*	Out of Ktm. Valley(24)*	Total	Percentage Share	
				A	B

1	**CAPITAL FUND**	**78890.5**	**26519.1**	**105409.6**	**74.8**	**25.2**
	a. Paid-up Capital	**73754.9**	**19456.5**	**93211.3**	**79.1**	**20.9**
	b. General Reserve	**6992.5**	**3102.5**	**10095**	**69.3**	**30.7**
	c. Share Premium	**167.3**	**92.0**	**259.3**	**64.5**	**35.5**
	d. Retained Earning	**(4265.6)**	**1289.7**	**(2975.9)**	**143.3**	**(43.3)**
	e. Other Reserves	**2241.5**	**2578.4**	**4819.9**	**46.5**	**53.5**
2	**BORROWINGS**	**42096.3**	**9840.9**	**51937.2**	**81.1**	**18.9**
	a. NRB	**0.0**	**0.0**	**0.0**		
	b. "A" Class Licensed Ins	**30955.3**	**9125.9**	**40081.2**	**77.2**	**22.8**
	c. Foreign Banks and Fin.	**700.0**	**0.0**	**700**	**100**	**0.0**
	Ins.	**10141.0**	**715.5**	**10856**	**93.4**	**6.6**
	d. Other Financial Ins	**300.0**	**0.0**	**300**	**100**	**0.0**
	e. Bonds and Securities					
		415232.9	**155501.6**	**570734.4**	**72.8**	**27.2**
3	**DEPOSITS**	**79.6**	**4839.3**	**4918.9**	**1.6**	**98.4**
	a. Current	**79.6**	**4839.3**	**4918.9**	**1.6**	**98.4**
	Domestic	**195308.4**	**80060.6**	**275369**	**70.9**	**29.1**
	b. Savings	**178458.9**	**80060.6**	**258519.6**	**69**	**31**
	Domestic	**16849.5**	**0.0**	**16849.5**	**100**	**0.0**
	Foreign	**204577.2**	**69207.6**	**273784.8**	**74.7**	**25.3**
	c. Fixed	**204577.2**	**69207.6**	**273784.8**	**74.7**	**25.3**
	Domestic	**9397.3**	**384.8**	**9782.1**	**96.1**	**3.9**
	d. Call Deposits	**5870.4**	**1009.1**	**6879.6**	**85.3**	**14.7**
	e. Others					
		3.6	**6.0**	**9.6**	**37.6**	**62.4**
4	**Bills Payable**					
		86666.7	**18916.5**	**105583.3**	**82.1**	**17.9**
5	**Other Liabilities**	**47873.6**	**5662.5**	**53536.1**	**89.4**	**10.6**
	1. Sundry Creditors	**15204.9**	**5323.6**	**20528.5**	**74.1**	**25.9**
	2. Loan Loss Provision	**5793.1**	**2360.3**	**8153.3**	**71.1**	**28.9**
	3. Interest Suspense a/c	**17795.2**	**5570.1**	**23365.4**	**76.2**	**23.8**
	4. Others					
		8501.7	**2619.5**	**11121.2**	**76.4**	**23.6**
6	**Reconciliation A/c**					
7	**Profit & Loss A/c**	**20938.6**	**8567.0**	**29505.6**	**71**	**29**
	TOTAL LIABILITIES	**652330.3**	**221970.5**	**874300.8**	74.6	25.4
	TOTAL ASSETS	**652330.3**	**221970.5**	**874300.8**	74.6	25.4

	LIQUID FUNDS	131831.1	32234.4	164065.5	80.4	19.6
	a. Cash Balance	3968.1	2086.4	6054.5	65.5	34.5
	Nepalese Notes & Coins	3959.7	2081.9	6041.6	65.5	34.5
	Foreign Currency	8.4	4.5	12.9	65.4	34.6
	b Bank Balance	77674.1	26594.5	104268.6	74.5	25.5
	1. In Nepal Rastra Bank	19521.6	3148.3	22669.8	86.1	13.9
	Domestic Currency	17647.2	2804.7	20451.9	86.3	13.7
	Foreign Currency	1874.3	343.6	2217.9	84.5	15.5
	2. "A" Class Licensed Ins.	43458.9	16158.3	59617.1	72.9	27.1
	Domestic Currency	43125.0	16158.3	59283.3	72.7	27.3
	Foreign Currency	333.8	0.0	333.8	100	0.0
	3. Other Financial Ins.	14693.7	7287.9	21981.6	66.8	33.2
	4. In Foreign Bank	0.0	0.0	0.0		
	c.Money at call	50188.9	3553.6	53742.5	93.4	6.6
	Domestic Currency	50188.9	3553.6	52742.5	93.4	6.6
	INVESTMENT IN SECURITIES	7035.4	1121.7	8157.2	86.2	13.8
	a. Govt.securities	6785.4	896.1	7681.4	88.3	11.7
	b. NRB Bond	175.5	0.0	175.5	100	0.0
	c. Govt.Non-Fin.Ins	38	66.1	104	36.5	63.5
	d. Other Non-Fin Ins	36	159.6	196.2	18.7	81.3
	e. Non Residents	0	0.0	0.0		
	SHARE & OTHER INVESTMENT	18152.8	6345.2	24498	74.1	25.9
	d. Non Residents	2270	0.0	2270	100	0.0
	e. Others	15882.8	6345.2	22228	71.5	28.5
	LOANS AND ADVANCES	434803	164409.2	599212.2	72.6	27.4
	a. Pvt. Sector	314284	137583.8	451867.8	69.6	30.4
	b. Financial Ins	32502.4	13398.8	45901.2	70.8	29.2
	c. Non-Fin Govt.Org	88016.6	13426.6	101443.2	86.8	13.2
	BILL PURCHASED	1039.6	529.4	1569	66.3	33.7
	a. Domestic Bills	1039.6	529.4	1569	66.3	33.7
	b. Foreign Bills	0.0	0.0	0.0		
	c. Import Bills	0.0	0.0	0.0		
	FIXED ASSESTS	23063.6	3718.6	26782.3	86.1	13.9
	OTHER ASSESTS	22719.5	6206.8	28926.3	78.5	21.5
	a. Accrued Interests	6254.5	2421.2	8675.7	72.1	27.9
	Govt. Entp.	1335.2	527.3	1862.4	71.7	28.3

Private Sector	**4919.3**	**1894.0**	**6813.3**	**72.2**	**27.8**
b. Staff Loans/Adv	**1204.4**	**416.4**	**1620.7**	**74.3**	**25.7**
c. Sundry Debtors	**3966.1**	**1114.7**	**5080.8**	**78.1**	**21.9**
d. Cash in Transit	**579.8**	**16.7**	**596.5**	**97.2**	**2.8**
e. Others	**10714.8**	**2237.7**	**12952.5**	**82.7**	**17.3**
Expenses not written off	**557.1**	**67.2**	**624.3**	**89.2**	**10.8**
Non Banking Assets	**1939.7**	**1113.6**	**3053.3**	**63.5**	**36.5**
Reconciliation Account	**8182.7**	**2619.2**	**10801.8**	**75.8**	**24.2**
Profit & Loss A/c	**3005.7**	**3605.3**	**6611**	**45.5**	**54.5**

Source: Nepal Rastra Bank Non- Bank Financial Statistics Mid-July 2009 Vol No. 53
*Figures in parentheses show the number of Finance Companies

The above table explains the sources and uses of funds of finance companies within and outside of the Kathmandu valley. Out of 77 registered finance companies up to mid-July 2009, 53 (68%) are working inside the Kathmandu valley. This means the remaining 32% among the registered finance companies are working outside the Kathmandu valley. Similarly, from the sources of funds point of view and its uses point of view there is a dominating presence in Kathmandu valley. From the above table it is clear that the majority of the finance companies are working inside the Kathmandu valley.

4.2 An Analysis of Deposits

4.2.1 An Analysis of the Classification of Deposits:

Generally finance companies collect deposits as a term deposit. Most finance companies collect deposit from three months to five year or six year deposit. But the depositors are mainly classified into five categories namely as Current deposits, Saving deposits, Fixed deposits, Call deposits and Other deposits. The detail of term deposit, which has been collected by finance companies for the F/Y 2005-2009, are given below: -

Table 3

CLASSIFICATION OF DEPOSITS OF FINANCE COMPANIES

(AGGREGATE)

(Rs in Lakh)

Deposits	2005(59)* Mid-July	2006(70) Mid-July	2007(74) Mid-July	2008(78) Mid-July	2009(77) Mid-July
1.Current (Domestic & Foreign)	-	167.6	1.2	1035.8	4918.9
2.Savings (Domestic & Foreign)	-	81180.6	116652	229063.7	275369
3.Fixed (Domestic & Foreign)	-	190075.9	222407.5	282696.7	273784.8
4.Call Deposits	-	559.6	5174.9	8292.3	9782.1
5. Others	-	1530.2	911.5	1841	6879.6
Total	**223416**	**243325**	**345147.1**	**522821.7**	**570734.4**

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2005-2009 Vol No. 53

*Figures in parentheses show the number of Finance Companies

4.3 An Analysis of Loans and Advances of Finance Companies

There are 77 finance companies working on different financial activities and playing a vital role in the development of the nation. Huge amounts of funds are used as loan and advances. Investing and lending activities should be directed towards supporting industries first and then consumer credit should follow to have a meaningful contribution in the development of the national economy.

The analysis of investments is done by analyzing loans and advances in different items such as Agriculture, Mines, About production, Construction, Metal production, machinery & electric tools & fitting, Transport, communication & public services, Wholesaler & retailers, Finance, insurance & fixed assets, Service industries, Consumable loan, Local government and Others. For analyzing the financial performance of finance companies, we must analyze investment areas of finance companies based on certain available data and information. Some qualitative analysis has been made with the help of different statistical data by using various statistical and financial tools.

Table 4
LOAN FLOWS OF FINANCE COMPANIES
(AGRREGATE)

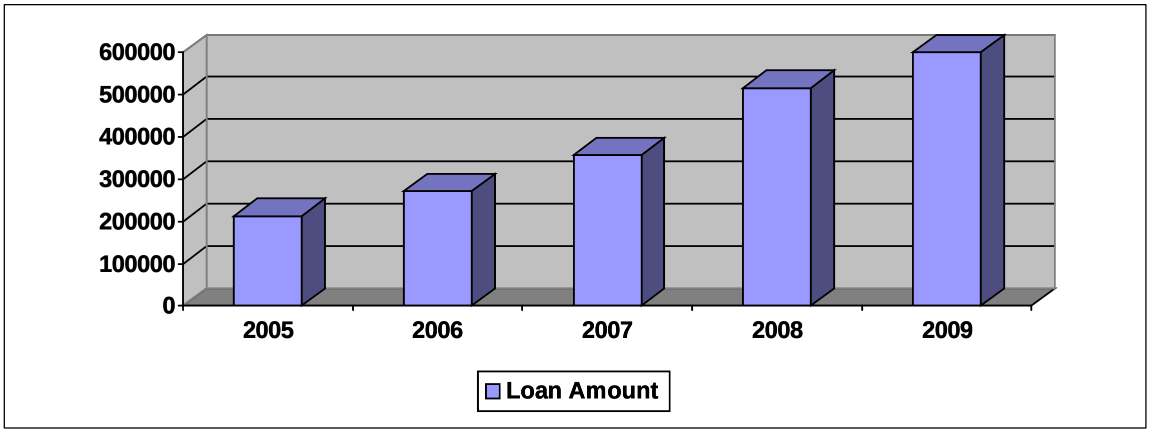
S. No.	Year	No. Of Finance	Loan (Amount) Rs. in Lakh	Change in %
1	2005	59	212233	-
2	2006	70	270783.5	27.59
3	2007	74	356164.6	31.53
4	2008	78	514941.5	44.58
5	2009	77	599212.2	16.37

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2005-2009 Vol No. 53

Figure.1

Loan Flows of Finance Companies shown by Bar Diagram

(Aggregate)



The available funds are utilized towards investment as loans in different areas, which are mentioned at the above table. From this schedule we can summarize the following findings:

Table 5

Use of Fund toward loan and Advances (in Lakhs)

Mid July 2005	Mid July 2006	Mid July 2007	Mid July 2008	Mid July 2009
212233	270789.5	356164.6	514941.5	599212.2

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2005-2009 Vol No. 53

From the above data we can say that the amount of loan and advances has increased at an increasing rate. If we analyze the comparative study from 2005 to 2009, on the base of given data, the increasing percentage is 27.59%, 31.53%, 44.58% and 16.37% for the fiscal year 2005, 2006, 2007, 2008 and 2009 respectively. The highest percentage increases has been recorded on the F/Y year 2008, which is 44.58%. Likewise lowest increasing percentage has been recorded on the F/Y year 2009 that is 16.37%.

The total available funds are utilized on the liquid fund, investment, loans and advances and others for all finance companies. The summary of total uses of fund by finance companies and their ratio with other parameters are given on Table 6. From the table it is clear that the fund uses on loans and advances is more than 60%. The minimum is 64.06% in the fiscal year 2008 and maximum is 69.73% in the year 2005. The average use of funds in loans and advances is 67.19%. The graphical comparison of total sources of funds and resource mobilized on loan and advances is given below on figure .

Table 6
ANALYSIS OF RESOURCES MOBILIZED ON LOANS & ADVANCES (AGGREGATE)

Description	Mid-July					
	2004	2005	2006	2007	2008	2009

A	Total Loan& Advances	175408	212233	270789.5	356164.6	514941.5	599212.2
A1	Agriculture	-	-	-	4020.1	3600	3361
A2	Mines	-	-	-	255.2	208	1538.9
A3	About Productions	-	-	-	20396.4	18859	22111.3
A4	Construction	-	-	-	95149.4	109518	133602.3
A5	Metal Production, Machinery &Electric tools & fitting	-	-	-	3358.5	3919	5615.1
A6	Transportation Equipment Production & Fitting	-	-	-	12673.1	8038	9459.7
A7	Transport, Communication & Public Services	-	-	-	25982	42639	51247.6
A8	Wholesaler & Retailers	-	-	-	47967.5	53081	57398.7
A9	Finance, Insurance & Fixed Assets	-	-	-	22966.5	26949	42949.7
A10	Service Industries	-	-	-	11436.7	34892	11625.3
A11	Consumable Loan	-	-	-	28773.9	36378	37337.3
A12	Local Government	-	-	-	852	187	4352.9
A13	Others	-	-	-	84619.2	113155	148585
B	Total sources of Funds	271987	304367	388562.3	534663.3	803839.5	874300.8
C	Total capital Fund	36538	42500	43148.1	53798.6	74454.2	105409.6
D	Deposits	193917	223416	243325	345147	522821.7	570734.4
E	Liquid Funds	44698	39049	53866.6	75134.1	177417.4	164065.5
F	Total Investments	25105	24112	9632.4	12220.6	7175	8157.2
Analysis							
Increase in Loans & Adv.		-	20.99%	27.59%	31.53%	44.58%	16.37%
Increase In Agriculture						-10.45%	-6.64%
Increase in Mines						-0.072%	639.86%
Increase In About Productions						-0.075%	17.25%
Increase in Construction						15.10%	21.99%
Increase in Metal Production, Machinery &						16.69%	43.28%

Electrical Tools & fitting						
Increase in Transportation Equipment Production & fitting					-36.57%	17.69%
Increase in Transportation, Communications & Public services					64.11%	20.19%
Increase in Wholesaler & Retailers					10.66%	8.13%
Increase in Finance, Insurance & Fixed Assets					17.34%	59.37%
Increase in Service Industries					205.09%	-66.68%
Increase in Consumable Loan					26.435%	2.64%
Increase in Local Government Increase in Others					-78.05% 33.72%	2227.7% 31.31%
Ratio of A1:A				1.13%	0.7%	0.56%
Ratio of A2:A				0.07%	0.04%	0.26%
Ratio of A3:A				5.7%	2.66%	3.69%
Ratio of A4:A				26.72%	21.27%	22.3%
Ratio of A5:A				0.94%	0.76%	0.94%
Ratio of A6:A				3.56%	1.56%	1.58%
Ratio of A7:A				7.29%	8.28%	8.55%
Ratio of A8:A				13.47%	10.31%	9.58%
Ratio of A9:A				6.45%	5.23%	7.17%
Ratio of A10: A				3.21%	6.78%	1.94%
Ratio of A11:A				81.08%	7.06%	6.23%
Ratio of A12:A				0.24%	0.036%	0.73%
Ratio of A13:A				23.76%	21.97%	24.8%
Ratio of A:B	64.49%	69.73%	69.69%	66.61%	64.06%	68.54%
Ratio of A:C	480.07%	499.3%	627.58%	662.03%	691.62%	568.46%
Ratio of A: D	90.46%	94.99%	111.29%	103.19%	98.49%	104.99%
Ratio of A:E	392.43%	543.5%	502.7%	474.04%	290.24%	365.23%
Ratio of A:F	698.7%	880.2%	2811.23%	2914.46%	7176.89%	7345.8%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2005-2009 Vol No. 53

As finance companies mobilize its resources on different sectors mainly after collecting deposits from individual public and institutional members, it is very essential to know the ratio of deposit and loans and advances. From table it is seen that, the highest loan deposit ratio is 1.04 in the year 2009 and lowest is 0.90 (approximately) in the year 2004. The average loan deposit ratio is approximately 1. The average loan deposit ratio is quite satisfactory as far as deposit and investment is concerned. The graphical comparison of loan and deposits is given below on Figure. 4.

Figure.2

Comparison of total Sources of Funds and Deposits of Finance Companies (Aggregate)

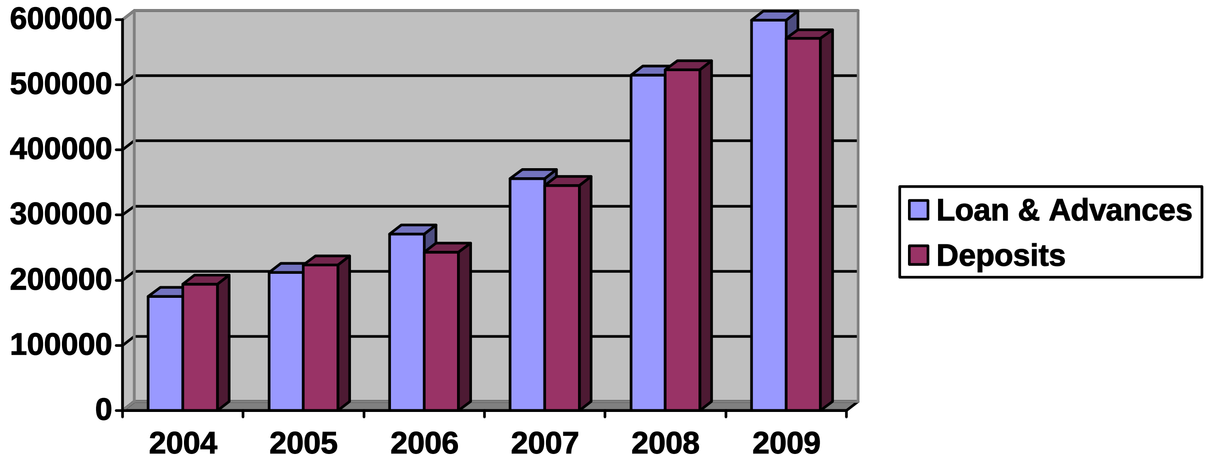


Table 7

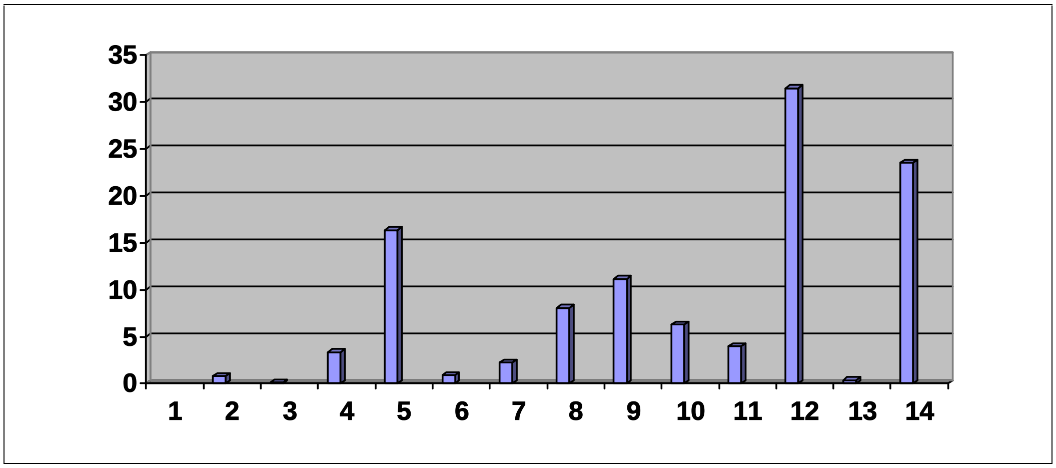
AVERAGE % OF REOURCES MOBILIZED ON DIFFERENT LOANS

(AGGREGATE)

Average of	Percentage
1.Uses of funds on loan & advances	67.18
2.Agriculture	0.8
3.Mines	0.12
4.About Productions	3.36
5.Construction	16.35
6.Metal Production, Machinery & Electrical Tools & fitting	0.9
7.Transportation, Equipment Production & fitting	2.23
8.Transportation, Communications & Public Services	8.04
9.Wholesaler & Retailers	11.12
10.Finance, Insurance & Fixed Assets	6.28
11.Service Industries	3.98
12.Consumable Loan	31.46
13.Local Government	0.34
14.Others	23.51

Figure.3

Loan flow of the Finance Companies



If we look at the trend on resources mobilized schemes, at the beginning that is in the year 2007, 1.13% of total loan and advances was utilized on agriculture, 0.07% of total loan and advances on mines, 5.7% of total loan and advances on about productions. 26.72% of total loan and advances on construction, 0.94% of total loan and advances on Metal production, machinery & electrical tools & fitting, 3.56% of total loan and advances on Transportation, Equipment Production & fitting, 7.29% of total loan and advances on Transportation, communication & public services, 13.47% of total loan and advances on wholesaler & retailers, 6.45% of total loan and advances on finance, insurance & fixed assets, 3.21% of total loan and advances on service industries, 81.08% of total loan and advances on consumable loan, 0.24% of total loan and advances on local government and 23.76% of total loan and advances on other loan.. We can see from the above ratios that the investment in agriculture is in decreasing trend, this could have been regarded as a good sign but in the present context of pathetic situation of manufacturing sector the declining trend of investment in agriculture means more investments in unproductive sectors. It can also be seen that that a huge proportion of loan and advances is being utilized in the construction sector, more specifically 26.72% in the year 2007, 21.27% in the year 2008 and 22.3% in the year 2009. It can also be seen that the investment in Metal Production, Machinery & Electrical Tools & fitting is minimal through out the study period. Investment in Transportation, Communications & Public Services is in increasing trend and the investment in wholesaler and retailers is in decreasing trend. The graphical representation of average percentage of resource mobilized on different loan is given in figure 5.

4.3.1 Analysis of Loan and Advances for Individual Company

Table 8

ANALYSIS OF RESOURCES MOBILIZED ON LOANS & ADVANCES OF GOODWILL FINANCE COMPANY LTD.

Description		Mid-July				
		2005	2006	2007	2008	2009
A	Total Loan& Advances	3250	3481.1	4519	5597.2	9976.5
A1	Agriculture	-	-	0.0	6	133.2
A2	Mines	-	-			
A3	About Productions	-	-	102.9	366	
A4	Construction	-	-	1760	5482	4442.3
A5	Metal Production, Machinery &Electric tools & fitting	-	-	181.4		
A6	Transportation Equipment Production & Fitting	-	-			130.9
A7	Transport, Communication & Public Services	-	-	483		911.9
A8	Wholesaler & Retailers	-	-	1010	1652	2757.2
A9	Finance, Insurance & Fixed Assets	-	-		111	
A10	Service Industries	-	-		417	
A11	Consumable Loan	-	-		2170	842.7
A12	Local Government	-	-			
A13	Others	-	-	981.7		758.4
B	Total sources of Funds	4594	4975.5	6100.6	8377.9	13973.9
C	Total capital Fund	629	662.3	603.7	1164.7	1290.3
D	Deposits	3156	3397.1	4617.5	5265.7	10966.3
E	Liquid Funds	401	535.9	450	338.1	591.6
F	Total Investments	428	499.3	643.8	1523	1567.2
Increase in Loans & Adv.		-	7.11%	29.82%	23.86%	78.24%
Increase In Agriculture					-	2120%
Increase in Mines					-	-
Increase In About Productions					255.69%	-
Increase in Construction					211.48%	-18.97%
Increase in Metal Production, Machinery & Electrical Tools & fitting					-	-

Increase in Transportation Equipment Production & fitting				-	-
Increase in Transportation, Communications & Public services				-	-
Increase in Wholesaler & Retailers				63.56%	66.9%
Increase in Finance, Insurance & Fixed Assets				-	-
Increase in Service Industries				-	-
Increase in Consumable Loan				-	-61.17%
Increase in Local Government Increase in Others				- -	- -
Ratio of A1:A				0.107%	1.34%
Ratio of A2:A					
Ratio of A3:A			2.28%	8.10%	
Ratio of A4:A			38.95%	121.31%	98.30%
Ratio of A5:A			4.01%		
Ratio of A6:A					2.9%
Ratio of A7:A			10.69%		20.18%
Ratio of A8:A			22.35%	36.56%	61.01%
Ratio of A9:A				2.46%	
Ratio of A10: A				9.23%	
Ratio of A11:A				48.02%	18.65%
Ratio of A12:A					
Ratio of A13:A			21.72%		16.78%
Ratio of A:B	70.74%	69.69%	74.07%	66.81%	71.39%
Ratio of A:C	516.69%	525.61%	748.55%	480.57%	773.19%
Ratio of A: D	102.98%	102.47%	97.87%	106.3%	90.97%
Ratio of A:E	810.47%	649.58%	1004.22%	1655.49%	1686.36%
Ratio of A:F	759.35%	697.2%	701.93%	367.51%	636.58%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2005-2009 Vol No. 53

Figure.4
Increase in Loan and Advances of Goodwill Finance

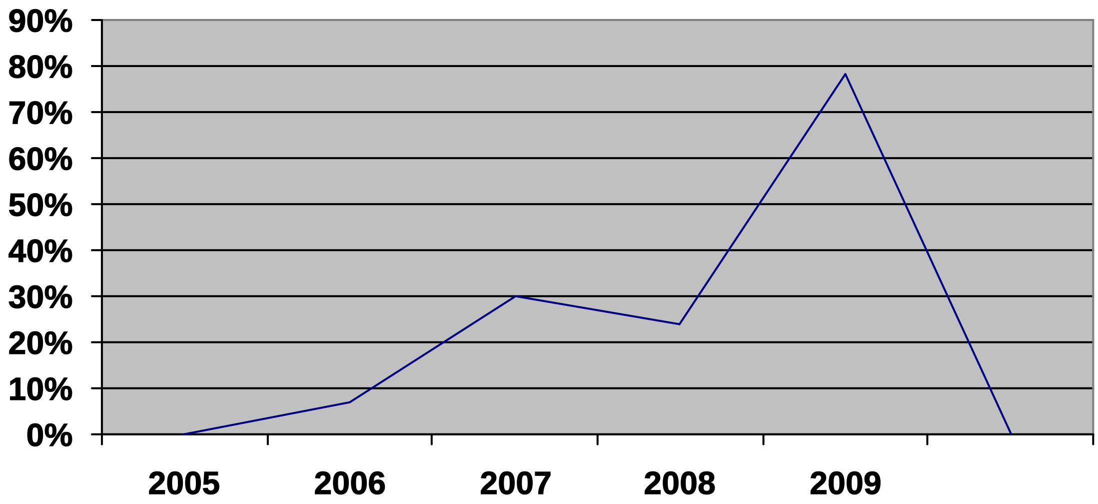


Figure.5

Loan Flows of Goodwill Finance Company shown by Bar Diagram

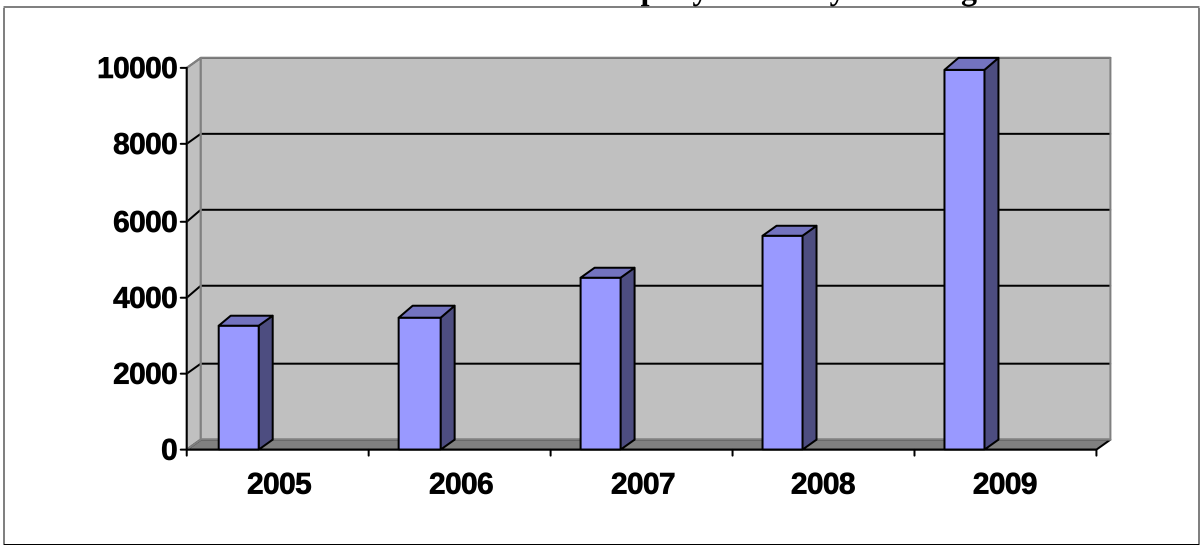
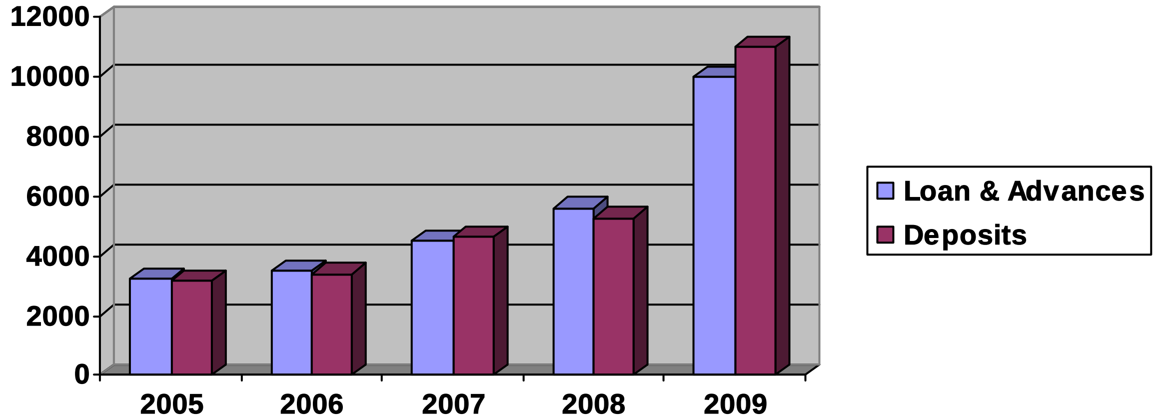


Figure.6

Comparison of total Sources of Funds and Deposits of Goodwill Finance



From the Figure.6, 7 and 8 and Table 8, it can be concluded that the Loan and Advances amount of Goodwill finance is fluctuating over the study period. In the Year 2006 the amount of Loan and advances increased by7.11 % and in the end of the study period, i.e. 2009, it increased by 78.24%. It increased by 29% and 23% in the year 2007 and 2008 respectively. The year 2009 was quite outstanding for Goodwill Finance from the viewpoint of Loan and Advances. So with the help of all these data it can be concluded that the amount of Loan and advances of Goodwill Finance has fluctuated over the study period.

Table 9
ANALYSIS OF RESOURCES MOBILIZED ON LOANS & ADVANCES OF UNITED FINANCE COMPANY LTD. (Rs. in Lakhs)

Description		Mid-July				
		2005	2006	2007	2008	2009
A	Total Loan& Advances	5430	5881.1	8159.7	12494	16445.3
A1	Agriculture	-	-	1		
A2	Mines	-	-	52.2	26	
A3	About Productions	-	-	171.5	169	43.1
A4	Construction	-	-	45	82	104.3
A5	Metal Production, Machinery &Electric tools & fitting	-	-		937	98
A6	Transportation Equipment Production & Fitting	-	-	313		

A7	Transport, Communication & Public Services	-	-		397	
A8	Wholesaler & Retailers	-	-	1103.2	272	420.1
A9	Finance, Insurance & Fixed Assets	-	-	73	28	194.5
A10	Service Industries	-	-	470.2	294	4.1
A11	Consumable Loan	-	-		10289	15474
A12	Local Government	-	-	1.5		
A13	Others	-	-			107.1
B	Total sources of Funds	6326	6817.5	9118.2	14588	25953.5
C	Total capital Fund	746	681.3	754	1593	1884.8
D	Deposits	3326	4278.6	4942.7	7899	12620.8
E	Liquid Funds	198	179.1	131.2	985	1123.5
F	Total Investments	360	346	138.6	429	329.3
Increase in Loans & Adv.		-	8.31%	38.74%	53.12%	31.63%
Increase In Agriculture					-	-
Increase in Mines					-50.19%	-
Increase In About Productions					-1.46%	-74.5%
Increase in Construction					82.22%	27.2%
Increase in Metal Production, Machinery & Electrical Tools & fitting					-	-89.54%
Increase in Transportation Equipment Production & fitting					-	-
Increase in Transportation, Communications & Public services					-	-
Increase in Wholesaler & Retailers					-75.34%	54.45%
Increase in Finance, Insurance & Fixed Assets					-61.64%	594.64%
Increase in Service Industries					-37.47%	-98.61%
Increase in Consumable Loan					-	50.39%
Increase in Local Government					-	-
Increase in Others					-	-
Ratio of A1:A				0.012%	-	-
Ratio of A2:A				0.64%	0.21%	-
Ratio of A3:A				2.10%	1.25%	0.26%

Ratio of A4:A			0.55%	0.66%	0.63%
Ratio of A5:A			-	7.5%	0.60%
Ratio of A6:A			2.5%	-	0.78%
Ratio of A7:A			-	3.18%	-
Ratio of A8:A			13.52%	2.18%	-
Ratio of A9:A			0.89%	0.22%	2.55%
Ratio of A10: A			5.76%	2.35%	1.18%
Ratio of A11:A			-	82.35%	0.025%
Ratio of A12:A			0.018%	0.018%	94.09%
Ratio of A13:A			-	-	0.65%
Ratio of A:B	85.84%	86.26%	89.49%	85.65%	63.36%
Ratio of A:C	727.88%	863.22%	1082.19%	784.31%	872.52%
Ratio of A: D	163.26%	137.45%	165.09%	158.17%	130.30%
Ratio of A:E	2742.4%	3283.7%	6219.28%	1268.43%	1463.76%
Ratio of A:F	1508.3%	1699.7%	5887.23%	2912.35%	4994.02%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2005-2009 Vol No. 53

Figure.7

Loan Flows of United Finance Company shown by Bar Diagram

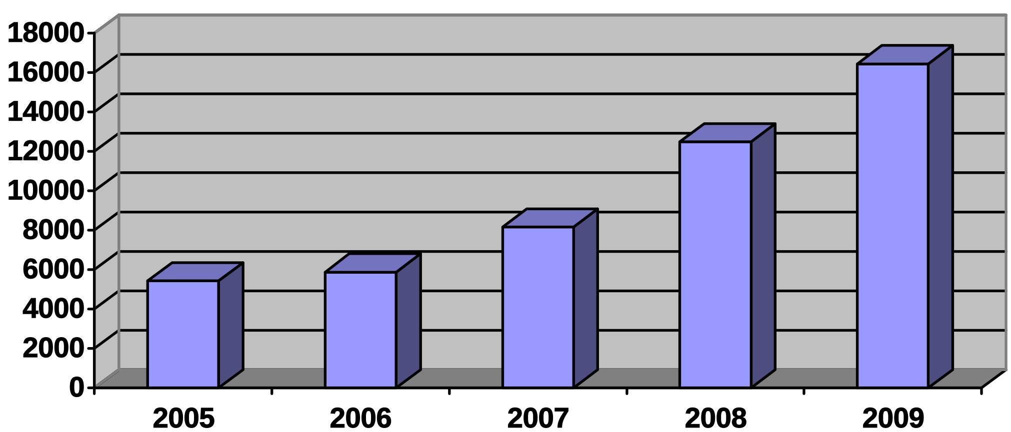


Figure.8

Comparison of total Sources of Funds and Deposits of United Finance

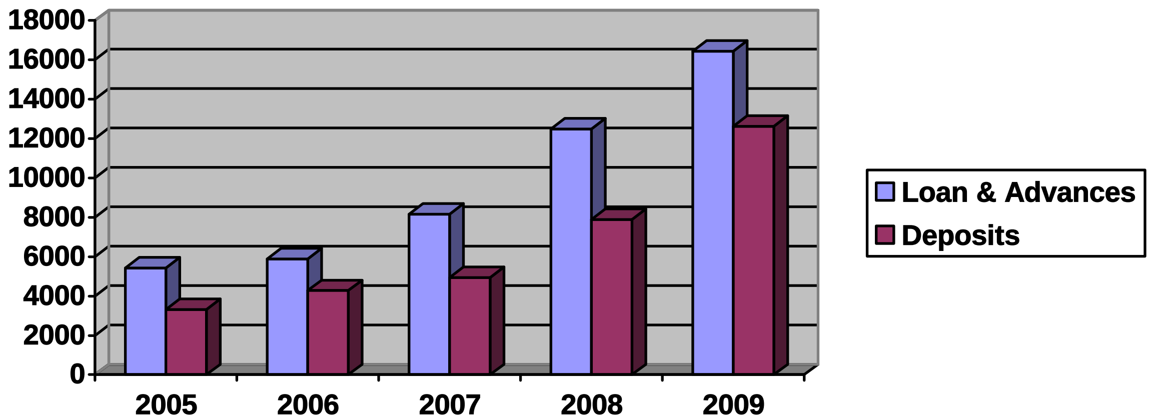
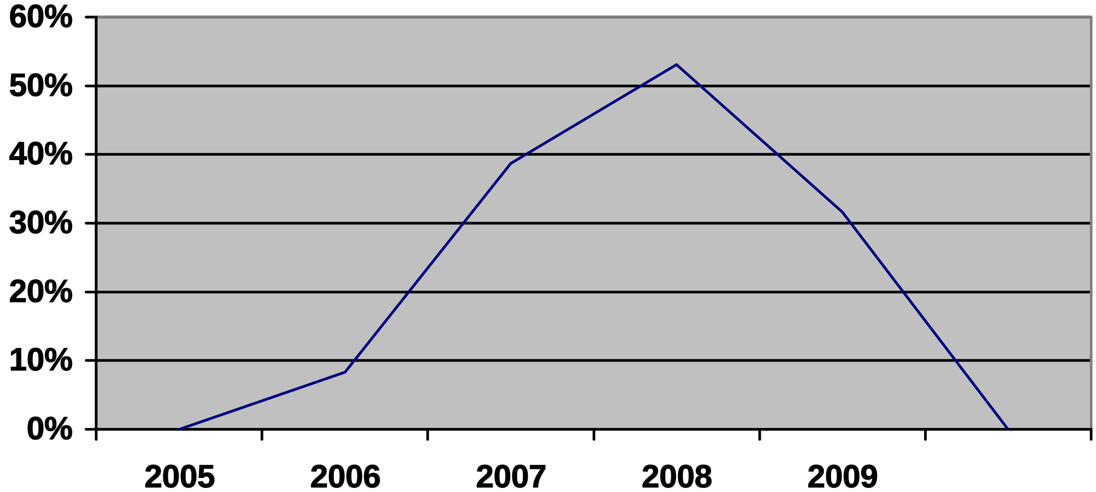


Figure.9
Increase in Loan and Advances of United Finance



From table 9 and Figure.9, 10 and 11 it can be concluded that the amount of Loan and Advances of Goodwill Finance has been increasing over the study period. In the second year of the study period i.e. 2006 the amount of Loan and Advances of United Finance has increased by 8.31% than the previous year. In the year 2007 the amount has been increased by 38.74%. In the year 2008, the amount of Loan and advances has been increased by 53.12%. Subsequently in the year the amount of loan and advances increased by 31.63% in the year 2005. In the year 2006, the amount of Loan and advances increased just by 9%. So the amount of Loan and advances of United Finance has been increasing over the study period. It can also be noted that the amount of loan and advances is greater that the deposits throughout the study period.

Table 10
RESOURCES MOBILIZED ON LOANS & ADVANCES OF NATIONAL FINANCE COMPANY LTD.

(Rs. in Lakhs)

Description		Mid-July				
		2005	**2006**	**2007**	**2008**	**2009**
A	Total Loan& Advances	4923	5097	5493	7421	8007
A1	Agriculture	-	-	215	196	122
A2	Mines	-	-	-	-	-
A3	About Productions	-	-	752	1010	-
A4	Construction	-	-	2156	2249	791
A5	Metal Production, Machinery &Electric tools & fitting	-	-	-	-	1909
A6	Transportation Equipment Production & Fitting	-	-	-	-	-
A7	Transport, Communication & Public Services	-	-	215	240	160
A8	Wholesaler & Retailers	-	-	1149	1185	1122
A9	Finance, Insurance & Fixed Assets	-	-	358	287	1023
A10	Service Industries	-	-	84	672	629
A11	Consumable Loan	-	-	-	58	74
A12	Local Government	-	-	-	-	-
A13	Others	-	-	564	1147	2177
B	Total sources of Funds	8270	9443	9742	10357	8007
C	Total capital Fund	1604	1700	1877	2156	2739
D	Deposits	5719	6218	6295	6510	8327
E	Liquid Funds	2016	1775	1092	806	1367
F	Total Investments	267	1511	1787	736	1672
Increase in Loans & Adv.		-	3.53%	7.77%	35.1%	7.9%
Increase In Agriculture					-8.84%	-37.76%

Increase in Mines				-	-
Increase In About Productions				34.31%	-
Increase in Construction				4.31%	-64.83%
Increase in Metal Production, Machinery & Electrical Tools & fitting				-	-
Increase in Transportation Equipment Production & fitting				-	-
Increase in Transportation, Communications & Public services				11.63%	-33.33%
Increase in Wholesaler & Retailers				3.13%	-5.32%
Increase in Finance, Insurance & Fixed Assets				-19.83%	256.45%
Increase in Service Industries				700%	-51.04%
Increase in Consumable Loan				-	27.59%
Increase in Local Government Increase in Others				- 103.37%	- 89.8%
Ratio of A1:A			3.91%	2.64%	1.52%
Ratio of A2:A			-	-	-
Ratio of A3:A			13.69%	13.61%	-
Ratio of A4:A			39.25%	30.31%	9.88%
Ratio of A5:A			-	-	23.84%
Ratio of A6:A			-	-	-
Ratio of A7:A			3.91%	3.23%	2%
Ratio of A8:A			20.92%	15.97%	14.01%
Ratio of A9:A			6.52%	3.87%	12.78%
Ratio of A10: A			1.53%	9.06%	7.86%
Ratio of A11:A			-	0.78%	0.92%
Ratio of A12:A			-	-	-
Ratio of A13:A			10.27%	15.46%	27.19%
Ratio of A:B	59.53%	53.98%	56.38%	71.65%	100%
Ratio of A:C	306.92%	299.52%	292.65%	344.2%	292.33%
Ratio of A: D	86.08%	81.97%	87.26%	113.99%	96.16%
Ratio of A:E	244.2%	287.15%	503.02%	920.72%	585.74%
Ratio of A:F	1843.8%	337.33%	307.39%	1008.29%	478.89%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2005-2009 Vol No. 53

Figure.10

Loan Flows of National Finance Company

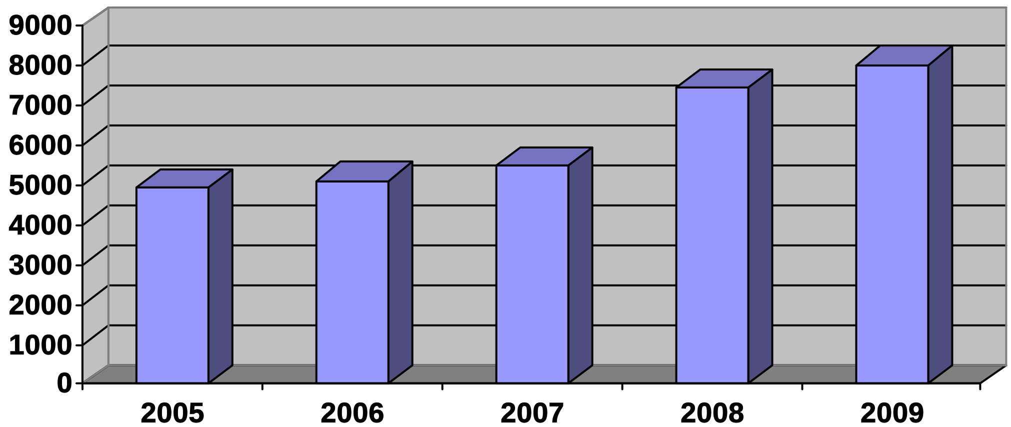


Figure.11

Comparison of Total Loan & Advance and Deposits of National Finance

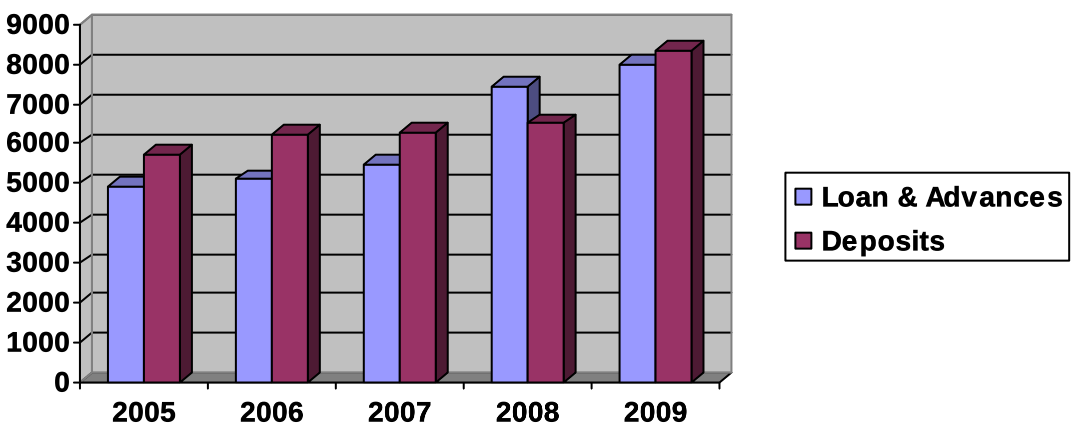
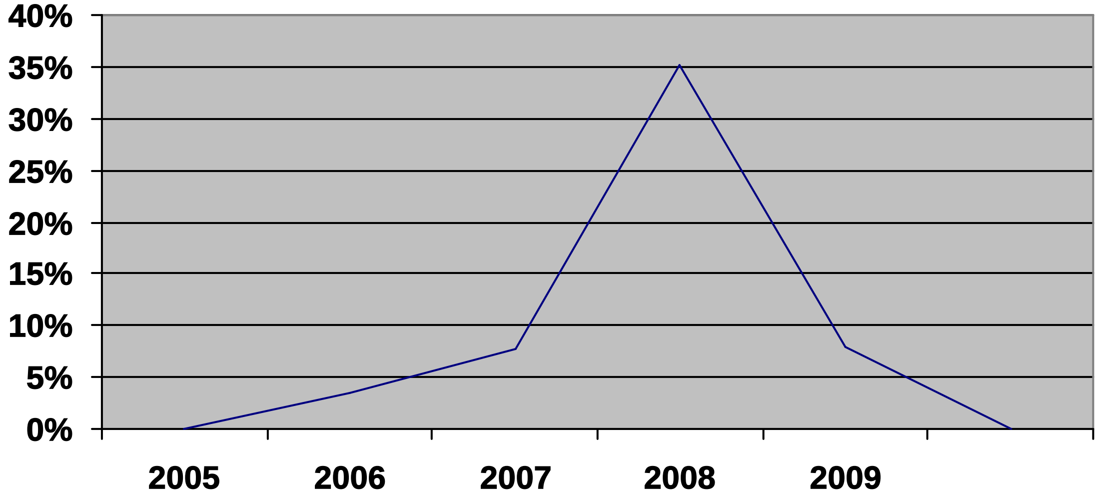


Figure.12
Increase in Loan and Advances of National Finance Ltd.



From table10 and Figures.12, 13 and 14 it can be concluded that the Loan and Advances amount of National Finance Ltd. is also in increasing trend. On the basis of 2005 as a base year, the amount of loan and advances in the year 2006 has been increased by 3.53%. In the year 2007 the amount of loan and advances has been increased by 7.77% whereas the amount has been increased by 35.10% in the year 2008. In the year 2009 the amount of Loan and advance has increased by 7.90%. By means of all the years data it's clear that the amount of loan and advances has been increasing over the study period.

Table 11
ANALYSIS OF RESOURCES MOBILIZED ON LOANS & ADVANCES OF NEPAL HOUSING AND MERCHANT FINANCE COMPANY LTD.

(Rs in Lakh)

Description		Mid-July				
		2005	2006	2007	2008	2009
A	Total Loan& Advances	5852	7183	8012	9278	4879
A1	Agriculture	-	-	18.1	234	-
A2	Mines	-	-	14.7		-
A3	About Productions	-	-	437.3	173	-
A4	Construction	-	-	3952	4827	4704
A5	Metal Production, Machinery &Electric tools & fitting	-	-	96	45	-
A6	Transportation Equipment Production & Fitting	-	-	813.9	939	-

A7 A8 A9 A10 A11 A12 A13	Transport, Communication & Public Services Wholesaler & Retailers Finance, Insurance & Fixed Assets Service Industries Consumable Loan Local Government Others	- - - - - - -	- - - - - - -	14.2 388.2 699.9 714 863.3	16 334 13 836 477 1384	- - - - - - 175
B	Total sources of Funds	7067	8953	10132	14111	9027
C	Total capital Fund	853	761	842	1058	1778
D	Deposits	5651	7317	8115	9712	5694
E	Liquid Funds	323	815	969	3176	3728
F	Total Investments	709	167	191	240	51
Increase in Loans & Adv.		-	22.74%	11.54%	15.8%	-47.41%
Increase In Agriculture					1192.82%	-
Increase in Mines					-	-
Increase In About Productions					-60.44%	-
Increase in Construction					22.14%	-2.55%
Increase in Metal Production, Machinery & Electrical Tools & fitting					-53.13%	-
Increase in Transportation Equipment Production & fitting					15.37%	-
Increase in Transportation, Communications & Public services					12.68%	-
Increase in Wholesaler & Retailers					-13.96%	-
Increase in Finance, Insurance & Fixed Assets					-98.14%	-
Increase in Service Industries					-	-
Increase in Consumable Loan					33.19%	-
Increase in Local Government Increase in Others					- 60.32%	- -87.36%
Ratio of A1:A				0.23%	2.52%	-
Ratio of A2:A				0.18%	-	-
Ratio of A3:A				5.46%	1.86%	-

Ratio of A4:A			49.33%	52.03%	96.41%
Ratio of A5:A			1.2%	0.49%	-
Ratio of A6:A			10.16%	10.12%	-
Ratio of A7:A			0.18%	0.17%	-
Ratio of A8:A			4.85%	3.6%	-
Ratio of A9:A			8.74%	0.14%	-
Ratio of A10: A			-	9.01%	-
Ratio of A11:A			8.91%	5.14%	-
Ratio of A12:A			-	-	-
Ratio of A13:A			10.78%	14.92%	3.59%
Ratio of A:B	82.81%	80.23%	79.08%	65.75%	274.41%
Ratio of A:C	686.05%	943.89%	951.54%	876.94%	274.41%
Ratio of A: D	103.56%	98.17%	98.73%	95.53%	85.69%
Ratio of A:E	1811.7%	881.35%	826.83%	292.13%	130.87%
Ratio of A:F	825.39%	4301.2%	4194.7%	3865.8%	9566.67%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2005-2009 Vol No. 53

Figure.13

Loan Flows of Nepal Housing and Merchant Finance Company Ltd

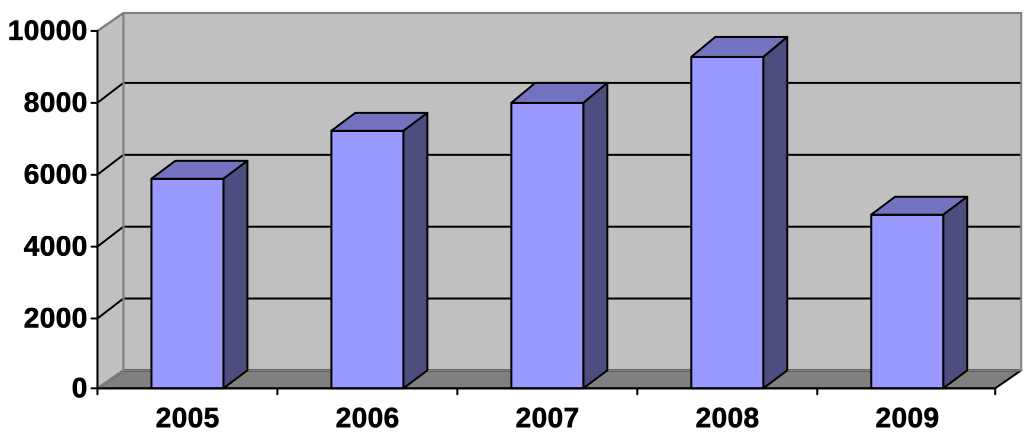


Figure.14

Comparison of Total Loan & Advances and Deposits of NHMF

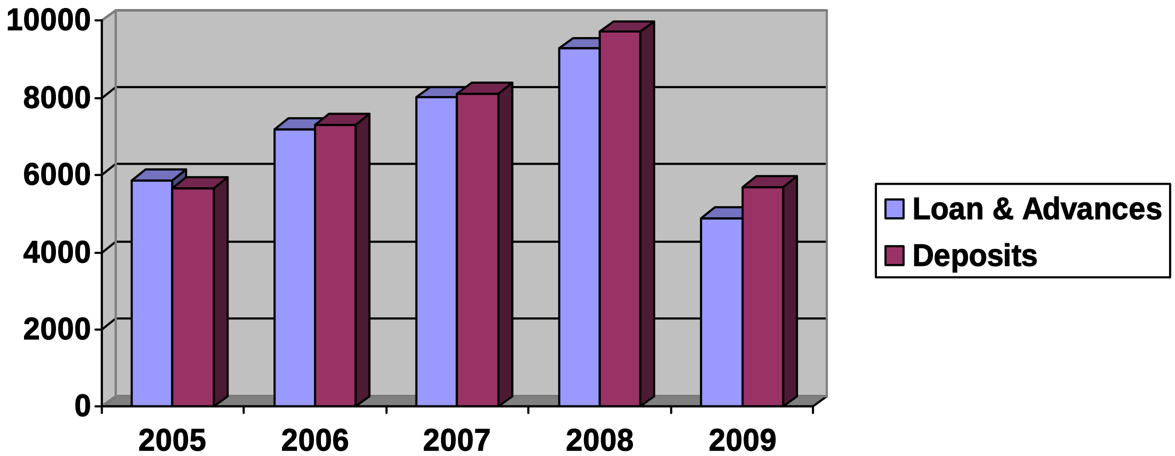
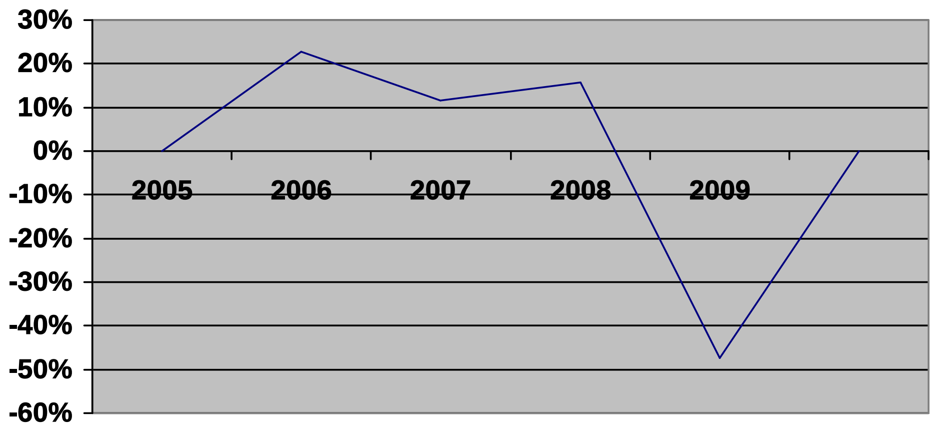


Figure.15

Increase in Loan & Advances of NHMF



From the Table 11 and Figure.15, 16 and 17 it can be concluded that the amount of Loan and Advances of Nepal Housing and Merchant Finance co. is fluctuating over the study period. The amount of Loan and advances of NHMF has been increased by 22.74% in the year 2006. In the year 2007 the same amount has been increased by 11.54%. In the year 2008 this amount has been increased by 15.80%. In the year 2009, the amount of Loan and advances has decreased by 47.41%. It may also be noted that the proportion of construction in total loan and advances is substantially greater. A worrying sign for the company might be the decreased deposits in the year 2009.

Table 12
ANALYSIS OF RESOURCES MOBILIZED ON LOANS & ADVANCES OF LUMBINI FINANCE & LEASING CO. LTD

(Rs in lakh)

Description		Mid-July				
		2005	**2006**	**2007**	**2008**	**2009**
A	Total Loan& Advances	6593	7520.8	8126.1	10582.5	12319.4
A1	Agriculture	-	-		56	53
A2	Mines	-	-		50	39
A3	About Productions	-	-	711	586	1089
A4	Construction	-	-	2568	4569	5394
A5	Metal Production, Machinery &Electric tools & fitting	-	-	26	41	1
A6	Transportation Equipment Production & Fitting	-	-	-	-	1331
A7	Transport, Communication & Public Services	-	-	1284	1539	-
A8	Wholesaler & Retailers	-	-	1484	1521	2080
A9	Finance, Insurance & Fixed Assets	-	-	291	513	630
A10	Service Industries	-	-	632	1314	459
A11	Consumable Loan	-	-	150	224	235
A12	Local Government	-	-	-	-	-
A13	Others	-	-	980.1	169	1008
B	Total sources of Funds	9056	10084	11086.6	13412.6	15723.1
C	Total capital Fund	1494	918.3	919.3	1282.7	2155.1
D	Deposits	6351	7416.6	7897.7	8389	10799
E	Liquid Funds	1002	1429.9	1510.2	1229.9	2543.7
F	Total Investments	-	258.4	658.2	808.3	308

Analysis

Increase in Loans & Adv.	-	14.07%	8.05%	30.23%	16.41%
Increase In Agriculture	-	-	-	-	-5.36%
Increase in Mines	-	-	-	-	-4.40%
Increase In About Productions	-	-	-	-17.58%	85.84%
Increase in Construction	-	-	-	77.92%	18.84%
Increase in Metal Production, Machinery & Electrical Tools & fitting	-	-	-	57.69%	-97.56%
Increase in Transportation Equipment Production & fitting	-	-	-	-	-
Increase in Transportation, Communications & Public services	-	-	-	19.86%	-
Increase in Wholesaler & Retailers	-	-	-	2.49%	36.75%
Increase in Finance, Insurance & Fixed Assets	-	-	-	76.26%	22.8%
Increase in Service Industries	-	-	-	107.91%	-65.07%
Increase in Consumable Loan	-	-	-	49.33%	4.91%
Increase in Local Govt.	-	-	-	-	-
Increase in Others	-	-	-	-82.76%	496.45%
Ratio of A1:A	-	-	-	0.53%	0.43%
Ratio of A2:A	-	-	-	0.47%	0.32%
Ratio of A3:A	-	-	8.75%	5.54%	8.84%
Ratio of A4:A	-	-	31.60%	43.18%	43.78%
Ratio of A5:A	-	-	0.32%	0.39%	0.01%
Ratio of A6:A	-	-	-	-	10.80%
Ratio of A7:A	-	-	15.8%	14.54%	-
Ratio of A8:A	-	-	18.26%	14.37%	16.88%
Ratio of A9:A	-	-	3.58%	4.85%	5.11%
Ratio of A10: A	-	-	7.78%	12.42%	3.73%
Ratio of A11:A	-	-	1.85%	2.12%	1.91%
Ratio of A12:A	-	-	-	-	-
Ratio of A13:A			12.06%	1.6%	8.18%
Ratio of A:B	72.8%	56.73%	73.30%	78.90%	78.35%
Ratio of A:C	441.30%	622.98%	883.94%	825.02%	571.64%
Ratio of A: D	103.81%	77.14%	102.89%	126.15%	114.08%
Ratio of A:E	657.98%	400.08%	538.08%	860.44%	484.31%
Ratio of A:F	-	2213.93%	1234.59%	1309.23%	3999.81%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2005-2009 Vol No. 53

Figure.16

Loan Flows of Lumbini Finance & Leasing Company Shown By Bar Diagram

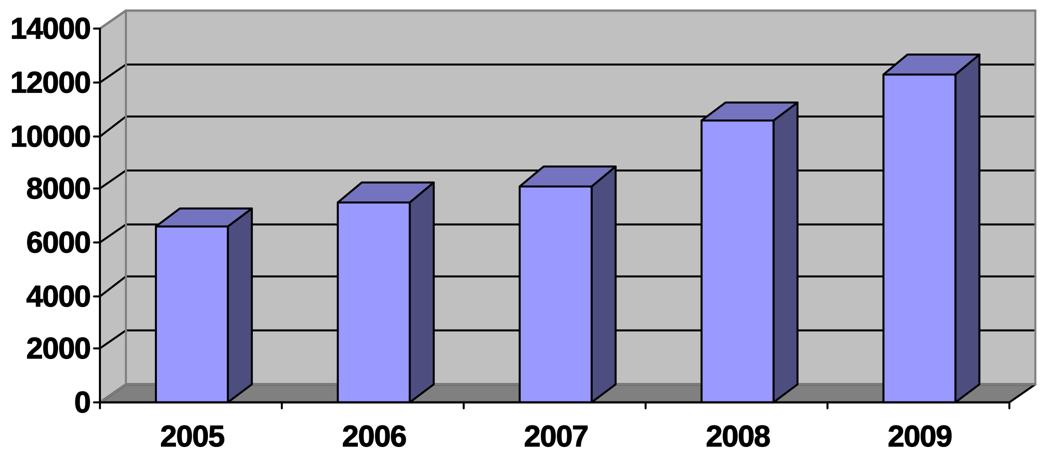


Figure.17

Comparison of Total Loan & Advances and Deposits of Lumbini Finance & Leasing Company

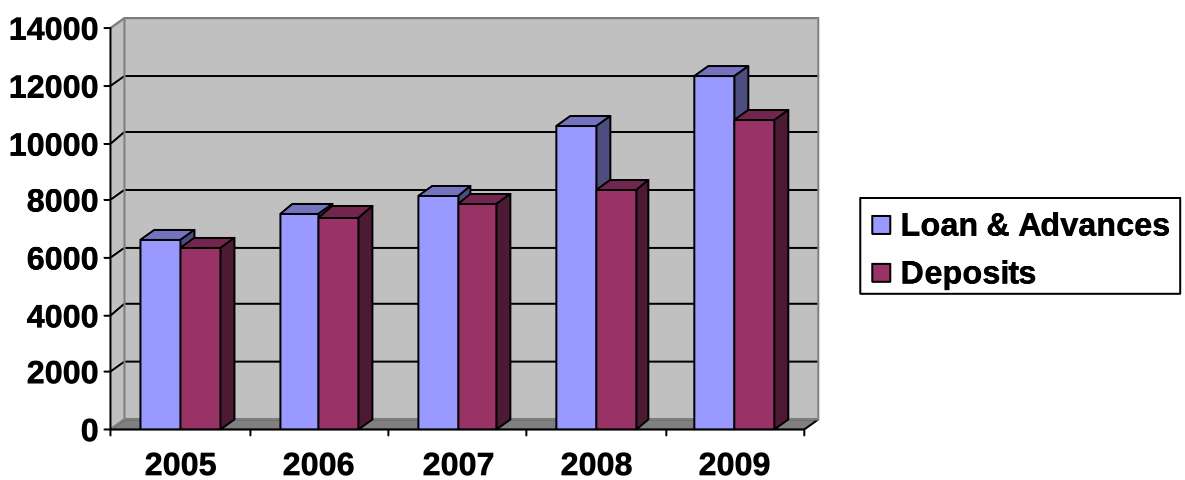
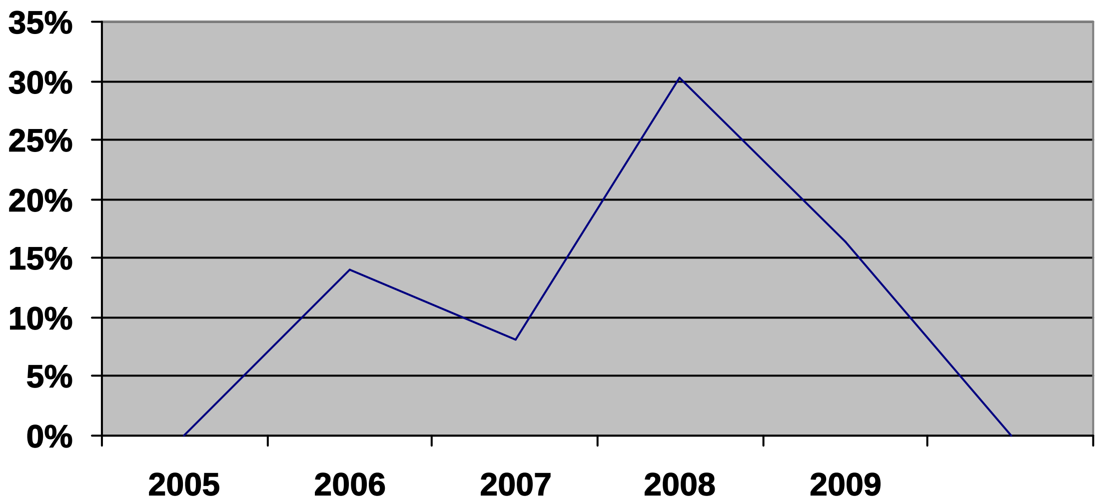


Figure.18

Increase in Loan & Advances and Deposits of Lumbini Finance & Leasing Company



From table 12 and Figure 18, 19 and 20 it can be concluded that the Total Loan and Advances flow of Lumbini Finance is in Increasing Trend. The Amount of Total Loan and advances has increased by 14.07% in the year 2006. It has then increased by 8.05% in 2007. In the year 2008, total loan and advances has increased by 30.23% and in the year 2009, it has increased by 16.41%

4.4 Analysis of Investments on the Government Securities

Nepal Rastra Bank is playing a vital role for the establishment, growth and development of finance companies. Nepal Rastra Bank has fixed the minimum statutory liquidity requirement (SLR) of equivalent to 2% of the total liabilities. Liquidity means cash balance, bank balance and investment on govt. securities. The yearly comparison of transaction on government securities and its ratio with other parameters are given below.

Table 13

ANALYSIS OF INVESTMENT ON GOVERNMENT SECURITIES (AGGREGATE)

(Rs in Lakhs)

Description		Mid-July					
		2004(48)	**2005(54)**	**2006(57)**	**2007(58)**	**2008(59)**	**2009(70)**
A	Govt. Securities	12700	5675	9632	12220.6	7175	7856.9
B	Paid Up Capital	21558	42500	33567	44398.6	69107.3	93211.3

C	Total Capital Fund	36568	42500	43148.1	53798.6	74454.2	105409.6
D	Deposits	193917	223416	243325	345147.1	522821.7	570734.4
E	Total sources of Funds	271987	304367	388562.3	534663.3	803839.5	874300.8
F	Liquid Funds	44698	39049	53866.6	75134.1	177417.4	164065.5
G	Total Investments	25105	24112	9632.4	12220.6	7175	8157.2
H	Total Loan & Advances	175408	212233	270789.5	356164.6	514941.5	599212.2
Analysis							
Increase in Govt. Securities		-	-55.31%	69.73%	26.88%	-41.29%	9.50%
Ratio of A:B		58.91%	13.35%	28.69%	27.52%	10.38%	8.43%
Ratio of A:C		34.73%	13.35%	22.32%	22.72%	9.64%	7.45%
Ratio of A:D		6.55%	2.54%	3.96%	3.54%	1.37%	1.38%
Ratio of A:E		4.67%	1.86%	2.48%	2.29%	0.89%	0.90%
Ratio of A:F		28.41%	14.53%	17.88%	16.27%	4.04%	4.79%
Ratio of A:G		50.59%	23.54%	100%	100%	100%	96.32%
Ratio of A:H		7.24%	2.68%	3.56%	3.34%	1.39%	1.31%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.19
Investment on Govt. Securities by Finance Companies

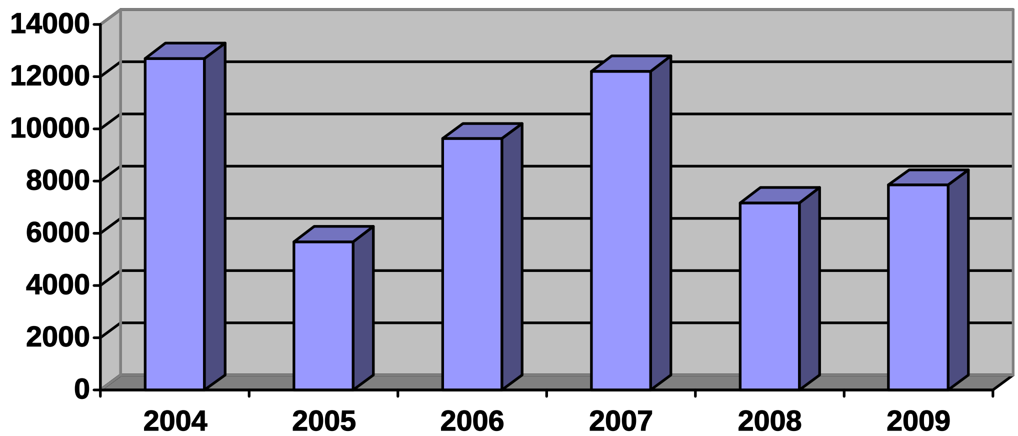
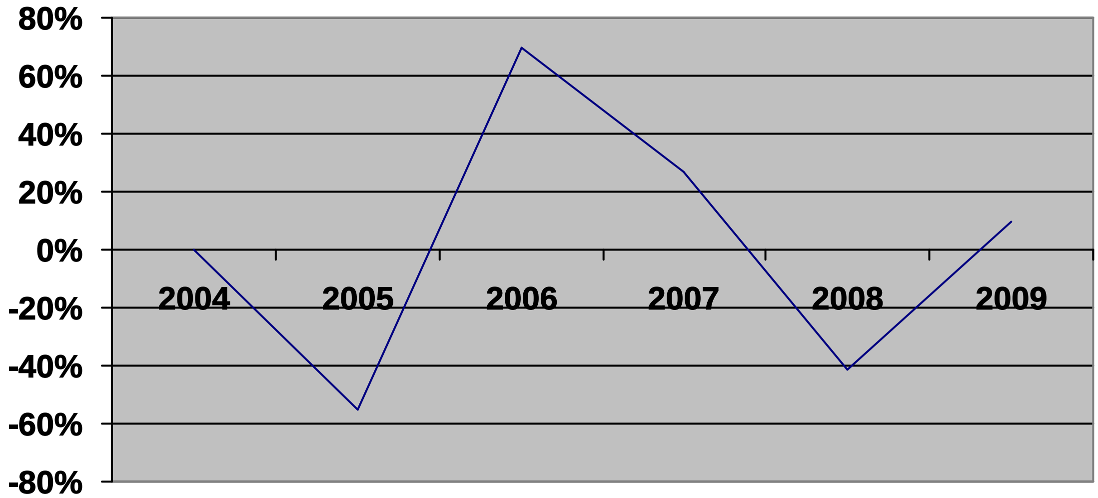


Figure.20

Increase in Govt. Securities



From table 13 it is clear that there was fluctuation in investment in government securities. In the year 2005 and 2008, many of the finance companies have reduced their investments in this sector. The highest percentage has been recorded on the F/Y year 2006 that is 69.73%. Likewise the lowest percentage has been recorded on the F/Y year 2005 that is -55.31%. So it is clear from the above mentioned data and diagram that the investment in government securities by all the finance companies in aggregate is in fluctuating trend.

4.4.1 Analysis of Investment on Government Securities of Individual Company

Table 14
ANALYSIS OF INVESTMENT ON GOVERNMENT SECURITIES
Of GOODWILL FINANCE COMPANY LTD

(Rs in Lakhs)

Description		Mid-July					
		2004(48)	**2005(54)**	**2006(57)**	**2007(58)**	**2008(59)**	**2009(70)**
A	Govt. Securities	255	354	256	521.8	982.9	1032.2
B	Paid Up Capital	310	311	500	500	1050	1155
C	Total Capital Fund	624	629	662.3	603.7	1164.7	1290.3
D	Deposits	3273	3156	3397.1	4617.5	5265.7	10966.3
E	Total sources of Funds	4350	4594	4975.5	6100.6	8377.9	13913.9
F	Liquid Funds	729	401	535.9	450	338.1	591.6
G	Total Loan & Advances	2692	3250	3481.1	4519	5597.2	9976.5
Analysis							
Increase in Govt. Securities		-	38.82%	-27.68%	103.83%	88.37%	5.02%
Ratio of A:B		82.265%	113.83%	51.2%	104.36%	93.61%	89.37%
Ratio of A:C		40.87%	56.28%	38.65%	86.43%	84.39%	80%
Ratio of A:D		7.79%	11.225%	7.54%	11.30%	18.67%	9.41%
Ratio of A:E		5.86%	7.71%	5.15%	8.55%	11.73%	7.42%
Ratio of A:F		34.98%	88.28%	47.77%	115.96%	290.71%	174.48%
Ratio of A:G		9.47%	10.89%	7.35%	11.55%	17.56%	10.35%

Figure.21

Investment in Govt. Securities by Goodwill Finance Company

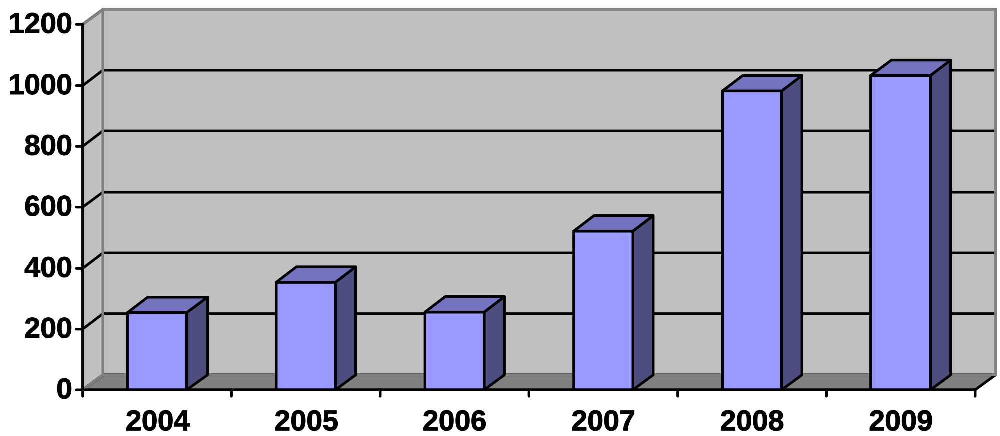
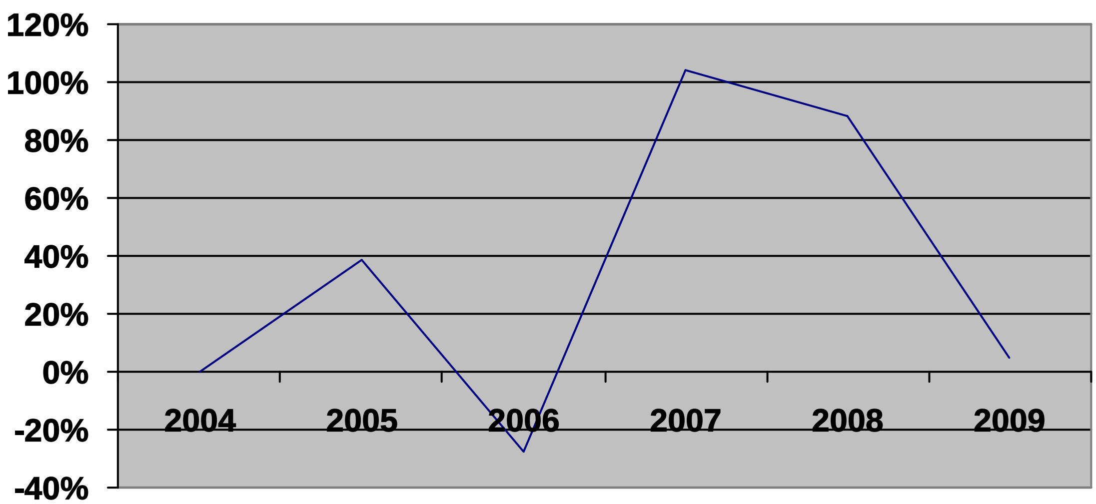


Figure.22

Investment in Govt. Securities by Goodwill Finance Company



From table 14 and figure.24 and 25 it is clear that there was rapid increase in investment in government securities except in the year 2004 and 2006. In the year 2004 and 2006, Goodwill finance company has reduced its investments in this sector. The highest percentage has been recorded on the F/Y year 2007 that is 103.83%. Likewise the lowest percentage has been recorded on the F/Y year 2006 that is –27.68%.It's also clear from the above mentioned data in Table 14 that the investment in government securities is in somewhat similar proportion with the deposits of the finance company. The deposits of Goodwill finance is increasing in the research period and is in fluctuating trend. Similarly the Investment in Government securities is also in increasing trend in the research period.

Table 15
ANALYSIS OF INVESTMENT ON GOVERNMENT SECURITIES OF UNITED FINANCE COMPANY LTD.

(Rs in Lakhs)

Description		Mid-July					
		2004(48)	**2005(54)**	**2006(57)**	**2007(58)**	**2008(59)**	**2009(70)**
A	Govt. Securities	125	360	970.5	135	325	325
B	Paid Up Capital	600	650	600	600	1450	1650
C	Total Capital Fund	712	746	681.3	754	1593	1884.8
D	Deposits	2868	3326	4278.6	4942.7	7899	12320.8
E	Total sources of Funds	4023	6326	6817.5	9118.2	14588	25953.5
F	Liquid Funds	405	198	179.1	131.2	985	1123.5
G	Total Loan & Advances	3145	5430	5881.1	8159.7	1249.4	16445.3
Analysis							
Increase in Govt. Securities		-	188%	169.58%	-86.09%	140.74%	-
Ratio of A:B		20.83%	55.38%	161.75%	22.5%	22.41%	19.70%
Ratio of A:C		17.56%	48.26%	142.45%	17.9%	20.4%	17.24%
Ratio of A:D		4.36%	10.82%	22.68%	2.73%	4.11%	2.64%
Ratio of A:E		3.11%	5.69%	14.24%	1.48%	2.23%	1.25%
Ratio of A:F		30.86%	181.82%	541.88%	102.9%	32.99%	28.93%
Ratio of A:G		3.97%	6.63%	16.50%	1.65%	26.01%	1.98%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.23
Investment in Government Securities by United Finance Company

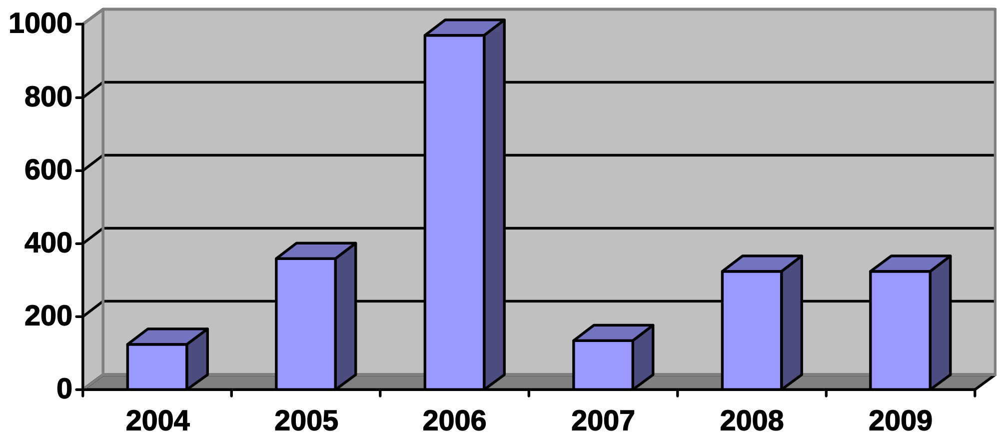
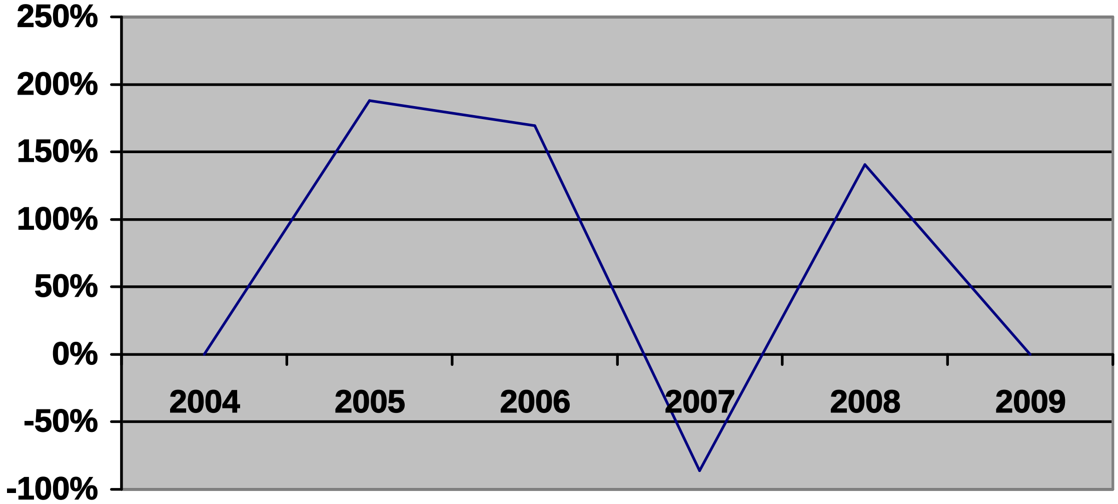


Figure.24
Investment in Government Securities by United Finance Company



From Table 15 and Figure.26 and 27, we can conclude that the Investment in Government Securities by United Finance Company is in fluctuating trend. The Investment in Govt. Securities has been decrease by 86.09% in 2007. In the remaining years of the study period, the increase was quite substantial.

Table 16
ANALYSIS OF INVESTMENT ON GOVERNMENT SECURITIES OF NATIONAL FINANCE COMPANY LTD.

(Rs in Lakhs)

	Description	**Mid-July**					
		2004(48)	**2005(54)**	**2006(57)**	**2007(58)**	**2008(59)**	**2009(70)**
A	Govt. Securities	175	267	171	295.5	177	302
B	Paid Up Capital	360	432	950	1045	1569	2174
C	Total Capital Fund	1473	1604	1700	1877	2156	2739
D	Deposits	5300	5719	6218	6295	6510	8327
E	Total sources of Funds	7424	8270	9443	9742	10357	12303
F	Liquid Funds	1749	2016	1775	1092	806	1367
G	Total Loan & Advances	4298	4923	5097	5493	7421	8007
Analysis							
Increase in Govt.Securities		-	52.57%	-35.96%	72.81%	-40.10%	70.62%
Ratio of A:B		48.61%	61.81%	18%	28.28%	11.28%	13.89%
Ratio of A:C		11.88%	16.65%	10.06%	15.74%	6.46%	11.03%
Ratio of A:D		3.30%	4.67%	2.75%	4.69%	2.72%	3.63%
Ratio of A:E		2.36%	3.23%	1.81%	3.03%	1.71%	2.45%
Ratio of A:F		10.01%	13.24%	9.6%3	27.06%	21.96%	22.09%
Ratio of A:G		4.07%	5.42%	3.35%	5.38%	2.39%	3.77%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.25
Investment in Govt. Securities by National Finance Company

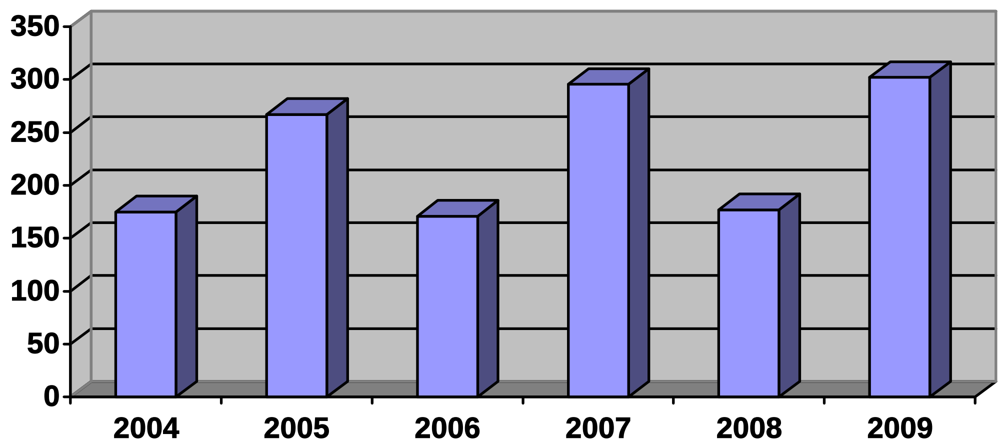
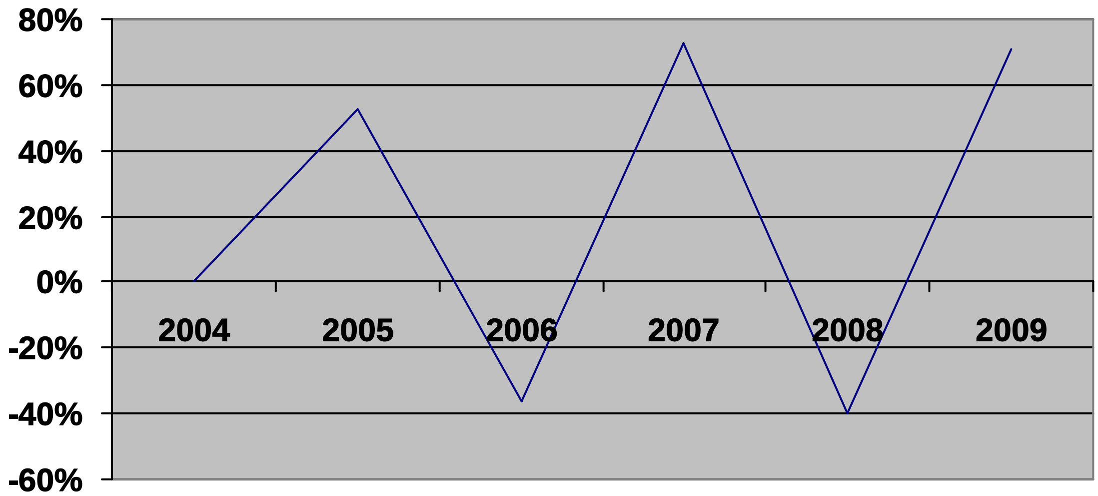


Figure.26
Investment in Govt. Securities by National Finance Company



From table 16 and Figure.28 and 29 it can be concluded that the Investment in Government Securities by National Finance Company has been decreased substantially in the second year of the research period i.e. in 2005 from the previous year 2004 by 35.96 percent. The investment in Government securities by National Finance Company has decreased by 40.10 % in 2008. From all the above figures it seems that the Investment in Government Securities by National Finance Company is not consistent and it's fluctuating during the study period.

Table 17

ANALYSIS OF INVESTMENT ON GOVERNMENT SECURITIES OF NEPAL HOUSING AND MERCHANT FINANCE COMPANY LTD.

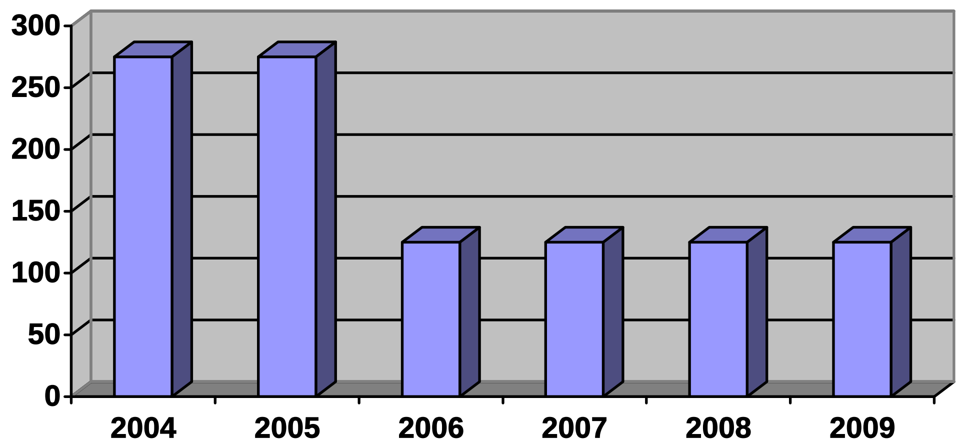
(Rs in Lakhs)

Description		Mid-July					
		2004(48)	2005(54)	2006(57)	2007(58)	2008(59)	2009(70)
A	Govt. Securities	275	275	125	125	125	125
B	Paid Up Capital	450	495	544	653	804	1849
C	Total Capital Fund	807	881	761	842	1058	2130
D	Deposits	5058	5942	7317	8115	9712	13460
E	Total sources of Funds	6491	7497	8953	10132	14111	17803
F	Liquid Funds	498	381	815	969	3176	1885
G	Total Loan & Advances	4672	5852	7183	8012	9278	13825
Analysis							
Increase in Govt.Securities		-	-	-54.55%	-	-	-
Ratio of A:B		61.11%	55.55%	22.98%	19.14%	15.55%	60.76%
Ratio of A:C		34.08%	31.21%	16.43%	14.85%	11.81%	5.87%
Ratio of A:D		5.44%	4.63%	1.71%	1.54%	1.29%	0.93%
Ratio of A:E		4.24%	3.67%	1.40%	1.23%	0.89%	0.70%
Ratio of A:F		55.22%	72.18%	15.34%	12.90%	3.94%	6.63%
Ratio of A:G		5.89%	4.70%	1.74%	1.56%	1.35%	0.90%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.27

Investment in Govt. Securities by Nepal Housing and Merchant Finance



From table 17 and Figure.30 it is seen that the Investment in Government Securities by Nepal Housing and Merchant Finance Company has been constant in the year 2004 and 2005. But the Investment has decreased in the year 2006 and then remained constant throughout the study period. The data was found to be Rs. 275 lacks till the year 2005 and Rs. 125 lacks in the following years.

Table 18
ANALYSIS OF INVESTMENT ON GOVERNMENT SECURITIES OF LUMBINI FINANCE & LEASING COMPANY LTD.

(Rs in Lakhs)

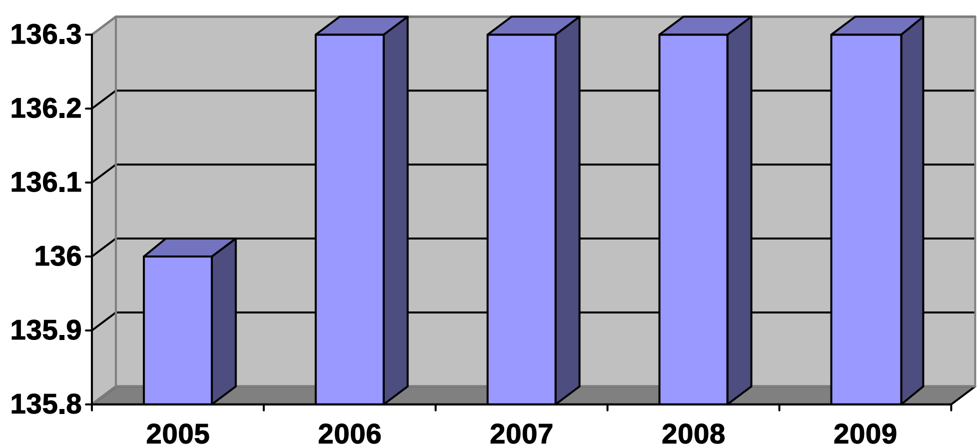
Description		**Mid-July**				
		2005(54)	**2006(57)**	**2007(58)**	**2008(59)**	**2009(70)**
A	Govt. Securities	136	136.3	136.3	136.3	136.3
B	Paid Up Capital	544	600	600	900	1200
C	Total Capital Fund	842.3	918.3	919.3	1282.7	2155
D	Deposits	6612	7416.6	7897.7	8389.8	10712.9
E	Total sources of Funds	9387	10084	11086.6	13412.6	15723.1
F	Liquid Funds	1338	1429	1510.2	1229.9	2543.7
G	Total Loan & Advances	6593	7520.8	8126.1	10582.5	12319.4

Analysis					
Increase in Govt.Securities	-	0.22%	-	-	-
Ratio of A:B	25%	22.72%	22.72%	15.14%	11.36%
Ratio of A:C	16.15%	14.84%	14.83%	10.63%	6.32%
Ratio of A:D	2.06%	1.84%	1.73%	1.62%	1.27%
Ratio of A:E	1.45%	1.35%	1.23%	1.02%	0.87%
Ratio of A:F	10.16%	9.54%	9.03%	11.08%	5.36%
Ratio of A:G	2.06%	1.81%	1.68%	1.29%	1.11%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.28

Investment in Govt. Securities by Lumbini Finance



From table 18 and Figure.31 it's seen that the Investment in Government Securities by Lumbini Finance & leasing Company is consistent throughout the study period. The data was found to be Rs. 136 lakhs in the year 2004 and Rs. 136.3 lakhs throughout the remaining study period.

4.5 Comparison of Interest Earnings and Assets Paying Liabilities

In this section we are comparing the ratios of interest earning assets and interest paying liabilities in total and individually. In aggregate, we are taking the data of period 2004 to 2009.

Table 19

Comparison of Interest Earnings and Assets Paying Liabilities (Aggregate)

(Rs in Lakh)

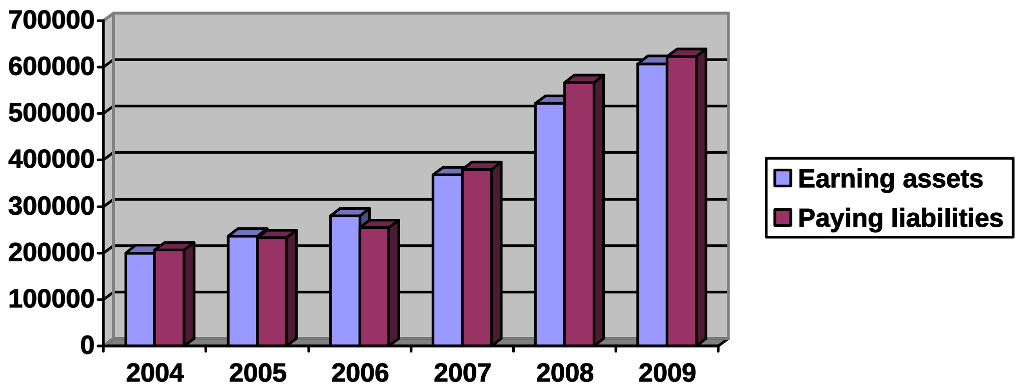
SN	Description	2004	2005(59)*	2006(70)	2007(74)	2008(78)	2009(77)
A	Total Sources of Funds	271987	304367	388562.3	534663.3	803839.5	874300.8
B	Total Capital Fund	36568	42500	43148.1	53798.6	74454.2	105409.6
C	Deposits	193917	223416	243325	345147.1	522821.7	570734.4
D	Borrowings	13065	9908	11548.1	34695.4	43649.5	51937.2
E	Liquid Funds	44698	39049	53866.6	75134.1	177417.4	164065.5
F	Total Investments	25105	24112	9632.4	12220.6	7175	8157.2
G	Total Loans & Advances	175408	212233	270789.5	356164.6	514941.5	599212.2
H	Total Earning Assets	200513	236345	280421.9	368385.2	522116.5	607369.4
I	Total Paying Liabilities	206982	233324	254873.1	379842.5	566471.2	622671.6
J	Ratio H: I	96.87%	101.29%	110.02%	96.98%	92.17%	97.54%
K	Ratio H:A	73.72%	77.65%	72.17%	68.90%	64.95%	69.47%
L	Ratio I:A	76.10%	76.66%	65.59%	71.04%	70.47%	71.22%
M	Ratio E:A	16.43%	14.69%	13.86%	14.05%	22.07%	18.77%
N	Ratio B:A	13.44%	12.01%	11.10%	10.06%	9.26%	12.06%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

The aggregate data of total sources of funds (A), capital fund (B), deposits (C), borrowings (D), liquid funds (E), investments (F), loan & advances (G), interest earnings assets (H=F+G), interest paying liabilities (I=C+D) and different ratios are presented in table 20 for the period mid July 2004 to 2009. The first ratio (H: I) is the ratio of interest earning assets and paying liabilities. The ratio of total earning assets to total paying liabilities is in a fluctuating trend.

Figure.29

Comparison of Interest Earning to Assets Paying Liabilities (Aggregate)



The Comparison of Interest Earning and Assets Paying Liabilities depict mainly the Interest earning of a financial institution through loans and advances and investment in relation with the liabilities it has to pay as interest on deposits to the depositors.

Higher the ratio between Interest Earning to Asset Paying Liabilities, better the performance of a financial Institution.

Table 20

Comparison of Interest Earnings and Assets Paying Liabilities of Goodwill Finance Company

(Rs in Lakh)

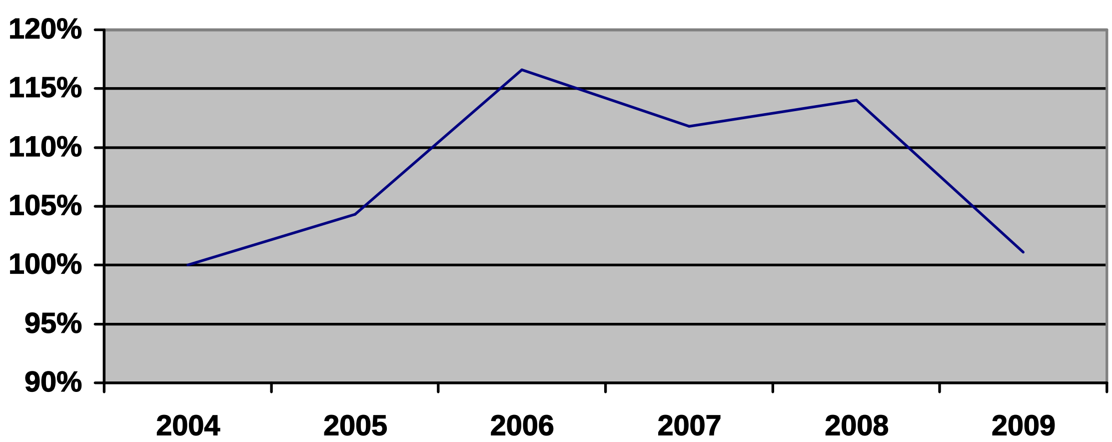
SN	Description	2004	2005(59)*	2006(70)	2007(74)	2008(78)	2009(77)
A	Total Sources of funds	4350	4594	4975.5	6100.6	8377.9	13913.9
B	Total Capital Fund	624	629	662.3	603.7	1164.7	1290.3
C	Deposits	3273	3156	3397.1	4617.5	5265.7	10966.3
D	Borrowings		0	16.3	0	980	450.5

E	Liquid Funds	729	401	535.9	450	338.1	591.6
F	Total Investments		42.8	499.3	643.8	1523	1567.2
G	Total Loan& Advances	2692	3250	3481.1	4519	5597.2	9976.5
H	Total Earning Assets	2692	3292.8	3980.4	5162.8	7120.2	11543.7
I	Total Paying Liabilities	3273	3156	3413.4	4617.5	6245.7	11416.8
J	Ratio H:I	100%	104.33%	116.61%	111.81%	114%	101.11%
K	Ratio H:A	61.89%	71.68%	80%	84.63%	84.99%	82.97%
L	Ratio I:A	75.24%	68.7%	68.6%	75.69%	74.55%	82.05%
M	Ratio E:A	16.76%	8.73%	10.77%	7.38%	4.04%	4.25%
N	Ratio B:A	14.34%	13.69%	13.31%	9.90%	13.9%	9.27%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.30

Comparison of Interest Earning to Asset Paying Liabilities (Goodwill Finance)



The ratio of interest earning to Asset Paying Liability of Goodwill Finance is found to be in increasing Trend in the initial stage of the study period and it is found to be fluctuating at the later years of the study period. The ratio was consistently found to be increasing in the 2004, 2005 and 2006 and decreased to 101.11% in 2009 from the previous years 114%. So, the ratio of Interest earning to Asset Paying Liabilities is fluctuating over the study period but it was found to be in consistency with the Total Deposits and Total Loan and Advances.

Table 21

Comparison of Interest Earnings and Assets Paying Liabilities of

United Finance Limited

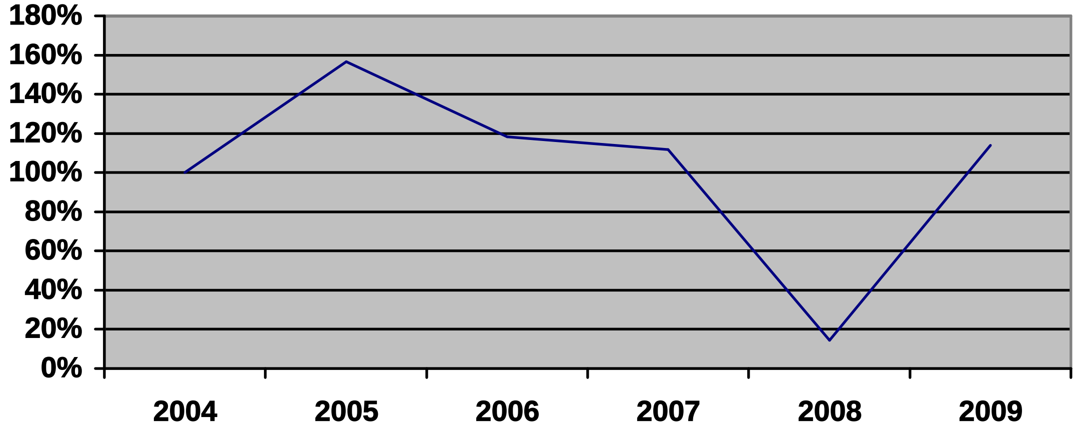
(Rs in Lakh)

SN	Description	2004	2005(59)*	2006(70)	2007(74)	2008(78)	2009(77)
A	Total Sources of Funds	4023	6326	6817.5	9118.2	14588	25953.5
B	Total Capital Fund	712	746	681.3	754	1593	1884.8
C	Deposits	2868	3326	4278.6	4942.7	7899	12320.8
D	Borrowings		164.2	991.7	2487.8	3655	2413.8
E	Liquid Funds	405	198	179.1	131.2	985	1123.5
F	Total Investments		36	346	138.6	429	329.3
G	Total Loans &Advances	3145	5430	5881.1	8159.7	1249.4	16445.3
H	Total Earning Assets	3145	5466	6227.1	8298.3	1678.4	16774.6
I	Total Paying Liabilities	2868	3490.2	5270.3	7430.5	11554	14734.6
J	Ratio H:I	100%	156.61%	118.15%	111.68%	14.53%	113.84%
K	Ratio H:A	78.18%	86.41%	91.34%	91.01%	11.51%	64.62%
L	Ratio I:A	71.29%	55.17%	77.31%	81.49%	79.20%	56.76%
M	Ratio E:A	10.07%	3.13%	2.63%	1.44%	6.75%	4.33%
N	Ratio B:A	17.70%	11.79%	9.99%	8.27%	10.92%	7.26%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.31

Comparison of Interest Earning to Asset Paying Liabilities (United Finance)



From the Table 21 and Figure.34 the ratio of interest earning to Asset Paying Liability of United Finance is fluctuating throughout the study period. This ratio has increased to 156.61% in 2005 from the previous years 100%. Then again this ratio started to decrease rapidly throughout the years 2006, 2007 and 2008 and then again increased to 113.84% from previous years 14.53%. As the ratio of interest earning to Assets paying liabilities is positive throughout the study period it can be concluded that the Interest earning is always greater than that the Assets paying Liabilities except in the year 2008 in one hand and the amount of Total deposit is less than the Total Loan and advance throughout the study period.

Table 22

Comparison of Interest Earnings and Assets Paying Liabilities of

National Finance Company

(Rs in Lakh)

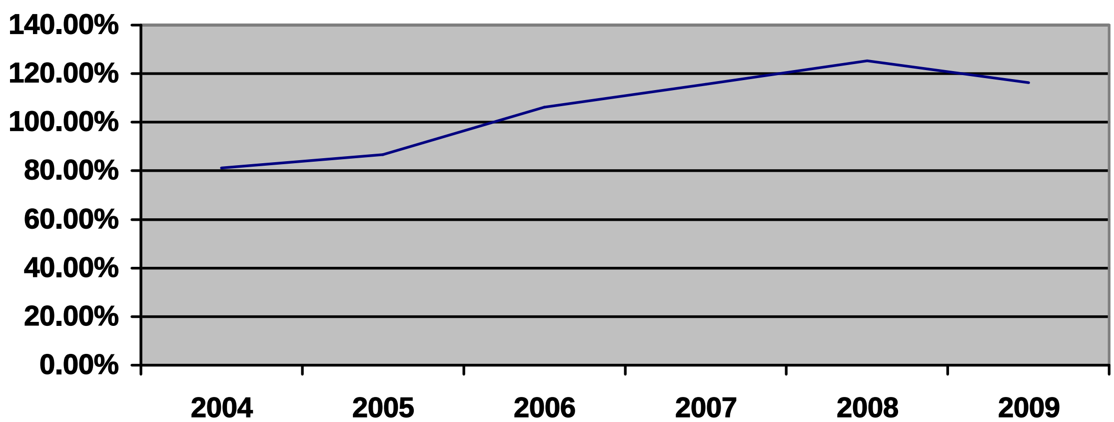
SN	Description	2004	2005(59)*	2006(70)	2007(74)	2008(78)	2009(77)
A	Total Sources of Funds	7424	8270	9443	9742	10357	12303
B	Total Capital Fund	1473	1604	1700	1877	2156	2739
C	Deposits	5300	5719	6218	6295	6510	8327
D	Borrowings		0	0	0	0	0
E	Liquid Funds	1749	2016	1775	1092	806	1367

F	Total Investments		31.1	1511	1787	736	1672
G	Total Loans &Advances	4298	4923	5097	5493	7421	8007
H	Total Earning Assets	4298	4954.1	6608	7280	8157	9679
I	Total Paying Liabilities	5300	5719	6218	6295	6510	8327
J	Ratio H:I	81.09%	86.63%	106.27%	115.65%	125.3%	116.24%
K	Ratio H:A	57.89%	59.9%	69.98%	74.73%	78.76%	78.67%
L	Ratio I:A	71.39%	69.15%	65.85%	64.62%	62.86%	67.68%
M	Ratio E:A	23.56%	24.38%	18.8%	11.21%	7.78%	11.11%
N	Ratio B:A	19.84%	19.4%	18%	19.27%	20.82%	22.26%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.32

Comparison of Interest Earning to Asset Paying Liabilities (National Finance)



From table 22 and Figure.35 it can be concluded that the ratio of Interest earning to Asset Paying Liability of National Finance Is in somewhat increasing order. This ratio is at 81.09% at the beginning of the study period i.e. in the year 2004 and found to be at 116.24% at the end of the study period i.e. at year 2009. As the ratio was found to be positive throughout the study period its clear that the amount of Interest earning is greater than that the amount of Asset Paying Liabilities.

Table 23

Comparison of Interest Earnings and Assets Paying Liabilities of

Nepal Housing & Merchant Finance Company Ltd

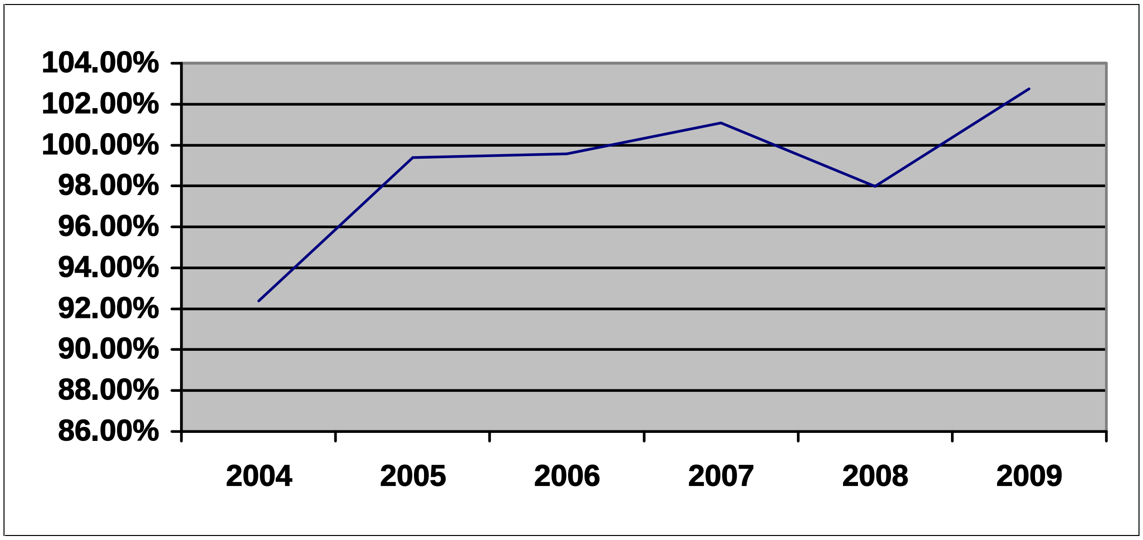
(Rs in Lakh)

SN	Description	2004	2005(59)*	2006(70)	2007(74)	2008(78)	2009(77)
A	Total Sources of Funds	6491	7497	8953	10132	14111	17803
B	Total Capital Fund	807	881	761	842	1058	2130
C	Deposits	5058	5942	7317	8115	9712	13460
D	Borrowings		16.7	65	0	1	45
E	Liquid Funds	498	381	815	969	3176	1885
F	Total Investments		70.9	167	191	240	51
G	Total Loans &Advances	4672	5852	7183	8012	9278	13825
H	Total Earning Assets	4672	5922.9	7350	8203	9518	13876
I	Total Paying Liabilities	5058	5958.7	7382	8115	9713	13505
J	Ratio H:I	92.37%	99.4%	99.57%	101.08%	97.99%	102.75%
K	Ratio H:A	71.98%	79%	82.1%	80.96%	67.45%	77.94%
L	Ratio I:A	77.92%	79.48%	82.45%	80.09%	68.83%	75.86%
M	Ratio E:A	7.67%	5.08%	9.1%	9.56%	22.51%	10.59%
N	Ratio B:A	12.43%	11.75%	8.5%	8.31%	7.50%	11.96%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.33

Comparison of Interest Earning to Asset Paying Liabilities (NHMF)



From Table 23 and Figure.36 it can be concluded that the Interest Earning to Asset paying Liability of National Finance was found to be in somewhat consistent trend but by analyzing the ratio in comparison with other finance companies in the research, National Finance Companies performance was found to be in slightly weaker than that of United Finance Company.

As the ratio of Interest Earning to Asset Paying liability is found to be lesser than 100%, in most of the study period, it can be concluded that the Asset Paying Liability of National Finance is greater than that the Interest Earning. So it clarifies that the deposit and Investment of National Finance Company is greater than the Loan and Advances.

Table 24

Comparison of Interest Earnings and Assets Paying Liabilities of

Lumbini Finance & Leasing Co Ltd.

(Rs in Lakh)

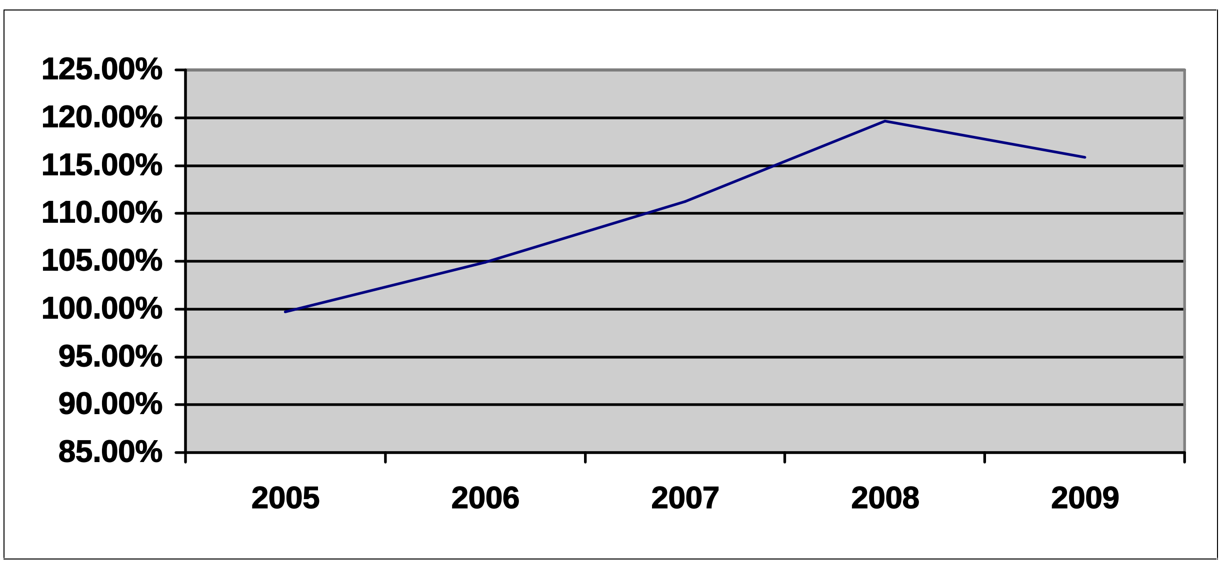
SN	Description	2005(59)*	2006(70)	2007(74)	2008(78)	2009(77)
A	Total Sources of Funds	9387	10084	11086.6	13412.6	15723.1
B	Total Capital Fund	842.3	918.3	919.3	1282.7	2155
C	Deposits	6612	7416.6	7897.7	8389.8	10712.9

D	Borrowings	0	0	0	1130	185
E	Liquid Funds	1338	1429	1510.2	1229.9	2543.7
F	Total Investments		258.4	658.2	808.3	308
G	Total Loans &Advances	6593	7520.8	8126.1	10582.5	12319.4
H	Total Earning Assets	6593	7779.2	8784.3	11390.8	12627.4
I	Total Paying Liabilities	6612	7416.6	7897.7	9519.8	10897.9
J	Ratio H:I	99.71%	104.89%	111.23%	119.65%	115.87%
K	Ratio H:A	70.24%	77.14%	79.23%	84.93%	80.31%
L	Ratio I:A	70.44%	73.55%	71.24%	70.98%	69.31%
M	Ratio E:A	14.25%	14.17%	13.62%	9.17%	16.18%
N	Ratio B:A	8.97%	9.11%	8.29%	9.56%	13.71%

Source: Nepal Rastra Bank Non- Bank Financial Statistics 2004-2009 Vol No. 53

Figure.34

Comparison of Interest Earning to Asset Paying Liabilities of Lumbini Finance & Leasing Co. Ltd.)



From table24 and Figure.37, it can be concluded that like other finance companies the ratio of Interest Earning to Asset Paying Liability of Lumbini Finance & leasing Company is in increasing trend except in the last year of the study period. The ratio has increased rapidly on the previous five years of the study period and then it decreased in the last year of the study period to 115.87%.

During the overall study period the amount of Total earning assets was found to be greater than that the amount of Assets Paying Liabilities. It means that the Finance Company is successful in utilizing its resources efficiently.

4.6 Major Findings of the Study:

- While analyzing the no. of finance companies on the basis of capital fund it was found that lesser no. of finance companies are being operated with higher capital fund.
- Generally finance companies are collecting deposits on a term deposit. Most of the finance companies are collecting deposit in the form of saving and fixed deposits. Comparatively, current, call and other deposits are minimal.
- A great chunk of the fund is mostly used on construction sector whereas the contribution of total source of funds on mines, local government and metal production, machinery & electrical tools & fitting is minimal.
- Both the deposit collection and loan flow amount of all the sample finance companies was found to be in increasing trend. It indicates that all the finance companies are operating efficiently notwithstanding the increasing no. of finance companies in Nepal.
- The Aggregate investment in government securities by the finance companies is in somewhat fluctuating trend. This data is substantial in the initial stage and end of the study period whereas it's decreasing in the middle phase of the study period.
- The average interest earning ratio of all the finance companies of the study was found to be in increasing trend. It indicates that the deposits of the subsequent finance companies are increasing in one hand and the loan flow amount is also increasing side by side.
- The ratio of Interest Earning to Asset Paying liabilities of the sample finance companies was found to be positive throughout the study period. It means that the Nepalese finance companies are efficient in utilizing their resources efficiently.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Financial activities play vital role in the development of a country. Financial development is one of the key indicators of economic development of any country. Financial activities are an integral part of national plan to accelerate the rate of economic development. The main objectives of finance companies are mobilization of small and large resources from urban as well as rural regions and their channel into productive, structured and high-priority areas to assist in the economic development of nation.

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. The overall growth of the nature and extend of capital formation in the country. This is the course of time industrial financing should get higher priority in the lending strategy of finance companies in view of their future sustainability for mobilizing public private and external financial resources and channeling them into productive areas as short loans and long term loans on different commercial business activities.

Financial development is one of the key indicators of economic development of any country. Financial institutions provide resources investment that is needed for economic development. In the financial sector, new institutions and instruments and financial innovations emerge in response to the need of expanding economy.

Nepal is an underdeveloped country. There is need for additional capital investment to earn higher rate of economic growth. Domestic savings and foreign capital (grants and loans) are two principles sources of capital available for investments and domestic savings are the most important and stable source of capital.

With the development of the country, there is growing need for developing banks and financial institutions with new financial innovation and instruments. Commercial banks, Agriculture Development banks (ADBN), Nepal Industrial Development Corporation (NIDC), Insurance Companies and Provident Fund Corporation are the principal financial intermediaries which collect deposits and provide loans and advances to the public without increasing high power money in the economy. Commercial bank in Nepal is reelected to mobilize additional deposit by providing attractive deposit mobilizing instruments. On the loans and advances sides, a large percentage of the total loans and advances of these banks have been directed towards quick yielding commercial purpose. They are more conservative in granting loans to new sectors and to initiate financial innovations.

After 1990, Nepal has adopted the policy of economic liberalization. The thrust of shift in policy boils down to added efficiency in which in turn is assumed by operation of market forces. This policy has given more important role to the private sector. Financial liberalization policy is an important part of economic liberalization policy. Under this policy, the government has adopted liberal policy for the establishment of the new commercial bank and finance companies on a competitive basis. As per available data there are 77 finance companies registered in different size of capital in the Company Registrar.

Finance Companies are new type of institutions in the Nepalese context. They can be registered only as a public limited Company as per the Finance Act 1985 and public limited company Act 2053 B.S. Finance Companies are registered with the Registrar of Company, and license for operation is granted by Nepal Roaster Bank. The minimum paid up capital of the Finance Company is fixed at Rs. 300 million for a national level finance company as well as for those operating in up to 3 districts and who perform leasing activity. For other finance company which does not wish to perform leasing activity, the paid up capital is fixed at Rs 200 million for a national level finance company and Rs 100 million for the company operating in only 3 districts.

Finance companies can be considered to be quasi-banking institutions. They can collect resources and extent loans and advances to various sectors. The principal sources of fund of these companies beside equity are time deposits collections and issuance of debentures.

Finance companies are allowed to collect deposit with maturity period of three month to five years. They can also collect the resources by issuing debentures, regarding loans for Hire purchase, Housing loan, Term loan, leasing financing. They are allowed to invest securities and issue guarantee. Finance companies are free to fix the interest rate on deposit and loans but they should maintain a spread rate not more than 6%.

Finance companies collect the deposit from public and extend loans. NRB has fixed the minimum statutory liquidity requirement (SLR) of equivalent to 10% of total deposit liabilities. Of the total SLR, 8% should be invested in the government securities of NRB bonds and the earning 2% is to be deposited as balance with the NRB or commercial banks. In order to prevent these companies from over exposures to one single company or party the single borrower limit has been fixed at 20% of the core capital (Share holders capital + retain earnings). Finance companies are prohibited to lend to the directors. The capital-gearing ratio has been fixed at 10%, which implies that the finance company cannot collect deposits, or extend loans exceeding 10 times of their core capitals.

.While analyzing finance companies on the basis of capital fund it was found that lesser no. of finance companies are being operated with higher capital fund. Among all the finance companies being operated over the Nepalese Territory, only a few finance companies are being operated with higher capital fund.

Generally finance companies collect deposits as a term deposit. Most finance companies collect deposit from three months to five year or six year deposit. But the depositors are mainly classified into five categories namely as Current deposits, Saving deposits, Fixed deposits, Call deposits and Other deposits.Large portion of the fund gathered by the finance companies is mostly used on distributing hire purchase loan and housing loan whereas the contribution of total source of funds on other loans is minimal. Both the deposit collection and loan flow amount of all the sample finance companies was found to be in increasing trend. It indicates that all the finance companies are operating efficiently notwithstanding the increasing no. of finance companies in Nepal.

The Aggregate investment in government securities by the finance companies is in somewhat fluctuating trend. This data is substantial in the initial stage and end of the study period whereas it's decreasing in the middle phase of the study period. The average interest earning ratio of all the finance companies of the study was found to be in increasing trend. It indicates that the deposits of the subsequent finance companies are increasing in one hand and the loan flow amount is also increasing side by side.

5.2 Conclusion

Finance companies are growing in Nepal. In a short period of time, they have had a significant impact, although the problems do persist. The growth of finance companies is already discussed in first chapter. There is brief description about the history and establishment, growth and development of the finance companies in the context of the developed country and as well as our Country Nepal and also provided are the review of literature from different publication, research paper, books and paper presentation on different seminar, And the various financial variables as well as qualitative analysis has been made in the next chapters. Likewise in the next chapters the choice of research methodology with justification employed to make analysis simple clear and comprehensive.

Now this conclusion chapter has focused on the findings of my study, in addition to identifying pertinent issues which finance companies are facing at present and these workable suggestions have been provided to evaluate concerned authorities as well as finance companies for better improvement from their existing level of operation. Some of the important findings certainly might be necessary for improving existing condition of the finance companies. The findings are as given below:-

Finance companies are the outcomes of the government's economic liberalization policy. Economic liberalization policy of the government has encouraged the establishment and growth of finance companies in the country within a short span of time. In a situation when the existing financial institutions, especially commercial banks are unable to supply credit timely and carry capital market activities.

Altogether 77 finance companies have been registered and have already carried out their operation activities and some finance companies are in the process to get the license. More than 50% finance companies have floated shares to the investing public. The analysis of their lending and investment activities show only very few finance companies have aggressive strategy compared to the most of them following conservative strategy. Major part of lending is in consumer durable through construction, wholesaler and other loans. Investment in the manufacturing and service sectors seem minimal.

The need to strengthen the institutionalization of finance companies is important to have meaningful relationship between finance companies and national development through shift of credit to the productive industrial sectors. At the same time, the series of reforms such as consolidation of finance companies, maintaining relationship between finance companies and commercial banks, directing attention to venture capital financing, appropriate risk return trade of bi-linking credit to timely repayment schedules, deposit insurance schemes, achieving exceptional impacts of depositors and clients, avoiding imperfections, allowing flexibility in lending, one window services from NRB, need of a strong supervision and monitoring from NRB, diversify scope of activities to fee based services, allow funds transfer, refinancing facilities for finance companies, professional culture within finance companies etc. All these are necessary to ensure better future performance of finance companies that have already been established in Nepal.

5.3 Recommendations

There are various services provided by finance companies for the customers. Among them the uses of funds towards Hire Purchase and Housing financing(construction sector) must be shifted towards business financing. This activities must be taken by finance companies for achieving the long term objectives of finance companies to shift their investment and credit strategy to the productive industrial and business sectors of the economy so as to have adequate capital formation for overall national development.

The unhealthy competition of interest rate between finance companies for collection of deposit fund and uses of that fund for the various area provided by finance companies such as Hire Purchase, Housing Loan, Term Loan, Leasing Financing etc must be eradicated. There must be certain demarcation line between the various finance companies which already started their functions.

It is very important to have frequent sharing of experience by conducting a seminar or workshop at least once or twice a year. The key participants will be top executives from finance companies and concerned regulating authorities to identify where the problems lie in their efficient operations and then based on the feedback information undertake policy measures for future follow-up actions. Nepal Rastra Bank should also encouraged training to new entrants to provide orientations on the conceptual dimensions and practical aspects of operating finance companies through the development of capital market training institute.

Finance companies are playing with the public money that consists of both depositors and investors. As such, Nepal Rastra Bank has to keep a strict watch over their activities to protect the interest of public. For that, regular follow-up must be made mandatory of Nepal Rastra Bank to have correct evaluation and monitoring of their performance and minimize any irregularities detected in the course of investigation. Progress reporting should be continuous process and finance companies should make their performance transparent to the investing public. In this regard, Nepal Rastra Bank's monitoring and supervision department and also credit information bureau are to be further strengthened and institutionalized. This is important to have control on both credit flows and unhealthy credit practice by identifying the main credit defaulters and also preparing a black list of the credit defaulters. Professionals with adequate logistic support should manage the monitoring and supervision department and staff to enable it to make independent evaluation of finance companies based on well defined monitoring and supervision criteria. Moreover, there should also be professional representation in the credit information bureau instead of having only member to it. It should conduct studies from time to time by contracting with private consultancy firms to produce an independent report on the credit performance status of finance companies.

There is an urgent need to have a gradual shift of focus from traditional financing business to the dynamic and innovative areas such as merchant banking, consortium financing, venture capital, project financing, etc. Also there is needed to offer innovative schemes and instruments in resources mobilization.

The finance companies should work together to build up public confidence and enhance the image in the minds of public at large. This is most important challenge facing finance companies. Each step should be taken cautiously and with full understanding of the implications and the long-term effects rather than merely going by short-term benefits.

Finance companies have to prove it to the country that they can really contribute to the national economy, are efficient and vital agencies for mobilization of savings and its mobilization 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.

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ANNEXURE - 1

National Finance Ltd.:

National Finance Ltd was incorporated on August 30th 1992. The main objectives of the company as stated in the Memorandum of Association are to collect the isolated small deposit from various parts of Nepal, to carry on the business of :

1. Financing of fixed and working capital requirement.
2. Leasing of Industrial machinery and equipment.
3. Hire Purchase of consumer goods machine and equipment and vechiles.
4. Merchant Banking services such as portfolio management , issue management, market making, underwriting, syndicate financing, corporate counseling, participate in syndication.

However the operation was commenced on 10 May 1993 and the present core business of the company is in the area of hire purchase loan, indusatrial fixed and working capital loan, security finance, trading loans, housing loan etc.

The company has been promoted by various organizations and professionals. Likes Salt Trading Corporation Ltd, Nepal Vegetable Ghee Industries Ltd, Mr Bramha Lal Shrestha, Late Mr irmal Dass Manandhar, Mr Mahesh Lall Pradhan, Mr Laxmi Dass Manandhar, Hotel Sherpa, Mr R.K. Manandhar.

The Company has successfully completed 14 years of its operation. It is one of the leading finance company in Nepal

United Finance Ltd.:

United Finance Limited (UFL) is a leading Consumer Finance Company in Nepal with excellent asset quality and strong growth potential. The company, promoted by the Chaudhary Group - the largest conglomerate in Nepal was established in 1992 as per the Companies Act of Nepal.

The main objective of the company is to mobilize scattered savings into the consumer financing sector. The major promoters and shareholders of the company are the Chaudhary Group and Morang Auto Works. These groups among themselves hold 60% of the shares in the company with the remaining balance of 40% shares held by the general public.

The shares of the company are actively traded at the Nepal Stock Exchange (NEPSE) and have been categorized in Category “A” by NEPSE for the last Five years. The company operates from its Head Office in Durbar Marg, Kathmandu.

Within a short span of its establishment, the company has been able to establish itself as one of the leading financial institutions in the country. The company’s vision is to become the number one finance company in terms of consumer financing.

With an aim to provide highly professional banking & financial services, United Finance Ltd. has a team of young and dynamic professionals to run the Company. The experience gained in various sectors of finance over the years has enabled United Finance Ltd. to serve its customers in most reliable and efficient manner.

Goodwill Finance Co. Ltd.:

Goodwill Finance Company Ltd. is established under the finance company act 2042, in 2051 B.S. NRB issued and licensed for the financial activities to Goodwill on 2052 Baisakh and from Jestha 2nd, 2052, Goodwill started its operation. It was incorporate with authorized capital of Rs 50000000 with 13 promoters.

Goodwill Finance and Investment Company Ltd. was converted into Goodwill Finance Company Ltd. in 7th annual general meeting and was accepted by HMG industrial corporation Company Registrar Office in 2059/7/15 and came into operation in 2059/8/2.

Goodwill Finance’s mission statement being "To provide financial services for success" shows that we do take care of our customers and all other stakeholders so that everybody benefits from our operations. The main objective of Goodwill is to uplift the economic status of Nepal by investing in different economic sectors under economic liberalization policy and collecting savings from country under finance company act 2042.

To promote loan to individual firm or company under company rules.
To provide service advisory and recommendation to individual firm or company.
To purchase bonds and securities issued by HMG and other organization.
To contribute in the economic development of the country by uplifting the lives of people.

Nepal Housing and Merchant Finance Ltd.:

Nepal Housing & Merchant Finance Ltd. (Bittiya Sanstha) was incorporated in the year 1995 under the Finance Company Act of 1985 and Company Act of 1996 of Nepal and is a financial Institution, whose entire financial activities are under the direct inspection & supervision of Nepal Rastra Bank the Central Bank of Nepal.

We are the pioneer financial institution, which was established to finance in housing and land development in particular and offers a truly committed reliable and efficient financial services contributing for the economic growth of the nation.

NH&MF is a leading financial institution in Nepal serving about 5000 clients annually. We mobilize scattered capital resources and act as the intermediaries to the bearer of these savings for those borrowers judged capable of using them productively. We have been successful in providing continual dividend to our shareholders from its very inception. Furthermore, we are the first financial institution to have our own corporate building at the heart of the capital city Kathmandu along with a branch office in the industrial town Biratnagar.

Beside providing efficient financial services, our prime objective is to provide affordable and reasonable financial services for housing to the general public of Nepal. In order to enhance our competitive strength and with our rich corporate experience we envisage to upgrade our institution from a Finance Company to a Development Bank.

Lumbini Finance & leasing co. ltd

Lumbini Finance & Leasing Company Ltd. commonly known as LFLC is a public limited Finance and Leasing Company promoted by a group of highly committed and innovative persons. It is managed by a group of well experienced and professional managers having excellent leadership. The company has the right combination of dedicated service-oriented staffs for which one can always trust for an excellent service. It is registered in the Ministry of Industry and has obtained license from Nepal Rastra Bank (Central Bank of Nepal) under the section 6(A) of Finance Companies Act 2042. LFLC is operating its business as per the guidelines of Nepal Rastra Bank, provisions of Finance companies Act 2042, companies ACT 2053 and other related Nepalese law. LFLC has started its operation from 12/03/052 and has shown a very encouraging trend in its nine years of operation. Our logo represents the symbol of continuity & reliability in the market. LFLC's share is listed in Nepal stock Exchange (NEPSE quote: LFLC) & it is being traded in the market as A-grade share.

Lumbini finance & leasing co. ltd was granted the license by NRB on 2052/03/04. It came into operation on 2052/03/12. It has its head office at Tridevimarga, Themel and has its branch offices at Manbhavan, Lalitpur and Pokhara

Lumbini Finance & Leasing Co Ltd. has emerged in the Nepalese economy with a broad objective of enhancing the growth rate of industry and commerce for the economic benefit of the general public and upliftment of their living standard. LFLC's efforts will be focused to reach to unattended savers by advising them to get maximum benefits from financial market and to encourage potential investors and experts to invest into the productive and employment generating sectors by providing financial support for implementing new business ideas & techniques. In addition to these, LFLC also aims to provide consumer loans to the people for the upliftment of their living standard by various means.
Keeping in view above perspective, the objectives of LFLC are set as follows:

- To mobilize the scattered savings by floating attractive schemes in the forms of different deposits and by issuing other financial instruments.
- To invest in, and/ or to give loans and advances to those sectors which strengthen the economic development of the country.
- To provide loans to client to serve various needs of them like housing need, house hold equipment need etc.
- To conduct Leasing business to serve the industries & commerce.
- To conduct hire purchase business to serve the need of the clients.
- To operate other financial functions like Merchant Banking, Investment Banking, Assets Management and others.
- To provide technical and financial advisory services.

ANNEXURE – 2

Name of the Listed finance Companies

S.No.	Name of the Finance Companies	NEPSE Code
1	Nepal Finance and Saving Co.Ltd.	NFS
2	NIDC Capital Markets Ltd.	NCM
3	National Finance Co. Ltd.	NFC
4	Nepal Share Markets Ltd.	NSM
5	Annapurna Finance Company Limited	AFC
6	Kathmandu Finance Limited.	KFL
7	Peoples Finance Limited.	PFCL
8	Union Finance Co. Ltd.	UFCL
9	Citizen Investment Trust	CIT
10	Nepal Aawas Bikas Beeta Co. Ltd.	NABB
11	Narayani Finance Limited	NFL
12	Yeti Finance Company Ltd.	YFL
13	Gorkha Finance Ltd.	GFLK
14	Samjhana Finance Co. Ltd.	SFC
15	Universal Finance Ltd.	UFLK
16	Nepal Housing & Merchant Fin.	NHMF
17	General Finance Ltd.	GFL
18	Maha Laxmi Finance Ltd.	MFL
19	Lalitpur Finance Ltd.	LFC
20	Goodwill Finance Co. Ltd.	GFCL
21	Paschimanchal Finance Co. Ltd	PFC
22	Pokhara Finance Ltd.	PFL
23	Lumbini Finance Ltd.	LFLC
24	Siddhartha Finance Limited	SFL
25	Alpic Everest Finance Company Limited	AEFL
26	Nepal Bangladesh fin. & Leasing	NBFL
27	United Finance Ltd	UFL
28	International Leasing & Fin. Co.	ILFC
29	Shree Investment Finance Co. Ltd	SIFC
30	Central Finance Co. Ltd.	CFCL
31	Nepal Shree Lanka Merchant Bank	NSLMB
32	Premier Finance Co. Ltd	PFCLL
33	Nava Durga Finance Co.Ltd.	NDFL
34	Butwal Finance Ltd	BFL
35	Janaki Finance Ltd.	JFL
36	Standard Finance Ltd.	STFL

37	Om Finance Ltd.	OFL
38	Cosmic Mer.Bank & Fin.	CMBF
39	Fewa Finance Co. Ltd.	FFCL
40	KIST Merchant Banking & Finance	KMBF
41	World Merchant Bank Ltd	WMBF
42	Birgunj Finance Ltd	BJFL
43	Capital Mer. Bamk & Fin	CMB
44	Everest Finance Ltd,	EFL
45	Prudential Bittiya Sans	PFIL
46	Shrijana Finance(Bittiya Sa	SFFIL
47	Royal Mer. Bank.& Fin	RMBFI
48	Guheyshwori Mer. Bank. Fin	GMFIL
49	IME Financial Institution	IMEFI
50	Bhajuratna Fin.& Sav. Co. Ltd.	BFIL
51	Patan Finance Ltd.	PFLBS
52	Imperial Financial Inst. Ltd.	IFIL
53	Civil Merchant bittya sanstha	CMBSL
54	ICFC Bittya Sanstha Ltd.	ICFC
55	Lord Buddha Financial Institutional Limited	LBFIL
56	Sagarmatha Merchant Banking & Finance	SMBF
57	Kaski Finance Limited	KAFIL
58	Nepal Express Finance Limited	NEFL
59	Kuber Merchant Bittiya Sanstha Limited	KMBSL
60	Prabhu Finance Company Limited	PRFL

Annexure – 3

Some Key Figures of Nepal Housing Mer. Finance Ltd.

		Audited 2060/61 2003/04	Audited 2061/62 2004/05	Audited 2062/63 2005/06	Audited 2063/64 2006/07
Brief Financial Indicators					
	Networth Per Share	149.16	154	154.82	161.79
	Earning Per Share	12.51	24.22	15.87	33.99
	Dividend Per share	0.52	5.78	1.05	1.21
	Dividend Payout Ratio	0.04	0.24	0.07	0.04
	Earning Yield	0.05	0.11	0.08	0.12
	Price Earning Ratio	18.39	9.5	13.23	12.61
	Market Price	230	230	210	280
		Rs. In Million	Rs. In Million	Rs. In Million	Rs. In Million
Capital Structure					
	Authorised Capital	60	60	60	100
	Issued Capital	45	49.5	54.45	65.34
Liabilities					
	Issued and Paid up capital	45	49.5	54.45	65.34
	Reserve & Surplus	22.12	26.73	29.85	40.38
	Deposits	505.77	594.2	731.67	811.42
	Others	50.41	48.98	23.33	24.37
	Total	623.3	719.41	839.3	941.51
Assets					
	Cash & Bank balance	27.86	23.6	17.75	21.57
	Investment	89.49	83.38	64.36	93.31
	Loan, advances,overdraft & Bills Purchase	446.52	561.69	675.2	761.72
	Fixed Assets	32.73	32.1	55.37	53.67
	Others	26.7	18.64	26.63	11.24
	Total	623.3	719.41	839.31	941.51
Profit and Loss Account					
	Interest Income	62.38	68.59	87.38	96.38
	Other income	4	8.42	6.39	10.65
	Total Income	66.38	77.01	93.77	107.03

Expenditures:

Interest expenses	38.57	40.77	46.98	55.05
Overhead expenses(employees')	4.87	6.49	6.24	6.34
Operating expenses(office mgmt,)	6.17	6.3	-	-
Loan loss provision	7.11	2.99	16.75	1.39
Provision for Bonus	0.93	1.97	1.54	3.38
Others	0.26	0.48	6.84	7.11
Total	57.91	59	78.35	73.27
Profit before tax	8.47	18.01	15.42	33.76
Tax provision	2.84	6.02	6.78	11.55
Net profit after tax(PAT)	5.63	11.99	8.64	22.21

Annexure – 4

Brief financial indicators of Goodwill Finance Ltd

		Audited 2061/62 2004/2005	Audited 2062/63 2005/2006	Audited 2063/64 2006/2007	Unaudited 2064/65 2007/08
Brief Financial Indicators					
	Networth Per Share	125.5	120.31	132.96	155.08
	Earning Per Share	13.45	13.63	18.45	12.57
	Dividend Per share	0	0	0	0
	NPA %	0.45%	1.36%	0.68%	0.34%
	Earning Yield	10.71%	11.33%	13.87%	8.11%
	Price Earning Ratio	13.76	13.57	11.93	50.36
	Market Price	185	185	220	633
	Current Market Price				663
		Rs. In Million	Rs. In Million	Rs. In Million	Rs. In Million
Capital Structure					
	Authorised Capital	50	100	200	640
	Issued Capital	50	50	100	320
Liabilities					
	Issued and Paid up capital	31.09	50	50	105
	Reserve & Surplus	7.93	10.15	16.48	57.83
	Debenture	0	0	0	0
	Borrwoings	0	1.63	37.86	98.04
	Deposits	315.64	336.77	453.11	521.82
	Others	60.61	53.03	44.89	55.13
	Total	415.26	451.59	602.34	837.82
Assets					
	Cash & Bank Balance	11.89	14.96	23.51	33.83
	Investment	67.86	86.65	120.03	152.28
	Loan, advances & overdraft	297.9	321.26	427.93	559.73
	Fixed Assets	16.3	15.99	17.14	66.96
	Others	21.31	12.74	13.74	25.03
	Total	415.26	451.59	602.34	837.82

Profit and Loss Account

	Interest Income	39.65	43.07	49.91	59.78
	Other operating income	8.82	8.8	6.73	9.94
	Non operating income (Net)	2.04	1.8	0.43	8.95
	Total Income	50.52	53.67	57.07	78.67
Expenditures:					
	Interest Expenses	29.06	29.1	29.65	40.18
	Overhead Expenses	3.78	5.07	5.31	6.1
	Operating expenses	4.94	5.9	8.54	9.6
	Loan loss provision	5.31	3.06	0.15	4.24
	Provision for bonus	0.74	1.02	1.22	1.69
	Others				
	Total Expenditure	43.84	44.15	44.87	61.81
	Profit before tax	6.68	9.52	12.2	16.86
	Tax provision	2.5	2.71	2.97	3.66
	Net profit after tax	4.18	6.81	9.22	13.2

Annexure – 5

Some Key Figures of National Finance Ltd.

	Rs. In Million Audited 2060/61 2003/2004	Rs. In Million Audited 2061/62 2004/2005	Rs. In Million Audited 2062/63 2005/2006
Liabilities			
Issued and Paid up capital	35.96	43.2	95.04
Reserve & Surplus	55.05	74.28	80.45
Deposits	529.98	571.66	621.83
Others	49.48	28.62	22.95
Total	670.47	717.76	820.27
Assets			
Cash & Bank balance	119.35	107.15	177.54
Investment	88.33	118.64	148.45
Loan, advances,overdraft & Bills Purchase	381.46	449.16	454.54
Fixed Assets	32.07	30.53	31.07
Others	49.26	12.28	8.67
Total	670.47	717.76	820.27
Profit and Loss Account			
Interest Income	66.84	65.91	75.06
Other income	10.96	24.77	15.96
Total Income	77.8	90.68	91.02
Expenditures:			
Interest expenses	33.37	31.38	33.98
Overhead expenses(employees')	6.75	5.97	8.71
Operating expenses(office mgmt,)	5.92	6.6	6.7
Loan loss provision	7.18	2.72	11.87
Provision for Bonus	2.45	4.4	2.98
Others	-	-	-
Total	55.67	51.07	64.24
Profit before tax	22.13	39.61	26.78
Tax provision	6.95	9.74	10.28
Net profit after tax(PAT)	15.18	29.87	16.5

Annexure - 6

Some Key Figures of United Finance

		Audited 2060/61 2003/2004	Audited 2061/62 2004/2005	Audited 2062/63 2005/2006
Brief Financial Indicators				
	Networth Per Share	139.25	162.73	134.42
	Earning Per Share	32.06	30.7	21.18
	Dividend Per share		12.53	
	Price Earning Ratio	4.05	4.23	9.21
	Market Price	130	130	195
		Rs. In Million	Rs. In Million	Rs. In Million
Capital Structure				
	Authorised Capital	75	75	75
	Issued Capital	37.5	37.5	50
Liabilities				
	Issued and Paid up capital	31.5	31.5	50
	Reserve & Surplus	20.72	19.76	17.21
	Deposits	384.1	456.99	482.9
	Others	24.64	42.48	15.63
	Total	460.96	550.73	565.74
Assets				
	Cash & Bank balance	61.22	43.21	50.8
	Investment	62.79	64.01	92.43
	Loan, advances,overdraft & Bills Purchase	309.45	413.06	413.53
	Fixed Assets	1.56	1.44	1.55
	Others	25.94	29.01	7.43
	Total	460.96	550.73	565.74
Profit and Loss Account				
	Interest Income	55.67	58.06	57.93
	Other income	6.24	4.53	3.87
	Total Income	61.91	62.59	61.8

Expenditures:

Interest expenses	34.52	32.3	33.42
Overhead expenses(employees')	3.21	3.41	3.76
operating expenses(office mgmt,)	4.01	4.03	-
Non-operational expenses	5.01	-	0.37
Loan loss provision	0.39	6.64	2.47
Provision for Bonus	1.02	1.47	1.62
Others	1.26	0.28	3.99
Total	49.42	48.13	45.63
Profit before tax	12.49	14.46	16.17
Tax provision	2.47	4.79	5.58
Net profit after tax(PAT)	10.02	9.67	10.59

Annexure – 7

Some Key Figures of Gorkha Finance Ltd.

	Rs. In Million	Rs. In Million	Rs. In Million
	Audited	Audited	Audited
	2060/61	2061/62	2062/63
	2003/2004	2004/2005	2005/2006
Liabilities			
Issued and Paid up capital	25	25	25
Reserve & Surplus	4.19	4.55	11.37
Deposits	132.6	160.57	247.62
Others	10.13	11.12	6.69
Total	171.92	201.24	290.68
Assets			
Cash & Bank balance	33	20.88	29.95
Investment	9.58	0.32	0.32
Loan, advances,overdraft & Bills Purchase	120.04	168.25	254.26
Fixed Assets	1.74	1.4	2.86
Others	7.56	10.39	3.29
Total	171.92	201.24	290.68
Profit and Loss Account			
Interest Income	22.58	23.36	28.71
Other income	1.55	2.29	5.45
Total Income	24.13	25.65	34.16
Expenditures:			
Interest expenses	12.57	11.83	14.9
Overhead expenses(employees')	2.33	2.81	3.62
Operating expenses(office mgmt,)	2.94	2.9	3.35
Loan loss provision	0.17	3.42	1.9
Provision for Bonus	0.61	0.46	0.94
Others	-	-	-
Total	18.62	21.42	24.71
Profit before tax	5.51	4.23	9.45
Tax provision	1.89	1.29	2.36
Net profit after tax(PAT)	3.62	2.94	7.09