CHAPTER I

INTRODUCTION

1.1 General Background

The development of any country is demonstrated by the economic development of that country. The financial sector of any country comprising banks, finance companies, insurance companies, co-operative societies, stock markets, foreign exchange markets, mutual funds, provident funds etc. play a great role in the enhancement of the country's economic sector. The country having liberal economy from non-liberal economy after reform, positive changes are visible in the financial sector of the country.

Non-banking sector like finance companies also provide essential contribution to the development of the country's economy. "Finance Company is a financial institution which is a company, a non-banking institution, whose principle business is to receive the deposits under any scheme or arrangement or in any other manner and lending in any manner." There is no doubt that the increment of finance companies obviously boosts the financial activities and hence opens the door for the economic development of the country. Under liberal and open economy it is considered natural phenomena that there is high involvement of private sector, which mostly focus their activities toward commercialization generating high profits.

"Finance companies, licensed under the Finance Company Act 2042 B.S. are the second largest group of deposit taking financial institutions in Nepal". In general, finance companies can be defined as a firm that provides loans to people who enters into an agreement to repay the loan back with interest within the specified period of time. These finance companies play very dominant role in the economic development particularly in consumer financing, leasing and asset based lending with strong preference on short-term debt. According to Finance Companies Act, 2042, Finance Companies are established as non-banking institution which collects sum of money from one group and provides loan to the other group and works for the betterment of the public as well as helps in the economic development of the country. Though the finance companies act was published in gazette in 2042 B.S., the real establishment and functioning came, only after the economic liberalization policy of the government in the 8th Plan, (2049 B.S. – 2053 B.S.) (NRB, Mirmire; 2006/07: 87)

After the liberalization policy is carried out, government of Nepal also focused for the development of the investment institution in order to fulfill the need of financial and investment deficit that had seen in financial sector. Till fiscal year 2006/07, 25 commercial banks, 59 development banks and 78 finance companies are in operation. Limited market opportunities and increasing market makers i.e. financial institutions create stiff competition in financial markets.

Urbanization is increasing and unemployment is raised. People go abroad for employment in foreign countries, which is increasing the amount of remittance. Financial institutions may suffer from increasing remittances and stagnant investment opportunities. For investment, financial institutions must maintain adequate cash and bank balance to meet its day to day management of cash resources. According to Shakespeare Baidya, Financial companies are typically organized to handle some specialized financing problem that is not adequately handled by banks and other institutions. They engage in all types of loan activities and specialize in handling problems and risk that other institutions would not accept. Their interest rates reflect their costs and risks. Finance companies thus handles the essential functions of commercial banks i.e. accepting deposits and lending money, discarding other specialized services provided by the commercial banks. Government policies and its concentration determine the development of country's economy. (Shrestha; 1995: 26).

Macroeconomics stability is prerequisite. Least developed country like ours "Nepal", where industrial development is in initial stage, these pre-mentioned prospects are essential for sustainable economic development. "It is needed that Government and all concerned must restore peace, improve investment climate by strengthening legal, institutional and regulatory framework for the private sectors, foster links with the country's rapidly growing neighbor to tap the economic benefits of the integration, and accelerate the pace of ongoing governance reforms. Nepal entry into WTO, commitments in SAFTA and BIMSTEC too makes it important to improve in investment and business climate." (World Development Report; 1999-2000: 104-107).

To expedite the economic development, there should be sufficient flow of capital in the economy. In order to generate capital flow, financial institutions play major roles for the proper functioning of the economy. It is how these institutions act as intermediary between the individuals who lend and who borrow. After the liberalization policy is carried out, the government of Nepal also focused for the development of the investment institution in order to fulfill the need of financial and investment deficit that is seen in financial sector.

Finance companies are borne by NRB to perform merely some functions of commercial banks. The objective being reducing some burden from commercial banks and getting some prompt services to the general public and reap some amount of profit for itself. Thus the main function of finance companies can be recognized as taking money from the public by paying them some interest and lending the same money to the other group of the public charging some interest higher than the interest paid and this how it can make some profit.

The finance companies have thus genesis form the function of lending. Lending is the most fundamental function of any finance company. However, how much diversified functions of the finance companies might be, the primary function remain the same i.e. lending function. According to Hrishikes Bhattacharya, the classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What have been changed are the institutional structure, the instruments and the techniques used in performing these functions. Lending has its different forms. It can be divided into fund-based lending. Leasing, hire purchase, bills discounting, term loans, housing loans, floating mutual funds, bridge financing, loan participation, loan syndicate etc. come under fund-based lending. Similarly, investment management, portfolio management series for individuals and corporate issue management, portfolio management series for individuals and corporate issue management, underwriting , trust receipts, arranging trade markets for buying and selling securities, private placement of shares and debentures etc. fall under the category of non-fund based lending. In practice, most of the finance companies activities are fund- based.

Borrowers are required to offer some guarantee against the loan they are getting such as lien on their salary or personal possession. Loans or guarantee means loans or guarantee means loans or guarantee advanced with any movable or immovable asset as collateral, or with any other necessary security or guarantee on conditions stipulated by the company. (Finance Company Act; 1985: 102)

Accepting deposits and lending money is the playing of money finance companies do to reap the profit along the side. Certain rate of interest is provided to the customers for the deposit made in the company. These kinds of deposits are generally invested. Investment, in finance companies, is made in the sense of lending the same money in higher interest rate and purchasing government securities. Thus, the main operation of a finance company can be recognized as taking money from public giving them some interest and lending the money to the public charging some interest. Generally, the interest charged is higher than the interest paid and this is how the company manages to make some profit to distribute dividend to the shareholders.

Good collateral is essential for the quality of loan. The quality of loan, quality of borrower and quality of securities determines the health of any financial institution. The efficiency of finance company lies in how it multiplies the deposits of its depositors. Hence, Lending should be accomplished by some basic principles and practices. No finance company would be willing to give loan unless it has sufficient confidence in the borrower that it will not be necessary to seek the help of court for recovery.

1.2 Brief Profile of Sample Finance Companies

In this section the company profile of the above subjected companies are presented to know better of the companies individually.

Lalitpur Finance Company Limited

Establishment as first finance company in Lalitpur district, Lalitpur Finance had its license from NRB from NRB on 2052/08/26. It was 30th Finance company to be established in Nepal. It started its operation from the date 2052/08/28. The total loans and advances and deposits of Lalitpur till the year 2006/07 are Rs. 541.55 million and Rs. 654.23 million respectively. Lalitpur ranks in 16th amongst finance companies based on Capital Fund with its total capital fund Rs. 156.7 million. The share structure of Lalitpur is given below: -

Table 1.1

Share Structure of Lalitpur Finance Co. Ltd.

Share Structure	**NRS.**
Authorized Capital (10,00,000 share of Rs. 100 each)	10,00,00,000.00
Issued Capital (6,00,000 shares of Rs. 100 each)	6,00,00,000.00
Paid Up Capital (5,06,250 share of Rs. 100 each)	5,06,25,000.00

Lumbini Finance & Leasing Company Limited

Established as 23rd finance company in Nepal, Lumbini had its license from NRB on 2052/03/04. It started its operation from the date 2052/03/12. The total loans and advances and deposits of Lumbini till the year 2006/07 are Rs. 249.4 million and Rs. 696.69 million respectively. Lumbini ranks in 6th amongst finance companies based on Capital Fund with its total capital fund Rs. 349.4 million. The share structure of Lumbini is given below: -

Table 1.2

Share Structure of Lumbini Finance & Leasing Co. Ltd.

Share Structure	**NRS.**
Authorized Capital (12,00,000 share of Rs. 100 each)	12,00,00,000.00
Issued Capital (6,00,000 shares of Rs. 100 each)	6,00,00,000.00
Paid Up Capital (6,00,000 share of Rs. 85 each)	6,00,00,000.00

People's Finance Limited

People's Finance was 7th finance company to be established in Nepal. Peoples had its license from NRB on 2050/12/04. It started its operation from the date 2051/01/02. The total loans and advances and deposits of Peoples till the year 2006/07 are Rs. 281.43 million respectively. Peoples ranks in 28th amongst finance companies based on Capital Fund with its total Capital Fund Rs. 113.9 million. The Share Structure of Peoples is given below;

Table 1.3

Share Structure of People's Finance Ltd.

Share Structure	**NRS.**
Authorized Capital (24,00,000 share of Rs. 100 each)	24,00,00,000.00
Issued Capital (8,00,000 shares of Rs. 100 each)	8,00,00,000.00
Paid Up Capital (6,63,941 share of Rs. 100 each)	6,63,94,100.00

Kathmandu Finance Limited

Kathmandu Finance had 12th rank as according to the finance company established in Nepal. Kathmandu started its operation from the date 2051/07/24, when it ready had its license from NRB on 2051/07/20. The total loans and advances and deposits of Kathmandu till the year 2006/07 are Rs. 436.91 million and Rs. 345.98 million respectively. Kathmandu ranks in 31st amongst finance companies based on Capital Fund with its total capital fund Rs. 58.9 million. The Share structure of Kathmandu is given below: -

Table 1.4

Share Structure of Kathmandu Finance Co. Ltd.

Share Structure	**NRS.**
Authorized Capital (24,00,000 share of Rs. 100 each)	24,00,00,000.00
Issued Capital (24,00,000 shares of Rs. 100 each)	24,00,00,000.00
Paid Up Capital (3,30,000 share of Rs. 100 each)	3,30,00,000.00

NIDC Capital Markets Limited

NIDC Capital Markets Limited was 3rd finance company established in Nepal. It received its license from NRB on 2049/10/13 and had started its operation from the very day. The total loans and advances and deposits of NIDC till the year 2006/07 are Rs. 619.60 million and Rs. 495.01 million respectively. NIDC ranks in 8th amongst finance companies based on Capital Fund with its total capital fund Rs. 313.00 million. The share structure of NIDC is given below: -

Table 1.5

Share Structure of NIDC Capital Markets Ltd.

Share Structure	**NRS.**
Authorized Capital (12,00,000 share of Rs. 100 each)	12,00,00,000.00
Issued Capital (6,00,000 shares of Rs. 100 each)	10,00,00,000.00
Paid Up Capital (7,49,412 share of Rs. 100 each)	7,49,41,200.00

1.3 Statement of the Problem

In present market scenario, several finance companies have been providing their services in the country and the market for good and viable lending opportunity is congested. Due to this sufficient return could not be achieved. The new finance companies just share the existing market return rather from the new markets. Due to stiff competition in the market and improper management, most of the finance companies are unable to invest their entire fund in profitable sectors.

Keeping pace with today's up growing economy itself is a hazardous task and with that finance companies are facing tough competition too. The present situation of the country has made the investment insecure to high extend. As a result, today lending has become very challenging. Finance companies have to seek for secured and productive investment opportunity, which definitely is a tough job. Another eye-opening fact is the gradual increase in non-performing loans for which NRB has directives for the loan loss provisioning.

Some finance companies are not following the NRB directives strictly of can be manipulated the deferral period of non-performing loan. Increase in Non-performing loans is very serious problem facing by finance companies. Increase in Non-performing loans can be the result of present condition of the country. Due to instable political condition, insecurity and lot many factors, industries of Nepal are closing down and thus are the investments. This has also arson another problem. Loan mobilization in hire purchase and housing loans are increasing than that in term loan. Terms loans are more productive and contribute more to the economy than hire purchases and housing loans. These kinds of situations reduce the income generation level in the economy, which again affects the timely repayments of the due installments of Loans and Advances.

Non-performing loans are created due to many circumstances as unsteady political situation, insurgency, insecurity, closure of industries , import of cheap items from China, sustainable problems etc.

Besides these the study deals with the following issues,

- What is the Lending strength in relative terms such as Investment to Loans and Advances and Investment, Loan and advances and investment to Total Deposit ratio, loan and advances to shareholder's equity ratio between selected five finance companies?
- What is the Lending strength in Absolute terms such as loan and advances, non-performing loans, interest income from loans and advances, loan loss provision, net profit of the finance companies?
- How the finance companies are providing loans and the loans provided in the different sectors are in accordance to NRB guidelines or not?
- Does the lending efficiency of the finance companies contribute in its total profitability?

1.4 Objectives of the Study

This study aims at analyzing the various aspects of lending in various sectors of economy, the performance of finance companies regarding lending quality and quantity. It is expected that the study will provide some relevant findings, which may help the interested persons.

The main objectives of the study are as follows: -

- To measure the finance companies' lending strength. The lending strength shall be measured in absolute terms also to analyze the volume of contribution made by each finance company under study.
- To analyze the portfolio behavior of lending and measuring the ratio and volume of Loans and Advances made in hire purchase, housing loan, term loan and lease financing.
- To measure the relationship between loan and advances and net profit, total investment and total deposit.
- To measure the Growth rate and Propensity of Growth on trend analysis.
- To determine the lending efficiency of the finance companies contributing in its total profitability.

1.5 Significance of the Study

Research made especially on Lending Practices of finance companies could not be found. This study too is made under the guidelines of the previous researches made on commercial banks, which too are very few in numbers. Finance companies are emerging as vital part of our economy and moreover, lending is one of the most essential and main function of finance company. Thus, this study on five finance companies is going to play a significant role for all other researchers who wish to study on finance companies. More than that, this can provide adequate information about studied five finance companies and overall trend of finance companies to the shareholders, investors, professionals and also to the students and teachers of commerce.

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

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

1.6 Limitation of the Study

There were numerable limitations for the study. Some very prominent limitations of the study are listed as follows: -

- The study is based on secondary data collected from the annual reports published by the respective finance companies.
- The study is based on last five years data beginning form fiscal year 2002/03 to 2006/07 A.D.

- The study is conducted among five finance companies out of 78 finance companies and it represents the lending practices of whole finance companies of the country.
- Since the study is taking into consideration of five consecutive fiscals years from 2002/03 to 2006/07 only, perhaps the performance of the other years are ignored, these might not give the accurate picture and the trend analysis may not be exact too.
- The study is conducted amongst five finance companies out of fifty-nine in total. Hence, it might not reflect the real status of all the finance companies neither it can represent the lending practices of whole finance companies of the country.
- The study assures that the related published documentation and other related journals and articles are realistic.
- Non-availability of various reference and resources act as limitation of the study. The data used are all secondary. The annual reports published by the respective companies are the major data used for the analysis in the study. Besides those, reports published by NRB, articles, journals and news published are used as the source of data. Thus, any presentations missed, mistakes and omissions affect the outcome of the study.
- Statistical tools are used for analysis and hence the drawbacks and weakness of those tools may affect the end result of the study.

1.7 Organization of the Study

The study has been divided into the following five chapters: -

Chapter One: Introduction

It includes general background of the study, historical perspective of banking industry, overview of sample banks, statements of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter Two: Review of literature

Review of Literature contains the review of related books, journals, and past research works.

Chapter Three: Research Methodology

This chapter expresses the way and the technique of the studying applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and methods of analysis.

Chapter Four: Presentation and Analysis of Data

This chapter contains collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools.

Chapter Five: Summary, Conclusions and Recommendations

The fifth and final chapter is summary of whole study, conclusions and recommendations are made

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CHAPTER II

REVIEW OF LITERATURE

Review of literature comprises upon the existing literature and research related to the present study with a view to find out what had already been studied. According to Wolf & Pant "The purpose of the reviewing the literature is to develop some expertise in One's area, to see what new contribution can be made and to review some idea for Developing research design". (Pant and Wolf; 1996:31-44). This portion has been divided into two parts: -

a. Conceptual Framework
b. Review of Related Studies

2.1 Conceptual Framework

The modern financial evaluation has greatly affected the role and importance of financial performance. Nowadays, finance is best characterized as ever changing with new ideas and techniques. Only efficient manager of the company can achieve the set up goals. If a finance company does not maintain proper lending policy, it makes the finance company more risky. If a finance company has inadequate lending policy, it must use proper lending policy in accordance to NRB directives.

Nepal Rastra Bank has been acting as the father figure of the finance companies. NRB is the central supervisory authority that has every control over the running finance companies. All the transactions finance companies make are directed by the NRB. All the activities that finance companies are authorized to do or restricted to do are listed out by the NRB. It is like the boundary of activities of finance companies is set by the NRB. There are NRB directives as followings, for finance companies to confine them through their activities.

- Capital Structure
- Classification of Loans and provision for loan loss

- Per customer loan limits
- Collection of deposits
- About lending
- Consortium Financing
- Minimum liquidity requirement
- Interest rates etc.
- Financial resource in the form of deposits, loans etc.
- Credit information and Blacklisting
- Statistical Documentation
- Formation of Branches and offices
- About Shares
- Guidelines to be followed
- Risk minimizing in various part of business

2.1.1 Principles of Good Lending

Needless to say, lending is the major income generating activity of any finance company and it is also one of the main functionalities of the finance company. Even though, finance companies cannot just go on giving loan to just anyone and any institution. Income generating it is but if loans are not distributed properly and cautiously then it may be the main cause of the failure of the company. In case loans were advanced carelessly and the borrower fails to pay out their debts, company can be history. Flow of money is lifeblood of finance company and these like of bad loans interrupt the flow. Thus, it should be well analyzed beforehand to give out any loans. Below given are the factors whereupon any prospect loan should be analyzed.

(i) **Safety: -** The finance company should ensure that the money lent by them goes to the ideal type of borrower and is utilized in a proper way in pre-mentioned purpose so that it will not only be safe at the time of lending but will remain so through out the transactions. Moreover, after serving a useful purpose in the trade of industry where sum of lent money is utilized is finally repaid back with interest.

(ii) **Liquidity:** - Besides 'safety' factor, it is also necessary that the money lent out must be repaid in accordance with agreed terms of repayment. In order to achieve this, the borrower must have reliable sources of sufficient income.

(iii) **Purpose: -** The purpose of lending should be productive so that money not only remains safe but also provides a definite source of repayment.

(iv) **Profitability: -** Financial institution should generate sufficient income to cover the expenses. Such expenses are interest expenses on deposits, staff expenses, office operating expenses, provision for depreciation on their fixed assets, provision of bad or doubtful debts; to pay bonus for staffs, income tax to government and of course dividend to its shareholders and plough back returns to expand its business volume. Considering these costs, financial institute should decide upon lending rates.

(v) **Security:** - The primary objective of finance company is not to lend against security. It should lend on the basis of character, capacity of the borrower. However, security is considered as assurance of a cushion to fall back upon in case of failure to repay the loan and interest dues by the borrower due to various reasons.

(vi) **Spread:** - There is a popular saying that "Do not keep all the eggs in the same basket. If invested in a certain project and the projects fails whole business is ruined. "Diversification of lending is another important principle of good lending. An element of risk is always present in every loan advanced however secure it might appear to be. In face, the entire lending business is one of the taking calculated risks and a successful financer is in expert in assessing such risk. Thus the company should diversify its lending program in various sectors of economy, business and industry and geographical areas.

(vii) **National Interest, suitability:** - Even if loan advanced satisfies all the aforementioned principles, still it might not be appropriate. The lending program may run contradict with national interests. Central bank has issued directives prohibiting finance companies to allow particular types of loan and advances.

2.1.2 Credit Granting Policy

Credit Analysis

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

Credit information for consumer lending

- **(i)** **Payment record: -** Past payment behavior of the client (loan taker) is regarded as the most important factor judging credit quality. Regular payments of installments of previously taken loan, telephone bills; electricity bills are some of the examples of regular payment records.
- **(ii)** **Income: -** Income consists of wages/salary, rental and business income if self employed. These incomes are verified with employer/industry average – comparing with wage and salary of other employer's of similar nature. In the case of business income, nature of business, sales turnover, profit margin etc are verified.
- **(iii)** **Residence:** - An address checking is a routine part of the verification. The size and types of residence are also indications of the applicant's housing expenses, social responsibilities and wealth. Plus point is if the customer is a permanent local resident, it is likely that he/she would pay his/her dues in time and there is less probabilities of him/her having any intentions of fraud.
- **(iv)** **Martial Status:** - Information about single, married, widowed, divorced or separated martial status of the applicants is sometimes sought and considered important while accessing consumer credit. Martial relationship may affect income and obligations as well as person's happiness. Loan default and collection problems repeatedly arise from martial adjustments. Besides it is important that while granting loans, the spouse is taken as a personal guarantee.
- **(v)** **Age:** - Age of the applicant may be another factor in accessing credit risk. Too young and old applicants may be regarded as high credit risk. Too young applicant are usually not financially established and often considered transient and uncommitted. Older persons are recipients of limited income and prone to illness.

Thus, people who are aged within the working period of life should be more preferred to others.

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

(vii) **Reverses, assets and collateral:** -Assets and income that may be liquidated provide a backup means of payment when the income stream cease. Securities and real estate without heavy debt payment are good reserve assets.

2.1.3 Commercial Credit Information

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

a) **Financial Statement**
   (i) Usually balance sheet, income statement and cash flow statement certified by management and auditors.
   (ii) Shows the position, trend and flow of applicant's business.

b) **Customers and creditors listing**
   (i) Provide means and authorization to make inquiries with those doing business with the applicants.

c) **Credit Bureaus**

d) **Credit applications/ interview etc.**

2.1.4 Analysis of Credit Risk

Five 'C's of Credit

(i) **Character:** - The quality of willingness to repay debts duly is ranked above all other considerations. The good character and intentions of the borrower is very important and thus should be seriously considered. Information about the character of the client can be gathered from his working place, references, neighbors and other places he is associated with. This job is tedious but should be carried out for safe investment.

(ii) **Capacity: -** Repaying back as per the schedule made. The gross income, expenses and net income of the client/borrower should be analyzed whether the borrower lives on salary /wages or any other forms of income source. Whether the borrower has some extra income sources other than salary/wages that can be used to repay the scheduled installments should be considered. It should be analyzed beforehand whether the borrower has enough income to pay the scheduled installments.

(iii) **Capital:** - Capital provides a cushion to absorb operating and asset losses that might otherwise harm debt repayment. This is in fact, is the assurance against the loans granted to the borrowers.

(iv) **Collateral:** - Adequacy of collateral is a must to ensure the recovery of loan. In case of default, by any cause, the collateral kept should have value enough to recover the loan granted and interest borne by it. It is recommended that only 50% of the value of collateral to be granted as loan. But considering other factors like character of borrower and his credit worthiness, this percentage can be made flexible.

(v) **Conditions:** - Borrowers may be under unfavorable economic conditions beyond their control. Repayment depends not only upon character, capacity and collateral but also on those factors over which the borrower exercises little of has not control as for example natural calamities or drastic economic crises.

2.1.5 Basic requirements in a borrower

There are some basic requirements that should be fulfilled by the client to justify him/herself as a probable borrower. Finance companies cannot lend money to justify anyone blindly. It should be confident regarding the trustworthiness and intentions of the probable borrower beforehand. The borrower, on the other hand, should provide finance company with all pertaining documents that the company seeks to build confidence on borrower. The basic requirements of borrowers are as follows: -

If the applicant is an individual

a) Applicant should be a Nepali citizen.

b) Should have good knowledge about the work they intend to commence.
c) Normally the applicant should not have taken loan from any other similar kind of institutions.
d) Applicant should present the job-planning scheme.
e) Personal Information.
f) Business registration and income tax.
g) Quotation and personal guarantee.
h) Driver's License
i) Others.

If the application is partnership firm

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

If the applicant is private limited company or public limited company

a) Company should be registered.
b) Working place, project place should be specified and all the assets should be in the name of the company.
c) Audited Balance Sheet, Profit and loss Accounts and other required financial documents, at least of one year, should be presented.
d) If the work place and/or project place is leased, the lease contract should be presented.
e) The authorized person should apply for the loan.
f) Loan amount applied must be within the limit of memorandum of the company or must be decided by the board.
g) Decisions of the promoters.
h) Personal Information of the main person.
i) Written personal guarantee of proprietors.

j) Citizenship of promoters and proprietors

k) And other required and possible items from points 1 and 2.

2.1.6 Guidelines of Assessing Risk

Risk is dependent upon the quality found in each 'C' and the combination of these five 'C's. Assuming the same conditions prevail, the following guidelines are generally suggested.

Table 2.1

Guidelines of Assessing Risk

Application Characteristics	**Credit Risk**
Character + Capacity	Very Low
Character + Capacity without capital	Low to Moderate
Capacity + Capital but insufficient capital	Low to Moderate
Capacity + Capital but impaired character	Moderate
Capacity + Capital without character	High
Character + Capital without capacity	High
Character + no Capital + no Capacity	Very High
Capital + no Character + no Capacity	Very High
Capacity + no Character + no Capital	Fraudulent

2.1.7 Recovery of Loans and Advances

Mobilization of funds collected from deposits is very important. Failure in doing so will be a total loss to the company. Giving out Loans and Advances is one of the major and very crucial functions, where the collected funds as deposits are invested. Being more realistic, the position and status of finance companies are comprehended via Loans and Advances it has mobilized. But a thoughtful consideration highlights that only giving out Loans and Advances to the greatest extend is not the important thing. The more crucial part is the recovery of such invested funds.

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

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

In case the borrowers, defying the company's schedule, do not paying the due installment, the company can use the least weapon of recovering its investment via liquidation of the security against which, the loan was mobilized. Thus, company should collect quality security while giving out Loans and Advances to be in the safe side. "Loans to be supplied only against security. The company must not supply loans without taking any collateral or other necessary securities and guarantees acceptable to it." (Finance Company Act; 1985:54)

2.1.8 Review of Relevant NRB Directives

Funds used by finance companies for the purpose of advancing of loans are that of public. Finance companies collect deposits from public and it is very same fund the finance companies use to make profit and give bank to the public. Thus, to prevent this public fund being mis-utilized and to protect the savings of public, NRB has given directives to the finance companies regarding investment of public fund along with the directives to perform all other jobs of finance companies. Since loan and advances and leased assets is the first and the main sector of investment, to minimize the risk here, NRB has specifically given guidelines relevant to loan and advances and leased assets in NRB directives for finance companies 2061 No. 2,3 and 15.

NRB Directives No. 2

Under this directive, using the authority of Nepal Rastra Bank Act 2058 section 79, NRB has given criteria for classification of loan and advances with accordance to calculation of loan loss provision. The main objective of doing this, as specified by NRB, is to minimize the risk of bankruptcy of finance companies ultimately leading to endowment of public fund due to incautious investment in bad loan and advances.

There are 12 guidelines provided by the NRB in NRB directives for finance companies 2061 No. 2. These guidelines are regarding, classification of loan and advances, additional arrangement in respect of ‘Pass’ loan, additional arrangement in respect of ‘Loss’ loan, additional arrangement in respect of term loan, prohibition to recover principal and interest by exceeding the overdraft limit, letter of credit and guarantee, loan rescheduling and restructuring, loan loss provision, adjustment in provisioning, loan loss provisioning relating to non-banking assets, submission of return relating to classification of loan and advances and actions to be taken in cases of non-compliance.

As guidelines provided by the directives of NRB, licensed institution shall, as of end of Asoj, Poush, Chaitra and Ashad, preparation of statement of outstanding loan and advances classified on the basis of aging and submit the particulars as per the enclosed forms to Supervision Department of NRB within one month from the end of each quarter.

Categorization of loan and advances

- **Pass:** - All the loans and advances the principal of which are not past due or past due for a period of 3 (three) months shall be included in this category.
- **Substandard**: - All loans and advances, the principal of which are past due for a period of more than 3 (three) months up to 6 months shall be included in this category.

- **Doubtful:** - All loans and advances, the principal of which are past due more than 6 months and up to 1 (one) year shall be included I this category.
- **Loss:** - All loans and advances, the principal of which are past due for a period of one year shall be included in this category.

In the directives given by NRB, loan and advances are initially categorized as performing loan and non-performing loan. Pass loan and advances are defined as performing loan where as Sub-standard, doubtful and loss loan fall under the categorization of non-performing loan.

All loan and advances extended against gold and silver, fixed deposit receipts, credit card and against security of HMG securities and NRB bonds shall be included in "Pass" Category.

Loan cases like loan granted to the project which is not presently working or misutilization of loan (not been used for the purpose originally intended) or blacklisted or whose borrower has run away or absconding and declared bankrupt or whose securities are inadequate are also treated as bad loan and classified as non-performing loan even if they are within the due dates. Purchased and discounted bills, credit and guarantee not realized within 90 days form the due date are also categorized as loss loan. Bills have only two classifications either Pass or Loss.

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

a) Any loan and advances that are granted under the criteria of repayment in installments are categorized as accordance to the due of repayment installments and treated as discussed above. But if any installments is due for more than a year, then the whole amount of loan is categorized as Loss loan and 100% loan loss provision is to be made.

b) Regarding long term project financing; only the principal dues are categorized but if 25% or more of the total loan amount of these long term project are due the whole balance amount so categorized under loan categorization and loan loss provision is made.

c) Inter finance company financing can be done for the time span of 3 weeks. If these loans are not realized within 3 weeks then the loan amount is categorized under loan categorization and loan loss provision is made accordingly.

Licensed institutions may reschedule or restructure loans only upon submission of a written 'Plan of Action' by the borrower which is resurrecting on the following grounds,

- Evidence of existence of adequate loan documentation and securities.
- Licensed institutions are assured on possibility of recovery of restructured or rescheduled loan. Restructuring means process of changing the nature or conditions of loan/facility, adding or deleting of conditions and change in time limit. Rescheduling loan means extending repayment period/time of credit taken by the borrower.
- In addition of the written 'Plan of Action' for rescheduling or restructuring of loan as per clause (1) above, at least 25% of accrued interest outstanding on date of rescheduling or restructuring should have been collected. Renewal of loan by collecting all interest can be classified as Pass loan. Loan loss provisioning is 12.5% for restructured or rescheduled loans.

Loan Loss Provision

The loan loss provisioning on the outstanding loan and advances and bills purchases shall be provided on the basis of classification made as per this directive as follows,

Classification of Loan	Loan Loss Provision
Pass	1 Percent
Substandard	25 Percent
Doubtful	50 Percent
Loss	100 Percent

Adjustment of loan loss provision is prohibited except under the following cases,

- The loan has been completely written off.
- In the event of repayment of installment or partial payments of loan, the loan loss provision has to be provided as per loan classification and write back the provisions related to amount of repaid loans.
- Where the installment of principal and interest of restructured or rescheduled loan is serviced regularly for two consecutive years, the loan loss provisioning may be adjusted. However the amount, adjusted by writing back loan loss provision cannot be used for distribution of dividend or issue bonus shares by showing in the profit.

Loan loss provision related to all non-banking assets acquired by licensed institutions should be 33.33% in first year of acquisition, 66.67% in second year and 100% in the third year respectively.

Actions will be taken in cases on non-compliances of the directives given by NRB under Section 100 of NRB Act, 2058.

NRB Directives 3

Single Borrower Obligator Limit

This directive was imposed by NRB to minimize the risk that can arise due to concentration of loans and advances to one customer.

a) Fixation of limit on credit and facilities

(i) For “A”, “B” and “C” class licensed institution

Licensed institutions may extend to a single borrower or group related borrowers the amount of Fund based loan and advances upto 25% of the Core Capital Fund and Non-based off balance sheet facilities like L/C , Guarantees, acceptances, commitments upto 50% of its core capital fund.

(ii) For “D” class licensed institution

Credit to be deprived and low income people may be extended a maximum of upto Rs. 40,000 per group member/individual for operation of micro business and not more than one hundred thousand per each micro enterprise to be provided on a gradual basis to the group member for operation of micro enterprise against acceptable collateral. However the institution shall extend such micro enterprise credit upto 25% of the total loan and advances.

b) Limit Adjustment

Where a customer has once utilized the off balance sheet facilities and such facility has turned into fund based credit, directive relating to fund based credit limit shall be applied for fixation of limit to such customers.

c) Exemption in limit of credit and facilities

The exposure limits per clause 1 above shall not be applicable in respect of the following: -

(i) Credits and facilities extended against own fixed deposit receipts, HMG securities, NRB Bonds as well as against unconditional guarantees issued by World Bank, Asian Development Bank and other International Finance Corporation including multilateral institutions and international rated banks.

(ii) Loan and advances and facilities provided by "A" class licensed institutions to Nepal Oil Corporation and Nepal Food Corporation for the purpose of import of specified merchandise as LP gas, Petrol, Diesel, Kerosene and food items respectively.

d) Related parties are to be considered as a group.

e) Submission of return on related customers.

f) Treatment as separate group.

For the purpose of drawing limits in granting loans and advances, lease financing and giving other services, customers with personal relations are categorized in to a single group under the following conditions: -

(i) In case one company has acquired 25% or more shares of another company then those both companies are considered as a single group.

(ii) In case a director of a company is a shareholder of another company or his/her relative; spouse, son, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, parents, step mother and younger dependent siblings residing under the same roof or the companies who's 25% or more share are owned by above mentioned relatives individually or jointly.

(iii) In case the firms, companies are legally connected in a group or members of such groups;

(iv) If relatives mentioned in point (b) do not, individually or jointly own 25% or more shares of a company but hold the following positions: -

a) Chairperson of BOD

b) Managing Director of the company

(v) In case one customer or company has given cross guarantee to another customer or company.

g) Provision of cent percent to minimize concentrated risk.

In case the company has mobilized funds in loans and advances more than authorized, company has to make provisions of exceeding amount by 100%.

h) Provision relating to sectored credit.

Under the directive no. 3, using the authority of Nepal Rastra Bank act NRB has given criteria for classifying loan and advances under different sectors and sub-sectors and also determined the amount of loan finance companies are authorized to disburse under the given sectors and sub-sectors. The main objective of doing this, as specified by NRB, is to minimize the risk and to make sure the distribution of loan and advances into various sectors of economy.

NRB Directive No. 3 has defined sectors and sub sectors for finance companies under which they can disburse loan. The sectors and sub-sectors under which finance companies are allowed to give out loan on as follows: -

1. Hire Purchase Loan

   1.1 Vehicles

   1.2 Machinery, equipment and plants

   1.3 Consumer durable goods and other movable goods

2. Housing Loan

   2.1 Purchase of land and purchase/construction of building, go-down for and individual.

   2.2 Purchase of land and purchase/construction of building, go-down for an organization.

3. Lease Financing

   3.1 Vehicles

   3.2 Plant, machinery and equipment

   3.3 Consumer durable goods and other movable assets.

4. Term Loan – Medium and Long Term only

   4.1 Agriculture and agro-based business

   4.2 Industry

   4.3 Business

   4.4 Education

   4.5 Health

   4.6 Tourism

   4.7 Hydro-power

   4.8 Others

5. Fund Based Merchant Banking Activities

   5.1 Venture Capital

   5.2 Bridge Financing

   5.3 Other merchant banking transaction

6. Non-Fund Merchant Banking Activities

6.1 Corporate counseling

6.2 Project counseling

6.3 Issue management

6.4 Share underwriting

6.5 Portfolio management

Notes: -

a) Finance companies are allowed to flow 75 percent of total loan portfolio in term loan, 60 percent in lease financing and 40 percent each in hire purchase, housing and fund based merchant banking activities. However, the exposure in any sub-sector under the main sector of term shall not exceed 40 percent of total loan.

b) Prior approval from non-banking operations department has to be obtained to conduct fund-based merchant banking activities.

c) Company shall issue financial guarantee of medium and long term nature only.

An additional provision has to be made at the end of Poush and Ashad every fiscal year if the limit on sector or sub-sector wise loan amount is violated. Provision should be made of 25 percent of the exceeded loan amount.

NRB Directive 15

NRB has stated this directive no 9 regarding the interest rates of finance companies, with the objective of creating a healthy competition between interests paid on deposits and interest gained form loans.

a) Fixation of Interest rates: - "A", "B" and "C" class institutions are free to fix interest rates for both deposits and lending including the fixation of types of interest and procedures.

b) Prohibition for fixing flat rate of interest: - Licensed institutions other than "D" class cannot fix flat interest rates on loans and advances.

c) Interest rates to be approved: - Licensed institutions shall implement the interest rates for deposits and lending, procedure for calculation of interest, penal interest, commission and service charges only after approval. The institutions cannot vary (upward or downward) interest rate for deposits in excess of 0.5 percent over the published.

d) **Submission of return on interest rates:** - The licensed institutions shall compulsorily submit particulars of interest rates of deposits and lending to Banks and Financial Institutions Regulation Department Nepal Rastra Bank within 7 days of each quarter ending. Further, the licensed institutions shall submit the whole arrangements and procedures relating to interest rates as per the clause 3 above at the time of initial implementation and changes made there within 7 days.

e) **Interest rates to be published:** - The national level “A”, “B”, and “C” class financial institutions shall publish the particulars as per clause 4 above at times of each amendment made in the interest rates on deposits and lending on National Daily Newspapers. Regional/District Level institutions shall publish the particulars in the Regional/ District level Newspapers. “D” class institutions may publish the interest rates putting the information on its notice board.

f) **Recognition of Interest Income:** - The interest accruals on loan and advances shall be recognized as income on cash basis. Interest accrued shall be recognized in the year of cash realization.

g) **Action for non-compliance:** - If the licensed institutions found not complying with the directives relating to branches/offices action may be initiated under the Nepal Rastra Bank Act, 2058.

2.2 Review of Related Studies

Reviews of different relevant sections are made in this chapter. For this study of previous thesis reports made on related subject matter, related books and published articles were made. Some of the relevant studies and other literature relating to the topic have been reviewed below: -

2.2.1 Review of Books

According to Bruce Greenworld and Stiglitz Joseph, the performance of no such sector is as contingent upon the future performance of other enterprises as is that of the financial sector. This contingency is so high that it has always been difficult to the banking industry to pursue the objective of profit maximization as zealously as another industry could afford to. It is this difference, which explains precisely why lenders cannot simply lend to those who are willing to offer the highest price (interest rate).

Manohar Krishna Shrestha (1995) made an appropriate attempt to capture working style and operational performance of the finance companies in Nepal till Poush, 2052, in this book titled “Finance Companies in Nepal”. According to the writer “Finance Companies in Nepal are generally the outcome of Government’s economic liberalization policy. In a situation when commercial banks are unable to meet the credit requirements. FC’s have been successful in meeting timely credit need. The researcher further describes the position of few FC’s and their working style. For example, NIDCM has an aggressive investment strategy with all risky assets in their investment portfolio whereas NFCL and Annapurna Finance Company have been very conservative in investment and their lending strategy. The financial performance of FC’s has varied from one company to another significantly in terms of their profitability, dividend payment and market price. Most of FC’s floating shares are in profit while few are facing loss for making profit. FC’s have generated income from fee based activities rather than always depending upon fund based activities. FC’s should also be able to demark the differentiation of them being different from commercial banks. For FC’s there are many merchant banking activities available such as project planning corporate counseling, loan syndication through underwriting, bridge financing issue management etc which are through risky but are profitable.

He has distinguished a finance company from commercial bank in the book as follows: -

a) Finance company is able to provide higher interest rate to attract deposit than commercial bank.
b) Finance company can extend financial services and provide loans in areas where commercial banks have not reached.
c) Finance companies provide long term and intermediate loans while commercial banks deal mostly with short term loans.

d) Finance companies can work jointly to provide bridge loan in a situation where reliable and potential clients need a credit which is beyond the capacity of single finance company.

e) Finance company deals with individuals directly or through capital market to fulfill their individual credit needs and investment portfolio plants. While commercial banks because of their bigger sizes in terms of resources deal more with institutional credit needs like developing business and industry.

Conclusion part of the book is drawn below

a) The analysis of lending and investment activities of the companies shoed that only very few of them like NIDC Capital market and Nepal Share Market had aggressive investment strategy compared to most conservative investment strategy. Major part of their lending was in consumer durable through hire purchase and then to housing loan. But later on there has been gradual shift in lending policy towards term loan and consisted of business and industrial loan.

b) One favoring the favorable impact of finance companies, a time when commercial banks were providing inefficient and other one considering the negative impact of finance companies bringing no significant contribution to national economy in a situation when they were encouraging imports to gain on scarce foreign exchange.

c) The interest rates on various time deposits proved to be attractive compared to commercial banks. They also had provided various alternatives to depositors in enabling them to deposit according to their needs and preference.

d) Dividend pay out ratio of different companies was different. Some were showing progressing dividend pay out policy while others were not adopting any specific policy in this regards.

e) Market prices of shares of different companies were fluctuating highly. Example: the price of Nepal Share Market Company Limited that reached to peak level of Rs. 1600 which dropped to about Rs. 200 to 250, when the book was published (2052).

f) Loan loss provision as required to be maintained by most of the finance companies was not found to be adequate.

In the end, he has presented some valuable suggestions for better performance and long term survived of FC's;

- There should be clear-cut policies regarding what field of activities to be performed by FC's.
- There should be shift of credit from current activities to the productive industrial sectors thereby having meaningful relationship of FC's with national development. Since NRB is the main regulatory body, it should income forward with strategies in directing them properly."

"On the one hand, the savers and wealth-holders with an excess of purchasing power now that they wish to trade for purchasing power in the future. On the other hand, the businesses and households needing purchasing power now to finance investments. Both groups stand to gain from trade.

The gain to borrowers is obvious. Borrowing allows you to open your bike shop and to set up a factory to produce the EZ-Shift. If these investments are sufficiently productive, you will be happy to pay interest on the loans to pay back in the future more purchasing power than you received.

Lenders too gain from trade. The interest you pay gives lenders a better return than they could achieve otherwise. What are their alternatives? They could hold cash, but this earns no interest at all. They could make productive investments themselves. But finding productive investments is difficult. Some people are much better at it than others. Typical savers do better by lending their money to those with a highly productive use for it than by making investments themselves." (Kohn; 1996: 29)

Hrishikes Bhattacharya (1998)"Banking Strategy, Credit Appraisal and Lending Decisions" has put the recommendation of Tandon Committee from the report submitted to this committee.The committee has prepared this report in 1975; however these recommendation stills deserve great significance in the sector of credit appraisal and Lending. Breaking away from the traditional methods of credit appraisal, the system proposed by the Committee enjoins upon the banker.

a) To assess the need based credit of the borrower on a rational basis;
b) To ensure proper end-use of bank credit by keeping a closer watch on the borrower's business and thus to ensure safety of the banks funds;
c) To improve the financial discipline of the borrower, and;
d) To develop healthy banker-borrower relationship.

The committee examined the existing system if lending and recommended the following broad changes in the Lending system;

a) The credit needs of borrowers are assessed on the basis of their business plans.
b) Bank credit only is supplementary to the borrowers' resources and not in replacement of them, i.e. banks not to finance one hundred per cent of borrowers' requirements.
c) Borrowers are required to hold inventory and receivables according to norms prescribed by the Reserve bank of India from time to time.
d) Credit is made available in different components only, depending upon the nature of holding of various current assets.
e) In order to facilitate a close watch on the operations of borrowers, they are required to summit, at regular intervals, data regarding their business and financial operations, both for the past and future period.

The committee held that at any time a business is required to hold the following current assets for operations of the business;

a) Raw material including stores and other items uses in the manufacturing process.
b) Stocks-in process.
c) Finished goods.
d) Receivables.
e) Spares.

“Lending is the essence of commercial banking; consequently the formulation and implementation of sound Lending policies are among the most important responsibilities of bank directors and management. Well conceived Lending policies and careful Lending practices are essential if a bank is to perform its credit creating function effectively and minimizing the risk inherent in any extension of credit.” (Cross; 1963:56)

“Lending is a form of trade. It means giving up purchasing power now in exchange for purchasing power in the future.” (Kohn; 1996:32)

2.2.2 Review of Various Articles

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

a) Despite the existence of numbers financial institution, local lending and borrowing transaction has covered about 80% of total credit demand of Nepal.
b) In past costumers used to approach to financial institution. But now a day here came a condition that the institutions need to go to the clients for providing financial services. Thus finance companies need to modify their working style as demanded by time and should concentrate in quick and practical services.
c) Taking the example of financial crises in some of the countries in Southeast Asia. Nepal should also learn the lesson from the countries in the context of increasing numbers of finance companies in the country.
d) There should be debt recovery act on Nepal.
e) Finance companies are seen not getting able to collect long-term deposit satisfactory. So they need to try to increase public confidence towards them. (Shrestha; Banking Prawardhan: Vol.8)

In an interview with Sudhir Babu Kharti (CEO OF Development Credit Bank Ltd.) in which he says that at present, a new regulation enforced by Nepal Rastra Bank (NRB) has drawn attention most of the financial institutions have shown a negative growth in their profits this year and this particular regulation forbids the bank an financial companies enjoying the benefit of grace period on interest rates. This means banks and financial companies will have to work on cash basis and not on accrual basis. Most of the banks and finance companies have been investing on unproductive sectors such as consumer financing, the financial sector has not been able make significant contribution to national economy. (The Kathmandu Post; 2005:7)

A profile of Nepal finance companies and Saving Co. (NEFINSCO) pioneer private finance company in Nepal which articulates that in 1992 A.D. the concept of Finance Company was new and exciting, for it had potential to open up new opportunities. Opened to improve the living standard of ordinary people or targeted at middle class people. It explains that it took almost five years to make convinced that finance companies were similar to banks, and they too were established with the approval from NRB. As situation turned favorable, other finance companies came into the market the following years, and that further brought new changes. The first ever business that NEFINSCO started was hire purchase loans. The scheme became so popular that within five years most of the finance companies have started to invest huge amount in hire purchase. Time for expanding business into new areas came as soon as releasing in industrial loans, share loans, housing loans, trade loans etc. Thanks to the NEFINSCO and other finance companies, huge urban mass of the country became “credit ready” and thus laid the foundation stone of retail financing boom in the country. Over the years, the number of finance companies has grown in a phenomenal way to reach 78. Many say that it is the saturation point where others believe it is just the beginning. (The Kathmandu Post; 2005:7)

It is the high time to have stressed on the need to adopt a cautious lending approach by financial institutions to prevent avoidable risks, particularly in view of the changing financial market across the globe says T. Kartikeyan, former consultant of Standard Chartered Bank Ltd., India. He said that staffers should know the process of credit analysis, which will help them to be on safe grounds while lending. How to lend and how to perceive risks, need to be identified and evaluated for sound credit management, said Kartikeyan. He further adds, ‘The financial institutions’ future depends on how employees carry out work on credit management system, a critical factor for any financial institutions' endurance," In the same article mentioned about five P's for sound credit management system described by CEO Bruce F Henderson of RBB, which are purpose, payment, people, protection and perspective. Henderson said that while lending the purpose of loans should be understood clearly, after that, how are we going to get paid needs to be 'studied and evaluated' which seems to be a big challenge. He further stressed on developing a professional approach to credit. Then he further adds, "crucial is the kind of people we are dealing with while lending, as cash flow is an important factor to get our loans paid on time, it needs to be monitored before lending and finally what is the perspective of our loans need to be understood by us." (The Himalayan Times; 2005:7)

D.P. Poudel, Economic Advisor Research Department NRB, wrote an article in 2054 on the topic "Finance companies in Nepal and overview "He mainly focused on the performance of finance companies. According to him, "In the year 1966, the ratio of capital funds to deposits has been increasing over the time but on top of this, it is substantially below than the authorized level of deposit mobilization, which is 10 times of capital base. Nevertheless, some of the finance companies have ever mobilized the deposits by more than ten times of their capital base by violating the regulatory norms issued by the NRB. The credit/deposit ratio has remained quite high leaving room for doubt about the quality of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase, housing and term loans are the major sectors, which all together received more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline. Since the very tin Aging factor, it is too early to evaluate the performance of the finance companies in Nepal but equally important factor is that the regulatory and authority should keep close eyes to monitor their activities.

"Regulating depository Institution in Nepal" the article written by Ghimire has attempted to suggest a board of framework for regulating depository institution. In this article four important regulations are discussed. They are licensing requirement, minimal capital requirement, investment restriction and, capital adequacy requirement.

Another research oriented article, titled “Development Required in Policy and Legal Aspects of Finance Companies” was found to be published in Banking Prawardhan Vol. 9 Volaram Shrestha and Lok Bahadur Khadka (2005), the writer of the article, have tried to 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: -

- Under the existing regulation, a new finance company could issue common share to public within 3 years of its establishment. A company in loss should go to public as soon as it starts getting profit. But it is seen that some companies are not seen to issue public shares even after completing 4 or 5 years of operation. So, NRB should make such companies issue public share by circulating regulations like not allowing a company to provide dividends to its promoters if it fails to issue public share within a specific period of time.
- Promoters should not be allowed to sale their share unless the company issue public share. Moreover, there should be standards of eligibility of the buyers to purchase, thus sold shares, as there is a great role of promoter in planning and monitoring of a company.
- There is a requirement of credit information system among all the financial institutions. Finance companies association of Nepal should play its role in these regards.
- Under current regulations, a finance company cannot grant loan to a single section more than 60% of the total loans and advances. And if it exceeds the limit, additional 25% of the final exceeding the limit should be maintained as loan loss provision. This provision should be increased, as 25% is not enough to control a company to exceed the limit.
- As there is not any credit rating agency in Nepal, depositors or investors are facing problem of choosing appropriate finance company to deposit or invest their savings, so NRB should develop a system of ranking finance companies on the basis of capital structure, profit/loss condition, issuance of public shares, quality

of management, amount of baddebts, service diversification, service quality etc. the companies in high rank should be slightly relaxed from restrictions regarding various aspects. (Banking Prawardhan, Vol.8)

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

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

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

a) Credit sanctioning and monitoring process.
b) Approach to collateral.
c) Credit risks arise from new business opportunities.
d) Credit exposures relatives to capital or total advances.
e) Concentration on correlated risk factors.

Apart from these, the bank management should regularly review all asset quality issues including portfolio composition, big borrower exposures and development in credit management policy and process. Improving risk management will not be easy or quick. However, Nepalese bankers have little choice. Hopefully, the banks adopt good risk management practices and will be able to reap both strategic and operational benefits." (Banking promotion; 2056:8)

"The profit shown by companies and certified by auditors largely depends on the amount of loan loss provision provided as required by Nepal Rastra Bank directives. There is often disagreement between Company Management and Auditors over the loan categorization necessary fort the loan loss provision. Nepal Rastra Bank's Directive Section 7 gives detailed regulations on how loans should be classified as Good, Indicative to Feeble, Feeble, and Doubtful and Bad against which 1%, 5%, 25%, 50% and 100% loan loss provision should be provided respectively. It is worth mentioning that there is confusion over the meaning of installment. Does the installment mean installment of interest or installment of principal? The Directive is not clear about the definition of installment, causing confusion to both Auditors and Company Management, which normally entails application of the subjective judgment of Auditors and the Management of the Company for the classification of loans.

The definition of scheduled and non-scheduled loans and the amount of such loans in any finance company is immensely important for the "Risk Management" and overall Fund/Financial Strategy of the finance company. NRB Directive Section 8 merely addresses "Loan Policy, Procedures, and Period of Scheduled Loans. But the NRB directives fail to define the meaning of scheduled loan. What percentage of the total loan portfolio could be disbursed in the form of non-scheduled loan? These items should be explicitly defined. Otherwise finance companies may disburse whole/majority of loans as non scheduled loans to show short term profit at the cost of the long term sustainability of the companies. The disbursement of maximum non-scheduled loans calls for a liquidity crisis, which hazards the companies business and creditworthiness.

NRB directives do not contain any section relating to the closure of loan/credit facilities enjoyed by the loanee. In the absence of such a regulation the company management can close the loan at the year-end and disburse the loan after year-end in order to show the best financial position of the company. "Events after the Balance Sheet Date" prohibits an entity from creating artificial transactions to provide window dressing for the financial position of the company. However these standards are also not strongly followed for External Financial Reporting Purposes." (The Kathmandu Post; 2058:7)

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

2.2.3 Review of Unpublished Dissertations

Ranabhat (2002), conducted a study entitled, "An analysis of Financial Performance of Finance Companies in Context of Nepal" had made the major findings which are as below:-

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

b) The use of fund towards housing is gradually decreasing with different rates 28% 27.34%, 27% and 26.95% for the period of mid March 1996, July 1996, February 1997 and March 1997. The highest amount was used towards housing loans by National Finance Company with amount of Rs. 808.9 lakhs whereas the lowest amount is used by Nepal Finance and Saving Company with amount of Rs. 3 lakhs.

c) The use of funds towards the term loan is gradually increasing which can be shown in different period of figure. The term loan 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 used towards term loan was by National Finance Company with amount of Rs. 1345.4 lakhs while the lowest uses of fund were of HISEF.

d) The fund used by finance companies is gradually increasing towards 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.

e) There are special items for mobilization of funds on different areas under the headings "others". These figures are also increasing with increasing rate with figures 1.55%, 1.72%, 3.7%, and 4.45% on the different period of study as stated above.

f) There are increasing uses of funds towards government securities. Specific figures towards the securities for different four periods with four periods with amount of Rs. 8.014 lakhs, Rs. 975.5 lakhs, Rs. 1856.5 lakhs and Rs. 2144 lakhs for the respective periods. UNION has used the highest amount of their fund worth Rs. 382 lakhs whereas the lowest use of fund worth Rs. 7 lakhs by Samjhana Finance Company.

Gautam (2003) conducted a study entitled "Investment Analysis of the Finance Companies in Context of Nepal". The major findings of trend analysis of the study are as follows:-

a) From the aggregate data it is shown that the investment on government securities was increasing rapidly form the period 1995 to 1998. However, it has decreased in the year 1999 and it may be because of low return on government securities as of mid October 1999. Out of 40 companies, there are nine finance companies with zero investment on government securities. Out of remaining 31 companies 16 companies have up to 100 lakhs and other 15 companies have more than 100 lakhs invested on the securities. The highest investment is Rs. 3298 lakhs by Nepal Merchant Banking and Financing Limited and lowest is Rs. 6 lakhs of General Finance Company.

b) The capital range of the Finance companies mainly lies in the range of 100-500 lakhs. Out of 40 companies, 9 have less than 100 lakhs of capital. 30 have between 100-500 lakhs and only 1 has more than 500 lakhs. The maximum capital is Rs. 750 lakhs of SIDDH, NCEL, JCFK and CFCL. Out of these 40 companies around 12 companies have floated shares to public.

c) 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% respectively.

d) There are 38 companies having investment on hire purchase loan. The study clearly shows the use of funds towards the hire purchase loan is decreasing rapidly. The ratio of the loan and total loan and advances was 62% from 1994 to 1999 respectively. This shows that there was gradual increase in this sector.

e) All the companies have investment on housing loan. The use of fund towards housing loan is almost linear except for the year 1994; the ratios of housing and total loan are 14%, 26%, 27% and 28% for the period 1994 to 1999 respectively.

f) Except few companies, all other companies have investment on term loan. The use of funds towards the term loan is gradually increasing the ratios of term to total loan which are 24%, 20%, 39%, 46%, 40% and 43% for the years 1994-1999 respectively.

g) There are only 3 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.

h) The interest rate structure of loans and advances of almost all of the finance companies are the same. It is varying from 17% to 22% with an average interest rate of around 20%. Recently, the interest rate has been decreased and the current practices of interest rate vary mainly between 18% to 20%.

i) 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 of loan loss provision is 1.07, 1.18, 1.13, 1.45, 2.13, and 2.95 respectively for the period of 1994 to 1999. As the minimum of 1% loan loss provision is mandatory, the percentage of loan loss provision for the period of 1994 to 1999 was satisfactory.

j) The loan loss provision of some companies is more alarming on individual analysis. The maximum loan loss provision is 5.72%, 5.38% and 7.89% respectively for the year 1997, 1998 and 1999. On the other hand, the average loan loss provision for the same periods is 1.72%, 2.16% and 2.75% respectively.

k) The ratio of interest earning assets and interest paying liabilities is decreasing gradually from 151% in 1994 to 104.5% in 1999. However, it is very satisfactory as the interest spread rate is 6%, minimum of 30% of interest income will go to gross profit.

Wagle (2004) conducted research on “A study on finance company in Nepal” The major findings of the study are: -

a) Lending rates of finance companies are high.
b) Service provided by banks and finance companies are mostly concentrated in urban areas, neglecting the rural areas.
c) Major portion of the finance companies lending is in the areas of consumers durable through hire purchase and housing loans.

The research recommends decreasing interest on loans, to provide banking and financial services to the people of all geographical regions. It further suggests diverting its credit in productive sectors in order to remain viable and to support the national economy.

Pandey (2003) in the research of five companies concluded the following
The financial Performance of National Finance Co. Ltd is concluded to be satisfactory. The performance of the company can be questioned only in terms of interest receivables turnover and credit deposit ratio.

Lumbini Finance and Leasing Co. Ltd has been satisfactory operating its business with all year profit over the study period. However, the declining interest receivables turnover and increasing credit investment towards unproductive sectors through housing and hire purchase loan are unfavorable aspects. In addition, dividend payment practices followed by the company do not seem so satisfactory since large portion of ones earning has been declared as dividends over the years of the study periods.

Investment in the form of loans and advances made by Universal Finance and Capital Markets Ltd. in unproductive sectors through housing and hire purchase loan is comparatively very high than in productive sectors. The interest receivable turnover has been adversely affected due to inadequate collection effort and liberal grant of credit provided by the company, which may eventually lead to loss in terms of bad debts. The performance of the company on the ground of other employed parameters is satisfactory except profitability.

Nepal Housing and Merchant Finance Ltd. is following sound financial practices. However, the fluctuations in terms of dividend payments as well as declaration clearly exhibit unstable and inaccurate dividend policy of the company, which is not fair. Besides these, large sums of credit investments are made in secured but unproductive sector is not a good symbol, as it does not help to boost the national economy through it is beneficial to the company.

Himalayan Securities and Finance Ltd. could not utilize its current assets and deposits efficiently. Comparatively higher non-banking assets than in other institutions is not satisfactory although it has recorded improvement in terms of such assets disposal. Lower credit deposit ratio and growing interest expenses of the company over the study period indicate the financial inefficiency. In addition, increasing credit investment towards safe sector and decreasing profitability do not justify an appreciating performance of the company. However, declining interest suspense to interest income ratio is a favorable offsetting factor. Remaining employed financial indicators clearly reveal the appreciating performance of the company.

Manandhar (2004) in the study, "Loan Disbursement and Repayment of NIDC", gives much more emphasis on the loan repayment situation of NIDC. The main findings and recommendations are: -

a) To improve the unfavorable situation of repayment in agro based, hotel and tourism based industries, attempt should be made first in these industries since that are the major problem area of none and delayed repayment.
b) Detail studies have to be made about technical, commercial and economic feasibility of the industry prior to finance.
c) Efforts should be made minimizing and avoiding the loan sanction and loan disbursement on the political pressure and pressure of some preferred groups so as to ensure the breading of a truly genuine and sound project.
d) Necessary steps should be taken to get the timely financial and accounting records from the clients to satisfy with good financial position of the industry.

e) A proportionate fine to be charged on delayed repayment would initiate clients to repay the loan quickly rather than in the case of fixed rate.

f) The assessment and evaluation of project implementation and follow up division of NIDC also need to be made to activate it in making timely and proper follow up activities.

g) NIDC should act as a true development bank not simply lending institution.

Pandey (2004) in the thesis on “NRB Directives- their implementation and impact on the Commercial Banks: a case study of Himalayan Bank Limited” has put some outshining description on the performance of the joint venture Commercial Banks.

The directives, if not properly addressed, have potential to wreck the financial system of the country as they are the only tools of the NRB to supervise and monitor the financial institutions. The directives in themselves are not that important unless properly implemented. The implementation part depends on the commercial banks. So it is felt that there is a need to find out if the directions are being followed. In case the commercial banks are making such huge profit will full compliance of the directives, then the commercial would deserve votes of praise because they would then be instrumental in the economic development of the country.

The thesis concluded as, all the changes in NRB directives made impacts on the bank and the results are the followings

- Increase in the operational procedures of the banks, which increase the operational cost of the bank.
- A short term decreases in profitability, which result to lesser dividends to shareholders and lesser bonus to the employees. Reduction in the loan exposure of the bank, which decreases the interest income but increase the protection to the depositors’ money.
- Increased protection to the money of the depositors through increased capital adequacy ratio more stringent loan related directives.

- Increased demand for shareholders contribution in the banks by forgoing dividends for loan provision and various other resources to increase the core capital.

Pandey has further concluded that all the aforesaid result lead to one direction, the bank will be financially healthy and stronger in the future. HBL will be able to withstand tougher economy situation in the future with adequate capital and provision for losses. The tough time through which the bank is undergoing at present will prevail only for a couple of years. But in the long run, it will be strong enough to attract more deposit and expose itself to more risks with capital cushion behind it. The quality of the assets of the bank will become, as bank will be careful before creating credit. Ultimately the changes in direction will bring prosperity not only to the shareholders but also to the depositors, the employees and the economy of the country as a whole.

It recommended HBL as: - The bank should increase its core capital in order to expose itself to more credit risks. With the reduction in the single obligor limit, there are only two choices for the banks to limit its client within standards or to increase core capital, while staying with the existing core capital, HBL is exposed to the risk of losing huge and good clients to other banks with huge amount core capital that withstand the loan exposure of such clients. On doing this, HBL will on one way not be able t mobilize its deposits and the other will have to stick to small clients. The increase in the member of small clients will take operating cost of the bank up thus, decreasing the profitability.

A thesis conducted by Ram Prasad Sharma with the objectives of highlighting the priority sector Investment and repayment state of Commercial Banks in Nepal through intensive banking program and to show the repayment position of the sector has concluded, “All the three commercial bank covered in this study have contributed to the credit to priority sector. But the efforts made by different banks are not in the same proportion. Nabil has contributed highest amount of credit to agriculture and cottage industry. Nepal Bank Limited has contributed highest amount to services sector. So for the loan repayment from priority sector is concerned Nabil has very satisfactory performance whereas NBL has very low performance or loss repayment overdue loan have been observed more in agriculture”

The writer further suggested, commercial banks should improve the repayment loan by generating the income of rural farmers. Reinvestment and right utilization of bank loan are the cost of the commercial banks. Since there is a need to increase in assets by better arrangement of institution and organization, the manager and loan staff of the branches should be provide the adequate training so that they could identify right borrowers, right project and ensure correct project appraisal. Reinvestment is the available sources to increase in paying capacity of the borrowers.

2.3 Research Gap

There is a certain gap between the present research and past research. Previous research conducted generally on lending policy of commercial banks of two banks. In some cases, there was also found the lending policy of maximum of four banks without any ranking criteria. Those analyses expressed all items in the statement in the form of amount. The previous researchers did not disclose the practical lending policies, which is practiced by the finance companies. Thus to fulfill this gap the present research is conducted. It covers top and recognized five finance companies from the source of NEPSE. The analysis based on expressing all items in the statement as a percentage. It is modern approach to evaluate to lending practices.

Most important point to remember about lending policy is that every financial measure should be compared across time and across over same line of companies to be meaningful. Prior research has been conducted on the basis of traditional lending practices. The value of the approach was quantitative relations. The world is becoming more dynamic and subject to rapid changes. This research will be based upon the modern approaches to lending practies; in which comparable group approach and include consideration of economic and strategic factors where feasible. Thus, the research will be an interest to a wide range of its stakeholders and other government regulatory interests. This may be probable the first effort to performance evaluation of top five finance companies in a systematic manner.

CHAPTER III

RESEARCH METHODOLOGY

This chapter is related to the Research employed in the entire aspect of the study. “Research may be defined as the systematic and objective analysis and recording of controlled observations that may lead to the developments of generalizations principles or theories, resulting in prediction and possibly ultimate controls of events.”

Research is essentially a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them to deduce from them broad principles or laws. The chapter includes research design, population and sample, nature and sources of data, analysis of data etc.

3.1 Research Design

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

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research objectives through analysis of data. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedure and techniques, which guides the study and the ways to do the study. This, in fact, is the specific presentation of the various steps in research process. These steps include the selection of a research problem, presentation of the problem, formulation of hypothesis, methodology, survey of literature and documentation, data collection, interpretation, presentation, report writing and bibliography.

The basic objective of this study is to evaluate the lending structure of five finance companies under study. The research design of this study is analytical as well as descriptive approaches to evaluate the financial performance of these banks. Basically this study is based on secondary data and the past five years data from 2002/03 to 2006/07 will be used for the finding of objective.

3.2 Population and Sample

Regarding to this study, the whole of finance companies, with 78 in total number is the population of the study. And the selected five finance companies viz. Lalitpur Finance Co. Ltd., Lumbini Finance Co. Ltd., People Finance Limited, Kathmandu Finance Ltd. and NIDC Capital Markets Ltd. are the samples for the study. For this particular study, more than 6 % of the population is taken as sample. The sample was collected by random selection of major finance companies. Due to the easy available of data and popular among finance companies, the sample finance companies were selected.

3.3 Nature and Sources of Data

The main sources of data for this study are secondary data. Besides, necessary suggestions are taken form various experts both inside and outside of the banks whenever required. Other sources of data are: -

- Bulletins and reports
- Annual report of Lalipur Finance, Lumbini Finance, PEFIL, KAFAL and NCML.
- Published and Recorded Annual Book of SEBON.
- Discussion with financial officers and experts.

3.4 Data Collection Procedures

The annual reports of respective finance companies were collected from their respective offices and also by post on request. NRB reports were collected from Research Department of NRB. The numerical data collected from different sources were used in whole numbers for the convenience of the study. Data were also collected from interviews form Bijay Bahadur Manandhar, Managing Director of Lalitpur Finance Co. Ltd. and Bijaya Lal Shrestha, Loan Department, NIDC Capital Markets Ltd. The internet also proved to be a very good source of data. Various sites were used for the collection of data. The sites used are listed in the bibliography.

3.5 Method of Data Analysis

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

3.5.1 Financial Tools

In this research study, there are various financial tools but only selected ratios are used on the study: -

3.5.1.1 Ratio Analysis

The relationship between two accounting figure, expressed mathematically, is known as financial ratio (or simply as ratio). (Pandey; 1991:110) A ratio is simply one number expressed in terms of another and as such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as a coefficient. “The technique of ratio analysis is a part of the whole process of analysis of financial statement of any business of industrial concern especially to take output and credit decisions – Through this technique, a comparative study can be made between different statistics concerning varied facets of a business unit. Just as blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic of financial health of a business concern. Thus, the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns.” (Kothari; 1994:1-264)

As far as we are concerned about the financial ratio, a ratio between two relevant figures, which provide a certain relation, and have negative or positive correlation between them will only be studies. Since comparing two incomparable figures and their ratios give no idea and judgment on analysis and its remains as an absurd figure only. This section has been divided into following sub-sections.

3.5.1.2 Asset/Liability Management Ratio

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

(i) Investment to Loans and Advances and Investment Ratio
(ii) Loans and Advances and investment to Total Deposit Ratio
(iii) Loans and Advances to Shareholder's Equity Ratio
(iv) Loans and Advances : Portfolio

3.5.1.3 Activity Ratio

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

(i) Loan Loss provision to Total Loan and Advances Ratio
(ii) Non-Performing Loans to Total Loan and Advances Ratio
(iii) Interest Income from Loans and Advances to Total Income Ratio
(iv) Interest Suspense to Total Interest Income from Loans and Advances Ratio
(v) Loans and Advances to Total Deposit Ratio

(vi) Interest Income to Interest Expense Ratio

(vii) Interest Income to Interest Expense Ratio

3.5.1.4 Profitability Ratio

Profit is the difference between the revenues and the expenditures over a period. Profit is the main element that makes an organization to survive. The profit, in other hand, measures the management ability regarding how well they have utilized their funds to generate surplus. The given ratios are used to determine the efficiency of the lending, its quality and contribution on total profitability.

(i) Net Profit to Shareholder's Equity Ratio

(ii) Earning Per Share (EPS)

3.5.2 Statistical Tools

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

3.5.2.1 Standard Deviation (S.D.)

The measurement of the scatterness of the mass of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. In this study, standard deviation of different ratio is calculated. It is denoted by'∃'.

$$\text{Standard deviation } (\exists) = \boxed{\sqrt{\frac{\sum dx^2}{N} - \left[\frac{\sum d}{N}\right]^2}}$$

Where,

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

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

3.5.2.2 Coefficient of Variation (C.V.)

The coefficient of variance measures the ratio of the standard deviation to the mean expressed in percent. It is calculated as under: -

$$\text{C.V.} = \boxed{\frac{\exists}{\bar{X}} \quad X\ 100}$$

Where,

$\pm$ = Standard deviation

$\bar{X}$ = Mean value of variances

Coefficient of variance is also useful in comparing the amount of variation in data groups with different mean. It is the relative measure of dispersion. A distribution with smaller coefficient is said to be more homogeneous than the other. On other hand, a series with greater coefficient of variance is said to be more variable of heterogeneous than the other (Gupta, S.C.; 2000:416)

3.5.2.3 Correlation of Coefficient

The coefficient of correlation measure the degree of relationship between two sets of sigma. There is various method of finding out coefficient of correlation but Karl Pearson's method is applied in the study. The result of correlation coefficient is always between -1 and +1. It is indicated by r. When r is +1, it means there is perfect relationship between two variables and vice-versa. When r = 0, it means there is no relationship between two variables. The compute formula is mentioned below: -

$$r = \boxed{\frac{\sum xy}{N \exists_x \exists_y}}$$

Where,

N = No. of pairs of observations

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

y = $(Y - \bar{Y})$

$\exists_x$ = Standard Deviation of series x

$\exists_y$ = Standard Deviation of series y

3.5.2.4 Probable Error

Probable error of the correlation coefficient is denoted by P.E. It is used for the testing the reliability of the calculated value of r. P.E. is defined by: -

$$\text{P.E. (r)} = \boxed{0.6745 \quad \frac{1 - r^2}{\sqrt{N}}}$$

Where,

P.E. (r) = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observation.

3.5.2.5 Regression

The literal meaning of the word “regression “is stepping or returning back to the average value. The term was first developed by Francis Galton in 1877. Regression is the statistical tool with the help of which we can estimate or predict the unknown value of one variable from the known value of any other variable. Assuming that the two variables are closely related, we can estimate the value of one variable from the value of another. The variable whose value is given is called “independent variable” and the variable whose value is to be predicted is called “dependent variable”. “(Sharma and Silwal; 2001:263)

The regression equation of y on x is expressed as;

$$Yc = a + Bx$$

Where,

Yc = Value of y computed from the relationship for a given X.

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

3.5.2.6 Time Series

Economist and business experts have often to deal with varieties (Quantities) which change in value with time. Variation of such quantities with time can be systematically studied and analyzed by presenting on the graphs. For obtaining knowledge about the nature of variation of a quantity along with time, time series can be used." (Joshi;2001:188) When a series of data pertaining to a series of continuing periods should be studied, its characteristics and its future directions best estimated by the time series. Time series analyses a series of keeping in mind the various short term and long term fluctuations.

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

$$Yc = a + bX$$

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

In this study, the data of last 5 years i.e. 2002/03 to 2006/07 has been used in measuring the trend analysis. While analyzing the Time Series, the Propensity of Growth and Growth Rate have been examined based on the value of trend value of Least Square Method.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Measuring the Lending Strength in Relative Terms

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

4.1.1. Investment to Loans and Advances and Investment Ratio

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

Table 4.1

Investment to Loans & Advances

Banks	Fiscal Year					Total	Mean	S.D	CV
	2002/03	2003/04	2004/05	2005/06	2006/07				
Lalitpur	0.09	0.16	0.17	0.13	0.11	0.65	0.13	0.03	25.80
Lumbini	0.08	0.06	0.05	0.07	0.03	0.30	0.06	0.02	33.33
PEFIL	0.06	0.09	0.13	0.14	0.06	0.50	0.10	0.04	38.08
KAFAL	0.04	0.04	0.03	0.03	0.03	0.15	0.03	0.007	23.57
NCML	0.08	0.09	0.09	0.13	0.13	0.55	0.11	0.03	22.73
Total	0.35	0.44	0.47	0.50	0.36				
Mean	0.07	0.09	0.09	0.10	0.07				
S.D	0.02	0.04	0.06	0.05	0.05				
C.V.	28.57	50.61	63.83	47.96	65.85				

(Source: - Appendix 1)

Figure 4.1

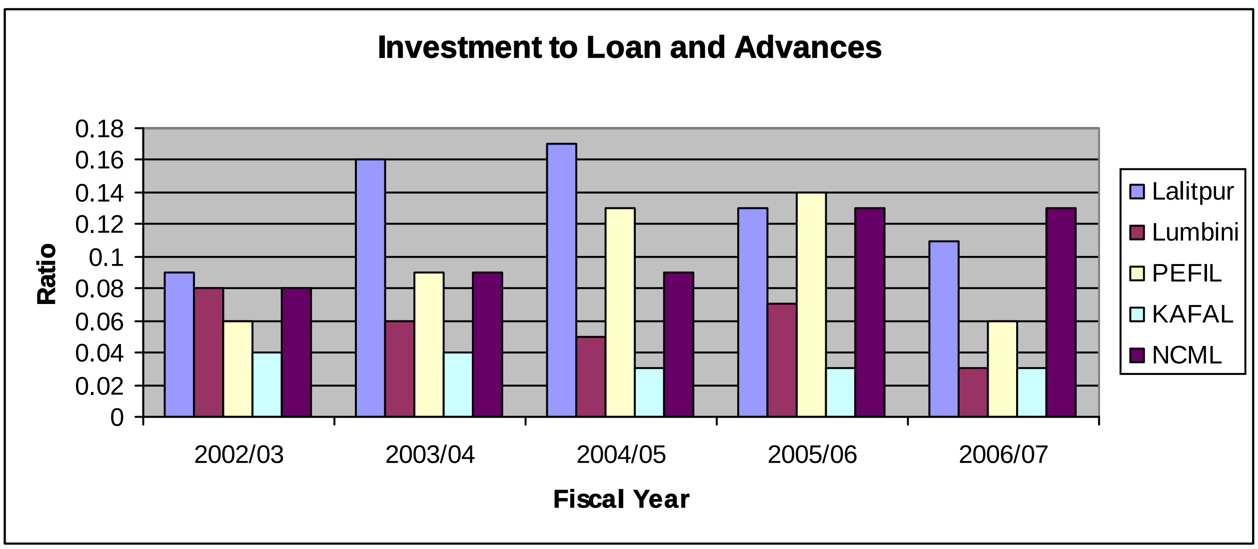


Table 4.1 shows the ratios of investment to Loans and Advances and Investments. The ratios are ranged from 0.03 of KAFAL as well as of Lumbini to 0.17 of Lalitpur as well as of NCML in different fiscal years. On the contrary, KAFAL has the least ratio throughout the study period. On the contrary, KAFAL has the least ratio throughout the study period keeping aside the least ratio 0.03 of Lumbini in the last year only. Analyzing the 5-year data of all the five finance companies, it is noted that not a single has a steady increase in

the ratio throughout. Despite being highest, the ratios of Lalitpur are in increasing then after in decreasing trend. The ratios of Lalitpur are in increasing trend till 2004/05 however starts to fall in the consecutive years. So is the case of NCML i.e. the trend of ratios are increasing till the year 2005/06 then falls in the last year and however it has managed. KAFAL has ratios in decreasing trend. Its ratios were decreasing from year first t year last from 0.04 to 0.03 respectively. Ratios of PEFIL and Lumbini are fluctuating from rise to fall and again rise. They don't have any specific trend but in overall manages to rise it ratio from 0.03 to 0.14 from the year first to the year last. In case of PEFIL, the ratio sharply decreased in the last year from 0.14 to 0.06, almost more than a half.

The combined mean ratio of all five finance companies is 0.09. The mean ratios of Lalitpur, Lumbini, PEFIL, KAFAL and NCML are 0.13, 0.06, 0.10, 0.03 and 0.11 respectively. Lalitpur, PEFIL and NCML have registered the higher ratio than the Combined Mean. This infers that Lalitpur, PEFIL and NCML have the lowest degree of investment in risky assets. And similarly, KAFAL has the lowest ratio meaning it has high degree of investment in risky assets.

The C.V. of PEFIL is highest of 38.08% which reveal that there is high variability in the ratios of PEFIL. Similarly, the lowest value of C.V. is of NCML whose value is 22.73%. Similarly, when we look at the C.V. of the years, in the year 2006/07 is of the highest C.V. of 65.85% and lowest in the year 2002/03 of 28.57%. Therefore, in the year 2006/07, there is high variability in the ratios of Investment to Loan and Advances.

4.1.2 Loans and Advances and Investment to Total Deposit Ratio

Loans and Advances and Investments are the major area of fund mobilization. This is the major area where the funds collected as deposits are channeled. The first part, Loans and Advances is more crucial and also bears more risk than Investments but also gives the higher return. Whereas, the second half, Investments has lesser risk and gives lower return in compare to Loans and Advances. Loans and Advances and Investment to Total Deposits ratio indicate the firm's fund mobilizing power in gross. Total deposits collected, against giving interest to the customers, is the total amount available for investments. Loans and

Advances and Investment are the major areas where the companies can mobilize the funds with some returns. Any idle deposits mean loss to the company. Thus, this ratio measures how well the deposits have been mobilized. In other words, we can say that this ratio measures what part of deposits are generating income for the company to give out interest to the deposits and also make profit.

Table 4.2

Loans and Advances and Investment to Total Deposit Ratio

Banks	Fiscal Year					Total	Mean	S.D	CV
	2002/03	2003/04	2004/05	2005/06	2006/07				
Lalitpur	1.07	1.08	1.06	1.11	0.84	5.15	1.03	0.11	10.67
Lumbini	1.13	1.15	1.05	0.98	0.96	5.25	1.05	0.08	8.16
PEFIL	1.08	0.97	0.99	0.81	1.03	4.90	0.98	0.12	12.56
KAFAL	1.14	1.07	1.04	1.06	0.99	5.30	1.06	0.05	5.12
NCML	1.00	1.00	1.09	1.17	1.22	5.50	1.10	0.10	9.09
Total	5.42	5.27	5.23	5.13	5.04				
Mean	1.08	1.05	1.05	1.03	1.01				
S.D	0.06	0.07	0.04	0.08	0.14				
C.V.	5.20	6.77	3.78	7.80	12.99				

(Source: - Appendix 2)

Figure 4.2

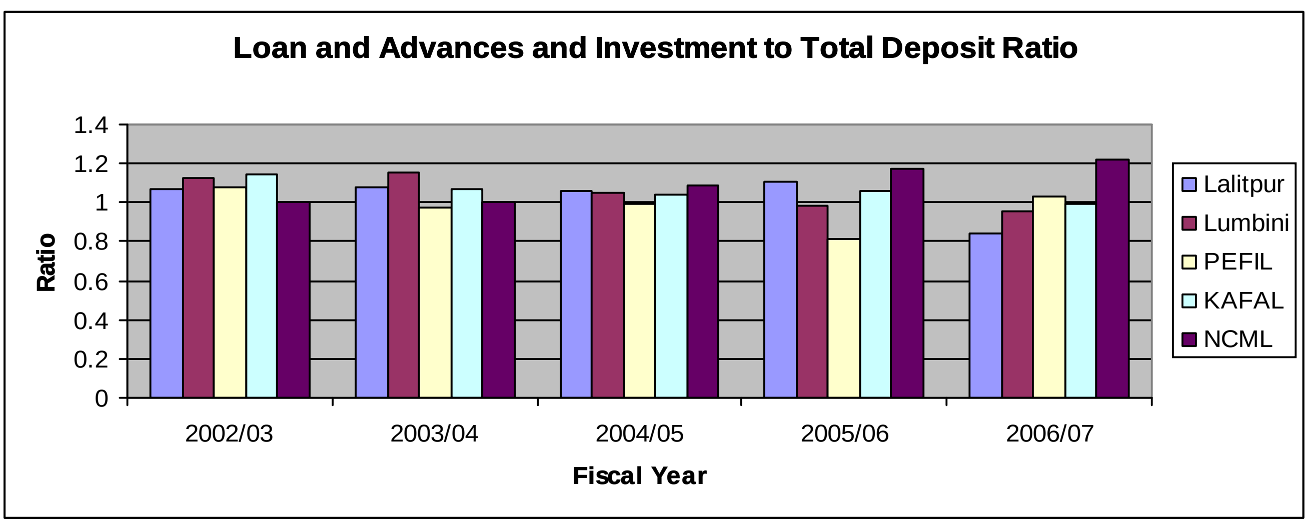


Table 4.2 shows the ratio of Loans and Advances and Investments to Total Deposits. This means the portion of deposit being mobilized to generate income. The ratios range from 0.81 of PEFIL in 2005/06 to 1.22 of NCML in 2006/07. KAFAL and NCML are with the highest ratios in different years.

KAFAL has highest ratio of 1.14 in 2002/03, whereas NCML has highest ratio of 1.17 in 2005/06 and 1.22 in 2006/07. PEFIL has the lowest ratio throughout the study period. The ratios of NCML have increasing trend from 1.00 to 1.22. None of the companies showed a steady increasing trend of the ratios. Except for a very nominal increase in the ratios of PEFIL, remaining three finance companies Lalitpur, Lumbini and KAFAL have their ratios decrease in the last year, 2006/07.

The Combined Mean ratio of all the five finance companies is 1.04. The mean ratios of Lalitpur, Lumbini, PEFIL, KAFAL and NCML are 1.03, 1.05, 0.98, 1.06, and 1.10 respectively. NCML has the highest mean ratio. Except for PEFIL & Lalitpur, all the finance companies have their ratios higher than the Combined Mean. This shows NCML has been doing best in mobilizing the funds collected in an income-generating sector. And since the ratio is above 1, it refers that none of the deposit is idle. There is maximum utilization of the collected funds.

The C.V. of PEFIL is highest of 12.56% which reveal that there is high variability in the ratios of PEFIL. Similarly, the lowest value of C.V. is of KAFAL whose value is 5.12%. Similarly, when we look at the C.V. of the years, in the year 2006/07 is of the highest C.V. of 12.99% and lowest in the year 2004/05 of 3.78%.

4.1.3 Loans and Advances to Shareholder's Equity Ratio

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

Table 4.3

Loans and Advances to Shareholder's Equity Ratio

Banks	Fiscal Year					Total	Mean	S.D	CV
	2002/03	2003/04	2004/05	2005/06	2006/07				
Lalitpur	13.70	13.58	13.08	11.63	12.31	64.30	12.86	0.88	6.82
Lumbini	19.51	12.84	13.78	10.48	11.70	68.30	13.66	3.49	25.58
PEFIL	10.97	8.25	7.01	4.93	5.79	36.95	7.39	2.02	27.27
KAFAL	7.67	9.96	11.84	12.41	7.90	49.80	9.96	2.18	21.89
NCML	11.34	13.41	5.46	6.06	7.23	43.50	8.70	3.60	41.31
Total	63.19	58.04	51.17	45.51	44.93				
Mean	12.64	11.61	10.23	9.10	8.99				
S.D	4.40	3.61	3.76	3.39	3.30				
C.V.	34.82	31.11	36.72	37.22	36.71				

(Source: - Appendix 3)

Figure 4.3

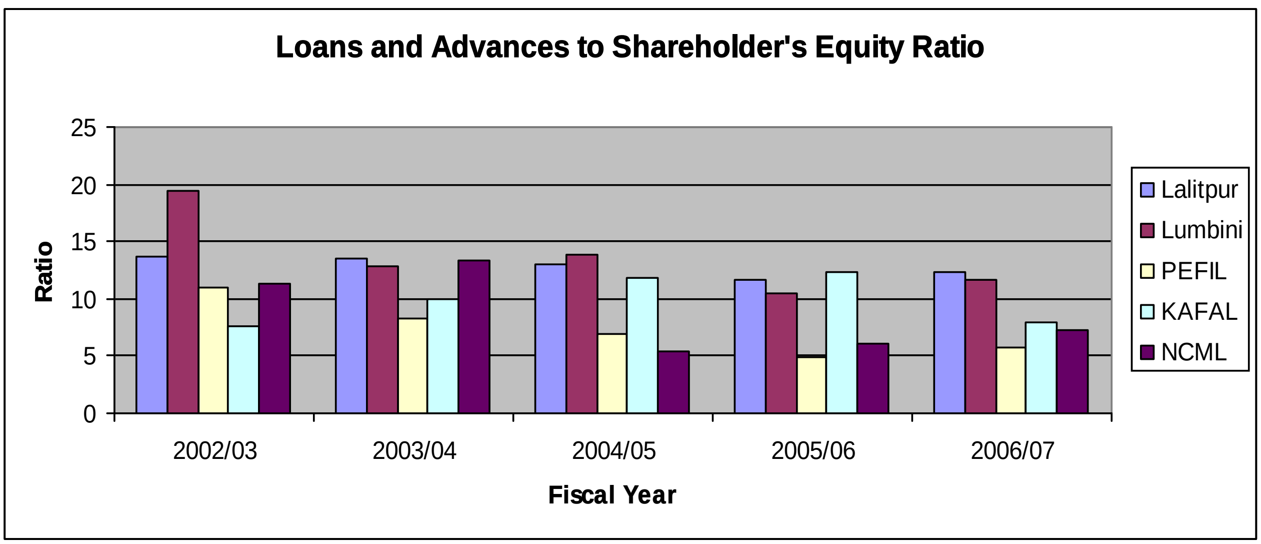


Table 4.3 shows the ratios of Loans and Advances to Shareholder's Equity. The ratios range from 4.93 of PEFIL on in 2002/03 to 19.51 of Lumbini in 2002/03. None of the companies have their ratios is increasing trend. The ratios of all five finance companies are fluctuating. This fluctuation is probably due to increase in the shareholder's equity of the companies in different years.

The Combined Mean ratio of all the finance companies is 10.51. The mean ratios of Lalitpur, Lumbini, PEPIL, KAFAL, and NCML are 12.86, 13.66, 7.39, 9.96 and 8.70 respectively. Lumbini has the highest mean ratio whereas PEFIL has the lowest. Since the ratios of PEFIL, KAFAL and NCML are lying below the Combined Mean, it can be concluded that they have not succeeded in increasing Loans and Advances in proportion to the size of their capital.

The C.V. of NCML is highest of 41.31% which reveal that there is high variability in the ratios of NCML. Similarly, the lowest value of C.V. is of Lalitpur whose value is 6.82%. Similarly, when we look at the C.V. of the years, in the year 2005/06 is of the highest C.V. of 37.22% and lowest in the year 2003/04 of 31.11%. Therefore, in the year 2005/06, there is high variability in the ratios of Loan and Advances to Shareholder's equity.

4.2 Measuring the Lending Strength in Absolute Terms

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

4.2.1 Loans and Advances

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

Table 4.4

Loans and Advances (in millions)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2002/03	2003/04	2004/05	2005/06	2006/07				
Lalitpur	246.6	305.55	294.27	392.52	415.56	1654.50	330.90	63.33	19.14
Lumbini	421.50	462.07	485.96	532.83	596.65	2509.01	501.80	60.03	11.96
PEFIL	186.55	164.91	140.22	98.58	181.44	771.70	154.34	32.22	20.88
KAFAL	153.52	199.15	236.70	248.10	236.92	1074.39	214.88	34.87	16.23
NCML	226.71	268.23	316.90	351.51	419.50	1582.85	316.57	66.70	21.07
Total	1234.88	1399.91	1474.05	1623.54	1850.07				
Mean	246.98	279.98	294.81	324.71	370.00				
S.D	92.90	113.33	126.78	229.97	165.20				
C.V.	37.61	40.48	43.00	70.82	44.65				

(Source: - Appendix 4)

Table 4.4 shows mean, standard deviation and coefficient of variance of all five companies under study. The mean Loans and Advances of Lumbini is highest of all as 501.80 and PEFIL has the least of 154.34. PEFIL is lowest with 32.22. Thus, the performance of PEFIL is more consistence regarding giving out loans and advances in comparison of other finance companies. Whereas coefficient of variance is highest of NCML i.e. 21.07% and the lowest is of Lumbini, 11.96%.

Figure 4.4

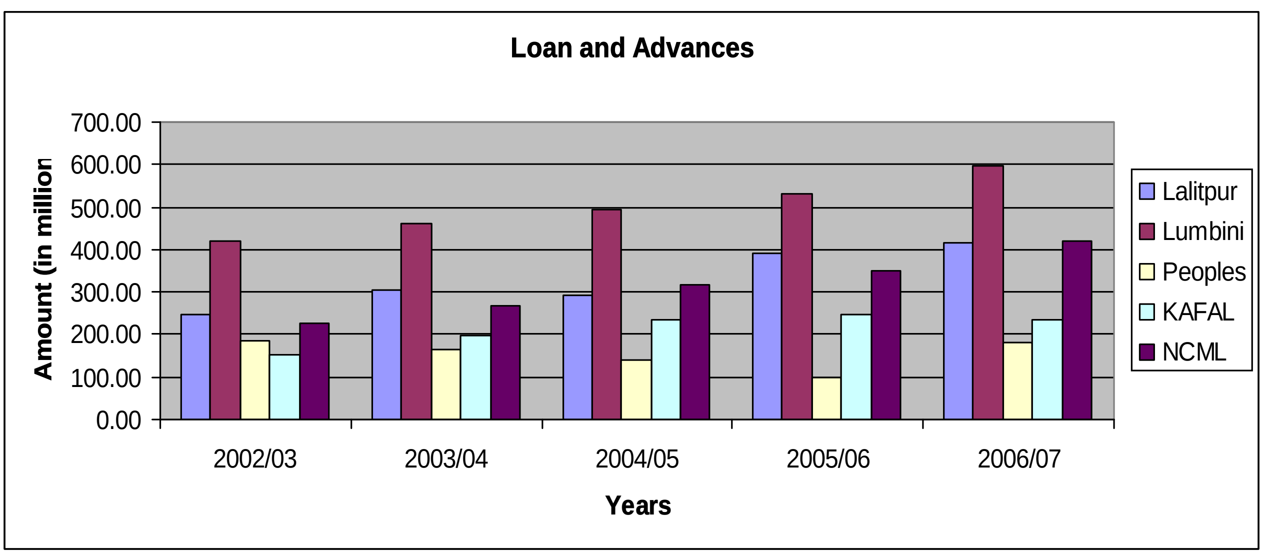


Figure 4.1 graphically presents the Loans and Advances of all five finance companies throughout the study period. Lumbini and NCML have increasing trend with 596.65 million as the highest amount registered of Lumbini in 2006/07. The least Loans and Advances disbursed is 98.58 million by PEFIL in 2005/06. However, there is an overall increasing trend in loans and advances. Starting from the year 2002/03, when the companies have come to end of the year 2006/07 they have high growth in their loans and advances. The growth of Lalitpur, Lumbini, PEFIL, KAFAL and NCML are 168.52%, 141.55%, 97.26, 154.33% and 185.08% respectively. It is seen that the highest growth is shown by NCML.

The C.V. of PEFIL is highest of 21.07% which reveal that there is high variability in the ratios of NCML. Similarly, the lowest value of C.V. is of Lumbini whose value is 11.96%. Similarly, when we look at the C.V. of the years, in the year 2005/06 is of the highest C.V. of 70.82% and lowest in the year 2002/03 of 37.61%. Therefore, in the year 2006/07, there is high variability in the ratios of Loan and Advances.

4.2.2 Non- Performing Loan

Non-Performing Loan consists of Loans and Advances except for good loans. It is that part of Loans and Advances that should be looked upon carefully for the timely recollection of the repayments. According to NRB directive no. 2, Sub-standard, doubtful and loss loans are categorized under Non- performing Loans are, in fact, very crucial problem to finance companies. They not only require extra effort for collection of repayments but as according to the NRB directions for Loan Loss Provision, they also create large amount of Loan Loss Provision cutting down the profits and making the amount idle.

Table 4.5

Non-Performing Loan (in millions)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2002/03	2003/04	2004/05	2005/06	2006/07				
Lalitpur	21.27	46.79	36.09	26.43	26.97	157.55	31.51	9.01	28.59
Lumbini	86.52	109.84	64.47	77.90	87.93	426.66	85.33	14.83	17.38
PEFIL	14.28	39.17	17.85	30.73	18.73	120.76	24.15	9.33	38.64
KAFAL	13.01	20.45	10.04	15.97	24.24	83.71	16.74	5.09	30.39
NCML	60.14	116.56	70.39	74.66	72.02	393.77	78.75	19.53	24.80
Total	195.22	332.81	198.84	225.69	229.89				
Mean	39.04	66.56	39.77	45.14	45.98				
S.D	32.81	43.70	27.04	23.89	31.68				
C.V.	84.04	65.66	68.00	52.92	68.89				

(Source: - Appendix 4)

Table 4.5 shows the Non-Performing Loan situation of all five finance companies under study. Mean, Standard Deviation and Coefficient of Variance of all five finance companies are depicted in Table 4.5. The Mean Non-Performing Loan of Lumbini is highest of all and the lowest of that is of KAFAL. The highest Standard Deviation of Non-Performing Loan is that of NCML, 19.53 and lowest is that of KAFAL, 5.09. This means KAFAL is performing well regarding the management of Non-Performing Loans. Deviation of NCML is very high; this might call for problems in future if not controlled in time. Similarly, the highest Coefficient of Variation is of PEFIL with 38.64% and the lowest is that of Lumbini with 17.38%.

The C.V. of PEFIL is highest of 38.64% which reveal that there is high variability in the ratios of PEFIL. Similarly, the lowest value of C.V. is of Lumbini whose value is 17.38%. Similarly, when we look at the C.V. of the years, in the year 2002/03 is of the highest C.V. of 84.04% and lowest in the year 2005/06 of 52.92%. Therefore, in the year 2002/03, there is high variability in the ratios of Non-Performing Loans.

Figure 4.5

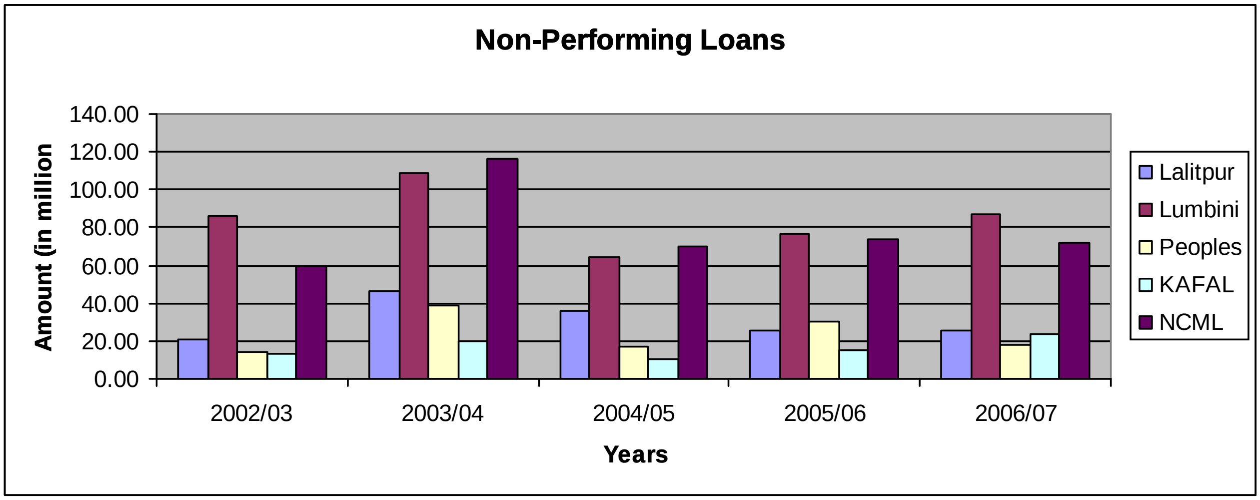


Figure 4.2 presents the Non-Performing Loans of all five finance companies graphically. The maximum Non-Performing Loan registered is 116.56 million of NCML in 2003/04, the second highest is that of Lumbini in the very same year 2003/04 of 109.84. However, NCML and Lumbini have managed to cut down its Non-Performing Loan in the following year to 70.39 and 64.47 million respectively, which of course is a positive sign. A final year count of PEFIL, 18.73 Million is much lesser than that of Lumbini, which has the highest of 87.93 million. Overall trend of Non-Performing Loan is increasing, decreasing and increasing. The fluctuation trend may not be much of a problem now, but can lead to a serious situation in the future. The final year values of PEFIL and NCML are lesser than the previous year showing bright side in collection of non-performing loans or say slightly higher value through they have greater values in the mid-way. Yearly, some amount of non-performing loan is increased even though there is collection of definite amount of non-performing loan, which might ultimately create more problems in the future.

4.2.3 Interest Income from Loans and Advances

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

Table 4.6

Interest Income from Loans and Advances (in millions)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2002/03	2003/04	2004/05	2005/06	2006/07				
Lalitpur	47.91	49.66	53.12	49.28	50.49	250.46	50.09	1.73	3.45
Lumbini	62.87	62.23	78.19	71.47	88.31	363.07	72.61	9.81	13.51
PEFIL	43.68	27.89	80.84	27.76	24.70	144.87	28.97	7.79	26.88
KAFAL	26.42	31.77	36.37	38.18	36.79	169.53	33.91	4.32	12.74
NCML	35.01	40.99	34.31	42.98	52.17	205.46	41.09	6.47	15.74
Total	215.89	182.54	282.83	229.67	252.46				
Mean	43.18	36.50	56.56	45.93	50.49				
S.D	13.76	25.05	21.05	16.30	23.90				
C.V.	31.88	68.64	37.21	35.48	47.35				

(Source: - Appendix 4)

Table 4.6 shows the Mean, Standard Deviation and Coefficient of Variance of Interest Income from Loans and Advances of all five finance companies under study. The highest Mean register of Interest Income from Loans and Advances is 72.61 of Lumbini and the lowest is that of PEFIL, 28.97. At a glance, it can be said that Lumbini is the most income making finance company among the five. But while considering the Standard Deviation, which is registered highest of Lumbini too i.e. 9.81, it can be said that even if Lumbini has the maximum volume of Interest Income from Loans and Advances, it is not steady. Lumbini does not have a regular collection of Interest Income form Loans and Advances. PEFIL has the least Mean. Lalitpur has the least Standard Deviation, which means the least deviation from mean, result of much steady and regular collection of interest from Loan and Advances. The Mean of Lalitpur, KAFAL and NCML are 50.09, 33.91 and 41.09 respectively and their respective Standard Deviations are 1.73, 4.32 and 6.47. Lalitpur as pretty much large volume of Mean 50.09 and at the same time much lesser Standard Deviation of 1.73. The highest Coefficient of Variance 26.89% of PEFIL and the least is that of Lalitpur with 3.45%.

Figure 4.6

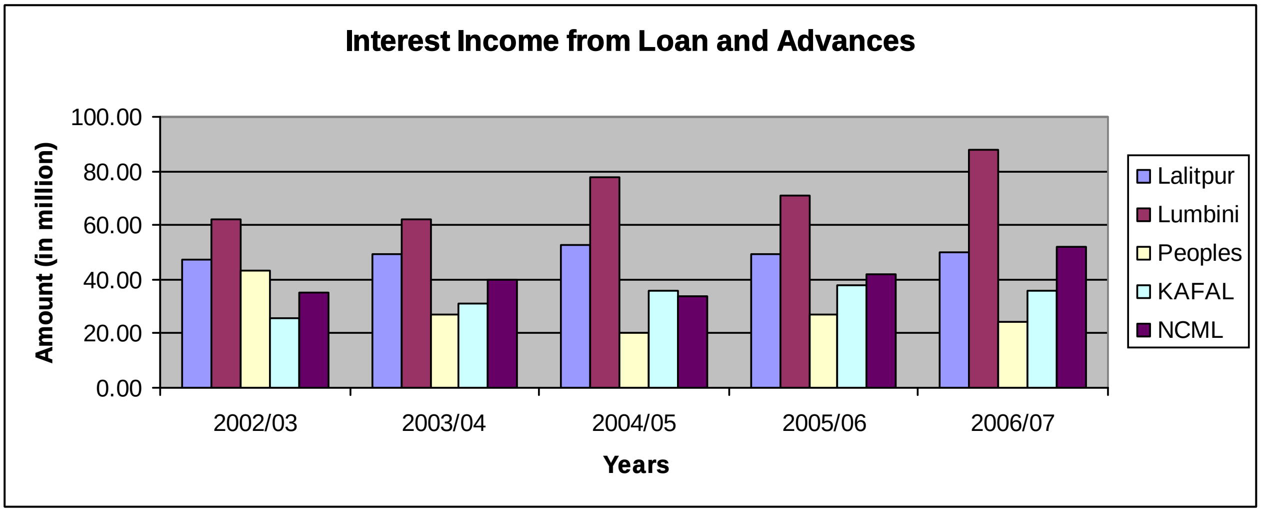


Figure 4.3 has the graphical presentation of Interest Income from Loans and Advances. The highest interest income of the study period is that of Lumbini amounting to 88.31 million in the last year 2006/07. PEFIL in the first year 2002/03 of the study period has 43.68 million interest incomes which drastically decreased in the years following to 24.7 million in the last year 2006/07; however other finance companies have fluctuating interest income, but have much higher interest income than the beginning year 2002/03.

4.2.4 Loan Loss Provision

Loan Loss Provision shows the figure that is the summation of provision made against all types of loans as per the NRB directives. The NRB directives directs to make the provision of 1%, 25%, 50% and 100% for Pass loans, sub-standard loans, doubtful loans, and loss loans provision presented in the Profit & Loss Account and definitely, decreases the profit of the company. The more the Loan Loss Provision, it suggests two definite things, more of total loan and or more of loss loan. Since, according to the NRB directives, 1% provision is to be provided for all good loans too, it does acquire a huge portion of the total Loan Loss Provision. Thus, just by looking at mere Loan Loss Provision it cannot be said if the company has all good loans or voluminous bad loans.

Table 4.7

Loan Loss Provision (in millions)

Banks	Fiscal Year					Total	Mean	S.D	CV
	2002/03	2003/04	2004/05	2005/06	2006/07				
Lalitpur	15.49	20.16	23.32	24.08	30.03	113.08	22.62	4.78	21.15
Lumbini	18.66	20.56	36.56	66.84	69.87	212.49	42.50	22.03	51.84
PEFIL	13.65	19.58	20.28	22.67	18.46	94.64	18.93	2.98	15.73
KAFAL	4.39	6.08	7.03	9.80	11.69	38.99	7.80	2.62	33.59
NCML	13.86	23.92	35.52	63.29	46.20	182.79	36.57	17.23	47.12
Total	66.05	90.30	122.71	186.68	176.25				
Mean	13.21	18.06	24.54	37.33	35.25				
S.D	5.33	6.91	12.16	25.95	23.36				
C.V.	40.35	38.24	49.54	69.51	66.27				

(Source: - Appendix 4)

Table 4.7 presents the Loan Loss Provision of the five finance companies under study. The above table shows that Lumbini has the highest Mean of 42.50, meaning it has allocated the highest amount in provision for Loan Loss in comparison to other finance companies under study. Similarly, KAFAL has the least of Mean 7.80 and at the same time it also has the least Standard Deviation of 2.62 whereas Lumbini has highest of 22.03. Thus, Lumbini is most likely to have highest volume to risky assets and KAFAL the lowest.

Figure 4.7

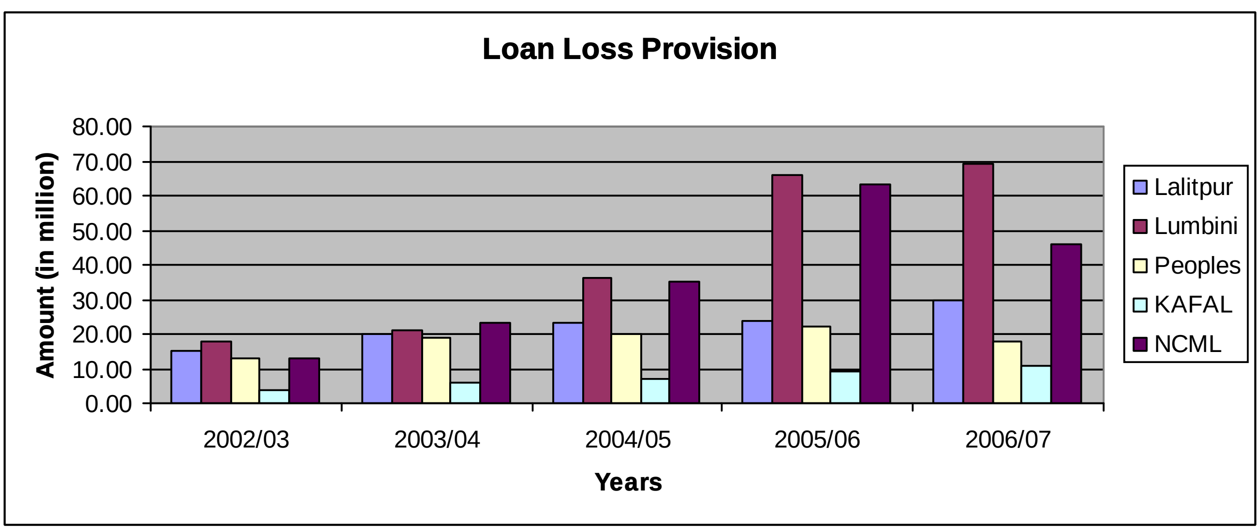


Figure 4.4 shows the graphical presentation of Loan Loss Provision of the five finance companies under study. KAFAL has the least Loan Loss Provision in the first year of study period of Rs. 4.39 million but from the second year it has maintain the least provision through out the study period than others. Whereas loan loss provision of Lumbini has increased to Rs. 69.87 million highest of all other finance companies from Rs. 18.66 million in the first year i.e. increase by 374.44%. The second highest provision recorded is of Rs. 66.84 million that is also of Lumbini in the year 2005/06. The third highest is Rs. 63.29 million of NCML in 2005/06, but considerably decreased to Rs. 46.20 in the following year 2006/07 a total decrease of 72.99%. The overall trend of this liability is increasing in all five finance companies.

4.2.5 Net Profit

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

Table 4.8

Net Profit (in millions)

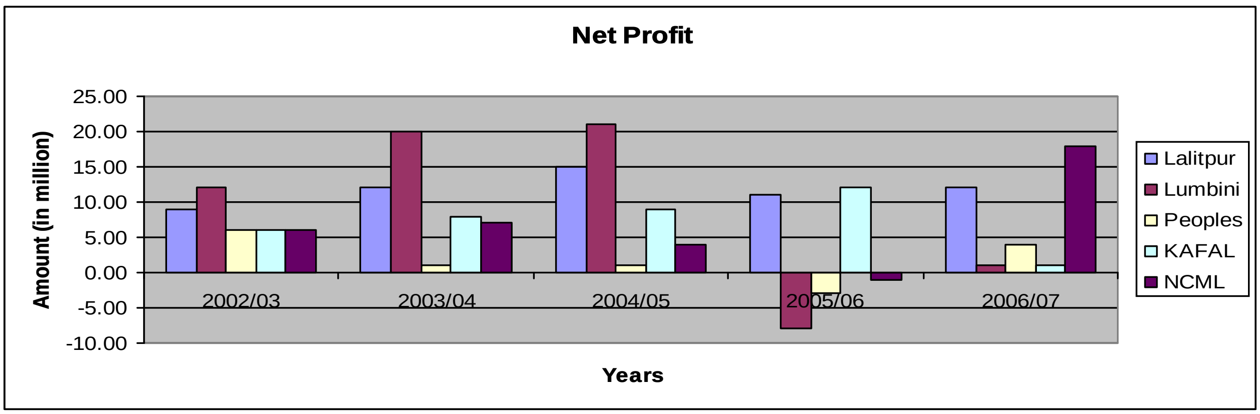
Banks	Fiscal Year					Total	Mean	S.D	CV
	2002/03	2003/04	2004/05	2005/06	2006/07				
Lalitpur	9.52	12.67	15.56	11.75	12.64	62.54	12.51	1.82	14.58
Lumbini	12.25	20.32	21.25	-8.42	0.90	46.30	9.26	11.47	123.84
PEFIL	6.66	0.09	1.77	-0.30	4.36	12.58	2.52	2.64	105.07
KAFAL	6.56	8.50	9.44	12.04	0.93	37.47	7.49	3.73	49.72
NCML	6.59	7.74	4.70	-1.42	18.97	36.58	7.32	6.63	90.60
Total	41.58	49.32	52.72	13.65	37.80				
Mean	8.32	9.86	10.54	2.73	7.56				
S.D	2.54	7.38	7.94	8.93	7.82				
C.V.	30.47	74.84	75.32	326.99	103.37				

(Source: - Appendix 4)

Table 4.8 shows that PEFIL has the lowest Mean during the study period. It has the Mean of 2.52 with variability of 105.07%, whereas Lalitpur has the highest Mean of 12.51 with variability of 14.58%. The Mean Net Profits of Lumbini, KAFAL and NCML are 9.26, 7.49 and 7.32 respectively and their respective Standard Deviation is 11.47, 3.73 and 6.63. Under this analysis it can be said that Lalitpur has the best performance.

The C.V. of Lumbini is highest of 123.84% which reveal that there is high variability in the ratios of Lumbini. Similarly, the lowest value of C.V. is of Lalitpur whose value is 14.58%. Similarly, when we look at the C.V. of the years, in the year 2005/06 is of the highest C.V. of 326.99% and lowest in the year 2002/03 of 30.47%. Therefore, in the year 2005/06, there is high variability in the ratios of Net Profit.

Figure 4.8



The graphical presentation of Net Profits of all five finance companies is shown in Figure 4.5. This figure shows that the Net Profits of Lumbini is always higher than other finance companies in the first three years, but shows loss in the fourth year. Except Lalitpur and KAFAL all other three finance companies are with negative profit in the fourth year 2005/06 however shows positive profit in the last year 2006/07. And besides having negative profit in the preceding year NCML is able to make profit of Rs. 18.97 million in the final year of the study period. Lumbini, which was once able to make profit of about Rs. 21.25 million in the third year, was not able to make profit of a single million in the final year. None of the finance companies have Net Profits in increasing trend. Lalitpur and KAFAL have the increasing trend of Net Profit except in the fourth year of former and fifth year of the latter.

4.3 Analyzing the Portfolio behaviors of Loans and Advances

So, far, we have analyzed the relationship of loans and advances with various relative elements of Balance Sheet and Profit & Loss Account. In this section, we examine the portfolio management of Loans and Advances. Finance companies invest in various sectors of economy and to various types of borrowers. Besides, NRB, in its directives, has created boundaries for finance companies to invest in different sectors of the economy. That is to say, NRB has given certain limits to the finance companies to invest in certain sectors. So, in this chapter we'll be analyzing if the finance companies are complying with the NRB directive.

4.3.1 Category wise Loan Classification

In this section, Loans and Advances made by the finance companies is different sectors as classified by the NRB is studied. This classification explains the contribution made by different companies in different categories. This also shows the Lending trend of finance companies under different classifications.

Table 4.9

Category wise Loan Classification- Lalitpur Finance Co. Ltd. (in million)

	2002/03	(%)	2003/04	(%)	2004/05	(%)	2005/06	(%)	2006/07	(%)
Hire Purchase	35.21	14.3	35.96	11.8	33.67	11.4	36.7	9.35	36.71	8.83
Housing Loan	104.75	42.5	103.24	33.8	107.35	36.5	129.99	33.1	161.99	39
Lease Financing	-----	-----	----	---	-----	---	----	--	----	-
Term Loan	90.17	36.6	135.44	44.3	132.98	45.2	171.02	43.6	178.8	43
Shares & Debentures	6.82	2.77	21.92	7.17	9.12	3.1	42.67	10.9	20.13	4.84
Against Fixed Deposit	9.65	3.91	8.99	2.94	11.15	3.79	12.14	3.09	17.93	4.32
Others	----	---	----	---	----	---	----	--	----	-
Total	246.6	100	305.55	100	294.27	100	392.57	100	415.56	100

(Source: - Annual Report 2002/03 – 2006/07)

Table 4.9 shows the Lending portfolio of Lalitpur Finance Company. The Portfolio here is observed in relative terms, in millions. Lalitpur had its maximum Loans and Advances mobilized in the year 2006/07, Rs. 415.56 million. Whereas it could give out the minimum value of Loans in the year 2002/03 amounting to Rs. 246.60 million. The maximum loans it had given out were of Rs. 178.80 million under the category of term loan in the year 2006/07. Upon analysis, it is seen that Loans of Lalitpur had always been concentrated on housing loans than others. However, its loans under term loan are also in increasing trend and had been greater than housing loans in last four years. Lalitpur never had attempted in lease financing and it had gained from loans against fixed deposits which is the safest category of loans. Hire purchase loans of Lalitpur have increasing trend except for the year 2004/05 when it slightly decreased from Rs. 35.96 million to Rs. 33.67 million. The housing loans also seem to be in increasing trend except fall in the year 2003/04 from 104.75 to 103.24 million. The amounts are fluctuating in the loans granted against fixed deposits and shares with small deviations.

Table 4.10

Category wise Loan Classification- Lumbini Finance & Leasing Co. Ltd. (in million)

	2002/03	**(%)**	**2003/04**	**(%)**	**2004/05**	**(%)**	**2005/06**	**(%)**	**2006/07**	**(%)**
Hire Purchase	57.01	13.5	58.39	12.7	55.33	11.2	59.04	11.1	68.6	11.5
Housing Loan	76.15	18.1	87.29	18.9	104.95	21.2	124.04	23.3	127.01	21.3
Lease Financing	---	---	---	---	---	---	---	---	---	---
Term Loan	250.57	59.5	268.69	58.3	291.41	58.8	309.9	58.2	383.91	64.3
Shares & Debentures	---	---	---	---	---	----	---	---	---	---
Against Fixed Deposit	31.68	7.52	13.51	29.3	33.41	6.73	15.99	3	17.13	2.87
Others	6	1.42	34.06	7.39	10.86	2.19	23.86	--	0	-
Total	421.5	100	461.06	100	495.96	100	532.86	100	596.65	100

(Source: - Annual Report 2002/03 – 2006/07)

Table 4.10 depicts the category wise loan classification of Lumbini Finance and Leasing Company. The total investment in Loans and Advances is in increasing trend and the maximum amount given out for Loans and Advances amounts to Rs. 596.95 million in the year 2006/07. Every year most of the loan amount given out is under term loan, which is in increasing trend and amounts to Rs. 383.91 million in the year 2006/07. Housing loan is also in increasing trend. Lumbini, unlike to its name Lumbini Finance & Leasing Company, has not invested in lease financing so far. Leasing category is still untouched. Lumbini had Rs. 421.50 million invested in Loans and Advances in the year 2002/03 which increased by 41.55% till the year 2006/07.

Table 4.11

Category wise Loan Classification- People's Finance Co. Ltd. (in million)

	2002/03	(%)	2003/04	(%)	2004/05	(%)	2005/06	(%)	2006/07	(%)
Hire Purchase	81.09	43.5	65.42	39.7	48.41	34.5	36.98	37.5	33.4	18.4
Housing Loan	44.25	23.7	38.28	23.2	33.52	23.9	26.82	27.2	60.48	33.3
Lease Financing	---	---	----	---	---	---	---	---	---	---
Term Loan	39.76	21.3	42.88	26	43.47	31	25.25	25.6	76.6	42.2
Shares & Debentures	15.53	8.32	12.64	16	9.26	6.6	6.08	6.17	5.59	3.08
Against Fixed Deposit	5.92	3.17	5.69	3.45	5.56	3.96	3.45	3.5	5.37	2.96
Others	---	---	---	---	---	---	---	--	---	---
Total	186.55	100	164.91	100	140.22	100	98.58	100	181.44	100

(Source: - Annual Report 2002/03 – 2006/07)

The above table 4.11 shows the category wise loan classification of People's Finance Limited. The maximum funds mobilized for Loans and Advances is of Rs. 186.55 million in the year 2002/03, the amount has diminished since then to 98.58 million in the year 2005/06, however increased to 181.44 million in the last year 2006/07. PEFIL too does not have invested in lease financing. None of the loan categories have increasing trend. In fact, except for housing and term loan all the other categories have decreased volume in the last year. Hire purchase loan shows a decreasing trend from 81.09 million in the year 2006/07 to 33.40 million in the last year 2006/07, a total decrement by 59% in the study period.

Table 4.12

Category wise Loan Classification - Kathmandu Finance Co. Ltd. (in million)

	2002/03	(%)	2003/04	(%)	2004/05	(%)	2005/06	(%)	2006/07	(%)
Hire Purchase	35.34	23	66.24	33.3	51.03	21.6	25.43	10.3	36.02	15.2
Housing Loan	47.81	31.1	65.19	32.7	92.86	39.2	98.98	39.9	88.49	37.4
Lease Financing	---	---	---	---	---	---	---	---	---	---
Term Loan	51.31	33.4	48.63	24.4	66.86	28.3	105.6	42.6	104.26	44
Shares & Debentures	12.86	8.38	15.46	7.76	16.01	6.76	5.85	2.36	4.12	1.74
Against Fixed Deposit	6.2	4.04	3.63	1.82	9.94	4.2	12.24	4.93	4.03	1.7
Others	---	---	---	---	---	---	---	--	---	---
Total	153.52	100	199.15	100	236.7	100	248.1	100	236.92	100

(Source: - Annual Report 2002/03 – 2006/07)

The above table 4.12 presents the category wise classification of loans of Kathmandu Finance Co. Ltd. The overall Loans and Advances are in increasing trend. The total Loans and Advances have increased from Rs. 153.52 million to Rs. 236.92 million from 2002/03 to 2006/07. KAFAL has its loans concentrated in Term Loans. The volume of Term Loan is highest and in increasing trend till the year 2005/06 then there is slight fall to 104.26 million in the last year from 105.60 million in the preceding year 2005/06. The Housing loan has also an increasing trend but a fall of 10.49 million in the last year. The Hire Purchase Loan was highest in the year 2003/04 up to 66.24 million but 25.43 million in the year 2005/06, however showed a little increment of 10.59 million in the last year 2006/07. As other finance companies, KAFAL has also left the sector of Lease Financing untouched.

Table 4.13

Category wise Loan Classification- NIDC Capital Markets Ltd. (in million)

	2002/03	(%)	2003/04	(%)	2004/05	(%)	2005/06	(%)	2006/07	(%)
Hire Purchase	2.53	1.11	2.65	0.98	2.67	0.84	1.84	0.52	6.9	1.64
Housing Loan	89.8	39.6	123.35	46	122.87	38.8	116.67	33.2	119.01	28.4
Lease Financing	---	---	---	---	---	---	---	---	---	---
Term Loan	126.55	55.8	138.31	51.6	173.39	54.7	206.26	58.7	193.55	46.1
Shares & Debentures	0.26	0.11	0.1	0.04	0.09	0.03	23.26	6.62	93.43	22.3
Against Fixed Deposit	7.57	3.34	3.87	1.44	17.88	5.64	3.12	0.89	6.71	1.6
Others	---	---	---	---	---	---	---	--	---	---
Total	226.71	100	268.28	100	316.9	100	351.51	100	419.6	100

(Source: - Annual Report 2002/03 – 2006/07)

Table 4.13 portraits the category wise loan classification of NIDC Capital Markets Ltd. NCML does not have all the loans in an increasing trend, instead the category wise loans is fluctuating. However the total loan and advances are in increasing from 226.71 million in the year 2002/03 to 419.60 million in the year 2006/07 almost an increment about 85%. Term loan has been the highest loan granting category through out the study period amounting to 206.26 million in the year 2005/06, however decreased to 193.55 million in the last year which is about 6%. Hire purchase has been concentrated less in comparison and it does not have any specific trend. NCML, too, has not shown any interest in investing in Lease Financing. The table speaks out clearly that NCML has its interest in Housing and Term Loans specifically.

4.3.2 Hire Purchase Loan to Total Loan & Advances Ratio (%)

This ratio presents the portion of hire purchase loan in the total loan in the specific periods, i.e. to say the percentage of hire purchase loan of all finance companies under study in different years. According to the directives of NRB, finance companies cannot release hire purchase more than 40% of total loan in hire purchase; it has to make provision of 25% of over released amount.

Table 4.14

Hire Purchase Loan to Total Loan & Advances Ratio (%)

	2002/03	2003/04	2004/05	2005/06	2006/07
Lalitpur	14.28	11.77	11.44	9.35	8.83
Lumbini	13.55	12.64	11.16	11.08	11.50
PEFIL	43.47	39.67	34.52	37.51	18.41
KAFAL	23.02	33.26	21.56	10.25	15.20
NCML	1.12	0.99	0.84	0.52	1.64

(Source: - Appendix 5)

Figure 4.9

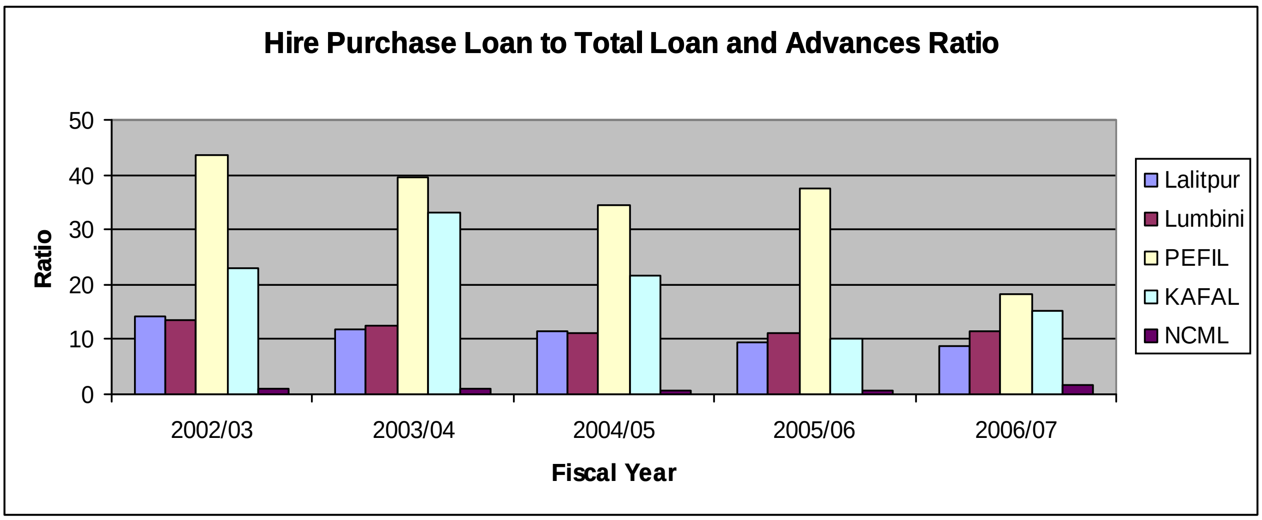


Table 4.14 shows the portion of hire purchase loan n the total loan released. The maximum loan released in hire purchase is 43.47% by PEFIL in 2002/03. This is way to above then the limit NRB has provided. It has however, reduced this percentage in the following years and decreased to 18.41 million in the last year 2006/07. Investing above the limit provided, welcomes the situations for finance companies to make provisions by 25% of the overly invested amount which decreases the profit of the company, which definitely will have adverse effect. Lalitpur, Lumbini, KAFAL and NCML have been investing in hire purchase loan within the NRB limit; in fact they are way to below the limit. The lowest portion recorded is 0.52% of NCML in the year 2005/06.

4.3.3 Housing Loan to Total Loan & Advance Ratio

This ratio presents the portion of housing loan to the Total Loans and Advances. Percentage of housing loan from the total loans released of all finance companies in all 5 years are presented here. As according to the NRB directives, the maximum amount under housing loan can be released is 40% of the total loan. In the condition that company has released more than 40% of total loan in hire purchase, it has to make provision of 25% of over released amount.

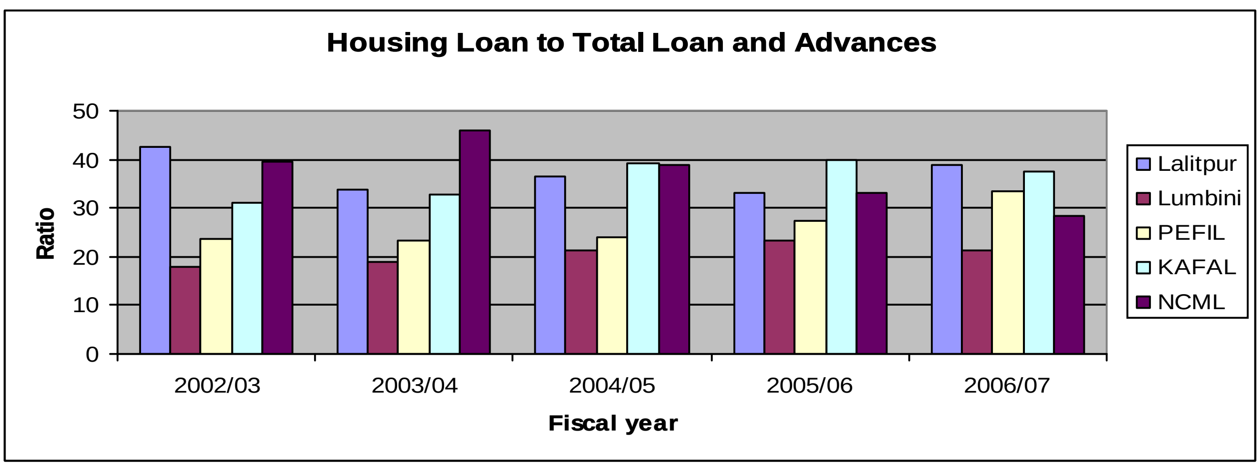
Table 4.15

Housing Loan to Total Loan and Advances Ratio (%)

	2002/03	2003/04	2004/05	2005/06	2006/07
Lalitpur	42.48	33.79	36.48	33.12	38.98
Lumbini	18.07	18.89	21.16	23.28	21.29
PEFIL	23.72	23.21	23.91	27.21	33.33
KAFAL	31.14	32.73	39.23	39.90	37.35
NCML	39.61	45.98	38.77	33.19	28.36

(Source: - Appendix 6)

Figure 4.10



The table 4.15 above presents the ratios of housing loan to total loans and advances of all five finance companies under study in percentage. The maximum ratio is that of NCML in the year 2003/04. This ratio is beyond the limit provided by the NRB. NCML & Lalitpur has violated the NRB directives for one year only under study period. However, NCML & Lalitpur have been under its limit in other years. The lowest ratio recorded is that of Lumbini in the year 2002/03, 18.076%. Lumbini had the lowest percentage amongst all the finance companies through out the study period. Lumbini and PEFIL have their investments in housing loan moderately as according to the limit of NRB directives. For investing over limit, Lalitpur, KAFAL and NCML are bound to make provision of 25% of over the limit value.

4.3.4 Term Loan to Total Loan and Advances Ratio

This ratio presents the portion of term loan in the total loan in the specific periods, i.e. to say the percentage of term loan of all finance companies in different years. Unlike hire purchase loan and housing loan, NRB limit for this term loan is 75% of the total loan. But as for hire purchase and housing loan, if the term loan is released more than the NRB limit, the company has to make provision of 25% of the overly released amount.

Table 4.16

Term Loan to Total Loan and Advances Ratio (%)

	2002/03	2003/04	2004/05	2005/06	2006/07
Lalitpur	36.57	44.33	45.19	43.57	43.03
Lumbini	59.45	58.18	58.77	58.16	64.34
PEFIL	21.31	26.00	31.00	25.61	42.22
KAFAL	33.42	24.42	28.25	66.75	44.01
NCML	55.82	51.55	54.71	58.68	46.13

(Source: - Appendix 7)

Figure 4.11

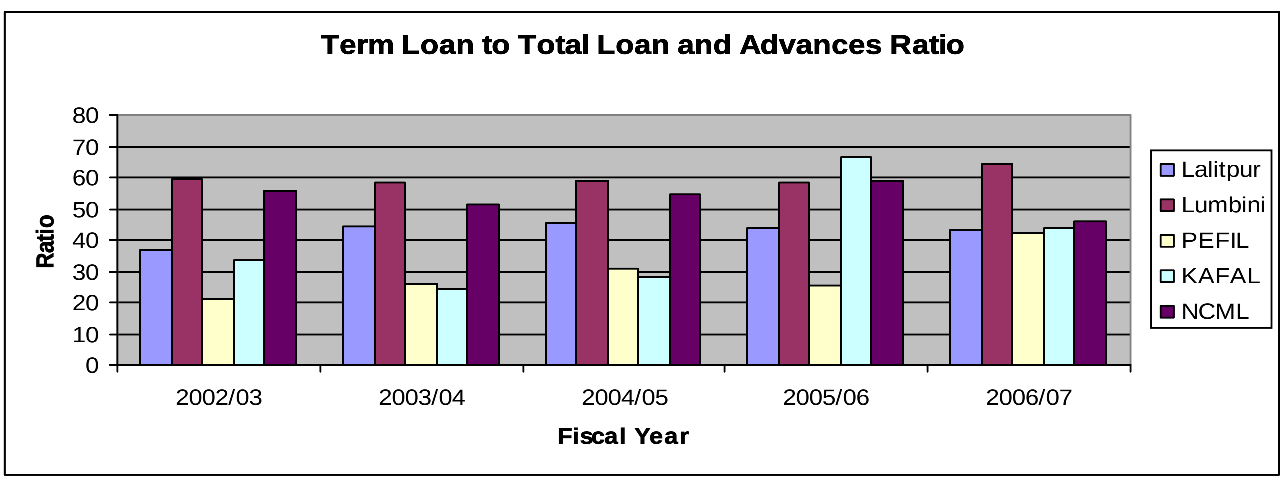


Table 4.16 presents the ratio of term loan to the Total Loans and Advances of all five finance companies under study for the study period. The highest ratio recorded is that of KAFAL in 2005/06, 66.75%. This highest ratio is within the NRB limit. Thus, none of the companies have violated the NRB directives regarding the investment limit of term loan till date. Meaning that none these companies have to make provisions for investing more than the limit in case of term loan. The lowest ratio in the Table above is of PEFIL in 2002/03, 21.31%. But PEFIL has its ratios in increasing trend except a fall of 5.39 million in the year 2005/06 and has again increased to 42.22% in the year 2006/07. In fact PEFIL is the only company which has the ratios of term loan to Total Loans and Advances in increasing trend. Upon analysis it is seen that, Lumbini has the highest ratio amongst all the finance companies through out the study period. After Lumbini, NCML is the first company that has high investments under term loans.

4.4 Analyzing the Lending Efficiency and its contribution in Total Profitability

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

4.4.1 Loan Loss Provision to Total Loans and Advances Ratio

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

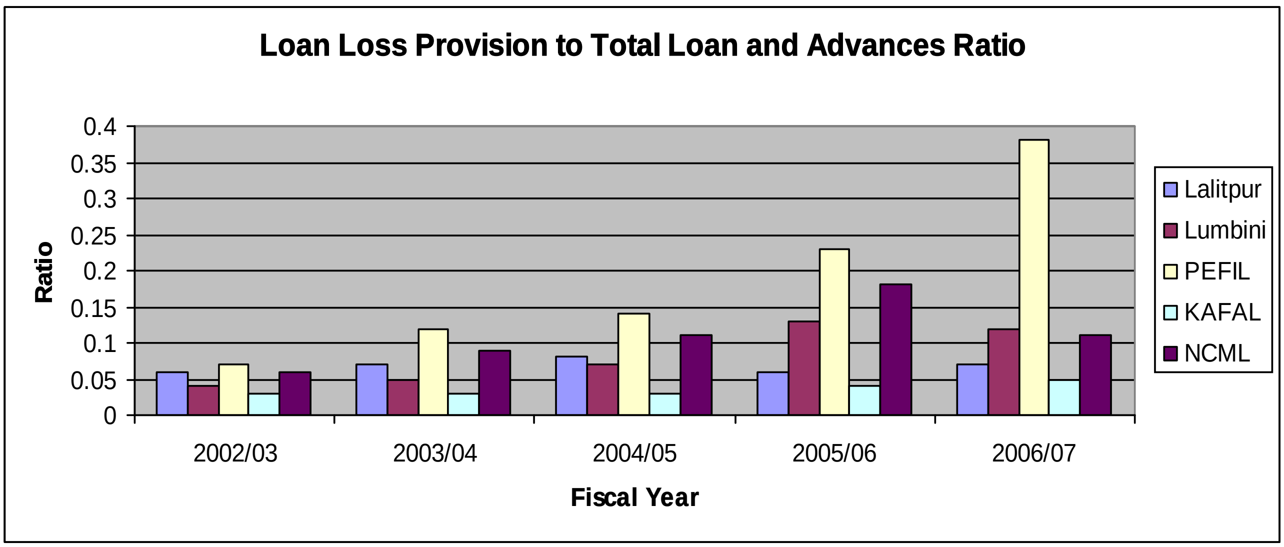
Table 4.17

Loan Loss Provision to Total Loan and Advances Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
Lalitpur	0.06	0.07	0.08	0.06	0.07	0.068
Lumbini	0.04	0.05	0.07	0.13	0.12	0.082
PEFIL	0.07	0.12	0.14	0.23	0.38	0.188
KAFAL	0.03	0.03	0.03	0.04	0.05	0.045
NCML	0.06	0.09	0.11	0.18	0.11	0.110
Combined Mean						0.0986

(Source: - Appendix 8)

Figure 4.12



The tabulated figures of Table 4.17 show the Loan Loss Provision to Total Loans and Advances ratio of all five finance companies during the specified study period. The least ratio registered is that of KAFAL in the years 2002/03, 2003/04 & 2004/05 which is only 0.03. Comparing their mean ratios, PEFIL has the highest amongst all, calculated as 0.38. The combined mean ratio of all five finance companies is 0.0986 and the mean ratio of PEFIL is 90.67% higher than the combined mean. PEFIL has always been provisioning higher than the combined mean except in the first year 2002/03. Provision of KAFAL & Lalitpur has never crossed the combined mean. Except for the last two years ratios of Lumbini is under the combined mean. The overall trend of ratio of all five finance companies has been increasing continuously. From the year 2002/03 to 2006/07, the ratio of Lalitpur has increased by 15%, the ratio of Lumbini has increased by 164.33% and similarly the ratios of PEFIL, KAFAL and NCML has increased by 426.09%, 72.38% and 80.20% respectively. Generally, increase in this ratio suggests the increase in the Non-Performing Loans, which might result in questioning about the effectiveness in the credit policy of the company. The highest ratio of PEFIL clearly depicts the portion of Non-Performing Loans in the Total Loans is higher than in other finance companies.

4.4.2 Non-Performing Loans to Total Loan and Total Loan and Advances Ratio

As the directives given to the finance companies, substandard, doubtful and loss loans are categorized under Non-Performing loans. Increase in Non-Performing Loans increases Loan Loss Provision and Interest Suspense too, which ultimately results in profit deduction. "The banking sector is severely affected by the NPL (Non-Performing Loans) problem. It is estimated that the NPL of the Nepalese banking system is around 16 percent. Therefore, there is no doubt that it has a serious implication on economic performance of the country." (Banking Promotion; 2058:125-127) Even though shown as banking problem, it is as equal the problem of any finance companies in Nepal. And if the 16 percent as given is true; and the calculated mean of the finance companies under study also come around the percentage, we have finance companies whose Non-Performing Loans is higher than the industrial average of banks.

Table 4.18

Non-Performing Loans to Total Loan & Advances Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
Lalitpur	0.09	0.15	0.12	0.07	0.06	0.098
Lumbini	0.21	0.24	0.13	0.15	0.15	0.176
PEFIL	0.08	0.24	0.13	0.31	0.10	0.172
KAFAL	0.08	0.10	0.04	0.06	0.10	0.076
NCML	0.27	0.43	0.22	0.21	0.17	0.260
Combined Mean						0.1564

(Source: - Appendix 9)

Figure 4.13

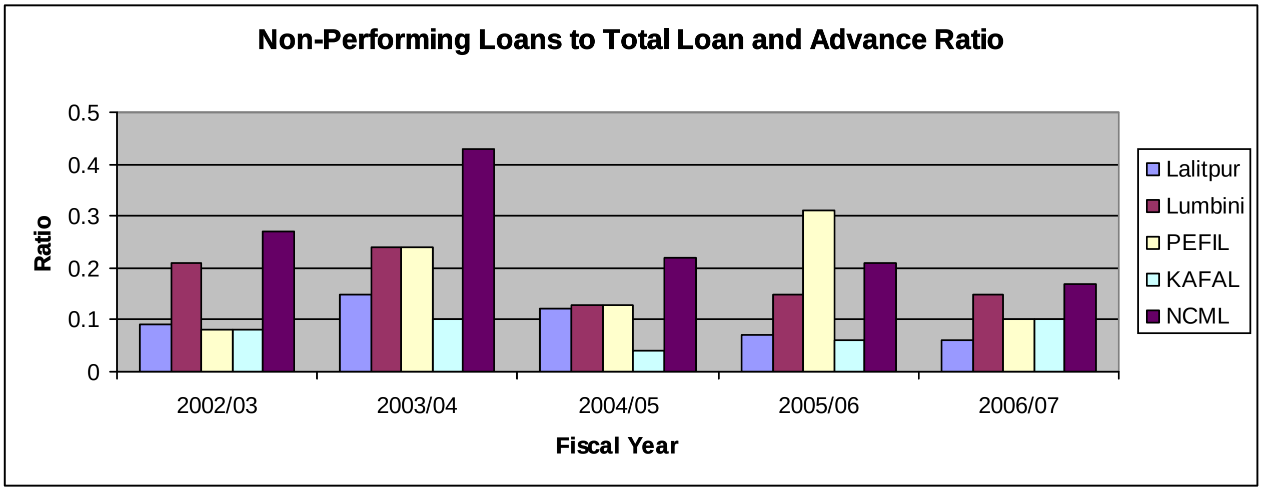


Table 4.18 exhibits that the combined mean of Non-Performing Loans to Total Loans and Advances of five finance companies under study is 0.1564. That is to say, in the total volume of Loans and Advances the Non-Performing Loans represents 15.64%. Similarly, Lalitpur has 9.8% of its Loans and Advances as Non-Performing and to continue observing this ratio we see that Lumbini, PEFIL, KAFAL and NCML have their Non-Performing Loans as 17.6%, 17.2%, 7.6% and 26.0% respectively. This shows that Lumbini, PEFIL and NCML have their Non-Performing Loans higher than that of industrial average of the banks, as we had discussed above. Only Lalitpur and KAFAL have their percentages in one digit whole numbers. This shows how the remaining finance companies are gradually being engulfed by the Non-Performing Loans. The ratio of NCML is very alarming high. High percentage of these ratio questions the good performance of finance companies.

4.4.3 Interest Income from Loans and Advances to Total Income Ratio

Needless to say, income is the most vital part of any business. Besides, in the companies dealing in lending business interest income occupies a greater portion of the Total income. This ratio, interest income from loans and advances to Total Income, measures the volume of interest from Loan and Advances in Total Income. This ratio also helps to measure performance of the finance company on the grounds of its lending policy. The high ratio indicates the high contribution in profits is made by the lending practices than in other risk free investments and vice versa.

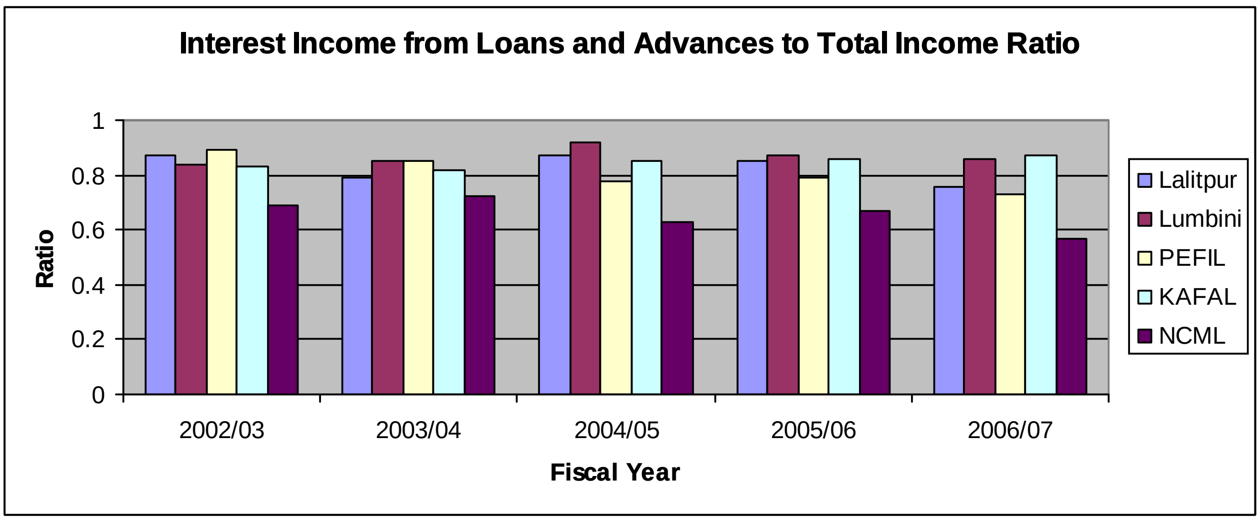
Table 4.19

Interest Income from Loans and Advances to Total Income Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
Lalitpur	0.87	0.79	0.87	0.85	0.76	0.828
Lumbini	0.84	0.85	0.92	0.87	0.86	0.868
PEFIL	0.89	0.85	0.78	0.79	0.73	0.808
KAFAL	0.83	0.82	0.85	0.86	0.87	0.846
NCML	0.69	0.72	0.63	0.67	0.57	0.652
Combined Mean						0.8004

(Source: - Appendix 10)

Figure 4.14



In above table 4.19, the combined mean ratio of all five finance companies is 0.8004. This is indicative of the fact that interest income from Loans and Advances contributes 80.04% in the total income. These ratios of Lalitpur, Lumbini, PEFIL, KAFAL and NCML, all the finance companies have their ratios higher than the combined mean ratio. This clears the fact that, except for NCML, interest income form Loans and Advances have much higher contribution in the Total Income and thus profit of the finance companies. This also clarifies that the finance companies are pretty much aggressive in investment and have invested their funds comparatively much less in risk free investments which bear much lesser return than risky investments.

4.4.4 Interest Suspense to Total Interest Income from Loans and Advances Ratio

Interest Suspense refers to that portion of interest, which is due but not collected. NRB directives do not allow finance companies to book three months due unpaid interest as income. Thus, increase in the Interest Suspense decreases the profit of the company. Such interest is shown in liability side of Balance Sheet under the heading "Other Liabilities and Provisions." This ratio of Interest Suspense to Total Interest Income form Loans and Advances measures the composition of due but uncollected interest in the total interest income from Loans and Advances. The high degree of this ratio refers to the poor interest turnover and vice versa. Thus, this ratio also helps to analyze the capability of the company in collecting the repayments of the Loans and Advances.

Table 4.20

Interest Suspense to Total Interest Income from Loans and Advances Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
Lalitpur	0.18	0.25	0.26	0.26	0.26	0.242
Lumbini	0.21	0.72	0.63	0.61	0.34	0.502
PEFIL	0.36	0.75	1.15	0.74	0.64	0.728
KAFAL	0.00	0.00	0.00	0.00	0.00	0.000
NCML	0.11	0.17	0.62	0.73	0.57	0.440
Combined Mean						0.3824

(Source: - Appendix 11)

Figure 4.15

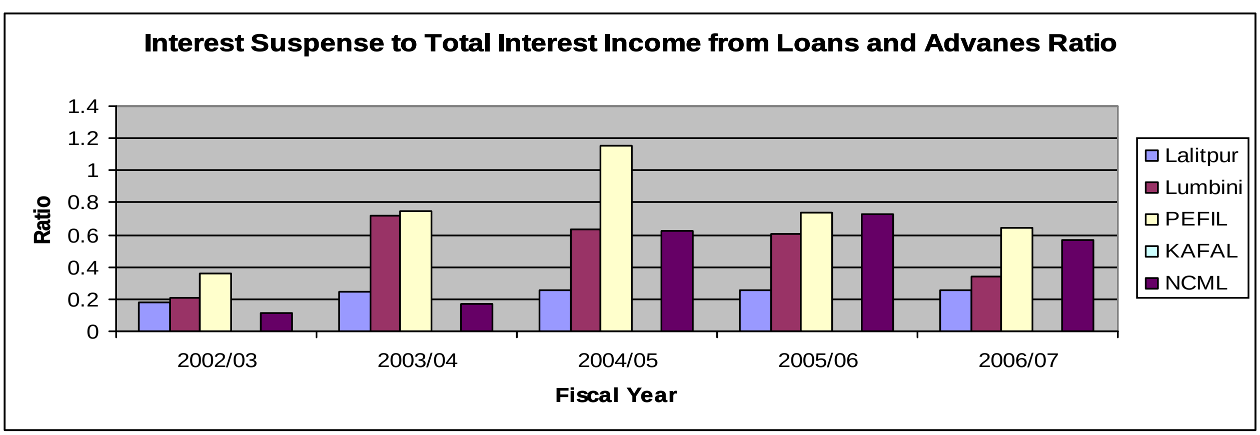


Table 4.20 shows the ratio of Interest Suspense to the Interest Income from Loans and Advances. The combined mean ratio is 0.3824. The mean ratio of Lalitpur seem to be minimum also does not seem to be very high than the combined mean ratio. And that of KAFAL is nil throughout the study period, whereas PEFIL has the maximum ratio through out the study period. The mean ratio of PEFIL is 0.728, that is to say, PEFIL has to maintain Interest Suspense of almost 72.8% of Interest Income from Loans and Advances is canceled out by Interest Suspense and its profit is decreased. Lumbini has the second highest ratio amongst all. Besides these two companies, NCML has its mean ratio higher than the combined mean. Thus, these companies have to put on some extra efforts on collection of repayments of loans to secure their position form futures hazards. However, the ratio of Lumbini has decreased in last year from 0.61 to 0.34 but PEFIL has fluctuating trend ranging from lowest of 0.36 to highest of 1.15 and to 0.64 in the last year 2006/07. Ratios of other finance companies also do not have specific trend but are fluctuating except for Lalitpur which has an increasing trend. Finance companies have to take extra care in collection of their repayment of loans for their sustainability.

4.4.5 Loans and Advances to Total Deposit Ratio

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

Table 4.21

Loans and Advances to Total Deposit Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
Lalitpur	0.98	0.91	0.88	0.96	0.76	0.898
Lumbini	1.04	1.08	0.99	0.92	0.94	0.994
PEFIL	1.01	0.88	0.87	0.69	0.97	0.884
KAFAL	1.10	1.02	1.01	1.03	0.96	1.024
NCML	0.92	0.91	0.99	0.97	1.06	0.970
Combined Mean						0.954

(Source: - Appendix 12)

Figure 4.16

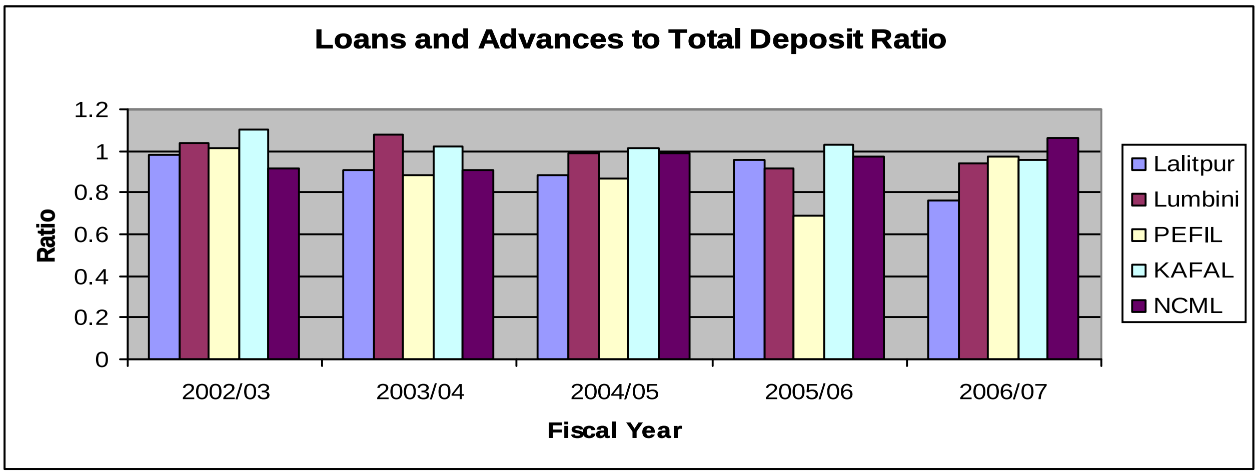


Table 4.21 shows the ratios of Loans and Advances to Total Deposits of all five finance companies under study. The combined mean is 0.954. The minimum ratio is of PEFIL & Lalitpur, which are 0.884 & 0.898 respectively. Whereas KAFAL seems to be doing the best according to this ratio of 1.024, meaning its investment in Loans and Advances are more than the total deposits collected. Finance Companies can afford to invest in Loans and Advances more than they collect Deposits because they also have Shareholder's Equity to be invested apart from the deposits alone. The remaining companies, Lumbini and NCML have their mean ratios way above the combined mean, registered 0.994 and 0.970 respectively. So it can be said that, comparatively, they are doing equally well with Lumbini a little ahead investing almost 100% of its deposits.

4.4.6 Interest Income to Interest Expenses Ratio

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

Table 4.22

Interest Income to Interest Expenses Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
Lalitpur	1.80	1.57	1.75	1.66	1.44	1.644
Lumbini	1.63	1.53	1.96	1.66	1.96	1.748
PEFIL	1.91	1.52	1.52	2.09	2.11	1.830
KAFAL	1.66	1.69	1.72	1.74	1.72	1.706
NCML	1.54	1.72	1.22	1.46	1.79	1.546
Combined Mean						1.6948

(Source: - Appendix 13)

Figure 4.17

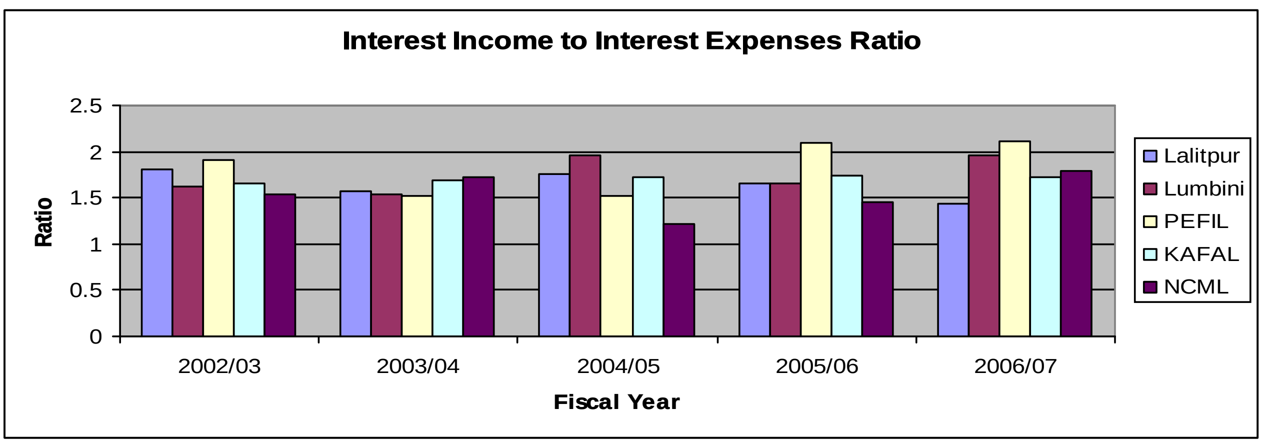


Table 4.22 above, shows the ratio of Interest Income to Interest Expenses of finance companies under study with the combined mean 1.6948, which indicates that a rupee of expense in deposits generates 1.6948 rupees of interest income and interest expenses. PEFIL has the highest ratio of 2.11 in the year 2006/07 and it is the year PEFIL had

succeeded to overcome its loss and make comparatively normal profits. NCML has the least mean ratio and also has the least ratio through out. The least ratio of NCML is result of its heavy investment in risk free assets than in Loans and Advances, which generates lower interest income.

4.4.7 Net Profit to Shareholder's Equity Ratio

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

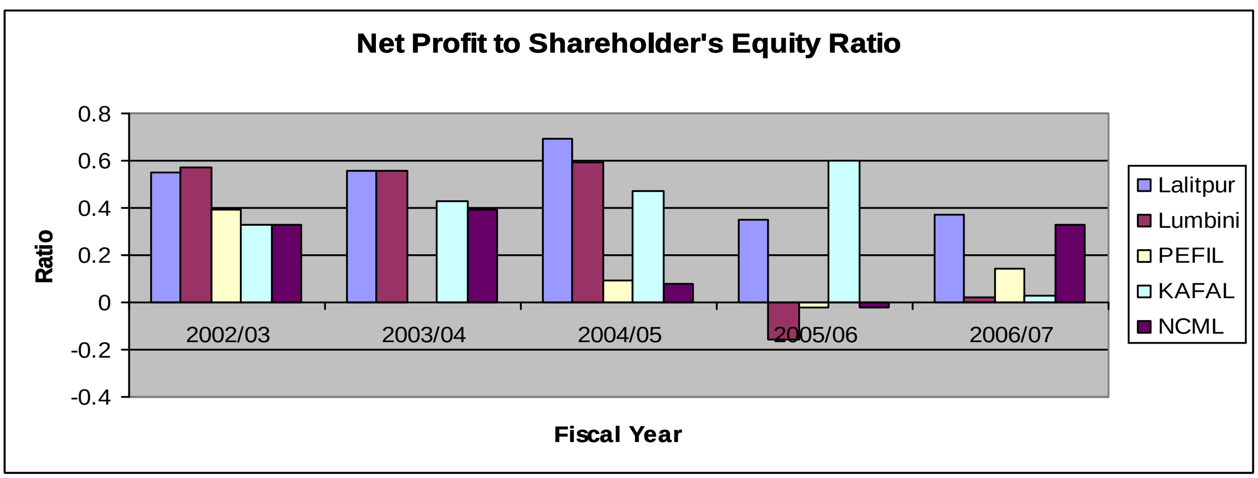
Table 4.23

Net Profit to Shareholder's Equity Ratio

	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
Lalitpur	0.55	0.56	0.69	0.35	0.37	0.504
Lumbini	0.57	0.56	0.59	-0.16	0.02	0.316
PEFIL	0.39	0.00	0.09	-0.02	0.14	0.120
KAFAL	0.33	0.43	0.47	0.60	0.03	0.372
NCML	0.33	0.39	0.08	-0.02	0.33	0.222
Combined Mean						0.3068

(Source: - Appendix 14)

Figure 4.18



The above table 4.23 shows the ratio of Net Profit to the Shareholder's Equity of all the finance companies under study. Lalitpur has the highest mean ratio of 0.504. KAFAL is second with mean ratio 0.372 and just behind Lumbini with 0.316. Other two finance companies have their mean ratios less than the combined mean of 0.3068. PEFIL and NCML have the mean ratio of 0.12 and 0.22 respectively.

4.4.8 Earning Per Share (EPS)

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

Table 4.24

Earning Per Share (EPS)

	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
Lalitpur	55.08	56.33	69.18	34.81	37.45	50.570
Lumbini	34.02	33.87	35.42	-14.04	1.49	18.152
PEFIL	33.29	0.44	8.87	-1.50	13.93	11.006
KAFAL	32.78	42.51	47.18	60.32	3.08	37.174
NCML	32.96	38.69	7.83	-2.37	31.61	21.744
Combined Mean						27.7292

(Source: - Appendix 4)

Figure 4.19

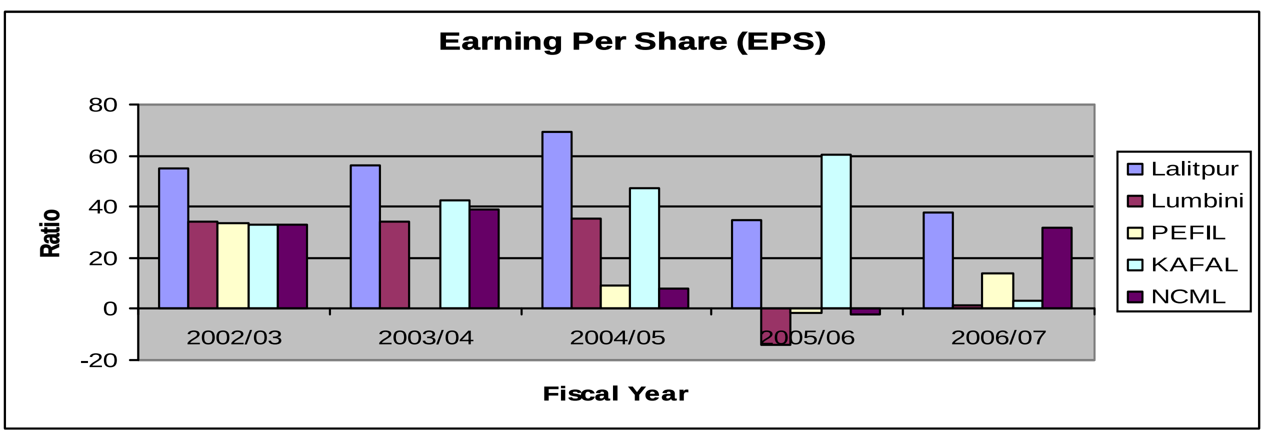


Table 4.24 shows that EPS of Lalitpur is the highest through out the years and has the highest mean of 50.57, while the combined mean is 27.7292. The lowest EPS mean is that of PEFIL, 11.006. KAFAL has the second highest EPS mean with 37.174. EPS of Lumbini has sharply decreased by 139.64% in 2005/06 from 2004/05. Since then, it's been rising, even though in small pace. PEFIL has also the same case i.e. its EPS fall by 98.68% in the year 2003/04 from 33.29 in the year 2002/03. The mean EPS of other finance companies are below the combined mean which are 18.152 and 21.744 of Lumbini and NCML respectively.

4.5 Correlation Analysis

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

4.5.1 Correlation between Deposits and Loans and Advances

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

Table 4.25

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

	r	**r^2**	**P. Er.**	**6 x P. Er.**	**Remarks**
Lalitpur	0.9401	0.8838	0.0351	0.2103	Significant
Lumbini	0.9798	0.9600	0.0121	0.0723	Significant
PEFIL	0.9626	0.9266	0.0221	0.1329	Significant
KAFAL	0.9883	0.9767	0.0070	0.4190	Significant
NCML	0.9854	0.9710	0.0087	0.0523	Significant

(Source: - Appendix 15)

The above table 4.25 shows the relation between Deposits and Loans and Advances, which seem to have high degree of positive relation. All the finance companies have almost 1 Correlation Coefficient. The value of ‘r’ is highest in KAFAL i.e. 0.9883. The relation of Deposits and Loans and Advances is lowest in Lalitpur as compared to other finance companies under study which is 0.9401, depicting that it does not have investments in Loans and Advances as according to the increment in Deposits than others. Whereas, in case of Lumbini, KAFAL, PEFIL and NCML, a percentage increase in Deposit is likely to bring the same percentage of change in the value of Loans and Advances. To be more specific, there is highest probability of this happening in KAFAL. Besides, the value of ‘r’ in all companies is more than six times the P.E., which concludes that the correlation between Deposits and Loans and Advances is certain and significant in all five finance companies.

Since the calculated value of ‘r’ of all the five finance companies is greater than 6 x P.E., the relationship between Deposits and Loan and Advances is significant.

4.5.2 Correlation between Shareholder’s Equity and Loans and Advances

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

Table 4.26

r, P. Er. and 6 x P. Er. between Shareholder’s Equity and Loans and Advances

	r	r^2	P. Er.	6 x P. Er.	Remarks
Lalitpur	0.9901	0.9803	0.0059	0.0357	Significant
Lumbini	0.9193	0.8451	0.0467	0.2802	Significant
PEFIL	0.2624	0.0688	0.2809	1.6853	Insignificant
KAFAL	0.3158	0.0997	0.2716	1.6294	Insignificant
NCML	0.8459	0.7155	0.0858	0.5147	Significant

(Source: - Appendix 15)

Table 4.26 explains the degree of correlation between Shareholder's Equity and Loans and Advances in different finance companies under study. Lalitpur, Lumbini and NCML have positive high degree of correlation depicting every increase in Shareholder's Equity increased Loans and Advances, which also showed well mobilization of funds collected. PEFIL and KAFAL have lowest degree. The analysis of 6 times P.Er. says that the correlation of PEFIL and KAFAL can't be taken on confidently, since their Correlation Coefficient is lesser than the value of 6 times of P.Er.

The calculated value of 'r' of Lalitpur finance, Lumbini finance and NCML is greater than 6 x P.E. so it reveals that the relationship between Shareholder's equity and Loan and Advances is significant. On the contrary, the calculated value or 'r' of PEFIL and KAFAL is less than 6 x P.E. the relationship between Shareholder's equity and Loan and Advances is insignificant.

4.5.3 Correlation between Investments and Loans and Advances

This correlation measures the degree of relationship between investments and Loans and Advances. This measure of correlation explains whether the finance companies have a rigid policy to maintain a consistent relationship between two assets or other factors such as seasonal opportunities, economic demand, NRB directives etc. have impact on the volume of these two variables. The volume of investment does not have any impact on Loans and Advances as every finance company, or most of them, has first priority on Loans and Advances to Investments. Theoretically, increase or decrease in the volume of Loans and Advances directly reduces or increases the level of idle funds and this idleness of funds increases the investments. Thus, it is expected to have negative correlation in between these two variables.

Table 4.27

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

	r	r^2	P. Er.	6 x P. Er.	Remarks
Lalitpur	0.5317	0.2827	0.2164	1.2982	Insignificant
Lumbini	-0.0907	0.0082	0.1577	0.9464	Insignificant
PEFIL	-0.6084	0.3701	0.1899	1.1399	Insignificant
KAFAL	-0.1477	0.0218	0.2950	1.7702	Insignificant
NCML	0.8409	0.7071	0.0883	0.5301	Significant

(Source: - Appendix 15)

Table 4.27 shows the Correlation Coefficient between investments and Loans and Advances of all five finance companies under study. NCML only has a high degree of positive correlation of 0.8409. This means NCML has maintained a steady ratio between investments and loans and advances. Lalitpur has moderate positive correlation of 0.5317 highlighting their seasonal character, which other finance companies seem to be missing. As further explanations given by the Table 34, Lumbini, PEFIL and KAFAL have negative correlations, that of PEFIL being high degree. This clearly shows that these companies invest in Loans and Advances by cutting down their volume in their investments, depicting that probably they do not have idle fund. They do not keep idle fund but invest in risk free assets which can be realized immediately as and when required for investing in Loans and Advances. Besides analyzing the correlation, glancing upon the 6 times of P.Er. It can be said that the except for NCML correlations registered in above Table 4.27 are not much reliable and significant.

The calculated value of ‘r’ of only NCML is greater than 6 x P.E. so it reveals that the relationship between Investment and Loan and Advances is significant. On the contrary, the calculated value or ‘r’ of Lalitpur, Lumbini, PEFIL and KAFAL is less than 6 x P.E. the relationship between Investment and Loan and Advances is insignificant.

4.5.4 Correlation between Total Income and Loans and Advances

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

Table 4.28

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

	r	**r^2**	**P. Er.**	**6 x P. Er.**	**Remarks**
Lalitpur	0.6255	0.3912	0.1836	1.1018	Insignificant
Lumbini	0.9023	0.8141	0.0561	0.3364	Significant
PEFIL	0.4274	0.1826	0.2466	1.4793	Insignificant
KAFAL	0.9958	0.9916	0.0025	0.0152	Significant
NCML	0.8833	0.7802	0.0663	0.3978	Significant

(Source: - Appendix 15)

Table 4.28 shows the correlation between Total Income and Loans and Advances of the finance companies under study. KAFAL has the highest degree of positive relation with 0.9958 as the value of ‘r’. After KAFAL, Lumbini, NCML and Lalitpur have the high degree positive correlation in descending order. In comparison to these four companies with more than 62.55% correlation, PEFIL has only moderate degree positive correlation between Total Income and Loans and Advances, which probably shows that it is not being able to generate all income from the loans and Advances it had invested in. In case of other four finance companies, Total Income is increasing in almost more than half or equal percentage with Loans and Advances. The deviation of percentage change is due to unpaid installments of Loans and Advances. Except for PEFIL and Lalitpur the value of ‘r’ is very reliable and significant since it is greater than 6 times of P.Er.

The calculated value of ‘r’ of Lumbini finance and NCML is greater than 6 x P.E. so it reveals that the relationship between Total Income and Loan and Advances is significant. On the contrary, the calculated value or ‘r’ of Lalitpur finance, PEFIL and KAFAL is less than 6 x P.E. the relationship between Total Income and Loan and Advances is insignificant.

4.5.5 Correlation between Interest Suspense and Interest Income

Interest Suspense is earned but uncollected interest. This correlation measures the relationship between interest suspense and interest income. Interest income which is due and uncollected for 3 months is transferred to interest Suspense and thus, interest income is reduced.

Table 4.29

r, P. Er. and 6 x P. Er. Between Interest Suspense and Interest Income

	r	r^2	P. Er.	6 x P. Er.	Remarks
Lalitpur	0.8375	0.7014	0.0901	0.5404	Significant
Lumbini	0.1527	0.0233	0.2946	1.7677	Insignificant
PEFIL	-0.5981	0.3577	0.1937	1.1624	Insignificant
KAFAL	0.0000	0.0000	0.3016	1.8099	Insignificant

(Source: - Appendix 15)

Table 4.29 shows that except for PEFIL there's positive relation between Interest Suspense and Interest Income. Lalitpur has the highest degree of correlation whereas KAFAL has the zero correlation. The value of 'r' of Lalitpur is greater than that of is 6 times P.Er., the relation is significant. And since Lumbini, PEFIL, KAFAL and NCML have lowest value than 6 times of P.Er. their correlations are not significant and reliable.

The calculated value of 'r' of only Lalitpur finance is greater than 6 x P.E. so it reveals that the relationship between Interest Suspense and Interest Income is significant. On the contrary, the calculated value or 'r' of Lumbini finance, PEFIL, NCML and KAFAL is less than 6 x P.E. the relationship between Interest Suspense and Interest Income is insignificant.

4.5.6 Correlation between Loan Loss Provision and Loans & Advances

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

Table 4.30

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

	r	r^2	P. Er.	6 x P. Er.	Remarks
Lalitpur	0.8960	0.8028	0.0594	0.3567	Significant
Lumbini	0.9339	0.8722	0.3860	0.2313	Significant
PEFIL	-0.8382	0.7026	0.0897	0.5382	Insignificant
KAFAL	0.8108	0.6574	0.1033	0.6200	Significant
NCML	0.7965	0.6344	0.1103	0.6616	Significant

(Source: -Appendix 15)

Table 4.30 shows that except for PEFIL all the other finance companies have high degree positive correlation between Loan Loss Provision and Loans and Advances. They are all significant for their values of ‘r’ are greater than that of 6 times P.Er. The negative ‘r’ of PEFIL can be explained as its Loans and Advances did not increase in last two years but its Non-Performing Loans did. This resulted in increase in Loans and Advances. Moreover since correlation of PEFIL is lower than 6 times of P.Er. the value cannot be considered as significant and reliable.

The calculated value of ‘r’ of Lalitpur finance, Lumbini finance, KAFAL and NCML is greater than 6 x P.E. so it reveals that the relationship between Loan Loss Provision and Loans and Advances is significant. On the contrary, the calculated value or ‘r’ of only PEFIL is less than 6 x P.E. the relationship between Loan Loss Provision and Loan and Advances is insignificant.

4.5.7 Correlation between Interest Income and Net Profit

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

Table 4.31

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

	r	r^2	P. Er.	6 x P. Er.	Remarks
Lalitpur	0.5440	0.2959	0.2124	1.2741	Insignificant
Lumbini	-0.3885	0.1509	0.2561	1.5367	Insignificant
PEFIL	0.5927	0.3513	0.1957	1.1739	Insignificant
KAFAL	0.1643	0.0269	0.2935	1.7610	Insignificant
NCML	0.6649	0.4421	0.1683	1.0096	Insignificant

(Source: -Appendix 15)

Above table 4.31, shows the correlation of Interest Income and Net Profit. The highest degree of correlation recorded is that of NCML with 0.6649. Besides Lalitpur and PEFIL have moderate degree of correlation. Lumbini has the negative correlation. All of the five finance companies have insignificant correlations because its 6 times P.Er. are greater than the value of ‘r’.

The calculated value of ‘r’ of all the finance companies is less than 6 x P.E. so it reveals that the relationship between Interest Income and Net Profit is insignificant.

4.6 Measuring the Propensity of Growth based on Trend Value

So far we have calculated various measures of relative financial tool and absolute measures of statistical tools. In this chapter the trend analysis of Loans and Advances and Earning Per Share (EPS) is examined. The measure of trend analysis exhibits the behavior of given variables in series of time. The performance of any finance company does not carry consistency over all the period and several factors cause the increase or decrease in the volume of various items. The trend of any variable and the slope of trend line relating with the compound interest discount factor measures the Growth Rate of the variable. Thus, along with the analysis of trend line the Growth Rate has also been measures in this chapter.

4.6.1 Trend Analysis and Propensity of Growth of Loans and Advances

Trend analysis shows the linear equation with respect to their loans and advances. Using the linear equation Y= a+bX.

Table 4.32

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

	Linear Eq^{n}s (2003 = 1)	2003	2007	2012	Propensity to Growth
Lalitpur	330.9+42.5X	373.40	543.40	755.90	42.50
Lumbini	501.8+42.11X	543.91	712.35	922.90	42.11
PEFIL	154.32-7.65X	146.67	116.07	77.82	-7.65
KAFAL	214.86+21.58X	236.44	322.76	430.66	21.58
NCML	316.59+46.90X	363.50	551.11	785.59	46.90
Combined Mean					**29.09**

(Source: - Appendix 15)

From the Table 4.32 above, shows the linear equation based on Y = a + bX of respective finance companies with respect to their Loans and Advances. The third and fourth column represents the amount of Loans and Advances based on the equation in second column for the year 2003 and 2007 respectively. The Fifth column represents the Propensity to Growth i.e. an amount of Loans and Advances that is likely to be increased in one year period based on the linear equation.

It can be seen that NCML has the highest Propensity to Growth in Loans and Advances. It is likely to increase by Rs. 46.90 million in one year period. The Propensity to Growth in PEFIL is the least; in fact it has negative growth. The Propensity to Growth of Lalitpur and Lumbini are higher than the average of Rs. 29.09 million, likely to increase their loans by

Rs. 42.5 million and Rs. 42.11 million in one year period respectively. KAFAL is likely to increase its loans and Advances by Rs. 21.58 million in one year period, through below average.

From the above table, the forecasting value for the year 2012, all the finance companies growth value of loans and advances are increasing except PEFIL whose growth rate is in negative and is more decreased. The highest forecasted value of loan and advance is of Lumbini finance of 922.90 million and lowest is of PEFIL of 77.82.

4.6.2 Trend analysis and Propensity of Growth of Earning per Share (EPS)

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

Table 4.33

Trend Equation and Propensity to Growth of EPS (in million)

	Linear Eq^{n}s (2003 = 1)	2003	2007	2012	Propensity to Growth
Lalitpur	50.57-5.68X	44.89	22.18	6.23	-5.68
Lumbini	18.15-11.29X	6.86	-38.33	-94.75	-11.29
PEFIL	11.01-4.07X	6.94	-9.32	-29.69	-4.07
KAFAL	37.15-4.17X	32.98	16.31	-4.55	-4.17
NCML	21.74-4.38X	17.37	-0.14	-22.06	-4.38
Combined Mean					**-5.918**

(Source: - Appendix 15)

The Table 4.33 above, shows the linear equation based on Y = a + bX of respective finance companies with respect to their EPS. The third and fourth column represents the amount of Earning Per Share based on the equation in second column for the year 2003 and 2007 respectively. The fifth column represents the Propensity to Growth i.e. EPS that is likely to be increased in one year period based on the linear equation.

The combined mean shows negative growth of Rs. 5.918 million meaning that none of these finance companies will show positive propensity to growth of EPS in the coming year. All of the five finance companies under study have negative propensity to growth of EPS in the next year. The highest negative growth will be shown by Lumbini and PEFIL will be showing the lowest negative growth.

From the above table, the forecasting value for the year 2012, all the finance companies growth value of Earning per Share are decreasing and in negative except Lalitpur whose growth rate is in positive. The highest forecasted value of Earning per Share of Lalitpur finance is of 6.23 million whereas the lowest is of Lumbini of negative 94.75 million.

4.7 Major Findings of the Study

From the Analysis of data, following findings can be made: -

- The average Investment to Loan and Advance and Investment ratio of all five finance companies is 0.09. The mean ratios of Lalitpur, Lumbini, PEFIL, KAFAL and NCML are 0.13, 0.06, 0.10, 0.03 and 0.11 respectively. Lalitpur, PEFIL and NCML have registered the higher ratio than the Combined Mean. This infers that Lalitpur, PEFIL and NCML have the lowest degree of investment in risky assets. And similarly, KAFAL has the lowest ratio meaning it has high degree of investment in risky assets.
- The average Advances and Investment to Total Deposit ratio of all the five finance companies is 1.04. The mean ratios of Lalitpur, Lumbini, PEFIL, KAFAL and NCML are 1.03, 1.05, 0.98, 1.06, and 1.10 respectively. NCML has the highest mean ratio. Except for PEFIL & Lalitpur, all the finance companies have their ratios higher than the Combined Mean. This shows NCML has been doing best in mobilizing the funds collected in an income-generating sector. And since the ratio is above 1, it refers that none of the deposit is idle. There is maximum utilization of the collected funds.
- The average Loans and Advances to Shareholder' Equity ratio of all the finance companies is 10.51. The mean ratios of Lalitpur, Lumbini, PEPIL, KAFAL, and

NCML are 12.86, 13.66, 7.39, 9.96 and 8.70 respectively. Lumbini has the highest mean ratio whereas PEFIL has the lowest. Since the ratios of PEFIL, KAFAL and NCML are lying below the Combined Mean, it can be concluded that they have not succeeded in increasing Loans and Advances in proportion to the size of their capital.

- When measuring the lending strength in absolute terms, the mean Loans and Advances of Lumbini is highest of all as 501.80 and PEFIL has the least of 154.34. PEFIL is lowest with 32.22. Thus, the performance of PEFIL is more consistence regarding giving out loans and advances in comparison of other finance companies. Whereas coefficient of variance is highest of NCML i.e. 21.07% and the lowest is of Lumbini, 11.96%.
- The Mean Non-Performing Loan of Lumbini is highest of all and the lowest of that is of KAFAL. The highest Standard Deviation of Non-Performing Loan is that of NCML, 19.53 and lowest is that of KAFAL, 5.09. This means KAFAL is performing well regarding the management of Non-Performing Loans. Deviation of NCML is very high; this might call for problems in future if not controlled in time. Similarly, the highest Coefficient of Variation is of PEFIL with 38.64% and the lowest is that of Lumbini with 17.38%.
- While analyzing the Net profit of five finance companies, the PEFIL has the lowest Mean during the study period. It has the Mean of 2.52 with variability of 105.07%, whereas Lalitpur has the highest Mean of 12.51 with variability of 14.58%. The Mean Net Profits of Lumbini, KAFAL and NCML are 9.26, 7.49 and 7.32 respectively and their respective Standard Deviation is 11.47, 3.73 and 6.63. Under this analysis it can be said that Lalitpur has the best performance.
- While analyzing the Lending Efficiency and its contribution in Total profitability of Loan Loss Provision to Total Loan and Advances, PEFIL has the highest amongst all, calculated as 0.38. The combined mean ratio of all five finance companies is 0.0986 and the mean ratio of PEFIL is 90.67% higher than the combined mean. The highest ratio of PEFIL clearly depicts the portion of Non-Performing Loans in the Total Loans is higher than in other finance companies.

- While analyzing Interest Income from Loan and Advances to Total Income, the ratios of Lalitpur, Lumbini, PEFIL, KAFAL and NCML, all the finance companies have their ratios higher than the combined mean ratio. This clears the fact that, except for NCML, interest income form Loans and Advances have much higher contribution in the Total Income and thus profit of the finance companies. This also clarifies that the finance companies are pretty much aggressive in investment and have invested their funds comparatively much less in risk free investments which bear much lesser return than risky investments.
- While analyzing Earning per Share, EPS of Lalitpur is the highest through out the years and has the highest mean of 50.57, while the combined mean is 27.7292. The lowest EPS mean is that of PEFIL, 11.006. KAFAL has the second highest EPS mean with 37.174. EPS of Lumbini has sharply decreased by 139.64% in 2005/06 from 2004/05. Since then, it's been rising, even though in small pace. PEFIL has also the same case i.e. its EPS fall by 98.68% in the year 2003/04 from 33.29 in the year 2002/03. The mean EPS of other finance companies are below the combined mean which are 18.152 and 21.744 of Lumbini and NCML respectively.
- The Correlation between Deposits and Loan and Advances of all the five finance companies is significant. The correlation between Shareholder's equity of Lalitpur, Lumbini and NCML are significant. The correlation between Investment and Loan and Advances of only NCML is significant, rest all are insignificant. The correlation between interest income and Net Profit, all the five finance companies are insignificant.

CHAPTER V

SUMMARY CONCLUSION & RECOMMENDATIONS

5.1 Summary

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

An attempt of studying the lending practices of the finance companies of Nepal is made in the thesis report. Five finance companies were taken as the sample for the study and the study is made around those five finance companies namely Lalitpur Finance Co. Ltd., Lumbini Finance & Leasing Co. Ltd., People's Finance Ltd., Kathmandu Finance Co. Ltd. and NIDC Capital Markets Ltd. The quantitative analysis, for the findings and conclusion, were made of the data collected from these five finance companies.

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

5.2 Conclusion

The measurement of Lending strength in relative terms has revealed that Lalitpur has the highest Investment to Loans and Advances and Investment ratio. This ratio gives the portion of risk free investment out of total Loans and Advances and Investment. NCML has the highest Loans and Advances and Investment to Total Deposit ratio referring that it has the maximum mobilization of deposits than others.

The absolute measure of lending strength reveals that Lumbini has the highest mean of 501.80 in Loans and Advances with a fluctuating trend but NCML has the highest standard deviation of 66.7 million. The portfolio analysis has revealed that leasing financing has been left out by all the finance companies of 25% of the excess volume. Considering the most years' data of all the five finance companies under the study are all in the line with the directives provided. In case of term loan, NRB directives have set the standard of 75% but the punishment of providing Loan Loss Provision is the same. None of the finance companies have ever exceeded this limit; none of them have ever reached even 60% till date.

The measurement of efficiency in Lending has revealed that Loan Loss Provision to Total Loan & Advances Ratio is pretty satisfactory since according to NRB directives Loan Loss Provision indicates provision against both Performing and Non-Performing Loans. Thus, even the increase in good loan increases the Loan Loss Provision.

The ratio of Interest Income from Loans and Advances to Total Income explains the contribution of interest income from loans and advances in the Total Income. The ratio of Interest Suspense to Interest income from loans and advances among these finance companies is of varying nature. The greater the ratio the greater is the chance of the failure of the finance companies in realizing its loan interest in cash. The ratio of interest income to interest expenses is pretty interesting. According to analysis, the one rupee of interest expense has been able to earn Rs. 1.69 in an average.

The measurement of ratio of Loans and Advances to Total Deposits shows the high capability of finance companies under study have its tilt towards investment in risky assets. The high degree positive correlation between Deposits and Loans and Advances of all finance companies shows that mobilization of Loans and Advances is in high degree in respect to the Deposits collected. This is indicative of availability of good lending opportunities.

There is no uniformity in correlation of two variables in different finance companies. High degree of positive correlation indicates good performance. More than a half of the companies have negative correlation between investments and Loans and Advances probably because unavailability of good lending opportunities results in increase in Investment and vice versa.

The trend analysis of Loans and Advances has revealed that, Lumbini has the highest trend line and thus is the best amongst the five finance companies in accordance to giving out loans and Advances. The trend analysis of EPS, that checks the financial health of an organization, shows that all of the finance companies under study have a decreasing trend. Along with the average line, all the other finance companies have a decreasing trend of EPS.

Qualitative analysis of Recovery of Loan has revealed the practical problems in collection of mobilized loans and Advances. Once the loan is given, it’s more like the company has to, literally chase the borrower to recover its investment. Its probably is the lack of government support, from the regulations it makes, that the borrower normally dominates the company, provided that the borrower is a known of the regulations such that he can manipulate it to his benefit. Liquidation of collateral, as regarded as security against the loan advanced, is one very tedious job. Realization of default loan via the liquidation of collateral does not turn out to be as simple as it sounds. The most distributing part is that there is no such directive regarding recovery of loans. It was said that the directives regarding recovery of loans were made but is not circulated till date.

5.3 Recommendations

Based on the conclusions, the following recommendations have been forwarded: -

1. Investment to Loans and Advances and investment mean ratio of Lumbini and KAFAL are way to below the combined mean. Investment in risk-free assets is also important. Though flows of loans in riskier assets are quite profit some default of those loans will make the company hard to sustain for a longer period of time. Investment in risk-free and riskier asset should go hand in hand. Thus, Lumbini and KAFAL should increase in their risk free assets at least to the combined mean.

2. In overall, Loans and Advances of finance companies are increasing and so are Non-Performing Loans and Loan Loss Provision. Extra efforts should be enforced to control over NPL, especially in the case of Lumbini, Lalitpur and NCML. Lumbini however is working over this but it still is not sufficient.

3. All the finance companies have increasing Loan Loss Provision; it may be because there is provision of maintaining 1% Loan loss provision for the "Pass" loan too. According to NRB Directives the loans which exceed the due period of more than three months is considered as non performing loan. The new loans are likely to be categorized as non performing loans in short span of time of mere three months. All the finance companies should take extra care for not increasing the non performing loans. They should be in high alert and should be well known about the due period of the loanees so they can inform their clients through different medium (letters, phone calls, personal meeting etc.) in advance. This helps a lot in maintaining the sound position of the institution. Moreover, every finance company should try to collect its new as well as old loans. Collection of more of the non performing loans helps the institution to reduce the amount of loan loss provision.

4. NCML has the highest loans and advances and investment to Total Deposit referring that it has the highest mobilization of deposits whereas PEFIL has the least ratio. Every finance company is required to maintain certain percentage of liquidity as per the directives given by the NRB. They should not forget the level of liquidity

required to be maintained before flowing of loans. There is punishment by NRB for violating the rules directed by NRB.

5. The finance companies are suggested that they keep track of their authorized quota to invest in specific loan category else there's provision of punishment according to the NRB Directives. According to the directives of NRB, finance companies can invest only 40% of total loan in hire purchase else they have to make provision of 25% of the excess volume. Considering the most years' data of all the five finance companies under the study all are in line with the directives provided. Finance companies have been mending the over investment but still in previous years NCML and Lalitpur have been violating the directives in different years. PEFIL has exceeded this percentage in 2004/05. NCML has the lowest investment in hire purchase as compared to other finance companies under study. They are recommended to work under the guidelines of NRB.

6. NRB has the same criterion in regards to housing loan too. But Lalitpur has more than 40% in the first year and NCML has in 2005/06. But, however they have been trying to maintain their percentage. Anyway all the finance companies are suggested to follow the directives given by NRB.

7. The ratio of Interest Suspense to Total Interest Income from loans and Advances mean ratio is highest of PEFIL. It has to maintain almost 72.80% of interest income from Loans and Advances as Interest Suspense. This depicts the failure of PEFIL in realizing its loans' interest and has to work hard on collecting its repayment installments timely. Lumbini is not far from the situation of PEFIL with 0.502 as its mean ratio. High Interest Suspense decreases the profits of the company. Other finance companies including the above mentioned are also recommended on concentrating in collecting their installment payments timely. KAFAL has 0 ration that means it has no interest suspense in the years passed but there might be in the future, so KAFAL is also recommended to be alert.

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Trend Equation of Loan and Advances

Lalitpur Finance

Year(T)	Loan(Y)	X=T-3	X*Y	X^2		a	330.90
1	246.6	-2	-493.2	4		b	42.50
2	305.5	-1	-305.5	1		2060	373.40
3	294.3	0	0	0		2061	415.90
4	392.5	1	392.5	1		2062	458.40
5	415.6	2	831.2	4		2063	500.90
	1654.50		**425**	**10**		2064	543.40

Lumbini Finance

Year(T)	Loan(Y)	X=T-3	X*Y	X^2		a	501.8
1	421.5	-2	-843	4		b	42.11
2	462.1	-1	-462.1	1		2060	543.91
3	495.9	0	0	0		2061	586.02
4	532.8	1	532.8	1		2062	628.13
5	596.7	2	1193.4	4		2063	670.24
	2509		**421.1**	**10**		2064	712.35

Peoples Finance

Year(T)	Loan(Y)	X=T-3	X*Y	X^2		a	154.32
1	186.5	-2	-373	4		b	-7.65
2	164.9	-1	-165	1		2060	146.67
3	140.2	0	0	0		2061	139.02
4	98.6	1	98.6	1		2062	131.37
5	181.4	2	362.8	4		2063	123.72
	771.6		**-78.5**	**10**		2064	116.07

KAFAL

Year(T)	Loan(Y)	X=T-3	X*Y	X^2		a	214.86
1	153.5	-2	-307	4		b	21.58
2	199.1	-1	-199.1	1		2060	236.44
3	236.7	0	0	0		2061	258.02
4	248.1	1	248.1	1		2062	279.6
5	236.9	2	473.8	4		2063	301.10
	1074.3		**215.8**	**10**		2064	322.76

NCML

Year(T)	Loan(Y)	X=T-3	X*Y	X^2		a	316.6
1	226.7	-2	-453.4	4		b	46.9
2	268.3	-1	-268.3	1		2060	363.5
3	316.9	0	0	0		2061	410.4
4	351.5	1	351.5	1		2062	457.3
5	419.6	2	839.2	4		2063	504.2

	1583		**469**	**10**		2064	551.1

Trend Equation of Earning Per Share

Lalitpur Finance

Year(T)	EPS (Y)	X=T-3	X*Y	X^2		a	50.57
1	55.08	-2	-110.16	4		**b**	-5.678
2	56.33	-1	-56.33	1		2060	44.892
3	69.18	0	0	0		2061	39.214
4	34.81	1	34.81	1		2062	33.536
5	37.45	2	74.9	4		2063	27.858
	252.85		**-56.78**	**10**		2064	22.18

Lumbini Finance

Year(T)	EPS (Y)	X=T-3	X*Y	X^2		a	18.152
1	34.02	-2	-68.04	4		**b**	-11.297
2	33.87	-1	-33.87	1		2060	6.855
3	35.42	0	0	0		2061	-4.442
4	-14.04	1	-14.04	1		2062	-15.739
5	1.49	2	2.98	4		2063	-27.036
	90.76		**-113**	**10**		2064	-38.333

Peoples Finance

Year(T)	EPS (Y)	X=T-3	X*Y	X^2		a	11.006
1	33.29	-2	-66.6	4		**b**	-4.066
2	0.44	-1	-0.44	1		2060	6.94
3	8.87	0	0	0		2061	2.874
4	-1.5	1	-1.5	1		2062	-1.192
5	13.93	2	27.86	4		2063	-5.258
	55.03		**-40.7**	**10**		2064	-9.324

KAFAL

Year(T)	EPS (Y)	X=T-3	X*Y	X^2		a	37.154
1	32.78	-2	-65.56	4		**b**	-4.169
2	42.51	-1	-42.51	1		2060	32.985
3	47.18	0	0	0		2061	28.816
4	60.22	1	60.22	1		2062	24.647
5	3.08	2	6.16	4		2063	20.478
	185.77		**-41.69**	**10**		2064	16.309

NCML

Year(T)	EPS (Y)	X=T-3	X*Y	X^2		a	21.744
1	32.96	-2	-65.92	4		**b**	-4.376
2	38.69	-1	-38.69	1		2060	17.368
3	7.83	0	0	0		2061	12.992

4	-2.37	1	-2.37	1		2062	8.616
5	31.61	2	63.22	4		2063	4.24
	108.72		**-43.76**	**10**		2064	-0.136

Investment and Loans and Advances

Lalitpur Finance

Year	Invest (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	23.9	26.58	706.4964	246.6	84.3	7106.49	2240.694
2	57.6	-7.12	50.6944	305.5	25.4	645.16	-180.848
3	60.6	-10.12	102.4144	294.3	36.6	1339.56	-370.392
4	58.6	-8.12	65.9344	392.5	-61.6	3794.56	500.192
5	51.7	-1.22	1.4884	415.6	-84.7	7174.09	103.334
	252.4		927.028	1654.5		20059.86	2292.98
Mean	50.48			330.9			
Std. Dev.	13.0					63.34013	
r	0.53172	0.282735	0.717265	2.236068			
P. Er.	0.21636						
6*P.Er.	1.29815						

Lumbini Finance

Year	Invest (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	36.2	-6.22	38.6884	421.5	80.3	6448.09	-499.466
2	31.5	-1.52	2.3104	462.1	39.7	1576.09	-60.344
3	28.2	1.78	3.1684	495.9	5.9	34.81	10.502
4	38.2	-8.22	67.5684	532.8	-31	961	254.82
5	15.8	14.18	201.0724	596.7	-94.9	9006.01	-1345.68
	149.9		312.808	2509		18026	-1640.17
Mean	29.98			501.8			
Std. Dev.	8					60.04332	
r	-0.69072	0.47709	0.552291	2.236068			
P. Er.	0.15773						
6*P.Er.	0.946401						

Peoples Finance

Year	Invest (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	12.8	2.36	5.5696	186.6	-32.26	1040.708	-76.1336
2	15.7	-0.54	0.2916	164.9	-10.56	111.5136	5.7024
3	20.1	-4.94	24.4036	140.2	14.14	199.9396	-69.8516
4	16.1	-0.94	0.8836	98.6	55.74	3106.948	-52.3956
5	11.1	4.06	16.4836	181.4	-27.06	732.2436	-109.864
	75.8		47.632	771.7		5191.352	-302.542
Mean	15.16			154.34			
Std. Dev.	3					32.22222	
r	-0.60841	0.370162	0.629838	2.236068			
P. Er.	0.18998						
6*P.Er.	1.139927						

KAFAL

Year	Invest (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	6.5	0.64	0.4096	153.5	61.38	3767.504	39.2832
2	9.1	-1.96	3.8416	199.2	15.68	245.8624	-30.7328

3	6.7	0.44	0.1936	236.7	-21.82	476.1124	-9.6006
4	6.7	0.44	0.1936	248.1	-33.22	1103.568	-14.6168
5	6.7	0.44	0.1936	236.9	-22.02	484.8804	-9.6888
	35.7		4.832	1074.4		6077.928	-25.356
Mean	7.14			214.88			
Std. Dev.	1					34.86525	
r	-0.14796	0.021892	0.978108	2.236068			
P. Er.	0.29504						
6*P.Er.	.77025						

NCML

Year	Invest (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	19.6	23.06	531.7636	226.7	89.9	8082.01	2073.094
2	27.9	14.76	217.8576	268.3	48.3	2332.01	712.908
3	31.8	10.86	117.9396	316.9	-0.3	0.09	-3.258
4	72.5	-29.84	890.4256	351.5	-34.9	1218.01	1041.416
5	61.5	-18.84	354.9456	419.6	-103	10609	1940.52
	213.3		2112.932	1583		22242	5764.68
Mean	42.66			316.6			
Std. Dev.	20.05					66.69633	
r	0.84092	0.707117	0.292883	2.236068			
P. Er.	0.08834						
6*P.Er.	0.53008						

Total Income and Loan & Advances

Lalitpur Finance

Year	Tot income (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	55.1	5.62	31.5844	246.6	84.3	7106.49	473.766
2	62.7	-1.98	3.9204	305.5	25.4	645.16	-50.292
3	60.8	-0.08	0.0064	294.3	36.6	1339.56	-2.928
4	58.3	2.42	5.8564	392.5	-61.6	3794.56	-149.072
5	66.7	-5.98	35.7604	415.6	-84.7	7174.09	506.506
	303.6		77.128	1654.5		20059.86	777.98
Mean	60.72			330.9			
Std. Dev.	4					63.34013	
r	0.62545	0.391198	0.608802	2.236068			
P. Er.	0.18364						
6*P.Er.	1.101854						

Lumbini Finance

Year	Tot income (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	74.9	8.66	74.9956	421.5	80.3	6448.09	695.398
2	72.9	10.66	113.635	462.1	39.7	1576.09	423.202
3	85.3	-1.74	3.0276	495.9	5.9	34.81	-10.266
4	81.8	1.76	3.0976	532.8	-31	961	-54.56
5	102.9	-19.34	374.035	596.7	-94.9	9006.01	1835.366
	417.8		568.792	2509		18026	2889.14
Mean	83.56			501.8			
Std. Dev.	10.05					60.04332	
r	0.90228	0.814112	0.185888	2.236068			
P. Er.	0.056072						
6*P.Er.	0.336433						

Peoples Finance

Year	Tot income (X)	$x = X-\bar{X}$	x^2	Loan (Y)	$y = Y-\bar{Y}$	y^2	x*y
1	49	-13.44	180.6336	186.5	-31.18	1035.552	432.4992
2	32.9	2.66	7.0756	164.9	-10.58	111.9364	-28.1428
3	26.8	8.76	76.7376	140.2	14.12	199.3744	123.6912
4	35.2	0.36	0.1296	98.6	55.72	3104.718	20.0592
5	33.9	1.66	2.7556	181.4	-27.08	733.3264	-44.9528
	177.8		267.332	771.6		5184.908	503.154
Mean	35.56			154.32			
Std. Dev.	7.05					32.2022	
r	0.42737	0.182646	0.817354	2.236068			
P. Er.	0.24655						
6*P.Er.	1.47930						

KAFAL

Year	Tot income (X)	$x = X-\bar{X}$	x^2	Loan (Y)	$y = Y-\bar{Y}$	y^2	x*y
1	31.7	8.3	68.89	153.5	61.38	3767.504	509.454
2	38.7	1.3	1.69	199.2	15.68	245.8624	20.384
3	42.8	-2.8	7.84	236.7	-21.82	476.1124	61.096
4	44.4	-4.4	19.36	248.1	-33.22	1103.568	146.168
5	42.4	-2.4	5.76	236.9	-22.02	484.8804	52.848
	200		103.54	1074.4		6077.928	789.95
Mean	40			214.88			
Std. Dev.	4.05					34.86525	
r	0.995789	0.991598	0.008402	2.236068			
P. Er.	0.00253						
6*P.Er.	0.0152071						

NCML

Year	Tot income (X)	$x = X-\bar{X}$	x^2	Loan (Y)	$y = Y-\bar{Y}$	y^2	x*y
1	50.9	12.66	160.2756	226.7	89.9	8082.01	1138.134
2	58.2	5.36	28.7296	268.3	48.3	2332.89	258.888
3	54.1	9.46	89.4916	316.9	-0.3	0.09	-2.838
4	63.8	-0.24	0.0576	351.5	-34.9	1218.01	8.376
5	90.8	-27.24	742.0176	419.6	-103	10609	2805.72
	317.8		1020.572	1583		22242	4208.28
Mean	63.56			316.6			
Std. Dev.	14.05					66.69633	
r	0.88327	0.780175	0.219825	2.236068			
P. Er.	0.066309						
6*P.Er.	0.397856						

Deposits & Loan and Advances

Lalitpur finance

Year	Deposits (X)	$x = X-\bar{X}$	x^2	Loan (Y)	$y = Y-\bar{Y}$	y^2	x*y
1	251.7	123.1	15153.61	246.6	84.28	7103.118	10374.87
2	335.3	39.5	1560.25	305.5	25.38	644.1444	1002.51
3	334.2	40.6	1648.36	294.3	36.58	1338.096	1485.148
4	407.6	-32.8	1075.84	392.5	-61.62	3797.024	2021.136
5	515.2	-170.4	29036.16	415.5	-84.62	7160.544	14419.25
	1874		48474.22	1654.4		20042.93	29302.91
Mean	374.8			330.88			

Std. Dev.	98.05			63.31339
r	0.94010	0.883791	0.116209	2.236068
P. Er.	0.035053			
6*P.Er.	021032			

Lumbini finance

Year	Deposits (X)	x = X-$\overline{X}$	x^2	Loan (Y)	y = Y- $\overline{Y}$	y^2	x*y
1	405.7	104.82	10987.23	421.5	80.3	6448.09	8417.046
2	429.2	81.32	6612.942	462.1	39.7	1576.09	3228.404
3	499.7	10.82	117.0724	495.9	5.9	34.81	63.838
4	581.9	-71.38	5095.104	532.8	-31	961	2212.78
5	636.1	-125.58	15770.34	596.7	-94.9	9006.01	11917.54
	2552.6		38582.69	2509		18026	25839.61

Mean	510.52			501.8	
Std. Dev.	88.0				60.04332
r	0.979805	0.96002	0.03998	2.236068	
P. Er.	0.01205				
6*P.Er.	0.072359				

Peoples finance

Year	Deposits (X)	x = X-$\overline{X}$	x^2	Loan (Y)	y = Y- $\overline{Y}$	y^2	x*y
1	184.43	-11.964	143.1373	186.5	-32.18	1035.552	385.0015
2	187	-14.534	211.2372	164.9	-10.58	111.9364	153.7697
3	161.4	11.066	122.4564	140.2	14.12	199.3744	156.2519
4	142.1	30.366	922.094	98.6	55.72	3104.718	1691.994
5	187.4	-14.934	223.0244	181.4	-27.08	733.3264	404.4127
	862.33		1621.949	771.6		5184.908	2791.429

Mean	172.466			154.32	
Std. Dev.	18.0				32.8742
r	0.962581	0.929563	0.07343	2.236068	
P. Er.	0.022151				
6*P.Er.	0.132911				

KAFAL

Year	Deposits (X)	x = X-$\overline{X}$	x^2	Loan (Y)	y = Y- $\overline{Y}$	y^2	x*y
1	140	71.06	5049.524	153.5	61.36	3765.05	4360.242
2	194.9	16.16	261.1456	199.1	15.76	248.3776	254.6816
3	234.7	-23.64	588.8496	236.7	-21.84	476.9856	516.2976
4	239.8	-28.74	825.9876	248.1	-33.24	1104.898	955.3176
5	245.9	-34.84	1213.826	236.9	-22.04	485.7616	767.8736
	1055.3		7909.332	1074.3		6081.072	6854.412

Mean	211.06			214.86	
Std. Dev.	40.0				34.87427
r	0.98834	0.976833	0.023167	2.236068	
P. Er.	0.006988				
6*P.Er.	0.041928				

NCML

Year	Deposits (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	247.1	76.86	5907.46	226.8	89.82	8067.632	6903.565
2	295.1	28.86	832.8996	268.3	48.32	2334.822	1394.515
3	319	4.96	24.6016	316.9	-0.26	0.0784	-1.3888
4	363.6	-39.64	1571.33	351.5	-34.88	1216.614	1382.643
5	395	-71.04	5046.682	419.8	-102.98	10604.88	7315.699
	1619.8		13382.97	1583.1		22224.03	16995.03

Mean 323.96 316.62
Std. Dev. 51.05 66.66938
r 0.98544 0.971111 0.028889 2.236068
P. Er. 0.00871
6*P.Er. 0.05228

Shareholders Equity & Loan and Advances

Lalitpur Finance

Year	Share Eq (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	18	8.1	65.61	246.6	84.3	7106.49	682.83
2	22.5	3.6	12.96	305.5	25.4	645.16	91.44
3	22.5	3.6	12.96	294.3	36.6	1339.56	131.76
4	33.75	-7.65	58.5225	392.5	-61.6	3794.56	471.24
5	33.75	-7.65	58.5225	415.6	-84.7	7174.09	647.955
	130.5		208.575	1654.5		20059.86	2025.225

Mean 26.10 330.9
Std. Dev. 6.05 63.34013
r 0.990098 0.980294 0.019706 2.236068
P. Er. 0.005944
6*P.Er. 0.035665

Lumbini Finance

Year	Share Eq (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	21.6	17.52	306.9504	421.5	80.26	6444.878	1406.506
2	36	3.12	9.7344	462.1	39.68	1574.502	123.8016
3	36	3.12	9.7344	495.9	5.88	34.5744	18.3456
4	51	-11.88	141.1344	532.8	-31.02	962.2404	368.5176
5	51	-11.88	141.1344	596.6	-94.82	8990.832	1126.462
	195.6		608.688	2508.9		18007.03	3043.632

Mean 39.12 501.48
Std. Dev. 11.0 60.01171
r 0.919334 0.845177 0.154823 2.236068
P. Er. 0.046701
6*P.Er. 0.280210

Peoples Finance

Year	Share Eq (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	17	4.66	21.7156	186.5	-32.18	1035.552	-149.959
2	20	1.66	2.7556	164.9	-10.58	111.9364	-17.5628
3	20	1.66	2.7556	140.2	14.12	199.3744	23.4392
4	20	1.66	2.7556	98.6	55.72	3104.718	92.4952
5	31.3	-9.64	92.9296	181.4	-27.08	733.3264	261.0512
	108.3		122.912	771.6		5184.908	209.464

Mean 21.66 154.32
Std. Dev. 5.0 32.2022

r	0.26238	0.068847	0.931153	2.236068
P. Er.	0.28087			
6*P.Er.	1.68526			

KAFAL

Year	Share Eq (X)	$x = X-\overline{X}$	x^2	Loan (Y)	$y = Y-\overline{Y}$	y^2	x*y
1	20	2	4	153.5	61.38	3767.504	122.76
2	20	2	4	199.2	15.68	245.8624	31.36
3	20	2	4	236.7	-21.82	476.1124	-43.64
4	20	2	4	248.1	-33.22	1103.568	-66.44
5	30	-8	64	236.9	-22.02	484.8804	176.16
	110		80	1074.4		6077.928	220.2
Mean	22.00			214.88			
Std. Dev.	4.0					34.86525	
r	0.31578	0.099722	0.900278	2.236068			
P. Er.	0.27156						
6*P.Er.	1.62939						

NCML

Year	Share Eq (X)	$x = X-\overline{X}$	x^2	Loan (Y)	$y = Y-\overline{Y}$	y^2	x*y
1	20	22.8	519.84	226.7	89.9	8082.01	2049.72
2	20	22.8	519.84	268.3	48.3	2332.89	1101.24
3	58	-15.2	231.04	316.9	-0.3	0.09	4.56
4	58	-15.2	231.04	351.5	-34.9	1218.01	530.48
5	58	-15.2	231.04	419.6	-103	10609	1565.6
	214		1732.8	1583		22242	5251.6
Mean	42.8			316.6			
Std. Dev.	18.05					66.69633	
r	0.845922	0.715585	0.284415	2.236068			
P. Er.	0.08579						
6*P.Er.	1.514755						

Interest Suspense and Interest Income

Lalitpur Finance

Year	Int Sus (X)	$x = X-\overline{X}$	x^2	Int Income (Y)	$y = Y-\overline{Y}$	y^2	x*y
1	9.4	3.96	15.6816	51.3	3.46	11.9716	13.7016
2	13.3	0.06	0.0036	52.6	2.16	4.6656	0.1296
3	14.7	-1.34	1.7956	56.8	-2.04	4.1616	2.7336
4	13.9	-0.54	0.2916	53.8	0.96	0.9216	-0.5184
5	15.5	-2.14	4.5796	59.3	-4.54	20.6116	9.7156
	66.8		22.352	273.8		42.332	25.762
Mean	13.36			54.76			
Std. Dev.	2.0					2.909708	
r	0.837504	0.701413	0.298587	2.236068			
P. Er.	0.090067						
6*P.Er.	0.540404						

Lumbini Finance

Year	Int Sus (X)	$x = X-\overline{X}$	x^2	Int Income (Y)	$y = Y-\overline{Y}$	y^2	x*y
1	14.2	24.42	596.3364	67.4	10.34	106.9156	252.5028
2	47.8	-9.18	84.2724	66.6	11.14	124.0996	-102.265
3	52.1	-13.48	181.7104	82.9	-5.16	26.6256	69.5568
4	47.1	-8.48	71.9104	77.7	0.04	0.0016	-0.3392

5	31.9	6.72	45.1584	94.1	-16.36	267.6496	-109.939
	193.1		979.338	388.7		525.292	109.516

Mean	38.62			77.74		
Std. Dev.	14.0					10.2498
r	0.152686	0.023313	0.976687	2.236068		
P. Er.	0.294613					
6*P.Er.	1.76768					

Peoples Finance

Year	Int Sus (X)	$x = X-\overline{X}$	x^2	Int Income (Y)	$y = Y-\overline{Y}$	y^2	x*y
1	16.6	5.38	28.9444	46.6	-14.32	205.0624	-77.0416
2	23.2	-1.22	1.4884	30.8	1.48	2.1904	-1.8056
3	29.2	-7.22	52.1284	25.4	6.88	47.3344	-49.6736
4	23.6	-1.62	2.6244	31.7	0.58	0.3364	-0.9396
5	17.3	4.68	21.9024	26.9	5.38	28.9444	25.1784
	109.9		107.088	161.4		283.868	-104.282

Mean	21.98			32.28		
Std. Dev.	4.05					7.534826
r	-0.59811	0.357735	0.642265	2.236068		
P. Er.	0.193736					
6*P.Er.	1.162418					

KAFAL

Year	Int Sus (X)	$x = X-\overline{X}$	x^2	Int Income (Y)	$y = Y-\overline{Y}$	y^2	x*y
1	0	0	0	28.1	7.88	62.0944	0
2	0	0	0	33.9	2.08	4.3264	0
3	0	0	0	39.1	-3.12	9.7344	0
4	0	0	0	40.3	-4.32	18.6624	0
5	0	0	0	38.5	-2.52	6.3504	0
	0		0	179.9		101.168	0

Mean	0			35.98		
Std. Dev.	0					4.498177
r	0	0	1	2.236067977		
P. Er.	0.301646					
6*P.Er.	1.809873					

NCML

Year	Int Sus (X)	$x = X-\overline{X}$	x^2	Int Income (Y)	$y = Y-\overline{Y}$	y^2	x*y
1	4.4	14.94	223.2036	39.2	5.22	27.2484	77.9868
2	8.2	11.14	124.0996	49.6	-5.18	26.8324	-57.7052
3	21.7	-2.36	5.5696	35.2	9.22	85.0084	-21.7592
4	31.7	-12.36	152.7696	43.7	0.72	0.5184	-8.8992
5	30.7	-11.36	129.0496	54.4	-9.98	99.6004	113.3728
	96.7		634.692	222.1		239.208	102.996

Mean	19.34			44.42		
Std. Dev.	11.05					4.498177
r	0.264333	0.069872	0.930128	2.236068		
P. Er.	0.280569					
6*P.Er.	1.683414					

Loan Loss Provision & Loan and Advances

Lalitpur Finance

Year	LLP (X)	$x = X-\overline{X}$	x^2	Loan (Y)	$y = Y-\overline{Y}$	y^2	x*y
1	15.5	7.12	50.6944	246.6	84.3	7106.49	600.216

2	20.2	2.42	5.8564	305.5	25.4	645.16	61.468
3	23.3	-0.68	0.4624	294.3	36.6	1339.56	-24.888
4	24.1	-1.48	2.1904	392.5	-61.6	3794.56	91.168
5	30	-7.38	54.4644	415.6	-84.7	7174.09	625.086
	113.1		113.668	1654.5		20059.86	1353.05

Mean 22.62 330.9
Std. Dev. 5.0 63.34013
r 0.896047 0.8029 0.1971 2.236068
P. Er. 0.059454
6*P.Er. 0.356726

Lumbini Finance

Year	LLP (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	18.6	23.9	571.21	421.5	80.3	6448.09	1919.17
2	20.6	21.9	479.61	462.1	39.7	1576.09	869.43
3	36.6	5.9	34.81	495.9	5.9	34.81	34.81
4	66.8	-24.3	590.49	532.8	-31	961	753.3
5	69.9	-27.4	750.76	596.7	-84.9	9006.01	2600.26
	212.5		2426.88	2509		18026	6176.97

Mean 42.5 501.8
Std. Dev. 22.0 60.04332
r 0.933903 0.872174 0.127826 2.236068
P. Er. 0.038558
6*P.Er. 0.231348

Peoples Finance

Year	LLP (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	13.6	5.34	28.5156	186.5	-32.18	1035.552	-171.841
2	19.6	-0.66	0.4356	164.9	-10.58	111.9364	6.9828
3	20.3	-1.36	1.8496	140.2	14.12	199.3744	-19.2032
4	22.7	-3.76	14.1376	98.6	55.72	3104.718	-209.507
5	18.5	0.44	0.1936	181.4	-27.08	733.3264	-11.9152
	94.7		45.132	771.6		5184.908	-405.484

Mean 18.94 154.32
Std. Dev. 3.0 32.2022
r -0.83823 0.702622 0.297378 2.236068
P. Er. 0.089703
6*P.Er. 0.538215

KAFAL

Year	LLP (X)	x = X-$\bar{X}$	x^2	Loan (Y)	y = Y- $\bar{Y}$	y^2	x*y
1	4.4	3.4	11.56	153.5	61.38	3767.504	208.692
2	6.1	1.7	2.89	199.2	15.68	245.8624	26.656
3	7	0.8	0.64	236.7	-21.82	476.1124	-17.456
4	9.8	-2	4	248.1	-33.22	1103.568	66.44
5	11.7	-3.9	15.21	236.9	-22.02	484.8804	85.878
	39		34.3	1074.4		6077.928	370.21

Mean 7.8 214.88
Std. Dev. 2.05 34.86525
r 0.810818 0.657426 0.342574 2.236068
P. Er. 0.103336
6*P.Er. 0.620018

NCML

Year	LLP (X)	x = X-$\overline{X}$	x^2	Loan (Y)	y = Y- $\overline{Y}$	y^2	x*y
1	13.9	22.66	513.4756	226.7	89.9	8062.01	2037.134
2	23.9	12.66	160.2756	268.3	48.3	2332.89	611.478
3	35.5	1.06	1.1236	316.9	-0.3	0.09	-0.318
4	63.3	-26.74	715.0276	351.5	-34.9	1218.01	933.226
5	46.2	-9.64	92.9296	419.6	-103	10609	992.92
	182.8		1482.832	1583		22242	4574.44

Mean 36.56 316.6
Std. Dev. 17.0 66.69633
r 0.796535 0.634469 0.365331 2.236068
P. Er. 0.110261
6*P.Er. 0.661566

Interest Income & Net Profit

Lalitpur Finance

Year	Int Income (X)	x = X-$\overline{X}$	x^2	N Profit (Y)	y = Y- $\overline{Y}$	y^2	x*y
1	51.3	3.86	14.8996	9.9	2.6	6.76	10.036
2	52.6	2.56	6.5536	12.7	-0.2	0.04	-0.512
3	56.8	-1.64	2.6896	15.6	-3.1	9.61	5.084
4	55.8	-0.64	0.4096	11.7	0.8	0.64	-0.512
5	59.3	-4.14	17.1396	12.6	-0.1	0.01	0.414
	275.8		41.692	62.5		17.06	14.51

Mean 55.16 12.50
Std. Dev. 3.0 1.84716
r 0.5440659 0.296008 0.703992 2.236068
P. Er. 0.212356
6*P.Er. 1.274136

Lumbini Finance

Year	Int Income (X)	x = X-$\overline{X}$	x^2	N Profit (Y)	y = Y- $\overline{Y}$	y^2	x*y
1	67.4	10.34	106.9156	12.2	-2.96	8.7616	-30.6064
2	66.6	11.14	124.0996	20.3	-11.06	122.3236	-123.206
3	82.9	-5.16	26.6256	21.2	-11.96	143.0416	61.7136
4	77.7	0.04	0.0016	-8.4	17.64	311.1696	0.7056
5	94.1	-16.36	267.6496	0.9	8.34	69.5556	-136.442
	388.7		525.292	46.2		654.852	-227.838

Mean 77.74 9.24
Std. Dev. 10.0 11.44423
r -0.388467 0.150907 0.849093 2.236068
P. Er. 0.256125
6*P.Er. 1.536751

Peoples Finance

Year	Int Income (X)	$x = X-\bar{X}$	x^2	N Profit (Y)	$y = Y-\bar{Y}$	y^2	x*y
1	46.6	-14.34	205.6356	6.6	-4.082	16.6627	58.5358
2	30.7	1.56	2.4336	0.09	2.428	5.8951	3.78768
3	25.4	6.86	47.0596	1.8	0.718	0.5155	4.92548
4	31.7	0.56	0.3136	-0.3	2.818	7.9411	1.57808
5	26.9	5.36	28.7296	4.4	-1.882	3.5419	-10.0875
	161.3		284.172	12.59		34.5564	58.7396

Mean	32.26			2.518		
Std. Dev.	7.05					2.628934
r	0.592755	0.351359	0.648641	2.236068		
P. Er.	0.195659					
6*P.Er.	1.173957					

KAFAL

Year	Int Income (X)	$x = X-\bar{X}$	x^2	N Profit (Y)	$y = Y-\bar{Y}$	y^2	x*y
1	28.1	7.88	62.0944	6.6	0.88	0.7744	6.9344
2	33.9	2.08	4.3264	8.5	-1.02	1.0404	-2.1216
3	39.1	-3.12	9.7344	9.4	-1.92	3.6864	5.9904
4	40.3	-4.32	18.6624	12	-4.52	20.4304	19.5264
5	38.5	-2.52	6.3504	0.9	6.58	43.2964	-16.5816
	179.9		101.168	37.4		69.228	13.748

Mean	35.98			7.48		
Std. Dev.	4.05					3.72096
r	0.164277	0.026987	0.973013	2.236068		
P. Er.	0.293505					
6*P.Er.	1.761030					

NCML

Year	Int Income (X)	$x = X-\bar{X}$	x^2	N Profit (Y)	$y = Y-\bar{Y}$	y^2	x*y
1	39.2	5.22	27.2484	6.6	0.7	0.49	3.654
2	49.6	-5.18	26.8324	7.7	-0.4	0.16	2.072
3	35.2	9.22	85.0084	4.7	2.6	6.76	23.972
4	43.7	0.72	0.5184	-1.4	8.7	75.69	6.264
5	54.4	-9.98	99.6004	18.9	-11.6	134.56	115.768
	222.1		239.208	36.5		217.66	151.73

Mean	44.42			7.30		
Std. Dev.	7.0					6.597878
r	0.664958	0.442169	0.557831	2.236068		
P. Er.	0.168267					
6*P.Er.	1.0096029					

Appendix 15

Loans and Advances (in million)

	Lalitpur			Lumbini			Peoples			KAFAL		
F/Y	Loan(X)	x=mean-X	x^2	Loan(X)	x=mean-X	x^2	Loan(X)	x=mean-X	x^2	Loan(X)	x=mean-X	
2002/03	246.6	84.3	7106.49	421.5	80.302	6448.4112	186.55	-32.21	1037.4841	153.52	61.358	
2003/04	305.55	25.35	642.6225	462.07	39.732	1578.6318	164.91	-10.57	111.7249	199.15	15.728	2
2004/05	294.27	36.63	1341.757	495.96	5.842	34.128964	140.22	14.12	199.3744	236.70	-21.822	4
2005/06	392.52	-61.62	3797.024	532.83	-31.028	962.73678	98.58	55.76	3109.1776	248.10	-33.222	1
2006/07	415.56	-84.66	7167.316	596.65	-94.848	8996.1431	181.44	-27.10	734.41	236.92	-22.042	
Total	1654.50		20055.21	2509.01		18020.052	771.70		5192.171	1074.39		
Mean	330.90		4011.042	501.802		3604.0104	154.34		1038.4342	214.878		1
S.D.			63.633279			60.03341			32.224745			3
C.V.			19.13955			11.963565			20.879063			1

Non-Performing Loan (in million)

	Lalitpur			Lumbini			Peoples			KAFAL		
F/Y	NPL(X)	x=mean-X	x^2	NPL(X)	x=mean-X	x^2	NPL(X)	x=mean-X	x^2	NPL(X)	x=mean-X	
2002/03	21.27	10.24	104.8576	86.52	-1.188	1.411344	14.28	9.872	97.456384	13.01	3.732	1
2003/04	46.79	-15.28	233.4784	109.84	-24.508	600.64206	39.17	-15.018	225.54032	20.45	-3.708	1
2004/05	36.09	-4.58	20.9764	64.47	20.862	435.22304	17.85	6.302	39.715204	10.04	6.702	4
2005/06	26.43	5.08	25.8064	77.90	7.432	55.234624	30.73	-6.578	43.270084	15.97	0.772	
2006/07	26.97	4.54	20.6116	87.93	-2.598	6.749604	18.73	5.422	29.398084	24.24	-7.498	5
Total	157.55		405.7304	426.66		1099.2607	120.76		435.38008	83.71		1
Mean	31.51		81.14608	85.332		219.85214	24.152		87.076016	16.742		2
S.D.			90.008112			14.827412			9.331453			5
C.V.			28.58811			17.376145			38.636357			3

Interest Income from Loan and Advances (in million)

	Lalitpur			Lumbini			Peoples			KAFAL		
F/Y	Int(X)	x=mean-X	x^2	Int(X)	x=mean-X	x^2	Int(X)	x=mean-X	x^2	Int(X)	x=mean-X	
2002/03	47.91	2.182	4.761124	62.87	9.744	94.945536	43.68	-14.706	216.26644	26.42	7.486	5
2003/04	49.66	0.432	0.186624	62.23	10.384	107.82746	27.89	1.084	1.175056	31.77	2.136	
2004/05	53.12	-3.028	9.168784	78.19	-5.576	31.091776	80.84	8.134	66.161956	36.37	-2.464	
2005/06	49.28	0.812	0.659344	71.47	1.144	1.308736	27.76	1.214	1.473796	38.18	-4.274	1
2006/07	50.49	-0.398	0.158404	88.31	-15.696	246.36442	24.70	4.274	18.267076	36.79	-2.884	
Total	250.46		14.93428	363.07		481.53792	144.87		303.34432	169.53		
Mean	50.092		2.986856	72.614		96.307584	28.974		60.668864	33.906		1
S.D.			1.728252			9.8136427			7.789022			4
C.V.			3.450156			13.514808			26.882798			1

Loan Loss Provision (in million)

	Lalitpur			Lumbini			Peoples			KAFAL		
F/Y	LLP (X)	x=mean-X	x^2	LLP(X)	x=mean-X	x^2	LLP(X)	x=mean-X	x^2	LLP(X)	x=mean-X	
2002/03	15.49	7.126	50.77988	18.66	23.838	568.25024	13.65	5.278	27.857284	4.39	3.408	1
2003/04	20.16	2.456	6.031936	20.56	21.938	481.27584	19.58	-0.652	0.425104	6.08	1.718	
2004/05	23.32	-0.704	0.495616	36.56	5.938	35.259844	20.28	-1.352	1.827904	7.03	0.768	
2005/06	24.08	-1.464	2.143296	66.84	-24.342	592.53296	22.67	-3.742	14.002564	9.80	-2.002	
2006/07	30.03	-7.414	54.9674	69.87	-27.372	749.22638	18.46	0.468	0.219024	11.69	-3.892	1
Total	113.08		114.4181	212.49		2426.5453	94.64		44.33188	38.99		
Mean	22.616		22.88362	42.498		485.30906	18.928		8.866376	7.798		
S.D.			4.783683			22.029731			2.9776461			2
C.V.			21.15176			51.837101			15.731435			3

Net Profit (in million)

	Lalitpur			Lumbini			Peoples			KAFAL		
F/Y	Profit(X)	x=mean-X	x^2	Profit(X)	x=mean-X	x^2	Profit(X)	x=mean-X	x^2	Profit(X)	x=mean-X	
2002/03	9.52	2.588	6.697744	12.25	-2.99	8.9401	6.66	-4.144	17.172736	6.56	0.934	
2003/04	12.67	-0.162	0.026244	20.32	-11.06	122.3236	0.09	2.426	5.885476	8.50	-1.006	
2004/05	15.56	-3.052	9.314704	21.25	-11.99	143.7601	1.77	0.746	0.556516	9.44	-1.946	
2005/06	11.75	0.758	0.574564	-8.42	17.68	312.5824	-0.30	2.816	7.929856	12.04	-4.546	2
2006/07	12.64	-0.132	0.017424	0.90	8.36	69.8896	4.36	-1.844	3.400366	0.93	6.564	4
Total	62.54		16.63068	46.30		657.4958	12.58		34.94492	37.47		
Mean	12.508		3.326136	9.26		131.49916	2.516		6.988984	7.494		1
S.D.			1.82377			11.467308			2.6436687			3
C.V.			14.58083			123.83702			105.07427			4

APPENDIX- 1

Investment to loan & Advance of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

Lalitpur Finance			Lumbini Finance			People's Finance			KAFAL			
vestment	Loan & Adv	Ratio %	Investment	Loan & Adv	Ratio %	Investment	Loan & Adv	Ratio %	Investment	Loan & Adv	Ratio %	Investment
890,421	246,601,905	9.69	36,195,000	421,503,546	8.6	12,793,338	186,549,723	6.9	6,493,010	153,522,333	4.2	19,642,304
557,280	305,546,464	18.84	31,500,000	462,067,324	6.8	15,704,471	164,914,511	9.5	9,140,410	199,154,832	4.6	27,931,490
634,257	294,273,492	20.60	28,170,500	495,965,696	5.7	20,115,271	140,224,479	14.3	6,711,170	236,703,650	2.8	6,711,170
654,367	392,516,363	14.94	38,170,500	532,828,221	7.2	16,115,271	98,579,609	16.3	6,686,279	248,104,135	2.7	6,686,279
667,915	415,558,596	12.43	15,830,500	596,652,530	2.7	11,142,271	181,439,827	6.1	6,726,279	236,916,847	2.8	6,726,279

APPENDIX- 2

Calculation of Investment & loan & Advance to Total Deposit of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance			
	Inv,loan & Adv	T.Deposit	Ratio %	Inv,loan & Adv	T.Deposit	Ratio %	Inv,loan & Adv	T.Deposit	Ratio %	Inv,loa Adv
2002/03	270,492,326	251,745,147	107.45	457,698,546	405,758,051	112.8	199,343,061	184,430,138	108.1	160,015
2003/04	363,103,744	335,310,342	108.29	493,567,324	429,198,907	115.0	180,618,982	187,002,549	96.6	208,295
2004/05	354,907,749	334,222,478	106.19	524,136,196	499,745,842	104.9	160,339,750	161,365,027	99.4	243,414
2005/06	451,170,730	407,581,959	110.69	570,998,721	581,965,443	98.1	114,694,880	142,117,437	80.7	254,790
2006/07	467,226,511	545,237,304	85.69	612,483,030	636,093,105	96.3	192,582,098	187,346,174	102.8	243,643

APPENDIX- 3

Calculation of loan & Advance to shareholders of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance			
	Loan & Adv	Shareholders	Ratio %	Loan & Adv	Shareholders	Ratio %	Loan & Adv	Shareholders	Ratio %	Loan &
2002/03	246,601,905	18,000,000	1,370	421,503,546	21,600,000	1,951.4	186,549,723	17,000,000	1097.4	153,522
2003/04	305,546,464	22,500,000	1,358	462,067,324	36,000,000	1,283.5	164,914,511	20,000,000	824.6	199,154
2004/05	294,273,492	22,500,000	1,308	495,965,696	36,000,000	1,377.7	140,224,479	20,000,000	701.1	236,703
2005/06	392,516,363	33,750,000	1,163	532,828,221	51,000,000	1,044.8	98,579,609	20,000,000	492.9	248,104
2006/07	415,558,596	33,750,000	1,231	596,652,530	51,000,000	1,169.9	181,439,827	31,325,500	579.2	236,916

APPENDIX- 4

Calculation of loan & Advance, Non Performing loan, Loan loss Provision & Net Profit of Lalitpur finance.

FY	Lalitpur Finance					
	Loan & Adv	Non Performing loan	Loan Loss provision	Net Profit	Interest Income from loan & Adv	Earning Per Shares
2002/2003	246,601,905	21,271,982	15,494,053	9,521,320	47,909,392	100
2003/2004	305,546,464	46,786,291	20,164,892	12,673,471	49,656,548	100
2004/2005	294,273,492	36,087,728	23,322,272	15,565,143	53,123,395	100
2005/2006	392,516,363	26,431,843	24,079,184	11,748,169	49,285,092	100

2006/2007	415,558,596	26,968,404	30,031,283	12,638,360	50,487,331	100

APPENDIX- 4

Calculation of loan & Advance, Non Performing loan, Loan loss Provision & Net Profit of People's finance.

FY	People's Finance					
	Loan & Adv	**Non Performing loan**	**Loan Loss provision**	**Net Profit**	**Interest Income from loan & Adv**	**Earning Per Shares**
2002/2003	186,549,723	14,280,573	13,646,696	6,659,766	43,683,367	100
2003/2004	164,914,511	39,165,027	19,584,894	88,622	27,892,627	100
2004/2005	140,224,479	17,853,777	20,281,657	1,774,198	20,838,014	100
2005/2006	98,579,609	30,728,348	22,667,915	-300,355	27,764,270	100
2006/2007	181,439,827	18,728,881	18,461,917	4,363,760	24,696,515	100

APPENDIX- 4

Calculation of loan & Advance, Non Performing loan, Loan loss Provision & Net Profit of KAFAL

FY	KAFAL					
	Loan & Adv	**Non Performing loan**	**Loan Loss provision**	**Net Profit**	**Interest Income from loan & Adv**	**Earning Per Shares**
2002/2003	153,522,333	13,005,741	4,390,935	6,656,901	26,422,037	100
2003/2004	199,154,832	20,448,448	6,083,527	8,501,526	31,769,359	100
2004/2005	236,703,650	10,037,967	7,031,664	9,436,055	36,367,170	100
2005/2006	248,104,135	15,966,991	9,820,610	12,044,304	38,180,503	100
2006/2007	236,916,847	24,244,444	11,686,660	925,026	36,785,837	100

APPENDIX- 4

Calculation of loan & Advance, Non Performing loan, Loan loss Provision & Net Profit of NCML

FY	NCML					
	Loan & Adv	**Non Performing loan**	**Loan Loss provision**	**Net Profit**	**Interest Income from loan & Adv**	**Earning Per Shares**
2002/2003	226,708,766	60,143,292	13,855,667.0	6,591,234	35,006,468	100
2003/2004	268,282,020	116,562,763	23,920,636.0	7,737,405	40,999,733	100
2004/2005	316,901,383	70,386,756	35,519,812.0	4,699,968	34,310,108	100
2005/2006	351,510,309	70,386,756	63,293,872.0	-1,424,493	42,983,551	100
2006/2007	419,602,751	72,020,102	46,204,388.0	18,966,364	52,171,576	100

APPENDIX- 5

n Loan to Total Loan and Advance of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

Lalitpur Finance			Lumbini Finance			People's Finance			KAFAL			
Purchase Loan	**Total Loan & Adv**	**Ratio %**	**Hire Purchase Loan**	**Total Loan & Adv**	**Ratio %**	**Hire Purchase Loan**	**Total Loan & Adv**	**Ratio %**	**Hire Purchase Loan**	**Total Loan & Adv**	**Ratio %**	**Hire Purchase Loan**
1,475,203	246,601,905	14.28	5,711,373,048	421,503,546	13.55	8,109,316,459	186,549,723	43.47	3,534,084,106	153,522,333	23.02	253,913,818
5,281,881	305,546,464	11.77	5,840,530,975	462,067,324	12.64	6,542,158,651	164,914,511	39.67	6,623,889,712	199,154,832	33.26	265,599,200
5,488,748	294,273,492	11.44	5,534,977,167	495,965,696	11.16	4,840,549,015	140,224,479	34.52	5,103,330,694	236,703,650	21.56	266,197,162

,027,994	392,516,363	9.35	5,903,736,689	532,828,221	11.08	3,697,721,134	98,579,609	37.51	2,543,067,384	248,104,135	10.25	182,785,361
,382,403	415,558,596	8.83	6,861,504,095	596,652,530	11.50	3,340,307,215	181,439,827	18.41	3,601,136,074	236,916,847	15.20	688,148,512

APPENDIX- 6

ing Loan to Total Loan and Advance of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

Lalitpur Finance			Lumbini Finance			People's Finance			KAFAL			
ing Loan	Total Loan & Adv	Ratio %	Housing Loan	Total Loan & Adv	Ratio %	Housing Loan	Total Loan & Adv	Ratio %	Housing Loan	Total Loan & Adv	Ratio %	Housing Loan
5,648,924	246,601,905	42.48	5,711,373,048	421,503,546	13.55	8,109,316,459	186,549,723	43.47	3,534,084,106	153,522,333	23.02	253,913,818
4,415,019	305,546,464	33.79	5,840,530,975	462,067,324	12.64	6,542,158,651	164,914,511	39.67	6,623,889,712	199,154,832	33.26	265,599,200
5,096,988	294,273,492	36.48	5,534,977,167	495,965,696	11.16	4,840,549,015	140,224,479	34.52	5,103,330,694	236,703,650	21.56	266,197,162
0,141,943	392,516,363	33.12	5,903,736,689	532,828,221	11.08	3,697,721,134	98,579,609	37.51	2,543,067,384	248,104,135	10.25	182,785,361
8,474,072	415,558,596	38.98	6,861,504,095	596,652,530	11.50	3,340,307,215	181,439,827	18.41	3,601,136,074	236,916,847	15.20	688,148,512

APPENDIX- 7

Calculation Housing Loan to Total Loan and Advance of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance			F
	Term Loan	Total Loan & Adv	Ratio %	Term Loan	Total Loan & Adv	Ratio %	Term Loan	Total Loan & Adv	Ratio %	Term Loan
2002/03	9,018,231,666	246,601,905	36.57	25,058,385,810	421,503,546	59.45	3,975,374,597	186,549,723	21.31	5,130,716,369
2003/04	13,544,874,749	305,546,464	44.33	26,883,076,910	462,067,324	58.18	4,287,777,286	164,914,511	26.00	4,863,360,997
2004/05	13,298,219,103	294,273,492	45.19	29,147,903,954	495,965,696	58.77	4,346,958,849	140,224,479	31.00	6,686,878,113
2005/06	17,101,937,936	392,516,363	43.57	30,989,289,333	532,828,221	58.16	2,524,623,786	98,579,609	25.61	16,560,951,011
2006/07	17,881,486,386	415,558,596	43.03	38,388,623,780	596,652,530	64.34	7,660,389,496	181,439,827	42.22	10,426,710,436

APPENDIX-8

Calculation Loan Losss Provision to Total Loan and Advance of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance			
	Loan Loss Provision	Total Loan & Adv	Ratio %	Loan Loss Provision	Total Loan & Adv	Ratio %	Loan Loss Provision	Total Loan & Adv	Ratio %	Loan Lo Provisio
2002/03	14,796,114	246,601,905	0.06	16,860,142	421,503,546	0.04	13,058,481	186,549,723	0.07	4,605,6
2003/04	21,388,252	305,546,464	0.07	23,103,366	462,067,324	0.05	19,789,741	164,914,511	0.12	5,974,6
2004/05	23,541,879	294,273,492	0.08	34,717,599	495,965,696	0.07	19,631,427	140,224,479	0.14	7,101,1
2005/06	23,550,982	392,516,363	0.06	69,267,669	532,828,221	0.13	22,673,310	98,579,609	0.23	9,924,1
2006/07	29,089,102	415,558,596	0.07	71,598,304	596,652,530	0.12	68,947,134	181,439,827	0.38	11,845,8

APPENDIX-9

Calculation Non Performing Loan to Total Loan and Advance of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance			
	Non-Performing Loan	Total Loan & Adv	Ratio %	Non-Performing Loan	Total Loan & Adv	Ratio %	Non-Performing Loan	Total Loan & Adv	Ratio %	Non-Performing Loan
2002/03	22,194,171	246,601,905	0.09	88,515,745	421,503,546	0.21	14,923,978	186,549,723	0.08	12,281,78

2003/04	45,831,970	305,546,464	0.15	110,896,158	462,067,324	0.24	39,579,483	164,914,511	0.24	19,915,483
2004/05	35,312,819	294,273,492	0.12	64,475,540	495,965,696	0.13	18,229,182	140,224,479	0.13	9,468,146
2005/06	27,476,145	392,516,363	0.07	79,924,233	532,828,221	0.15	30,559,679	98,579,609	0.31	14,886,248
2006/07	24,933,516	415,558,596	0.06	89,497,880	596,652,530	0.15	18,143,983	181,439,827	0.10	23,691,685

APPENDIX-10

Calculation Interest income From Loan & Advance to Total Income of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance			
	Intrest Income from loan & Adv	Total Income	Ratio %	Intrest Income from loan & Adv	Total Income	Ratio %	Intrest Income from loan & Adv	Total Income	Ratio %	Intrest Income from loan & Adv
2002/03	47,941,222	55,104,853	0.87	62,964,980	74,958,310	0.84	43,623,086	49,014,703	0.89	26,274,751
2003/04	49,537,072	62,705,155	0.79	62,021,008	72,965,892	0.85	27,999,792	32,940,932	0.85	31,931,564
2004/05	52,861,748	60,760,630	0.87	78,464,755	85,287,777	0.92	20,870,121	26,756,566	0.78	36,423,779
2005/06	49,572,955	58,321,123	0.85	71,212,441	81,853,381	0.87	27,829,362	35,227,041	0.79	38,165,577
2006/07	50,660,655	66,658,756	0.76	88,482,537	102,886,671	0.86	24,744,912	33,897,140	0.73	36,932,219

APPENDIX-11

Calculation of Interest Suspense to Interest income From Loan & Advance of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance				
	Total Suspense	Intrest Income from loan & Adv	Ratio %	Total Suspense	Intrest Income from loan & Adv	Ratio %	Total Suspense	Intrest Income from loan & Adv	Ratio %	Total Suspense	Int fron
2002/03	8,629,420	47,941,222	0.18	13,222,646	62,964,980	0.21	15,704,311	43,623,086	0.36	0	2
2003/04	12,384,268	49,537,072	0.25	44,655,126	62,021,008	0.72	20,999,844	27,999,792	0.75	0	3
2004/05	13,744,055	52,861,748	0.26	49,432,796	78,464,755	0.63	24,000,640	20,870,121	1.15	0	3
2005/06	12,888,968	49,572,955	0.26	43,439,589	71,212,441	0.61	20,593,728	27,829,362	0.74	0	3
2006/07	38,502,097	50,660,655	0.76	30,084,063	88,482,537	0.34	15,836,744	24,744,912	0.64	0	3

APPENDIX-12

Calculation of Loan & Advance to Total deposit of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance			
	Loan & Advance	Total Deposit	Ratio %	Loan & Advance	Total Deposit	Ratio %	Loan & Advance	Total Deposit	Ratio %	Loan & Advance
2002/03	246,601,905	241,669,867	0.98	421,503,546	438,363,688	1.04	186,549,723	188,415,220	1.01	153,522,333

2003/04	305,546,464	278,047,282	0.91	462,067,324	499,032,710	1.08	164,914,511	145,124,770	0.88	199,154,832
2004/05	294,273,492	258,960,673	0.88	495,965,696	491,006,039	0.99	140,224,479	121,995,297	0.87	236,703,650
2005/06	392,516,363	376,815,708	0.96	532,828,221	490,201,963	0.92	98,579,609	68,019,930	0.69	248,104,135
2006/07	415,558,596	315,824,533	0.76	596,652,530	560,853,378	0.94	181,439,827	175,996,632	0.97	236,916,847

APPENDIX-13

Calculation of Interest Income to Interest Expenses of Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance			
	Interest Income	**Interest Deposit**	**Ratio %**	**Interest Income**	**Interest Deposit**	**Ratio %**	**Interest Income**	**Interest Deposit**	**Ratio %**	**Inter Inco**
2002/03	55,104,853	99,188,735	1.80	74,958,310	122,182,045	1.63	49,014,703	93,618,083	1.91	31,656
2003/04	62,705,155	98,447,093	1.57	72,965,892	111,637,815	1.53	32,940,932	50,070,217	1.52	38,940
2004/05	60,760,630	106,331,103	1.75	85,287,777	167,164,043	1.96	26,756,566	40,669,980	1.52	42,851
2005/06	58,321,123	96,813,064	1.66	81,853,381	135,876,612	1.66	35,227,041	73,624,516	2.09	44,378
2006/07	66,658,756	95,988,609	1.44	102,886,671	201,657,875	1.96	33,897,140	71,522,965	2.11	42,450

APPENDIX-14

Calculation of Net Profit to Shareholder's Equity Lalitpur finance, Lumbini Finance, People's Finance, KAFAL, NCML

FY	Lalitpur Finance			Lumbini Finance			People's Finance			
	Net Profit	**Shareholder's Equity**	**Ratio %**	**Net Profit**	**Shareholder's Equity**	**Ratio %**	**Net Profit**	**Shareholder's Equity**	**Ratio %**	**Net Profit**
2002/03	9,900,000	18,000,000	0.55	12,312,000	21,600,000	0.57	6,630,000	17,000,000	0.39	6,600,000
2003/04	12,600,000	22,500,000	0.56	20,160,000	36,000,000	0.56	0	20,000,000	0.00	8,600,000
2004/05	15,525,000	22,500,000	0.69	21,240,000	36,000,000	0.59	1,800,000	20,000,000	0.09	9,400,000
2005/06	11,812,500	33,750,000	0.35	-8,160,000	51,000,000	-0.16	-400,000	20,000,000	-0.02	12,000,000
2006/07	12,487,500	33,750,000	0.37	1,020,000	51,000,000	0.02	4,385,500	31,325,000	0.14	900,000