CHAPTER I
INTRODUCTION

1.1 General Background:

The economy of the Nepal was closed and isolated type before 2007 B.S. After the establishment of democracy in 2007 B.B, Nepal applied mixed economic policy which continued even after the political change in 2017 B.S. After the establishment of multiparty political system in 2046 B.B., Nepal pursued liberal, open and market oriented economy. Foreign direct investment is promoted in almost all sector of the economy, including the development, operation and management of infrastructure like road, transport and electricity, especially hydroelectricity, of which the country has immerse potentiality.

National development of any country is demonstrated by the development of the financial sector of the country. The financial sector of any country has included of banks, co-operative societies, insurance companies, finance companies, stock markets, foreign exchange markets, mutual funds, provident funds etc. For industries and business, stock exchanges through primary markets, banks & financial companies via short-term and other types of loans are recognized as the main sources of much needed capital input.

Finance companies can be defined as a firm that loans money to people who promise to repay the loan with interest over a specified period of time. In general, "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".[36] Finance companies play very dominant role in the economic development particularly in consumer financing, leasing and asset based lending, with strong preference on short-term debt. The main liabilities of the finance companies are fixed type deposit borrowings from banks and agencies and the comparatively substantial amount of equity capital.

[36] Baidya, Shakespeare, ***"Financial Markets and Institutions"***, Taleju Prakashan, Kathmandu, Nepal, First Edition, 2056, page no.25

"Finance Companies, licensed under the Finance Company Act 2042 BS are the second largest group of deposit taking financial institutions in Nepal."[37] "Though the finance companies act was published in gazette in 2042BS, the real establishment and functioning come only after the economic liberalization policy of the government in the 8th plan (2049BS- 2053BS)."[38]

For all development of the country, a higher economic growth is necessary. Nepal has a policy to obtain higher economic growth by broadening and strengthening stability and fiscal discipline are given emphasis so as to make the economic development process sustainable and sound. It is tried to covert rural areas into the focal point of development through the participatory development and rural empowerment process.

Main features of Nepalese Economy:

- A poor and agro based economy.
- Landlocked, mountainous and developing nation.
- Mixed economy policy.
- Rich in water and natural resources.
- High rate of population growth.
- Unequal distribution of income.
- Low rate of capital investment.

For the development of economy, financial institution is considered as the catalyst to economic growth of a country.

Nepal Rastra Bank has been stand-in as the father figure of the finance companies. NRB is the inner managerial 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 propounded by NRB for finance companies to guide them through and to restrict their activities. The NRB directive for finance companies set out matters as;

- Capital Structure

[37] Finance Company Act 2042
[38] Eight Plan (1992-1997) National Planning Commission,

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

"Finance companies are typically organized to handle some specialized financing problem that is not adequately handled by banks and other institutions. They engage in all types of loan activities and specialize in handling problems and risks that other institutions would not accept. Their interest rates reflect their costs and risks."[39] Finance companies, thus, handle the essential functions of commercial banks i.e. accepting deposits and lending money, discarding other specialized services provided by the commercial banks. They were borne by NRB to perform mere some functions of commercial banks. The objectives being reducing some burden from commercial banks and getting some prompt services to the general public.

"The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then it provides money to those who are in need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory notes. Thus, the primary function of a commercial banker is that of a broker and a dealer in money. By discharging this function efficiently, a commercial bank renders a valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development."[40] Thus, being an essential function operator of commercial bank, finance companies do all above mentioned borrowing and lending of money and act as a dealer of money. But it is to be noted that finance companies cannot borrow money or lend money under all different types of categories commercial banks are authorized to. "Unlike commercial banks which are engaged mainly in long term loans to customers for whom they can offer current account, overdraft facilities, these finance companies can operate only fixed deposits from 3 months to 6 years."[41] yet, finance companies are exposé their

[39]Baidya, Shakespeare, ***"Financial Markets and Institutions"***, Taleju Prakashan, Kathmandu, Nepal, First Edition, 2056, page no.26
[40] Shekhar, K.C. and Shekhar, Lekshmy, Banking Thoery and Practices, Eighteenth Revised Edition, Vikas Publishing House Pvt. Ltd., New Delhi, 2000. page no.39
[41] Nepal Rastra Bank Regulation

services directing towards the economic development of the country via increasing the productive capacity of the country.

NRB have to provide the central bank with financial information on a regular basis.

. "According to the World Bank, although the Finance companies provide financial information to the central bank – but they are not adequately supervised by the central banking authorities. Lack of discipline and proper prudential oversight could well emerge as a serious problem at some point in the future. In the first instance, developing a robust system of off-site supervision by the NRB is felt to be particularly important, followed eventually by a reinforcing system of on-site supervision."[42]

"The NRB's Non-banking Operations Unit supervises the Finance companies in respect of their activities as deposit-takers and lenders. As issue managers, underwriters or market-makers on the stock exchange, finance companies have to be registered with the Securities Board and the NEPSE. Not only do Finance companies have to ensure that they have adequate capital to engage in the securities business as dealer, market-makers and underwriters, but they must ensure that both client monies and deposits are kept separately from the firm's capital and cash flow."[43]

Finance companies do the playing of money by accepting deposits and lending money to reap the profit along the side. Certain rate of interest is provided to the customer 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. Normally, 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. Hence, the key function 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.

The finance companies have their genesis from the function of Lending. Lending is the most fundamental function of any finance company. However diversified the

[42] Discussion Note Financial Sector Nepal, Document of World Bank, February 23, 1999
[43] GMA Capital Markets Ltd. Capital Market Developments Project II, TA 2834 – NEP Final Report July 1998

functions of finance companies might get but the core function remains the same because the lending function is the origin of finance companies. "The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What has been changed are the institutional structure, the instruments and the techniques used in performing these functions."[44]

Lending can be divided in to fund based and non-fund based Lending. Leasing, hire purchase, bills discounting, term loans, housing loans, floating mutual funds, bridge financing, loan participation, loan syndication etc come under fund based Lending. Similarly, investment management, portfolio management services for individuals and corporate, issue management, underwriting, trust receipts, arranging trading market for buying and selling securities, private placement of shares and debentures etc fall under the category of non-fund based Lending. In practice, most of the Finance Companies activities are fund based.

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

Principles of Good Lending

[44] Bhattacharya, Hrishikes, Banking Strategy, Credit Appraisal and Lending Decisions-A Risk –Return Fremawork, First Edition, Ocford Univrsity Press, Delhi, 1998. page no.99
[45] Finance Company Act, 1985

Lending is the one of the main functionalities of the finance company which is the major income generating activity. Although, finance company cannot just go on giving out 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. run of money is the life blood of finance company and these like of bad loans interrupt the flow. Hence, it should be well analyzed beforehand to give out any loans. Here are given the factors as a result of which any prospect loan should be analyzed.

1. 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.

2. Purpose:

The purpose of lending should be productive so that money not only remains safe but also provides a definite source of repayment.

3. 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.

4. Security:

The primary objective of finance company is not to lend against security. It should lend on the basis of character, capacity and capital of the borrower. However, security is considered as an insurance or a cushion to ball back upon in case of failure to repay the loan and interest dues b the borrower due to various reasons.

5. Safety:

The finance company should ensure that the money lent by them foes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so through out, and after serving a useful purpose in the trade of industry where it is employed, is repaid with interest.

6. Spread:

Diversification of lending is another important principle of good lending an element of risk is always present in every advance however secure it might appear to be. In face, the entire lending business is one of the taking calculated risk and a successful financer is an expert in assessing such risk.

Thus, company should diversify its lending program in various sectors of economy, business and industry and geographical areas.

7. National interest, suitability:

Even if an advance satisfies all the aforesaid principals, it may still not be suitable. The lending program may run counter to national interest. Central bank may have issued a directive prohibiting finance companies to allow particular types of advance.

Credit Granting Policy

Credit Analysis

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

Credit information for consumer lending

1. Residence:

A regular part of the verification is an address check. The range and types of residence are also indicative of the applicant's housing expense, social responsibilities and wealth. Plus, if the customer is a permanent local resident, it is likely that he'd pay his dues in time and there is less probability that he has any intentions of fraud.

2. Marital Status:

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

3. Age:

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

4. Payment record:

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

5. Income:

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

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

6. References:

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

7. Reserves, assets and collateral:

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

Commercial Credit Information

Besides related kinds of information as consumer application, commercial credit information contains the following:

1. Economic Statement
    a. As a rule balance sheet, income statement and cash flow statement certified by management and auditors.
    b. Shows the position, trend and flow of applicant's business.

2. Customers and creditors listing
    a. Offer income and approval to make inquiries with those doing business with the applicants.

3. Credit bureaus

4. Credit application/interview etc.

Analysis of Credit Risk

Five Characteristics of Credit

1. Capital:

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

2. Collateral:

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

3. Character:

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

4. Capacity:

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

5. Conditions:

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

Basic requirements in a borrower

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

1. If the applicant is an individual
    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 institutions.
    d. Applicant should present the job planning scheme.
    e. Personal Information
    f. Business registration certificate and income tax.
    g. Quotation and personal guarantee.
    h. Driver's license
    i. others

2. If the applicant 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.

3. 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 company.
c. Audited Balance Sheet, Profit & 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.

Guidelines of Assessing Risk

Risk can be created in every field. So, in financial sector risk is dependent upon the quality found in each characteristic and the combination of these five characteristics. Assuming the same conditions prevail, the following guideline is generally suggested.

Table 1 : Guidelines of Assessing Risk

Applicant characteristics	**Credit risk**
Character + capacity	Very low
Character + capacity without capital	Low to moderate
Character + capacity 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

Recovery of Loans and Advances

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

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 source of income of finance companies. All the invested time and work foes in vain if finance companies fail to recover what they had invested in Loans and Advances. If the finance company is not clever to recover its Loans and Advances, it's a failure of the company. Thus, finance companies pay special attention in the recovery part.

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

"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."[46]According to the company's schedule, if the borrower does not pay the due installment, the company can use the last weapon of recovering its investment via liquidation of the security against which, the loan was mobilized. Thus, company should collect quality security while giving out Loans and Advances to be in the safe side.

1.2 History of Finance Company

[46] Finance Company Act., 1985

The growth of banking in Nepal is not so long in comparing with other country. The financial institution named 'Tejaratha' was established in 1933 that used to extend credit to the people but it did not accept deposits from them. The first commercial bank of Nepal, Nepal Bank Limited was established in 1937 under Nepal Bank Act, 1937. With the establishment of NBL, Tejarath was abolished and inconveniences caused by the absence of formal banking sector were finally removed.

"Historically Finance companies were the creation of early 1960s and the real need for the creation of these finance companies were felt when commercial banks (CB) were unable to serve sectors of economy other than big business houses. The small savings were ignored so were their smaller credit requirements. Need of those institutions serving the deprived sectors were felt and it was that need which gave birth to institutions like finance companies."[47]

Still later than the establishment of NBL, there was no general banking legislation in Nepal up to 1964 and the Nepal Bank Act, 1937 itself required systematic revision to suit the changed circumstances. Hence, a new commercial bank act was enacted in 1964 and it replaced the Nepal Bank Act, 1937 in April 1965. The General Commercial Bank Act, 1965 and the Rastriya Banijya Bank Act, 1965 were repealed and was replaced by a new Commercial Banking Act enacted in 1974. During the mid 80s, the joint venture banks also come into the fray in Nepal, namely Nepal Arab Bank Ltd., Nepal Grindlays Bank Ltd. and Nepal Indo-Suez Bank Ltd. The two national banks, NBL and RBB, had then extended their area of operation to every nook and corner of the country under Banking Development Scheme, 1967 of Nepal Rastra Bank, which entailed a scheme of bank branch expansion.

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

[47] Money and Banking in Malaysia, Edwin Press 1998, page no.45

The Govt. then realizing such a state of rural sector and mounting operational losses of branches of commercial banks, which it had to compensate (certain percentage) through NRB, enacted Finance Company Act in B.S. 2042."[48]

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

Upahar and Dhukuti programs were collecting savings from the common public, who were very interested and taking part with enthusiasm. But these programs failed public hopes and ran away. As is the saying "every act has its react", govt. realized about the benefit that could be attained if only all such collected fund were utilized in some productive way. Considering such interest, benefit of mobilizing such savings in productive sector, banking sector's inability to carry out capital market activities and to meet consumers need for credit, government introduced Finance Company Act 2042BS. However, no finance company was set up till 2049BS as because the act came into being only in 2049BS with some amendments.

"Nepal Awash Bikash Bitta Company Ltd" is the first finance company established in 2049 BS promoted by Rastriya Beema Sansthan, Nepal Bank Limited (NBL), Rastriya Banijya Bank (RBB), Agricultural Development Bank (ADB) and Savings Company Limited was established from the private sector. And then there was no looking back. Today we have finance companies in the number of 73. And many more individuals and organizations are interested in starting finance company. Considering this, to control over the mushrooming of finance companies, NRB has made some amendments in the act such that it's not that easy in establishing finance company now. It's much more organized. Beside in recent years we had some news about failure and running away of finance companies. To control over this also NRB came up with much more stricter rules.

[48] Hamal, L.B., Economic History of Nepal, Ganga Kaveri Publishing House, Vanarasi, 1994 page no.58

1.3 Brief Profile of Subjected Finance Companies

This is complete on six finance companies of Nepal, namely Gorkha Finance Company Limited, Nepal Sri Lanka Merchant Banking & Finance Limited, Union Finance Company Limited, Premier Finance Company Limited, OM Finance Limited (Bittiya Sanstha) and Inbesta Finance Limited (Bittiya Sanstha).

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

Gorkha Finance Company Limited

Established as 16th finance company in Nepal. Its license from NRB on 2051/11/26. It stated its operation from the date 2052/11/28. The total loans and advances and deposits of Gorkha Finance till the year 2063/64 are Rs. 294.10 million and Rs. 308.00 million respectively. Gorkha ranks 35th amongst finance companies based on Capital Fund with its total capital fund Rs. 28.1 million. The share structure of Gorkha is given below;

Table 2 : Share Structure of Gorkha Finance Co. Ltd.

Share Structure	**NRS.**
Authorized Capital (10,00,000 share of Rs. 100 each)	10,00,00,000.00
Issued Capital (5,00,000 shares of Rs. 100 each)	5,00,00,000.00
Paid Up Capital (3,00,000 share of Rs. 100 each)	3,00,00,000.00

Union Finance Company Limited

Union had 10th rank as according to the finance company established in Nepal. Union started its operation from the date 2051/08/21, when it already had its license from NRB on 2051/06/31. The total loans and advances and deposits of Union till the year 2063/64 are Rs. 757.3 million and Rs. 861.7 million respectively. Union ranks 16th amongst finance companies based on Capital Fund with its total capital fund Rs. 68.662 million. The share structure of Union Finance is given below;

Table 3 : Share Structure of Union Finance Co. Ltd.

Share Structure	**NRS.**
Authorized Capital (30,00,000 shares of Rs. 100 each)	300000000.00
Issued Capital (1500000 shares of Rs. 100 each)	150000000.00
Paid Up Capital (725153 shares of Rs. 100 each)	72515300.00

Nepal Sri Lanka Merchant Banking & Finance Company Limited

NSLMB was 34th finance company established in Nepal. It received its license from NRB on 2052/10/18 and had started its operation from 2052/10/21. The total loans and advances and deposits of NSLMB till the year 2063/64 are Rs. 643.34 million and Rs. 650.58 million respectively. NSLMB ranks 7th amongst finance companies based on Capital Fund with its total capital fund Rs. 96.1 million. The share structure of NSLMB is given below;

Table 4 : Share Structure of Nepal Sri Lanka Merchant Banking & Finance Ltd.

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

(10,00,000 share of Rs. 100 each)	

Premier Finance Company Limited

Premier Finance company was 41th finance company established in Nepal. It received its license from NRB on 2054/01/26 and had started its operation from 2054/02/26. The total loans and advances and deposits of Premier Finance company till the year 2063/64 are Rs. 282.72 million and Rs. 283.87 million respectively. Premier Finance company ranks 46th amongst finance companies based on Capital Fund with its total capital fund Rs. 16.8 million. The share structure of Premier Finance company is given below;

Table 5 : Share Structure of Premier Finance Company Ltd.

Share Structure	**NRS.**
Authorized Capital (10,00,000 share of Rs. 100 each)	10,00,00,000.00
Issued Capital (5,00,000 shares of Rs. 100 each)	5,00,00,000.00
Paid Up Capital (2,40,000 share of Rs. 100 each)	2,40,00,000.00

OM Finance Limited (Bittiya Sanstha)

OM Finance Limited was 47th finance Limited established in Nepal. It received its license from NRB on 2057/05/29 and had started its operation from 2057/08/05. The total loans and advances and deposits of OM Finance till the year 2063/64 are Rs. 650.45 million and Rs. 484.13 million respectively. OM Finance ranks 47th amongst finance companies based on Capital Fund with its total capital fund Rs. 13.9 million. The share structure of OM Finance Limited is given below;

Table 6 : Share Structure of OM Finance Ltd.

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

Investa Finance Limited (Bittiya Sanstha)

Investa Finance Limited was 14th finance Limited established in Nepal. It received its license from NRB on 2051/11/16 and had started its operation from 2052/04/01. The total loans and advances and deposits of Investa Finance till the year 2063/64 are Rs. 54.50 million and Rs. 18.21 million respectively. Investa Finance ranks 33th amongst finance companies based on Capital Fund with its total capital fund Rs. 29.6million. The share structure of Investa Finance Ltd. is given below;

Table 7 : Share Structure of Investa Finance Ltd.

Share Structure	**NRS.**
Authorized Capital (1,76,000 share of Rs. 100 each)	1,76,00,000.00
Issued Capital (2,40,000 shares of Rs. 100 each)	24,0,00,000.00
Paid Up Capital (1,60,000 share of Rs. 100 each)	1,60,00,000.00

1.4 Statement of the Problem

Because of today's expanding market itself is a hazardous task and with that, finance companies are facing tough competition too and the fact that the present situation of Nepal has made the investments insecure to high extend. As a result, investments are being very challenging today and finance companies have to look for secure and productive investment opportunity which definitely is tough job. The table below has

tried to picture out the situation of finance companies in last five years, with simple relation of Loans and Advances with Total Deposits:

Table 8 : Relations of Loans and Advances with Total Deposit of all finance companies as a whole (in '00000')

Particulars	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**
N-No. of Finance co.	57	58	59	70	74
A-Total deposit	165103	193917	223416	243325	345147
B- Loans and Advances	144737	175408	212233	270789.5	356164.6
% B to A	87.66	90.45	94.99	111.28	103.19
B to N	2539.24	3024.27	3597.16	3868.42	4813.03

At all, in above Table 8, it seems the total deposits and loans and advances are increasing. But upon profound observation, the data expose that the deposits and loans and advances are increasing but in diminishing marginal rate. The increasing numbers of finance companies suggest that the lucrative business of finance company is attracting the business persons here in high extend. But considering the quality aspect, keeping aside the quantity aspect, jumping into this business with blindfold can be questioned. The percentage of Loans and Advances to Total Deposits had gradual increase till 2059/60 but have decreased in the year 2060/61, this probably is due to the lack of investment opportunities. It has decreased from 14.63% to 7.83% when the mean percentage is 97.51. Consequently, Loans and Advances per finance company is increasing but with diminishing margin.

The result due to increasing trend of Non-Performing Loans is that gradual increase in percentage of Loan Loss Provision to Loans and Advances. This percentage has increased from 2.5% in the year 2059/60 to 2.91% 2062/63. 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. Term loans are more productive and contribute more to the economy than hire purchase 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.

1.5 Objectives of the Study

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

For this purpose specific objectives are spelled out as highlights, analysis and suggestions:

Highlights:

1. To highlight the facts regarding recovery.
2. What loan actually is?, What are the principles of good Loans?, Quality of loans are objected to highlight.
3. To highlight upon the background of the study.
4. To highlight the facts regarding Lending.
5. To highlight upon the NRB directives regarding Lending and Loans and Advances.

Analysis:

1. To determine 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.
2. 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.
3. To measure the lending performances in quality, efficiency and its contribution in profitability.
4. To measure the relation between different elements of Balance Sheet and Profit & Loss Account, analyzing if they have healthy relation.

5. To make the regression analysis between the industrial data relating to lending of finance companies.
6. To measure the Propensity of Growth on trend analysis.

Suggestion:

To make suggestions as according to the findings from the analysis of the data.

1.6 Importance of the Study

Research made especially on Lending Practices of finance companies couldn't be set up. This study also 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 six finance companies is going to play a significant role for all other researchers who wish to study on finance companies. Extra that, this can provide adequate information about studied six 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.

Too much 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.

1.7 Limitations of the Study

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

1. The period of the study is limited. The study is made form the 2059/60 to 2063/64 only. Besides the first year data of Inbesta was not available so basically the averages made of Inbesta are of four years.

The study is conducted amongst six finance companies out of 73 in all. 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.

2. 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 mispresentation, mistakes and omissions will affect the outcome of the study.
3. Since the study was made for 5 years only and the performances of others years ignored, this might not give the accurate picture. And the trend analysis might not be correct too.
4. Statistical tools are used for analysis. Hence, the drawbacks and weakness of those tools may affect the outcome of the study.

1.8 Organization of the Study

The whole study is divided into five different chapters as follows:

Chapter 1 Introduction
Chapter 2 Review of Literature
Chapter 3 Research Methodology
Chapter 4 Presentation and Analysis of Data
Chapter 5 Findings, Conclusions and Recommendation

CHAPTER II

REVIEW OF LITERATURE

The purpose of reviewing the literature is to develop some skill in one's area loose what new contribution can be made, and to receive some ideas for increasing research design. Their relevant finding issues, arguments legist and suggestion while will given a glimpses, guide line to go further depth of the study. In other words there has to be continuity in research. This continuity in research is ensured by linking the resent study with the post research studies.

From above it is apparent that the purpose of literature review is to be fine out that what research has been conducted is one's chosen field of study and what remarks to be done. This chapter is broadly discussed under sections;

- Review of Relevant Studies.
- Review of Books.
- Review of Journals.
- Review of Unpublished Dissertations.
- Review of Relevant NRB Directives.

2.1 Review of Relevant Studies

In this chapter, review of different relevant sections is made. 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.

2.1.1 Review of Books

In the book 'Banking Strategy, Credit Appraisal and Lending Decisions' Hrishikes Bhattacharya has set the recommendation of Landon Committee from the report submitted this committee. The committee has prepared this report in 1975, however these recommendation stills deserve great impact in the sector of credit appraisal and Lending. Breaking away from the traditional methods of credit appraisal, the system proposed by the Committee enjoined upon the banker:

To assess the need based credit of the borrower on a rational basis;

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;
To improve the financial discipline of the borrower, and;
To develop healthy banker -borrower relationship.

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

The credit needs of borrowers be assessed on the basis of their business plans. Bank credit only be supplementary to the borrowers resources and not in replacement of them, i.e. banks not to finance one hundred per cent of borrowers' requirements.
Borrowers be required to hold inventory and receivables according to norms prescribed by the Reserve bank of India from time to time.
Credit be made available in different components only, depending upon the nature of holding of various current assets.
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;
Raw material including stores and other items uses in the manufacturing process.
Stocks-in process.
Finished goods.
Receivables and spares.[49]

Dr. Manohar Krishna Shrestha made an appreciable attempt to capture working style and operational performance of the finance companies in Nepal till Poush, 2052, in his book titled “Finance Companies in Nepal”. According to him “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

[49] Bhattacharya, Hrishikes, Banking Strategy, Credit Appraisal and Lending Decisions-A Risk-Return Framework, First Edition, Oxford University Press, Delhi, 1998.Page no.32

successful in meeting timely credit need. He further describes the position of few FC's and their working style. For example, Inbesta has an aggressive investment strategy with all risky assets in their investment portfolio whereas Union and NSLMB Finance Company has been very conservative in investment and their leading 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 form 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 form 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 though risky but are profitable.

He has distinguished a finance company from commercial bank in the book as follows:
Finance company is able to provide higher interest rate to attract deposit than commercial bank.
Finance company can extend financial services and provide loans in areas where commercial banks have not reached
Finance companies provide long term and intermediate loans while commercial banks deal mostly with short term loans
Finance company 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.
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 term of resources deal more with institutional credit needs like developing business and industry.

Conclusion part of the book is drawn below
The analysis of lending and investment activities of the companies shoed that only very few of them like Inbesta and OM 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.

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 grain on scarce foreign exchange.

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.

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

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).

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.[50]

"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 wiling to offer the highest price (interest rate)"[51].

[50] Dr. Shrestha, Manohar Krishna, *'Finance Companies in Nepal'*, 1995

[51] Greenworld, Bruce and Joseph, Stiglitz, *'Information, Finance ad Markets Page no.15:* The Architecture of Allocative Mechanism', National bureau of Economics Research, Cambridge.

"On the one hand, we have 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, we have 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"[52].

"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 minimize the risk inherent in any extension of credit."[53]

"Lending is a form of trade. It means giving up purchasing power now in exchange for purchasing power in the future."[54]

2.1.2 Review of Journals

[52] Meir Kohn, *'Financial Markets and Institutions'Page no.65,* Tata MCGraw-Hill Publishing Co. Ltd., New Delhi, Reprinted 1996.
[53] Cross, H.D., *Management policies for Commercial Banks*, Second Edition,*page no.86* Englewood Cliffs, Prentice Hall Ind., N.J., 1963
[54] Meir Kohn, *'Financial Markets and Institutions',page no.49* Tata MCGraw-Hill Publishing Co. Ltd., New Delhi, Reprinted 1996.

Mr. Prem Shanker Shrestha has written in an article titled "Present Position and Future Challenges of Finance Companies in Nepal" was published in Banking Prawardhan Vol.8. The theme of the article is drawn in the following points.

Despite the existence of numbers financial institution, local lending and borrowing transaction has covered about 80% of total credit demand of Nepal.

In past costumers used to approach to financial institution. But now a day here came a condition that the institutions need to go to the clients for providing financial services. Thus finance companies need to modify their working style as demanded by time and should concentrate in quick and practical services.

Taking the example of financial crises in some of the countries in Southeast Asia. Nepal should also learn the lesson from the countries in the context of increasing numbers of finance companies in the country.

There should be debt recovery act on Nepal.

Finance companies are seen not getting able to college\ct long-term deposit satisfactory. So they need to try to increase public confidence towards them.[55]

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

[55] Shrestha, Prem Shanker, *'Present Position and Future Challenges of Finance Companies in Nepal'*, Banking Prawardhan Vol.8

the performance of the finance companies in Nepal but equally important factor is that the regulatory and authority should keep close eyes o monitor their activities[56].

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

Regulatory Discretion on Licensing:

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

Minimum Capital Requirement for Licensing:

Recent regulation stipulates minimum amount of equity capital that the company should have to get license in operating and mobilizing deposits. This will definitely put bar in new entrances and lower the current competition by allowing already operating institution to operate freely. Since the concentration activity has been on capital only, there has been geographical sanction too.

Investment Restriction:

This regulation restricts how and where an institution can invest for example, limit to any one sector, to any borrower, on any one category etc.

Productive investment by the company affects the nation's productivity. Restriction on investment on single borrower avoids the risk of failure of any single borrower adversely affecting the intervention on their issues as companies have been smartly violating these regulations.

Capital Adequacy rate:

[56] Dr.D.P. Poudel, *'Finance companies in Nepal and overview26'*, Economic Advisor Research Department NRB

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

In the end, he further presents, some of conclusion remarks and recommendations:

The regulation to be resorted must be carefully examined, analyzing the marginal cost and benefit.
Depositing institutions engaged in the function of mobilizing deposits should be subject to uniform rules.
Regulatory intervention in enhancing the overall efficiency is required.
Minimum capital requirement for opening any financial institution should be scrapped.
Regulation that doesn't make economic sense and that cannot be enforced should be scrapped[57].

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. Mr. Volaram Shrestha and Mr. Lokbahadur Khadka, the writer of the article, have trie to put forward some recommendations as the measures for he 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 chould issue common share to public within 3 years of its establishment. A company in loss should go to public as soon as it starts getting profit. But it is seen that some companies are not seen to issue public shares eve after completing 4 or 5 years of operation. So, NRB should make such companies issue public share by circulating regulations like not allowing a company to provide dividends to its promoters if it fails to issue public share within a specific period of time.

[57] Ghimire 'Regulating depository Institution in Nepal pageno.32'

Promoters should not be allowed to sale their share unless the company issue public share. Moreover, there should be standards of eligibility of the buyers to purchase, thus sold shares, as there is a great role of promoter in planning and monitoring of a company.
There is a requirement of credit information system among all the financial institutions. Finance companies association of Nepal should play its role in this regards.
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 bad debt, service diversification, service quality etc. The companies in high rank should be slightly relaxed from restrictions regarding various aspects[58].

"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 risks, i.e., the risk of losses arising from technical problems or inadequate internal controls. Previously, operational risks had attracted less attention than credit and market risks. It changes in the nature of banking operations that have brought them more to the fore.

[58] Shrestha Volaram and Khadka. Lokbahadur, '*Development Required in Policy and Legal Aspects of Finance Companies'page no.48,* Banking Prawardhan Vol. 9.

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 has to be a foundation of minimum requirements for risk management .in addition, the authorities must be increasingly involved in ensuring that institutions themselves possess a basic competence in and understanding of the risks that have to be managed, as well as adequate systems for their management, rather than issuing 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 each 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 crucial 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 relative 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."[59]

"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 (1) Good (2) Indicative to Feeble (3) Feeble (4) Doubtful and (5) 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.

NRB Directive Section 7(f) allows companies to restructure/reschedule/capitalize interest when the loanee cannot pay back money in time. But the NRB Directive does not mention the condition for doing such things. It does not state whether or not a company should fully recover interest due. Details of the documents to be obtained by the Company Management to reschedule/restructure are however required as per New Directives Issued by NRB to commercial banks effective from the 1st quarter of FY 2058/59. The NRB Directive to Finance Companies also does not say anything about how many times Finance Companies can reschedule/restructure loans and capitalize interest within a "Loan Period" or within a "Fiscal Year". In the absence of such regulation, there may be a malpractice of rescheduling/restructuring the same loan many times even within the fiscal year passing off a worse quality loan as a better quality loan.

Section 5 of the NRB Directive pertains to the definition of the single group disbursement limit of credit facilities that can be disbursed. Nepal Finance Company Act 2039 Section 16 prohibits finance companies disbursing loans to directors. This section

[59] Shrestha, Shiba Raj, *'Modus Operandi of Risk Appraisal and in Bank Lending' page no.32*, Banking Promotion-8, A Journal of Baking Promotion Committee, NRB, Ashad 2056 B.S.

also contains other activities that a Finance Company must not conduct. Here the question arises whether or not a Company can flow a loan to somebody by pledging/keeping the collateral of the Director of that Company. NRB Directives are really silent on this matter. Although there is an "International Accounting Standards" IAS 24 for "Related Party Disclosure" requiring detailed disclosure of transactions with the related party of an entity in the Notes to the Account, these are almost not practiced in the Nepali Financial Reporting Environment by either Management or Auditors.

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 directive fails to define the meaning of scheduled loan. What percentage of the total loan portfolio could be disbursed in the form of non-scheduled loan? These terms should be explicitly defined. Otherwise finance companies may disburse whole/majority of loans as non scheduled loans to show short term profit at the cost of the long term sustainability of companies. The disbursement of maximum non-scheduled loans calls for a liquidity crisis, which hazards the companies business and creditworthiness.

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."[60]

"It is normal act of Nepal Rastra Bank to in act directives, time to time, to such institutions who collect deposit from public, for the safety of depositors. It should not be questioned otherwise. But directives should be such that, they are conveniently applicable. Directive should not be as such that they are perfect from the view point of NRB but inapplicable whence seen from the shoes of finance company. If directives are

[60] Balkrishna Shrestha, *Laws of Finance Company and Ambiguity*, The Kathmandu Post, Shrawan 9, 2058.

lengthy and whose application might arise question in the existence of the company itself, consequently turn out to be ineffective. It is not compulsory that strict directives increase the efficiency of finance company. Efficiency of managers and board of directors, who make rule and regulations, bring effectiveness ad efficiency in finance companies."[61]

2.1.3 Review of Unpublished Dissertations

In this study of "An Analysis of Financial Performance of Finance Companies in Context of Nepal" . Mr.Min Bahadur Ranabhat had made the major findings as below:
Uses of funds towards hire purchase loan 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.
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 housig 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.
The use of funds towards the term loan is gradually icreasing which can be shown in different period of figure. The term loan is increasing wit 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 was of HISEF.

The fund used by fiancé 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.
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.
There are increasing uses of funds towards government securities. Specific figures towards the securities for different four periods with amount of Rs. 8014 lakhs, Rs. 975.5

[61] Unofficial translation of interview of Shrestha, Ravi Krishna, CEO, Lalitpur Finance Co. Ltd., Economic Post, 25th Aashad, 2060.

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[62].

Mr. Bikram Pandey in his research of five finance 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.

OM Finance Ltd has been satisfactorily 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 does 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 though it is beneficial to the company.

[62] Ranabhat, Min Bahadur, *"An Analysis of Financial Performance of Finance Companies in Context of Nepal. "page no.30* An Unpublished Master Thesis, T.U. 1997

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[63].

Santosh Pandey, in his 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 with 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"[64]

He has 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.

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[63] Suresh Pandya, *" A Comparative Assesment of financial performance among selected Nepalese Finance Companies", page no55* An Unpublished Master Thesis, TU, 2007

[64] Pandey, Santosh, *NRB Directives- Their Implementation and Impact on the Commercial Banks: A Case Study of Himalayan Bank Limited, page no45* An Unpublished Master Thesis, T.U., 2002

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

Mr. 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

He has 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 clients 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 to 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.[65]

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 Ljmited has contributed highest amount to services sector. So for the loan repayment from priority sector is concerned Nabil has very satisfactory performance whereas NBL

[65] Pandey, Santosh, *NRB Directives- Their Implementation and Impact on the Commercial Banks: A Case Study of Himalayan Bank Limited, page no.45* An Unpublished Master Thesis, T.U., 2002

has very low performance or loss repayment overdue loan have been observed more in agriculture

He has 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 provided with 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.[66]

2.2 Review of Relevant NRB Directives

The purpose of advancing of loans and leased assets, Funds used by finance companies for is that of public. Finance co. collect deposits from public and it is the very same fund the finance companies use to make profit and give back to the public. Thus, to prevent this public fund being misutilized and to protect the savings of public, NRB has given directives to the finance companies regarding investment of public fund along with the directives to perform all other jobs of finance companies. 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 2058 No. 4, 5, 7 and 9.

NRB Directive No. 4[67]

In this directive, using the authority of Nepal Rastra Bank act 2058 section 79, NRB has given criteria for classification of loan and advances and leased assets and accordance calculatrion 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 indrownment of public fund due to incautious investment in bad loan and advances.

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[66] Sharma, Ram Prasad, *"Priority Sector Investment of Commercial Banks in Nepal"*, An Unpublished Master Thesis, T.U. 2002

[67] Unofficial translation of NRB Directive No. 4, specially for this particular study.

The NRB has provided 8 guidelines in its directives for finance companies 2058 No. 4. these guidelines are regarding classification of loan and advances and leased assets and loan loss provision, additional loan loss provision for loan granted against personal guarantee, rescheduling and restructuring of non-performing, provision of transferring amount to income from loan loss provision account, repayment of loan and advances, loan and advances and leased assets policy, punishment for violating the directives regarding classification and loan loss provision.

Since guidelines provided by the directives of NRB, according to the aging of repayment of loan and advances, the loan and advaces are to be categorized bi-yearly in every fiscal year i.e. at the end of Poush and Aashad. The criteria for the classification of loan and advances are given below;

Table 9 : Loan Categorization as according to NRB Directives

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

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

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

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

Company can categorize its loans against its own fixed deposit receipts as good loan and loan loss provision is to be made accordingly.

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

Regarding long term project financing, only the principle dues are categorized but if 25% or more of the total loan amount of these long term project are due the whole balance amount so categorized under loan categorization and loan loss provision is made.
No loan loss provision is to be made for the loan against HMG treasury bills and NRB securities.

NRB Directive 5[68]

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

I. Limitation for loans and advances and lease financing

1. Per customer loan limit

Company can provide loan and advances, lease finance and services to one person, family, customer, industry, project, firm or company at the most to the percentage of primary capital as given below;
Company can give out fund based loans and advances and lease finance up to 25%
In case on non-fund based loans and advances, it can give out up to 50%
For the portfolio of loans and advances and lease finance constituting of both fund based and non-fund based loans and advances, if the portion of fund based loans and advances is 25%, then 50% loans and advances can be given for the portfolio.
But in case originally taken non-fund based loans and advances is later converted to fund based loans and advances then it has the provision of 'i'.

2. Related customers will be treated as a single group

For the purpose of drawing limits in granting loans and advances, lease financing and giving other services, customers with personal relations are categorized in to a single group under the following conditions:
In case one company has acquired 25% or more shares of another company then those both companies are considered as a single group.
In case a director of a company is a shareholder of another company or his/her relative; spouse, son, daughter in law, unmarried daughter, adopted son, adopted unmarried

[68] Unofficial translation of NRB Directive No. 5, specially for this particular study.

daughter, parents, step mother and younger dependent siblings residing under the same roof or the companies whose 25% or more share are owned by above mentioned relatives individually or jointly.

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

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

Chairperson of BOD

Managing Director of the company

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

3. Extra Loan Loss Provision:

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

II. Mark Down in Limitation

For the mobilization of safe Loans and Advances viz. loans against government securities, NRB securities and fixed deposits maintained in the very same company, the limitations of point 'I' is not applicable.

NRB Directive 7[69]

Under the directive no. 7, using the authority of Nepal Rastra Bank act 2058 section 79, 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.

I. Sector wise loan disbursement limit

[69] Unofficial translation of NRB Directive No. 7, specially for this particular study.

NRB Directive No. 7 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 as follows:

Hire Purchase Loan
Vehicles
Machinery, equipments and plants
Consumer durable goods and other movable goods

Housing Loan
Purchase of land and purchase/construction of building, godown for an individual
Purchase of land and purchase/construction of building, godown for an organization

Lease Financing
Vehicles
Plants, machinery & equipments
Consumer durable goods and other movable assets.

Term Loan – Medium and Long Term only
Agriculture and agro-based business
Industry
Business
Education
Health
Tourism
Hydro-power
Others

Fund Based Merchant Banking Activities
Venture capital
Bridge financing
Other merchant banking transaction

Non- Fund Based Merchant Banking Activities

Corporate counseling
Project counseling
Issue management
Share underwriting
Portfolio management

Notes:
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 loan shall not exceed 40 percent of total loan.
Prior approval from non-banking operations department has to be obtained to conduct fund-based merchant banking activities.
Company shall issue financial guarantee of medium and long term nature only.

II. Additional loan loss provision

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.

III. Time frame to bring loan amount under the sector wise limit

Finance companies shall bring the loan exposure which exceeded the limitation as mention above until 2060 end of Ashad.

NRB Directive 9[70]

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

1. Provision of interest rate declaration:

[70] Unofficial translation of NRB Directive No. 9, specially for this particular study.

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

2. No flat rate:

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

3. Interest rates should be decided:

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

4. Information regarding interest rates:

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

5. Publication of interest rates:

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

6. Interest income and expenses:

Due interest from loans and advances can be transferred to interest income only under cash basis. Interest of 3 months due but not paid can be shown as interest income under Interest Receivable Account. In case this due is not received in cash within 3 months, it should be transferred to Interest Suspense Account as expenses. And this interest amount transferred to Interest Suspense Account can be recorded as Interest Income only when it is collected in cash.

Interest income from Govt. securities, NRB securities, debentures and other investments should be treated as according to commitment basis. But dividends from share investments should be treated on cash basis.

CHAPTER III
RESEARCH METHODOLOGY

Research methodology is a sequential method and collection of scientific method to be adopted in a systematic study. Research methodology describes the method and process applied in the entire aspect of the study. It is way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. Where we study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them

"Research is the process of a systematic and in-depth study or search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data. It is a careful search or inquiry in to any subject matter, which is an endeavor to discover or find out valuable facts which will be useful for further application or utilization."[71]

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

John W. Best - "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 control of events."

Research methodology is the way to salve systematically the research problem which includes many techniques and is a must for every research study. Research Methodology

[71]Joshi, Pushpa Raj, Research Methodology, First Edition, Buddha Academic Publishers and Distributors *Page no.124*

depends on the various feature of the research project. The size of the project, the objective of the project, importance of the project, time frame of the project, impact of the project in various aspects of the human life etc. are the variables that determine the research methodology of that particular project. This study is to evaluate the Lending Practices of Finance Companies of Nepal (With Special Reference to Six Finance Companies in Nepal). However, the following steps provide a useful procedural guidance so far as research methodology is concerned:

1. Extensive literature survey
2. Specification of the information required: formulating the hypothesis
3. Design of the search project
4. Sample design
5. Collection of data/ construction of questionnaires
6. Tentative selection of the problem (i.e. topic of research)
7. Initial survey of literature
8. Defining or selecting the research problem
9. Execution of the project
10. Analysis of data
11. Testing of hypothesis
12. Arriving at generalizations and
13. Preparation of the report (i.e. stating or writing down the result)"[72]

The subject of the project has been selected as "Lending Practices of Finance Companies of Nepal (With Special Reference to Six Finance Companies in Nepal)" with a tentative objective of highlighting and analyzing the lending practices of finance companies. The study of literature has been conducted from various library and references and these have been mentioned in chapter two. The problem of the study has been specified in the topic "Statement of Problem" in chapter one. Six finance companies out of 78 till today, are selected for the study namely, Union Finance Co. LTD., Gorkha Finance LTD., NSLMB Finance LTD., Premier Finance LTD., OM Finance LTD. and Inbesta Finance LTD. The data has been collected from various sources as specified in sources of data. The data has been processed and presented in chapter four. The major

[72]Kothari C. R. Quantitative Techniques, Third Revised Edition, *Page no.125*, Vikas Publishing House Pvt Ltd, New Delhi 1994

findings of the analysis have been mentioned in chapter five. The conclusion and recommendations have been put in the same chapter.

3.1 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected from which sources by what procedures. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected by objective and economical procedures."[73] Research design is a plan for the collection and analysis of data.

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

This study will be primarily based on secondary data and descriptive, analytical as well as quantitative approach is developed to examine the issues. This research coats six major finance companies of Nepal, particularly in their practices if lending and recovery. The research has its basic objective to figure out the problem therein and provide them

[73]Pailm E, GreenDonald, S, Tull, Research for Marketing Decisions. *Page no.145*

with some recommendation. The literature has been reviewed from past thesis, books and published articles. The data for the research are of secondary type. The research is designed to conduct approximately within 60 working days.

3.1.1 Source of Data

This research study will be based on Secondary data. The annual reports of the subjected finances companies are the main source of the data for the study. However, besides the annual reports other sources of data listed as below are also used;

1. Various Publications concerning the subject matter
2. Various Articles Published in the News Papers
3. NRB reports
4. NRB Directives
5. Academic Books
6. World Wide Web; the internet.

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

3.1.2 Population and Sample

The study of whole population is impossible or very difficult, so, a part of the population is selected so as to describe conclusion of the whole population, this process is sampling and the part selected is called sample. Here, regarding to this study, the whole of finance companies, with 73 in total number, is the population of the study. And the selected six finance companies viz. Union Finance Co. LTD., Gorkha Finance LTD., NSLMB Finance LTD., Premier Finance LTD., OM Finance LTD. and Inbesta Finance

LTD. For this particular study, more than 10% of the population is taken as sample. The sample was collected by random selection of major finance companies.

3.1.3 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 form interviews form Mr. Prakash Manandhar, Managing Director of Union Finance Co. Ltd. and Mr. Minraj Jang Shah loan Department, NSLMB 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.

3.2 Analysis of Data

To achieve the aforementioned objectives following tools and techniques are used in this study, which are applicants in analysis phase.

3.2.1 Financial Tools

1. Ratio Analysis

The term refers to the numerical or quantitative relationship between two component or variables. Ration can be express as percentage, fraction and stated comparison between numbers. In simple word ration analysis or financial ratio express the relation between the accounting figures mathematically/ it is an indicator yardstick or measuring rod for evaluating the financial position and performance of a firm.

"The technique of ratio analysis is a part of the whole process o analysis of financial statements of any business of industrial concern specially to take output and credit decisions. --- Through this technique, a comparative study can be made between

different statistics concerning varied facets of a business unit. Just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic of financial health of a business concern. ---Thus, the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concern**.”**[74]

To the extent that 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 an judgment on analysis and it remains as an absurd figure only. This section has been divided into following sub-sections.

Asset/Liability Management Ratio

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

1. Investment to Loans & Advances and Investment Ratio
2. Loans & Advances and investment to Total Deposit Ratio
3. Loans and Advances to Shareholder's Equity Ratio

[74] Kothari C. R. Quantitative Techniques, Third Revised Edition, *Page no.125,* Vikas Publishing House Pvt Ltd, New Delhi 1994

4. Loans and Advances: Portfolio

Activity Ratio

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

1. Loan Loss Provision to Total Loans and Advances Ratio
2. Non-Performing Loans to Total Loan & Advances Ratio
3. Interest Income from Loans and Advances to Total Income Ratio
4. Interest Suspense to Total Interest Income from Loans & Advances Ratio
5. Loans and Advances to Total Deposit Ratio
6. Interest Income to Interest Expenses Ratio

Profitability Ratio

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

1. Net Profit to Shareholder's Equity Ratio
2. Earning Per Share (EPS)

3.2.2 Statistical Tools

Statistical methods are the mathematical techniques used to make possible the analysis and interpretation of numerical data held from groups of individuals or groups of observations from a single individual. The figures provide detailed description and tabulate as well as analyze data only objectivity. The results can be presented in brief and precise language and complex and complicated problems can be studies 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 in other to draw the reliable conclusion through the analysis of financial data. Following tools are used:

Standard Deviation

Standard deviation is the most popular and most useful measure of dispersion and gives uniform, correct and stable results. The chief characteristics of standard deviation is that it is based on mean, which gives uniform and dependable results. Further more, a standard deviation is always a positive number and is superior to the mean deviation, quartile deviation an the range because t is used for further mathematical treatment.

Karl Pearson introduced the concept of Standard Deviation in 1823 and this is denoted by the small Greek letter σ (read as sigma).

The formula to calculate the Standard Deviation is given below;

$$\sigma = \sqrt{\frac{\Sigma x^2}{N}}$$

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

$$\sigma = \sqrt{\frac{\Sigma fx^2}{N}}$$

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

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

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

Coefficient of Variation

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

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

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

Correlation

Correlation is the measure of relationship between two or more characteristics of a population or a sample. It simply measures the changes between the phenomenon. The correlation coefficient between two variables describes the degree of relationship between those two variables. It measures the increase or decrease in one variable due to increase or decrease in another variable. "Simply stated, correlation is a statistical tool, with the help of which, we can determine whether or not two or more variables are correlated ad if they are correlated, what is the degree and direction of correlation."[40]

Karl Pearson's method, popularly known as Pearsonian Coefficient of Correlation, is most widely used in practice. The Pearsonian Coefficient of Correlation is denoted by the symbol 'r' and is calculated as follows;

$$\text{Correlation Coefficient(r)} = \frac{n \quad xy - (\quad x).(\quad y)}{\sqrt{n \quad x^2 - (\quad x)^2}\sqrt{n \quad y^2 - (\quad y)^2}}$$

n = Number of pairs of observations

The Karl Pearson Coefficient of Correlation 'r' always falls between -1 to +1. the value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation coefficient reaches near to the value of zero, it is d\said that there is no significant relationship between the variables.

The reliability of the value of Coefficient of Correlation can be judged by its Probable Error. Probable Error is denoted by 'P.Er.' and is calculated as below;

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

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. If the

[40] Gupta, S.P. *Easy Approach to Practical Statistics,* Third Edition, *page no.36* S. Chand & Company Ltd., Ram Nagar, New Delhi, 1981.

value of Correlation Coefficient is less that the Probable Error, the Correlation Coefficient is said to be insignificant and there is evidence of correlation.

Regression

The literal meaning of the word "regression" is stepping or returning back to the average value. The term was first developed by Sir Francis Galton in 1877.

"Regression is the statistical tool with the help of which we can estimate or predict the unknown value of one variable from the known value of any other variable. Assuming that the two variables are closely related, we can estimate the value of one variable from the value of another. The variable whose value is given is called "independent variable" and the variable whose value is to be predicted is called "dependent variable". "[41]

The regression equation of y on x is expressed as;

$$Y_c = a + bX$$

Where,

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

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

This analysis is done of the industrial data covering all the finance companies till Asar, 2059.

[41] Sharma, Pushkar Kumar & Silwal, Dhruba Prasad,

Time Series

"Economist and business experts have often to deal with variates (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."[42] When a series of data pertaining to a series of continuing periods should be studied, its characteristics and its future directions best estimated by the time series. Time series analyses a series of data keeping in mind the various short term and long term fluctuations.

The Least Square Method of trend analysis has been adapted to measure the trend behaviors of the subjected finance companies in this study. "Method of Least Square is mathematical method of obtaining trend that uses the concept of least square method. Simply the technique of fitting regression equation."[43] This method is widely used in practices. The straight line trend of a series of data is represented by the following formula;

$$Y_c = a + bX$$

Where, Y_c is used to designate the trend values and to distinguish them from the actual Y values, a is the Y intercept or the computed trend figure of the Y variable when X=0, b represents the slope of the tend 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 year i.e. 2060 to 2064 has been used in measuring the tend analysis. In case of Inbesta, 4 years data is used, 2060 to 2064, for the data of 2060 was not available. While analyzing the Time Series, the Propensity of

[42] Joshi, Puspa Raj, *Research Methodology, page no.56* First Edition, Buddha Academic Publishers and Distributors Pvt. Ltd., Kathmandu, Nepal, 2001
[43] Dr. Shrestha, Suniti & Ms. Amatya, Sunil, *Statistics and Quantitative Techniques for Business Studies, page no.46* First Edition, Ratna Pustak Bhandar, Kathmandu, Nepal, 2002

Growth and Growth Rate have been examined based on the value of trend value of Least Square Method.

3.2.3 Qualitative Analysis

Recovery is very important part of Lending Practices. Due to the reason that no quantitative data regarding recovery of Loans and Advances was available, qualitative analysis is done on the segment. This analysis has been built under the grounds of data collected form the informal interview meeting made with Mr. Prakash Manadhar, Managing Director of Union Finance Co. Ltd. and Mr. Min Raj Jangh Shah, Loan Department, NSLMB Ltd.

Chapter IV
Presentation and Analysis

4.1 Measuring the Lending Strength

Presentation and analysis of data is an main stage of the research study. The main purpose of analyzing the data is to change it from and unprocessed form in an understandable presentation. The analysis of data consists of organizing data by tabulating and then placing the data in presentable form by using figures and tables.

With among strategies, lending strength is the important aspect of any finance company. Finance company has to face very critical situation if it not kept in right track while performing the functions. This, in fact, shows the situation of finance company in terms of investments in loans and advances. The company lends in accordance with the deposits collected and the investments made by the shareholders. Company has to face of loss if it has idle deposit. 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 conditions.

4.1.1 Measuring the Lending Strength in Relative Terms

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

4.1.1.1 Investment to Loans and Advances and Investment Ratio

This ratio measures the contribution made by Investment in total amount of Loans and Advances and Investments. The proportion between Investment and Loans

and Advances shows 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 10 : Investment to Loans and Advances and Investment Ratio

	2059/60	2060/61	2061/62	2062/63	2063/64	mean
Union	0.25	0.17	0.25	0.08	0.02	0.15
Gorkha	0.10	0.07	0.00	0.00	0.00	0.03
NSLMB	0.15	0.13	0.16	0.14	0.06	0.13
Premier	0.13	0.07	0.11	0.11	0.12	0.12
OM	0	0.02	0.01	0.05	0.04	0.03
Inbesta	---	0.03	0.02	0.00	0.00	0.01
Combined mean						0.07

Table 10 shows the ratios of Investment to Loans and Advances and Investments. The ratios are ranged from 0 of OM to 0.25 of Union in the year 2059/60. The ratios of Union are the highest throughout the study period. On the contrary, OM and Inbesta have the least ratio throughout the study period keeping aside the least ratio 0.0 of Gorkha than 0.02 of Union in the last year. Gorkha has nil ratio in last three years. Analyzing the 5 year data of all six finance companies, it is noted that only Union has a steady increase in the ration throughout. Despite being highest, the ratios of Gorkha are in decreasing trend. The ratios of Gorkha are in decreasing trend till year 2061/62. Inbesta too has ratios in decreasing trend. Its ratios were decreasing from year first to year last from 0.03 to 0.00 respectively. Ratios of NSLMB are fluctuating from rise to fall and again rise. It does not has any specific trend but in overall it manages to rise it ratio from 0.15 to 0.16 from the year first to the year third last. In case of Premier, the ratio sharply increase in the third year from 0.11 to 0.12, almost to half.

The mean ratios of Union, Gorkha, NSLMB, Premier, OM and Inbesta are 0.15, 0.3, 0.13, 0.12, 0.03, 0.01 respectively. The combined mean ratio of all six finance companies is 0.07. Only Union has registered the higher ratio than the Combined Mean. This infers that Union has lowest degree of investment in risk assets. And similarly, Inbesta has the lowest ratio meaning it has high degree of

investment in risky assets, which is supported by the fact that it has nil investments in last two years.

4.1.1.2 Loans and Advances and Investment to Total Deposit Ratio

Loans and Advances and Investments are the major area of fund mobilization. This is the major area where the funds collected as deposits are channeled. The first part, Loans and Advances is more crucial and also bears more risk than Investments but also gives the higher return. Whereas, the second half, Investments has lesser risk and gives lower return in compare to Loans and Advances. Loans and Advances and Investments to Total Deposits ratio indicates the firm's fund mobilizing power in gross. Total Deposits collected, against giving interest to the customers, is the total amount available for investments. Loans and Advances and Investments are the major areas where the companies can mobilize the funds with some returns. Any idle deposits means 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 11 : Loans and Advances and investment to Total Deposit Ratio

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	0.58	0.52	0.63	0.80	0.91	0.69
Gorkha	0.97	1.03	1.01	1.07	0.96	1.00
NSLMB	0.70	0.86	1.03	1.07	1.06	0.94
Premier	1.05	0.81	0.96	0.99	1.03	0.96
OM	21.29	0.99	0.96	1.00	1.40	5.18
Inbesta	---	2.51	2.85	3.24	2.99	2.89
Combined Mean						1.94

Table 11 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 0.58 of Union in 2059/60 to 21.29 of OM in 2059/60. OM and Inbesta are with the highest ratios in different years. OM has highest ratio of 21.29 in 2059/60 and 1.40 in 2063/64. Whereas Inbesta has highest ratio of 3.24 in 2062/63, 2.99 in 2063/64 and 2.85 in 2061/62. Union has the lowest ratio throughout the study

period. The ratios of NSLMB has increasing trend except from 0.70 to 1.06.Non of the companies showed a steady increasing trend of the ratios. Except for a very nominal increase in the ratios of Gorkha and OM, all other finance companies have their ratios increase in the last year, 2063/64.

The Combined Mean ratio of all six finance companies is 1.94. The mean ratios of Union, Gorkha, NSLMB, Premier, OM and Inbesta are 0.69, 1.00, 0.94, 0.96, 5.18, 2.89 respectively. OM has the highest mean ratio and except for Union, Premier and NSLMB, all the companies have their ratios higher than the Combined Mean. This shows NSLMB has been doing best in mobilizing the funds collected in income generating way. And since the ratio is above 1, it refers that non of the deposit is idle. There is maximum utilization of the collected funds.

4.1.1.3 Loans and Advances to Shareholder's Equity Ratio

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

Table 12 : Loans and Advances to Shareholder's Equity Ratio

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	2.79	3.38	3.54	6.01	8.27	4.79
Gorkha	5.98	5.07	7.09	10.61	9.80	7.71
NSLMB	3.51	4.71	6.03	5.99	6.43	5.33
Premier	7.23	9.25	10.42	5.00	9.81	8.34
OM	4.54	7.30	17.89	7.60	6.5	8.76
Inbesta	---	2.67	2.56	2.69	2.27	2.54
Combined Mean						6.24

Table 12 shows the ratios of Loans and Advances to Shareholder's Equity. The ratios range from 2.27 of Inbesta in 2063/64 to 17.89 of OM in 2061/62. The

ratios of all five companies are fluctuating. This fluctuation is probably due to increase in the shareholder's equity of the companies in different times.

The Combined Mean ratio of all the finance companies is 6.24. The mean ratios of Union, Gorkha, NSLMB, Premier, OM and Inbesta are 4.79, 7.71, 5.33, 8.34, 8.76 and 2.54 respectively. OM has the highest mean ratio whereas Inbesta has the lowest. Since the ratios of NSLMB and Inbesta are 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.

4.1.2 Measuring the Lending Strength in Absolute Terms

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

4.1.2.1 Loans and Advances

The focal task of finance company is to create credit from its borrowed fund. Doing so its converting its liability into assets. It is to say, the volume of Loans and Advances is taken as one crucial element of measuring the performance of nay finance company. The high volume of Loans and Advances is indicator if good performance in credit sector.

Table 13 : Loans and Advances (in millions)

	mean	S.D	C.V
Union	336.33	159.58	47.45
Gorkha	202.57	103.79	51.24
NSLMB	533.41	108.15	20.28
Premier	214.26	48.36	22.57
OM	340.40	204.87	60.18
Inbesta	61.28	4.08	6.66

Table 13 shows mean, standard deviation and coefficient of variance of all six finance companies under study. The mean Loans and Advances of NSLMB is highest of all, 533.41 and Inbesta has the least of 61.28. Similarly, standard deviation of OM is the highest with 204.87 and that of Inbesta is lowest with 4.08. Thus, the performance of Gorkha is more consistence regarding giving out loans and advances in comparison of other finance companies. Whereas coefficient of variance is highest of OM i.e. 60.18% and the lowest is of Inbesta, 6.66%.

Chart 1 Loans and Advances

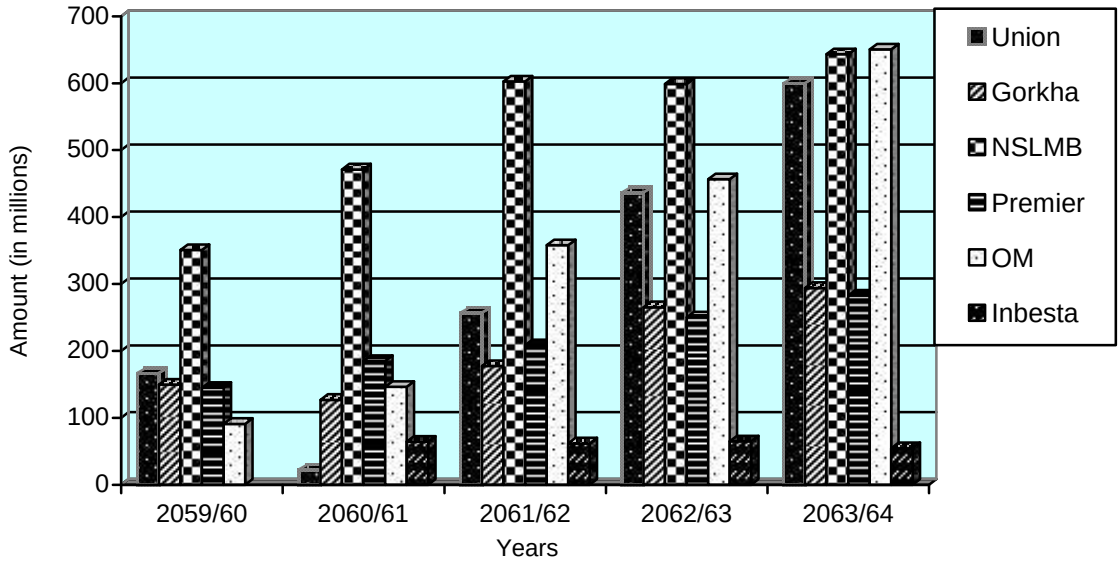


Chart 1 graphically presents the Loans and Advances of all six finance companies throughout the study period. Union, NSLMB and OM have increasing trend with 643.35 million as the highest amount registered of NSLMB in 2063/64. The least Loans and Advances disbursed is 58.66 million by Union in 2054/55. However, there is an overall increasing trend in Loans and Advances. Starting from

the year 2054/55, when the companies have come to the year 2058/59 they have high growth in their Loans and Advances. The growth of Union, Gorkha, NSLMB, Premier, OM and Insbesta are 27.24%, 9.78%, 6.87%, 11.50%, 29.82% and 15.78% respectively.

4.1.2.2 Non-Performing Loan

Non-Performing Loan is consists of Loans and Advances except for good loans. It is that part of Loans and Advances that should be looked upon carefully for the timely recollection of the repayments. According to NRB directive no. 4, Sub-standard, doubtful and bad loans are categorized under Non-Performing Loans. Non-Performing Loans are, in fact, very crucial problem to finance companies. They not only require extra effort for collection of repayments but as according to the NRB directions for Loan Loss Provision, they also create large amount of Loan Loss Provision cutting down the profits and making the amount idle.

Table 14 : Non-Performing Loan (in millions)

	mean	S.D	C.V
Union	12.22	4.98	40.75
Gorkha	8.63	2.01	23.34
NSLMB	163.50	191.87	1.17
Premier	5.54	2.21	39.93
OM	3.49	2.08	59.68
Insbesta	5.29	1.31	24.86

Table 14 shows the Non-Performing Loan situation of all six finance companies under study. Mean, Standard Deviation and Coefficient of Variance of all six finance companies are depicted in table 5. The Mean Non-Performing Loan of NSLMB is highest of all and the lowest of that is of OM. The highest Standard Deviation of Non-Performing Loan is that of NSLMB, 191.87 and lowest is that of Inbesta, 1.31. This means Inbesta is performing well regarding the management of Non-Performing Loans. Deviation of NSLMB is very high, this might call for problems in future if not controlled in time. Similarly, the highest Coefficient of Variance is of OM with 59.68% and the lowest is that of NSLMB with 1.17%.

Chart 2 Non-Performing Loans

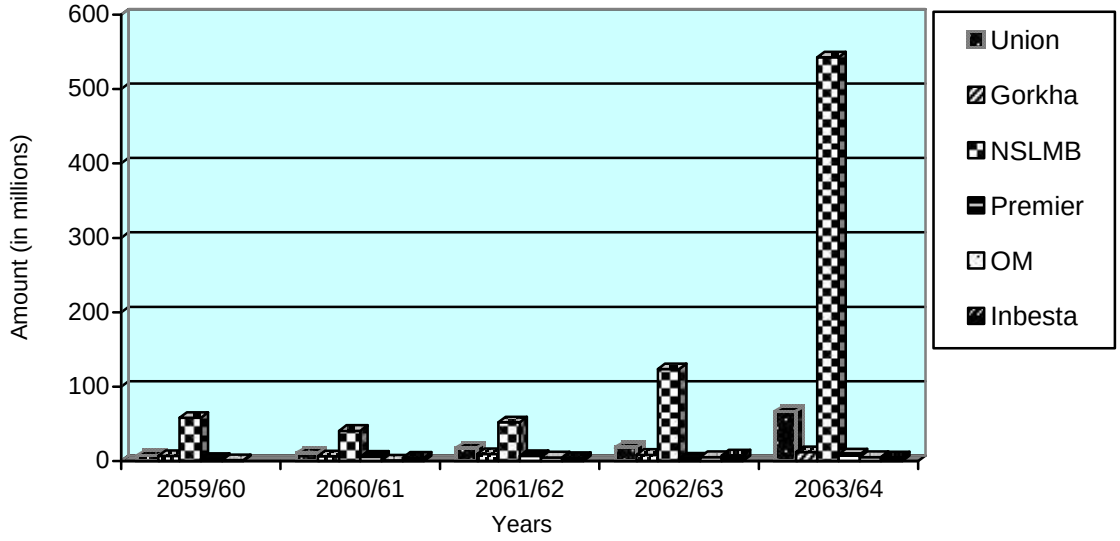


Chart 2 presents the Non-Performing Loans of all six finance companies graphically. The maximum Non-Performing Loan registered is 542.88 million of NSLMB in 2063/64. Within years 5, NSLMB is come first in all years in Non-Performing loan, the second highest is that of Union in the very same year 2063/64. The overall trend of Non-Performing Loan is increasing trend. This, even not much of a problem now, can lead to a serious situation in future. The values of Gorkha, Premier and Inbesta seem to be fluctuating. According to the data, NSLMB seem to be much into problems with Non-Performing Loans increased by 542.88%. Similarly, in case of Inbesta, 2059/60 data is not available. The values of OM also has increasing trend as that of Inbesta but unlike Inbesta the final year increase of Non-Performing Loan of OM is high i.e. by 7.50%.

4.1.2.3 Interest Income from Loans and Advances

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

Table15 : Interest Income from Loans and Advances (in millions)

	mean	S.D	C.V
Union	40.64	24.22	59.60
Gorkha	26.40	5.44	20.61
NSLMB	37.10	21.51	57.98
Premier	25.35	13.29	52.41
OM	13.42	25.09	186.92
Inbesta	1.76	1.03	58.55

Table 15 shows the Mean, Standard Deviation and Coefficient of Variance of Interest Income from Loans and Advances of all six finance companies under study. The highest Mean register of Interest Income from Loans and Advances is 40.64 of Union and the lowest is that of Inbesta, 1.76. At a glance, it can be said that Union is the most income making finance company among the six. But while considering the Standard Deviation, which is registered highest of Union i.e 24.22, it can be said that even if Union has the maximum volume of Interest Income from Loans and Advances, it is not steady. Union does not have a regular collection of Interest Income from Loans and Advances. On the contrary, Inbesta has the least Mean but also the least Standard Deviation, which means the least deviation from mean, result of much steady and regular collections from Loans and Advances. The Mean of Gorkha, NSLMB and OM are 26.4, 25.35 and 13.42 respectively and their respective Standard Deviation are 5.44, 21.51 and 25.09. The highest Coefficient of Variance 186.92% of OM and the least is that of Gorkha with 20.61%.

Chart 3 : Interest Income from Loans and Advances

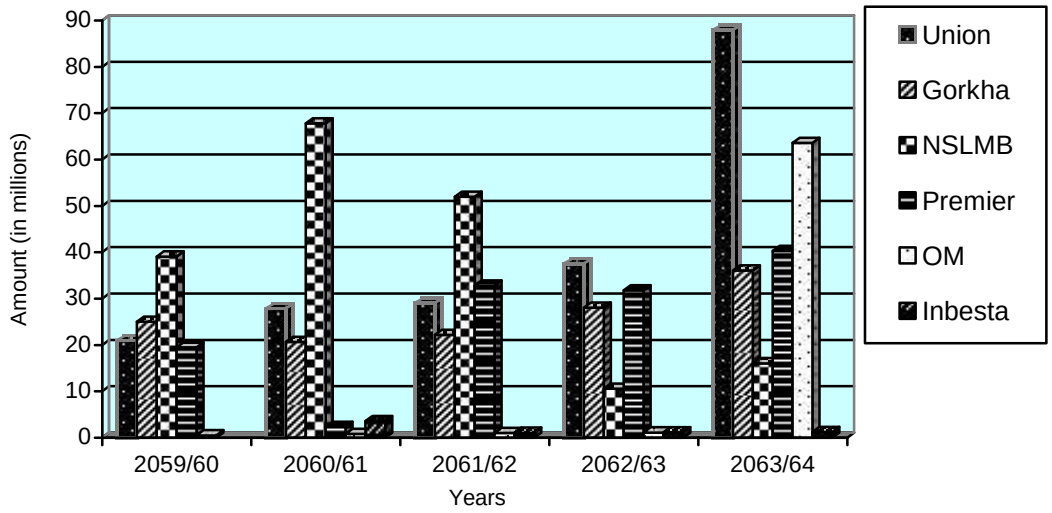


Chart 3 has the graphical presentation of Interest Income from Loans and Advances. This shows the high income of Union in the year 2063/64 which amounts to Rs. 87.93 million, which is increase from the previous year 2059/60. Interest income from Loan and Advance are in increase trend in all finance companies. NSLMB has decreased trend in interest income from loan and advance from last two years.

4.1.2.4 Loan Loss Provision

Loan Loss Provision shows the figure that is the summation of provision made against all types of loans as per the NRB directives. The NRB directives directs to make the provision of 1%, 25%, 50% and 100% for good loans, sub-standard loans, doubtful loans and bad loans respectively. This Loan Loss Provision occupies the larger share in the total provision presented in the Profit & Loss Account and definitely decreases the profit of the company. The more the Loan Loss Provision, it suggests two definite things, more of total loan and or more of bad loan. Since, according to the NRB directives, 1% provision is to be provided for all good loans too, it does acquire a huge portion of the total Loan Loss Provision. Thus, just by

looking at mere Loan Loss Provision it cannot be said if the company has all good loans or voluminous bad loans.

Table16 : Loan Loss Provision (in millions)

	mean	S.D	C.V
Union	13.47	3.29	24.47
Gorkha	10.04	3.63	36.23
NSLMB	162.55	193.48	119.02
Premier	3.40	1.41	41.48
OM	3.90	3.53	90.66
Inbesta	5.65	2.79	49.48

Table 16 presents the Loan Loss Provision of the finance companies under study. The above table shows that NSLMB has the highest Mean of 162.55, meaning it had allocated the highest amount in provision for Loan Loss in comparison to other finance companies under study. Similarly, Premier has the least of Mean 3.4 and at the same time it also has the least Standard Deviation of 1.41 whereas NSLMB has that of 193.48. Thus, NSLMB is most likely to have highest volume to risky assets and Premier is the lowest.

Chart 4 : Loan Loss Provision

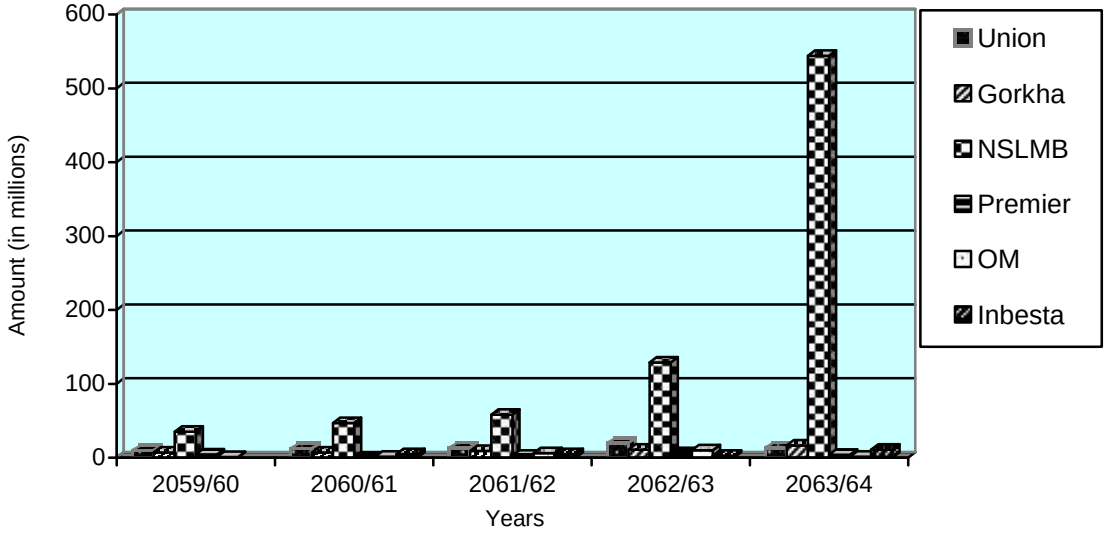


Chart 4 shows the graphical presentation of Loan Loss Provision of the finance companies under study. OM has the least Loan Loss Provision in the first year of study of Rs. 1.06 million from the first year all finance companies have increaseing

provision through out the study period. Whereas provision of NSLMB increased to Rs. 543.98 million in last year i.e. increase by 76.32% which is the highest provision recorded of NSLMB in 2063/64 which had Rs. 128.81 million in the year 2062/63. The overall trend of this liability is increasing in all six finance companies.

4.1.2.5 Net Profit

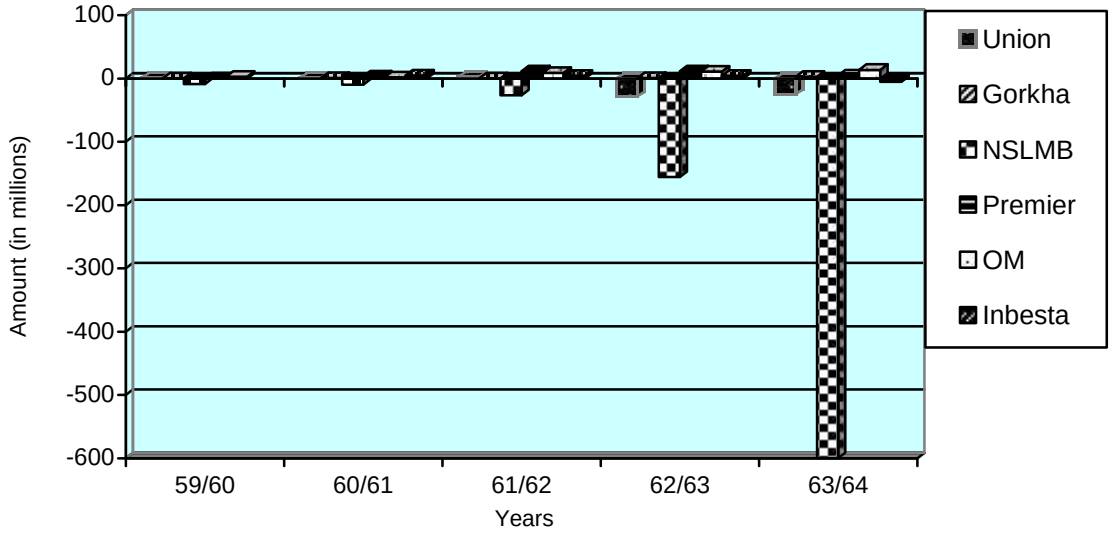
This Net Profit is the Net Profit before Appropriation. Bonus for employees and taxes are deducted and retained earning of previous year is also adjusted in the Net Profit for the study. Besides all the elements that count and questioned, the volume of Net Profit is the main factor that measures the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

Table 17 : Net Profit (in millions)

	mean	S.D	C.V
Union	-9.82	13.77	-140.21
Gorkha	1.01	1.00	99.06
NSLMB	-160.00	226.46	-141.54
Premier	6.26	4.42	70.59
OM	7.71	4.54	58.88
Inbesta	1.96	-2.92	-149.00

Table 17 shows that Union and NSLMB are the companies that had loss during the study period. These have the Mean of -9.82 and -160 respectively with negatively variability of -140.21% and -141.54%. Whereas OM has the highest Mean of 7.71 with the variability of 58.88%. Besides the negative Mean, the lowest Mean is of NSLMB with the Standard Deviation of 226.46. The Mean Net Profits of Gorkha, Premier and Inbesta are 1.01, 6.26 and 1.96 respectively and their respective Standard Deviation are 1, 4.42 and -2.92. Under this analysis it can be said that OM has the best performance. But it can be seen that Premier is catching up with OM with its next close Mean value with OM and almost the same variablilty, in fact a little higher.

Chart 5 : Net Profit (in millions)



The graphical presentation of Net Profits of all six finance companies is shown in Chart 5. This chart shows that the Net Profits of OM is always higher than other finance companies. And besides NSLMB with negative profits, Gorkha always had the least Net Profits amongst all, despite; Gorkha has an increasing trend of Net Profits. Besides Union and NSLMB all the finance companies have Net Profits in increasing trend. With among six finances Net Profit of OM drastically increased in 2063/4 from Rs. 10.88 million to Rs. 13.69 million i.e. an 20.52% increase. Net Profit drop is experienced by Union in 2062/63 and 2063/64. Premier had increasing trend in Net Profit from 2059/60 but in year 2063/64 it has decreased to Rs. 4.69 million which is decreased by 59.18%.

4.2 Analyzing the portfolio behaviors of Loans & Advances

In this section, we examine the portfolio management of Loans and Advances. We have analyzed the relationship of Loans and Advances with various relative elements of Balance Sheet and Profit & Loss Account. 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.

4.2.1 Category wise Loan Classification

In this part, 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.

Union Finance Co. Ltd.

Table 18 : Category wise Loan Classification – Union Finance Co.

(in million)

	2059/60	2060/61	2061/62	2062/63	2063/64
Hire Purchase	72.44	85.52	99.23	200.55	205.66
Housing Loan	49.26	63.05	87.61	118.38	163.37
Lease Financing	10.12	9.50	5.60	32.22	35.18
Term Loan	25.22	52.92	53.22	64.45	155.78
Against Fixed Deposit	9.25	12.08	10.78	20.58	39.55
Others	---	---	---	---	---
Total	166.39	223.07	256.44	436.18	599.54

The above Table 18, shows the category wise loan classification of Union Finance Limited. The maximum funds mobilized for Loans and Advances is of Rs. 599.54 million in the year 2063/64. The loan categories have increasing trend. Union has invested 163.37 million in Housing Loan in the year 2063/64. The ratio of Housing Loan increased from before year is 27.53%. Union has its investments in lease finance too, its being the first non-banking financial institution to introduce the leasing business in Nepal.

Gorkha Finance Ltd.

Table 19 : Category wise Loan Classification – Gorkha Finance Ltd. (in millions)

	2059/60	2060/61	2061/62	2062/63	2063/64
Hire Purchase	20.74	25.88	30.23	30.50	55.67
Housing Loan	92.20	95.5	92.65	92.00	105.15
Lease Financing	---	---	---	---	---
Term Loan	36.58	95.5	54.43	105.11	95
Against Fixed Deposit	---	---	---	16.12	18.50
Others	---	---	---	21.49	96.16
Total	149.52	126.77	177.31	265.22	294.00

Table 19 shows the Lending portfolio of Gorkha Finance Ltd. The portfolio here is observed in relative terms, in millions. Gorkha had its maximum Loans and Advances mobilized in the year 2063/64, Rs. 294 million. Whereas it could give out the minimum value of Loans in the year 2059/60 amounting to Rs. 149.52 million. However, its loans under term loan is also in increasing trend. Gorkha never had attempted in lease financing and it had gained from loans against fixed deposits only since last two year when it's the safest category of loans. Hire purchase loans of Gorkha have increasing trend except for the second last year when it decreased from Rs. 95.5 million to Rs. 92.65 million. The maximum Loans it had given out was of Rs. 105.15 million under the category of Housing Loan in the year 2063/64. Upon analysis, it is seen that Loans of Gorkha had always been concentrated on housing loans than others. The housing loan do not seem to have specific trend. The amounts are fluctuating with small deviations.

Nepal Sir Lanka Merchant Banking & Finance Ltd.

Table 20 : Category wise Loan Classification – NSLMB Ltd.

(in million)

	2059/60	2060/61	2061/62	2062/63	2063/64
Hire Purchase	200.60	193.85	245.35	210.12	255.81
Housing Loan	95.23	152.77	242.72	243.72	235.89
Lease Financing	---	---	---	---	---
Term Loan	43.70	75.82	90.88	88.65	96.53
Against Fixed Deposit	11.11	48.77	23.83	20.88	28.55
Others	---	---	---	35.73	26.56
Total	350.64	471.21	602.78	599.10	643.34

The above Table 20 presents the category wise classification of loans of NSLMB. The overall Loans and Advances is in increasing trend and has increased from Rs. 350.64 million in year 2059/60 to Rs. 643.34 million in 2063/64. The classified loan category is in increasing trend. The category of lease financing is untouched till date. The maximum amount released by NSLMB is under hire purchase in 2063/64 i.e. Rs. 255.81 million. But it has decreased in the year 2060/61 to Rs. 193.85 million.

Premier Finance Co. Ltd.

Table 21 : Category wise Loan Classification – Premier Finance Co. Ltd.

(in million)

	2059/60	2060/61	2061/62	2062/63	2063/64
Hire Purchase	12	60.55	68.22	99.10	92.67
Housing Loan	15.06	20.57	15.80	9.24	30.11
Lease Financing	---	---	---	---	---
Term Loan	59.6	60.2	55.61	82.27	82.50
Against Fixed Deposit	32.81	21.32	10.03	11.02	59.65
Others	25.23	22.5	58.90	48.55	17.79
Total	144.70	185.14	208.56	250.18	282.72

Table 21 depicts the category wise loan classification of Premier Finance 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. 282.72 million in the year 2063/64. Every year the most amount given out for loans is under term

loan and Hire Purchase, which is in increasing trend and amounts to Rs. 82.50 million and 92.67 million respectively in the year 2063/64. Housing loan is fluctuated.

OM Finance Ltd.

Table 22: Category wise Loan Classification – OM Finance Ltd. (in millions)

	2059/60	2060/61	2061/62	2062/63	2063/64
Hire Purchase	46.42	16.28	35.80	58.66	75.81
Housing Loan	15.18	28.30	98.61	115.89	105.66
Lease Financing	---	---	---	---	---
Term Loan	22.89	45.61	166.90	178.23	199.10
Against Fixed Deposit	6.20	29.58	49.33	98.66	159.98
Others	0.28	26.41	6.36	4.56	109.45
Total	90.97	146.18	357	456	650

Table 22 portraits the category wise loan classification of OM Finance Ltd. OM has both Housing Loan and Term Loan in increasing trend. However, Term Loan has been the highest Loan granting category through out the study period. Hire Purchase has been concentrated less in comparison and it does not have any specific trend. OM, too, has not shown any interest in investing in Lease Financing. But has some small investments in miscellaneous loans categorized as "Others Loans". The overall trend of Loans and Advances is in increasing. The table speaks out clearly that OM has its interest in Housing and Term Loans specifically.

Inbesta Finance Ltd.

Table 23 : Category wise Loan Classification – Inbesta Finance Ltd.

(in million)

	2059/60	2060/61	2061/62	2062/63	2063/64
Hire Purchase	---	22.11	20.88	20.11	19.22
Housing Loan	---	12.97	11.95	15.82	16.55
Lease Financing	---	---	---	---	---
Term Loan	---	15.60	15.50	14.80	12.67
Against Fixed Deposit	---	12.18	13.21	12.81	6.06
Others	---	1.40	0.11	1.17	0.00
Total	---	64.26	61.65	64.71	54.50

Table 23 presents the category wise loan classification of Inbesta Finance Ltd. The data of 2059/60 was not available thus the study of Inbesta was done till the year 2060/61. Hire Purchase has been the highest Loan granting category through out the study period. Term loan has been concentrated less in comparison and it does not have any specific trend. Inbesta has also shown not interest in investing in Lease Financing. But has some small investments in miscellaneous loans categorized as "Others Loans". The overall trend of Loans and Advances is fluctuated. This table shows Inbesta has its interest in Housing and Hire Purchase specifically.

4.2.2 Hire Purchase Loan to Total Loan and 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 in different years. According to the directives of NRB, finance companies cannot release hire purchase loan more than 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 24 : Hire Purchase Loan to Total Loan and Advances Ratio (%)

	2059/60	2060/61	2061/62	2062/63	2063/64
Union	43.53	38.33	38.69	45.97	34.30
Gorkha	13.87	20.41	17.04	11.49	18.93
NSLMB	57.20	41.13	40.70	35.07	39.76
Premier	8.29	32.70	32.71	39.61	32.77
OM	51.35	11.13	10.02	12.86	11.66
Inbesta	---	34.40	33.86	31.07	35.26

Table 24 shows the portion of hire purchase loan in the total loan released. The maximum loan released in hire purchase is 57.20% by NSLMB in 2059/60. This is way to above than the limit NRB has provided. It has however, reduced this percentage in the next year but it still is way above than the ceiling provided by the NRB. Hire purchase percentage of NSLMB has been higher than 40% since 2059/60 and last two years it has lower percentage than 40%. Besides NSLMB, Union has its hire purchase loan above the NRB limit for year 2059/60 and year 2062/63. However,

it has reduced the portion and has brought down within the limits in three years, throughout the study period. This investing above the limit provided, welcomes the situations for Union and NSLMB to make provisions by 25% of the overly invested amount. This decease the profit of the company, which definitely have its adverse effect. Gorkha, Premier, Inbesta and OM (except year 2059/60) have been investing in hire purchase loan within the NRB limited, in fact they are way to below the limit. The lowest portion recorded is 8.29% of Premier in the year 2059/60.

4.2.3 Housing Loan to Total Loan and Advances 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 25 : Housing Loan to Total Loan and Advances Ratio (%)

	2059/60	2060/61	2061/62	2062/63	2063/64
Union	35.74	32.52	36.34	34.52	33.11
Gorkha	61.66	75.33	52.25	34.68	35.76
NSLMB	27.15	32.42	40.26	40.68	36.66
Premier	10.40	11.11	7.57	3.69	10.65
OM	51.35	19.35	27.62	25.41	16.25
Inbesta	---	20.18	19.38	24.44	30.36

The Table 25 above presents the ratios of housing loan to total Loans and Advances of all finance companies under study in percentage. The maximum ratio is that of Gorkha in the year 2060/61. This ratio is beyond the limit provided by the NRB. Gorkha has violated the NRB directives for three continuous years since 2059/60. Similarly, NSLMB in the year 2061/62 and 2062/63 and OM in the year 2059/60 have violated the NRB limits in investing in housing loans. However Union has been under its limit since 2059/60. The lowest ratio recorded is that of Premier in the year 2063/64, 3.69%. Premier had the lowest percentage amongst all the finance companies through out the study period.

4.2.4 Term Loan to Total Loan & 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 26 : Term Loan to Total Loan and Advances Ratio (%)

	2059/60	2060/61	2061/62	2062/63	2063/64
Union	15.15	23.72	20.75	14.77	25.98
Gorkha	20.45	75.33	30.69	39.63	32.31
NSLMB	12.46	16.09	15.07	14.79	15.00
Premier	41.18	32.51	28.24	32.88	29.18
OM	25.16	31.20	46.75	39.08	30.63
Inbesta	---	64.26	61.65	64.71	54.50

Table 26 presents the ratio of term loan to the Total Loans and Advances of all six finance companies under study for the study period. The highest ratio recorded is that of Gorkha in 2060/61, 75.33%. Even this highest ratio is nearly meet to 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 of the 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 NSLMB in 2059/60, 12.46%. OM has its ratios in increasing trend and has increased to 46.75% till 2061/62. Upon analysis it is seen that, Gorkha has the highest ratio amongst all the finance companies through out the study period. After Gorkha, Inbest is the first company that has high investments under term loans.

4.3 Analyzing the Lending Efficiency and its contribution in Total Profitability

In this section, the Lending Efficiency I 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.

4.3.1 Loan Loss Provision to Total Loans and Advances Ratio

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

Table 27 : Loan Loss Provision to Total Loan & Advances Ratio

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	0.05	0.05	0.05	0.44	0.02	0.124
Gorkha	0.04	0.05	0.05	0.04	0.00	0.036
NSLMB	0.09	0.09	0.09	0.21	0.85	0.266
Premier	0.02	0.00	0.01	0.02	0.01	0.012
OM	0.01	0.00	0.00	0.02	0.00	0.006
Inbesta	---	0.07	0.08	0.03	0.19	0.092
Combined Mean						0.089

The tabulated figure of Table 27 shows the Loan Loss Provision to Total Loans and Advances ratio of all six finance companies during the specified study period. The least ratio registered is that of Premier in the year 2061/62 and 2063/64 then zero portion in the year 2060/611, which is also shared by OM in the very same year, zero in year 2061/62 and 2063/64 then and Gorkha in the year 2063/64.

Comparing their mean ratios, NSLMB has the highest amongst all, calculated as 0.266. The combined mean ratio of all six finance companies is 0.089 and the mean ratio of NSLMB is 66.54% higher than the combined mean. Except year 2062/63 and 2063/64 NSLMB has always been provisioning higher than the combined mean. Provisions of Premier and OM have never crossed the combined mean. The overall trend of ratio of all six finance companies has been up and down. Union has constant ratio from year 2059/60 to 2061/62 the ratio of Gorkha has increased by 20%, the ratio of Inbesta has increased by 84.21% in the year 2063/64 and similarly the ratios of NSLMB has increased by 75.29% in the year 2063/64. 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 NSLMB vaguely depicts the portion of Non-Performing Loans in the Total Loans is higher than in other finance companies.

4.3.2 Non-Performing Loans to Total Loan and Advances Ratio

Substandard, doubtful and bad loans are categorized under Non-Performing Loans as the NRB directives given to the finance companies. 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."[44] Even though shown as banking problem, it is as equal the problem of any finance companies in Nepal. And if the 16 percent as given is true; and the calculated mean of the finance companies under study also come around this percentage, we have finance companies whose Non-Performing Loans is higher than the industrial average of banks.

[44] Dhungana, Bhisma Raj, Why Asset Management Company is considered the Best Option to Resolve the non-Performing Loan Problem?, Banking Promotion-13, A Journal of Banking Promotion Committee, NRB, Poush 2058 B.S.

Table 28 : Non-Performing Loans to Total Loan and Advances Ratio

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	0.04	0.04	0.06	0.04	0.011	0.043
Gorkha	0.4	0.051	0.05	0.03	0.108	0.198
NSLMB	0.84	0.20	0.08	0.08	0.165	0.277
Premier	0.03	0.01	0.03	0.03	0.01	0.022
OM	0.01	0.00	0.01	0.11	0.00	0.026
Inbesta	---	0.07	0.06	0.11	0.09	0.082
Combined Mean						0.108

Table 28 exhibits that the combined mean of Non-Performing Loans to Total Loans and Advances of six finance companies under study is 0.108. That is to say, in the total volume of Loans and Advances the Non-Performing Loans represents 10.8%. Similarly, Union has 4.30% of its Loans and Advances as Non-Performing and to continue observing this ratio we see that Gorkha, NSLMB, Premier OM and Inbesta have their Non-Performing Loans as 19.8%, 27.7%, 2.20%, 2.60% and 8.20% respectively. This shows that Gorkha and NSLMB have their Non-Performing Loans higher than that of industrial average of the finances, as we had discussed above. Union, Premier, OM and Inbesta have their percentages in one digit whole numbers. This shows how the remaining finance companies are gradually being engulfed by the Non-Performing Loans. Increasing trend and high percentage of this ratio questions the good performance of finance companies.

4.3.3 Interest Income from Loans and Advances to Total Income Ratio

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

Table 29 : Interest Income from Loans and Advances to Total Income

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	0.20	0.23	0.24	0.34	0.73	4.58
Gorkha	1.83	0.85	6.24	3.74	10.22	0.86
NSLMB	3.87	5.60	1.94	-0.36	-0.54	2.10
Premier	0.77	0.07	0.81	0.84	0.88	0.67
OM	0.02	0.02	0.02	0.01	0.82	0.17
Inbesta	---	0.25	0.09	0.10	0.10	0.13
Combined Mean						1.41

The combined mean ratio of all six finance companies is 1.41. This is indicative of the fact that Interest Income from Loans and Advances contributes 141% in the Total Income. These ratios of Union, Gorkha, NSLMB, Premier, OM and Inbesta are 4.58, 0.86, 2.10, 0.67, 0.17, 0.13 and 0.13 respectively. Union and NSLMB have their ratios higher than the combined mean ratio. This clears the fact that, Union and NSLMB have Interest Income from 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. This is an exception for Gorkha, Premier and OM, which have only 86%, 67% and 17% contribution of Interest Income from Loans and Advances in the Total Income.

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

That portion of interest, which is due but not collected is offered as Interest Suspense . In NRB directives, finance companies have not allow book three months' due unpaid interest as income. Thus, increase in this 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 30 : Interest Suspense to Total Interest Income from Loans & Advances Ratio

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	0.617	0.572	0.701	0.242	0.049	0.44
Gorkha	0.017	0.220	0.265	0.251	0.252	0.20
NSLMB	0.820	0.568	1.348	0.105	0.000	0.568
Premier	0.261	2.092	0.165	0.182	0.108	0.561
OM	0.000	0.000	0.000	6.917	0.156	1.414
Inbesta	---	0.352	0.098	0.665	0.776	0.473
Combined Mean						0.609

Table 30 shows the ratio of Interest Suspense to the Interest Income from Loans and Advances. The combined mean ratio is 0.609. The mean ratios of Gorkha, and Premier seem to be minimum and that of OM also does not seem to be very high than the minimum ratios except year 2062/63. Whereas OM has the maximum ratio and also has the highest ratio through out the study period. The mean ratio of OM is 1.414, that is to say, OM has to maintain Interest Suspense of almost 141.4% of Interest Income from Loans and Advances in value. Meaning 141.4% of Interest Income from Loans and Advances is canceled out by Interest Suspense and its profit is decreased. NSLMB has the second highest ratios amongst all. Besides these OM has the ratio way to higher than the combined mean. Thus, OM has to put on some extra efforts on collection of repayments to secure from futures hazard. However, the ratio of Union has decreased in last two years Inbesta has also decreased in last year from 0.665 to 0.776. Ratios of other finance companies do not have specific trend but are fluctuating.

4.3.5 Loans and Advances to Total Deposit Ratio

Deposits refers 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 when are idle in company, it is loss to the company. Company can make profits only

when deposits, which take away interest of certain rate are mobilized by giving away loans and advances, which bring back interest at higher rates.

Table 31 : Loans and Advances to Total Deposit Ratio

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	0.43	0.42	0.47	0.73	0.89	0.59
Gorkha	0.87	0.95	1.10	1.07	0.95	0.99
NSLMB	0.91	0.74	0.85	0.88	0.90	0.86
Premier	0.31	0.39	0.52	0.61	0.51	0.47
OM	21.59	0.96	0.95	0.94	1.34	5.15
Inbesta	---	2.43	2.79	3.24	2.99	2.86
Combined Mean						1.82

Table 31 shows the ratios of Loans and Advances to Total Deposits of all six finance companies under study. The combined mean is 1.82. The minimum ratio is of Premier, which is 0.47. That means Premier has not been able to invest in Loans and Advances even half the amount of deposits collected. Premier has the least ratio amongst all six finance companies through out the study period. This means maximum portion of deposits of Premier are idle in the company or else they are invested in risk-free investments, which normally do not give lucrative returns. This directly affects the income and ultimately the profits of the company. Whereas OM seems to be doing the best according to this ratio of 5.15, meaning its investment in Loans and Advances are more than the total deposits collected. Finance companies can afford to invest in Loans and Advances more that they collect Deposits because they also have Shareholder's Equity to be invested apart from the deposits alone. The remaining companies, Inbesta has the mean ratio way above the combined mean, registered 2.86. Other companies, Union, Gorkha and NSLMB has their mean ratios way below the combined mean, So it can be said that, comparatively, they are doing equally well with Inbesta a little ahead investing almost 100% of its deposits.

4.3.6 Interest Income to Interest Expenses Ratio

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

between Interest Income and Interest Expenses is the main foundation of profit of finance company.

Table 32 : Interest Income to Interest Expenses Ratio

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	0.86	0.91	0.86	1.07	1.48	1.04
Gorkha	16.44	1.79	1.97	1.92	1.77	4.78
NSLMB	1.26	0.73	0.88	2.94	2.64	1.69
Premier	1.53	1.44	1.89	1.82	1.72	1.68
OM	1.40	17.45	1.49	1.49	1.43	4.65
Inbesta	---	3.05	4.75	6.11	6.78	5.17
Combined Mean						3.16

Table 32, above, shows the ratios of Interest Income to Interest Expenses of finance companies under study with the combined mean 3.16, which indicates that a rupee of expense in deposits generates 3.16 rupees of interest income in average. Inbesta has the highest degree of gap between Interest Income and Interest Expenses. OM has the highest ratio of 17.45 in the year 2060/61 and it is the year OM had succeeded to overcome its loss and make comparatively normal profits. Union has the least mean ratio and also has the least ratio through out. The least ratio of Union is result of its heavy investment in risk-free assets than in Loans and Advances, which generates higher interest income.

4.3.7 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 33 : Net Profit to Shareholder's Equity Ratio

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	0.01	0.01	0.03	-0.39	-0.34	0.13
Gorkha	0.00	0.02	0.01	0.03	0.09	0.03
NSLMB	- 0.08	- 0.02	0.26	1.55	5.99	-1.58
Premier	0.02	0.16	0.56	0.22	0.16	0.22
OM	0.14	0.09	0.45	0.18	0.13	0.20
Inbesta	---	0.19	0.17	0.18	-0.21	0.08
Combined Mean						-0.15

The above table shows the ratio of Net profit to the Shareholder's Equity of all the finance companies under study. Premier has the highest mean ratio of 0.22. OM is just behind Premier with mean ratio 0.20. Other finance companies, Union, Gorkha and Inbesta have their mean ratios are 0.13, 0.03, 0.08 respectively. Only NSLMB has a negative mean ratio of -1.58.

4.3.8 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, determines the attitude of outsiders.

Table 34 : Earning Per Share (EPS)

	2059/60	2060/61	2061/62	2062/63	2063/64	Mean
Union	1.55	0.60	1.53	-18.88	16.61	-6.36
Gorkha	0.92	2.53	1.62	1.62	5.96	2.53
NSLMB	- 8.59	- 9.71	-26.78	-155.42	-599.50	-160.00
Premier	2.13	16.92	56.57	22.98	16.27	22.97
OM	14.67	9.95	45.39	18.14	13.69	20.37
Inbesta	---	19.30	17.09	18.01	-21.72	8.17
Combined Mean						-18.72

Table 34 shows that EPS of Premier is the highest through out the years and has the highest mean of 22.97, while the combined mean is -18.72. The lowest EPS is that of NSLMB, -160.00. OM has the second highest EPS mean with 20.37. EPS of NSLMB has sharply decreased by 74.07% in 2062/63 from 2063/64. EPS of all finance companies has fluctuating and mean EPS of Union, Gorkha, Premier and Inbesta are -6.36, 2.53, 22.97 and 8.17 respectively.

4.4 Measuring Correlation Between Different Variables

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.

4.4.1 Correlation between Deposits and Loans and Advances

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

Table 35 : r, P.Er and 6xP.Er between Deposits and Loans and Advances

	r	P.Er	6 x P Er
Union	0.9062	0.0539	0.3234
Gorkha	-0.2114	0.2881	1.7288
NSLMB	0.8237	0.0970	0.582
Premier	0.6549	0.0266	0.1596
OM	0.9304	0.0405	0.2432
Inbesta	-0.4794	0.2597	1.5584

The above Table 35 shows the relation between Deposits and Loans and Advances, which seem to have high degree of positive relation. Union and OM have almost 1 Correlation Coefficient. The value of 'r' is highest in OM i.e. 0.9304. The relation of Deposits and Loans and Advances is lowest in NSLMB, and Premier, depicting that they do not have investments in Loans and Advances as according to the increment in Deposits. To be more specific, there is highest probability of this happening in Gokha and Inbesta, they have negative values. Whereas, in case of Union and OM, a percentage increase in Deposit is likely to bring the same percentage of change in the value of Loans and Advances. Besides, the value of 'r' in all companies is more than six times the P.Er, which concludes that the correlation between Deposits and Loans and Advances is certain and significant in all four finance companies except Gorkha and Inbesta.

4.4.2 Correlation between ShareHolder's Equity and Loans & 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 36 : r, P.Er and 6xP.Er between ShareHolder's Equity and Loans and Advances

	r	P.Er	6 x P Er
Union	0.7115	0.1489	0.8937
Gorkha	0.6974	0.1549	0.9297
NSLMB	0	0.3016	1.8099
Premier	0.5786	0.2006	1.2041
OM	0.8984	0.0581	0.3491
Inbesta	0	0.3372	2.0235

Table 36 explains the degree of correlation between Shareholder's Equity and Loans and Advances in different finance companies under study. Union and OM 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. Gorkha and Premier have a moderate positive degree whereas NSLMB and Inbesta have a zero degree. NSLMB and Inbesta's zero degree can be explained as a result of no change in Shareholder's Equity through out the study period. The analysis of 6 times P.Er says that the correlation of Union, NSLMB, Premier and Inbesta can't be taken relied on confidently, since their Correlation Coefficient is lesser than the value of 6 times of P.Er.

4.4.3 Correlation between Investments and Loans & 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 37 : r, P.Er and 6xP.Er between Investments and Loans and Advances

	r	P.Er	6 x P Er
Union	-0.7484	0.1326	0.7961
Gorkha	-0.7069	0.1509	0.9055
NSLMB	0.2515	0.2825	1.6955
Premier	0.8786	0.0688	0.4128
OM	0.9087	0.0525	0.3154
Inbesta	0.0273	0.3370	2.0220

Table 37 shows the Correlation Coefficient between Investments and Loans and Advances of all six finance companies under study. OM, only, has a high degree of positive correlation of 0.9087. This means OM has maintained a steady ratio between Investments and Loans and Advances. NSLMB and Inbesta have moderate positive correlation highlighting their seasonal character, which other finance companies seem to be missing. As further explanations given by the Table 37, Union and Gorkha have negative correlations. 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 correlations registered in above Table 37 are not much reliable and significant except Premier and OM financs.

4.4.4 Correlation between Total Income and Loans and Advances

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

Table 38 : r, P.Er and 6xP.Er between Total Income and Loans and Advances

	r	P.Er	6 x P Er
Union	0.4602	0.2377	1.4266
Gorkha	-0.7276	0.1419	0.8517
NSLMB	0.4710	0.2347	1.4084
Premier	0.9149	0.0491	0.2950
OM	0.9809	0.0114	0.0685
Inbesta	0.2012	0.3236	1.9417

Table 38 shows the correlation between Total Income and Loans and Advances of the finance companies under study. OM has the highest degree of positive relation with 0.9809 as the value of 'r'. After OM, Premier has the high degree positive correlation. In comparison to these two companies with more than 95% correlation, Union, NSLMB and Inbesta have only moderate degree positive correlation between Total Income and Loans and Advances, Gorkha has negative correlation which probably shows that they are not being able to generate all income from the Loans and Advances they had invested to. In case of other two finance companies, Premier and OM, Total Income is increasing in almost equal percentage with Loans and Advances. The deviation of percentage change is due to unpaid installments of Loans and Advances. Premier and OM have value of 'r' is very reliable and significant since it is greater than 6 times of P.Er.

4.4.5 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 39 : r, P.Er and 6xP.Er between Interest Suspense and Interest Income

	r	P.Er	6 x P Er
Union	-0.7516	0.1312	0.7874
Gorkha	0.8544	0.0814	0.4888
NSLMB	0.7809	0.1177	0.7062
Premier	-0.2496	0.2828	1.6971
OM	0.8596	0.0787	0.4725
Inbesta	-0.7602	0.1423	0.8541

Table 39 shows that Union, Premier and Inbesta have negative relation and Gorkha, NSLMB and OM, there's positive relation between Interest Suspense and Interest Income. OM has the highest degree of relation whereas NSLMB has the lowest positive relation.. And since, Gorkha, NSLMB and OM have significant correlation between Interest Suspense and Interest Income, their Interest Suspense is likely to increase with almost same percentage with the increase in Interest Income.

4.4.6 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 40 : r, P.Er and 6xP.Er between Loan Loss Provision and Loans and Advances

	r	P.Er	6 x P Er
Union	0.5486	0.2108	1.2653
Gorkha	0.9259	0.0430	0.2584
NSLMB	0.6020	0.1923	1.1540
Premier	0.3545	0.2637	1.5826
OM	0.3033	0.2739	1.6435
Inbesta	-0.0592	0.3360	2.0164

Table 40 shows that Inbesta has negative correlation and except for Gorkha all the other four finance companies have moderate degree positive correlation between Loan Loss Provision and Loans and Advances. Gorkha has highest positive correlation ie. 0.9259. Except Gorkha, all other finance companies, they are insignificant for their value of 'r' is less than that of 6 times P.Er. The negative 'r' of

Inbesta 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 Loan Loss Provision even though there was increase in Loans and Advances.

4.4.7 Correlation between Interest Income and Net Profit

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

Table 41 : r, P.Er and 6xP.Er between Interest Income and Net Profit

	r	P.Er	6 x P Er
Union	0.4356	0.1702	1.0215
Gorkha	0.8988	0.0579	0.3478
NSLMB	0.7546	0.1298	0.7793
Premier	0.5526	0.2095	1.2573
OM	0.9379	0.0363	0.2179
Inbesta	0.4261	0.2760	1.6562

Above Table 41, shows the correlation of Interest Income and Net Profit. The highest degree of correlation recorded is that of OM with 0.9379. Besides OM, Gorkha and NSLMB too have high degree of correlation whereas Union, Premier and Inbesta have insignificant correlation because its 6 times P.Er. is greater than the value of 'r'. This implies that, Net Profit of OM, Gorkha and NSLMB highly depends on their Interest Income. With every increase in Interest Income of OM, there's 93.79% increase in Net Profit.

4.5 Measuring Regression of one variable on the other

In this section, regression analysis is used to describe the average relationship between two variables. The regression line of one variable on other estimates the most probable value of first variable for the given value of the second variable. Under this

section we shall calculate the regression line of Loans and Advances on Deposit and Loan Loss Provision on Loans and Advances.

4.5.1 Regression Analysis of Loans and Advances on Deposit

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

Table 42 Regression Equation of Loans and Advances on Deposit

(in million)

	deposit(x)	loan(y)	xy	x2
2060	16510.3	14473.7	238965129.1	269297946.1
2061	19391.7	17540.8	340145931.4	376038028.9
2062	22341.6	21223.3	474162479.3	499147090.6
2063	24332.5	27078.95	658898550.9	592070556.3
2064	34514.7	35616.46	1229291432	1191264516
	291616.8	**115933.21**	**2941463523**	**2927783938**

The above Table 42 presents the industrial figures of Deposits and Loans of finance companies from the year 2060 through 2064 and the requisite data for calculation of regression equation. The regression equation obtained from the calculation is " y = 0.97 + 0.053x ". The slope of this line is 0.053., i.e. the change in Loans and Advances with per unit change in Deposits. This brings up the fact that with a unit change in Deposit, Loans and Advances also changes in the same direction with a little less than the equal proportion. ***(Source: Appendix III)***

4.6 Measuring the Propensity of Growth based on Trend Value

Up to now we have calculated various measures of relative financial tool and absolute measures of statistical tools. In this chapter we shall examine the trend

analysis of Loans and Advances and Earning Per Share (EPS). The 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

Table 43 Trend Equation and Propensity to Growth of Loans and Advances

(in million)

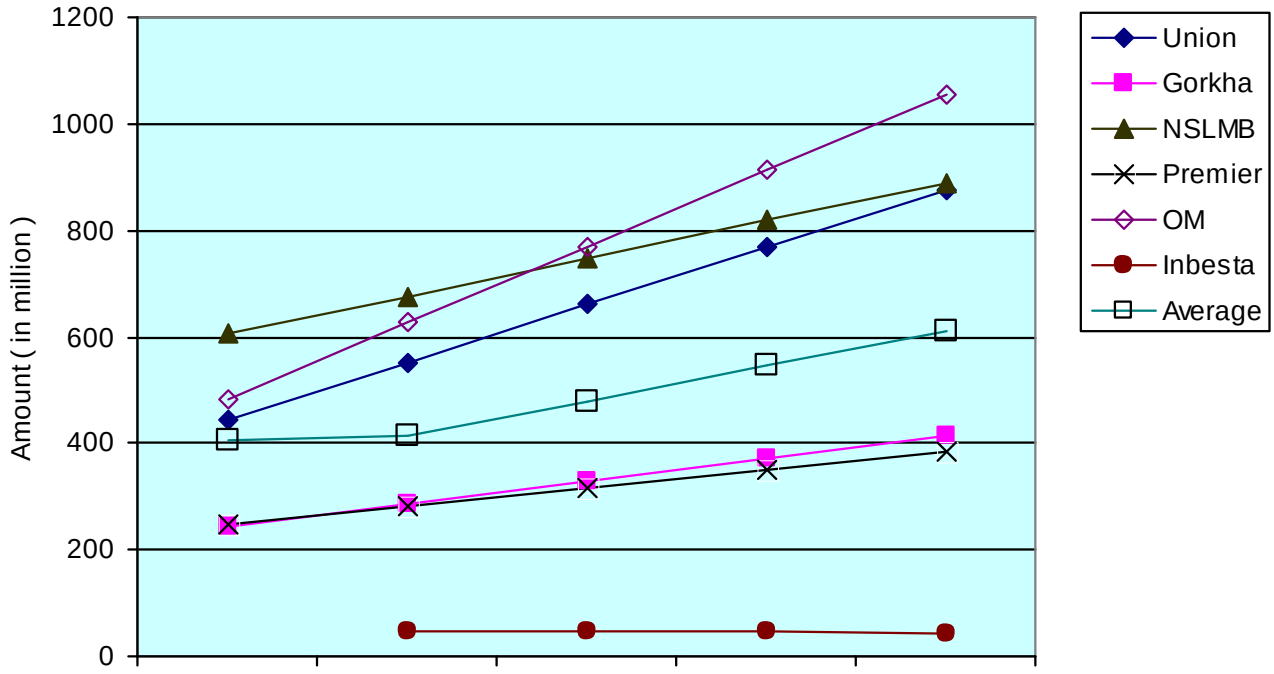
	Linear Eq^{n}s (2060=1)	2060	2064	Propensity to Growth
Union	366.32 + 107.94X	444.26	876.02	107.94
Gorkha	202.56 + 42.74X	245.30	416.26	42.74
NSLMB	533.41 - 71.32X	604.74	890.05	71.32
Premier	214.26 + 34.10X	248.36	384.8	34.10
OM	340.39+ 142.93X	483.33	1055.06	142.93
Inbesta	49.02 -1.31X	(year2061)47.71	43.78	-1.31
Combined Mean				66.28

From the Table 44 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 2060 and 2064 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 OM has the highest Propensity to Growth in Loans and Advances. It is likely to increase by Rs. 142.93 million in one year period. The

Propensity to Growth in Inbesta is the least. The Propensity to Growth of Union is higher than the average of Rs. 66.82 million. Gorkha, NSLMB and Premier are likely to increase their Loans and Advances by Rs. 42.74 million, Rs. 71.32 million and Rs. 34.10 million in one year period, though below average.

Chart 6 Trend Behaviour of Loans and Advances



The above Chart 6 shows the trend lines representing Lending behaviors of six finance companies and the average representing the performance of the six finance companies in Lending. The trend line of Union, NSLMB and OM has always been above the average line. The trend line of Union almost coincides with the average. The trend line of other three finance companies viz., Gorkha, Premier and Inbesta are below the average line.

4.6.2 Trend analysis and Propensity of Growth of Earning Per Share

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

Table 44 Trend Equation and Propensity to Growth of EPS (in million)

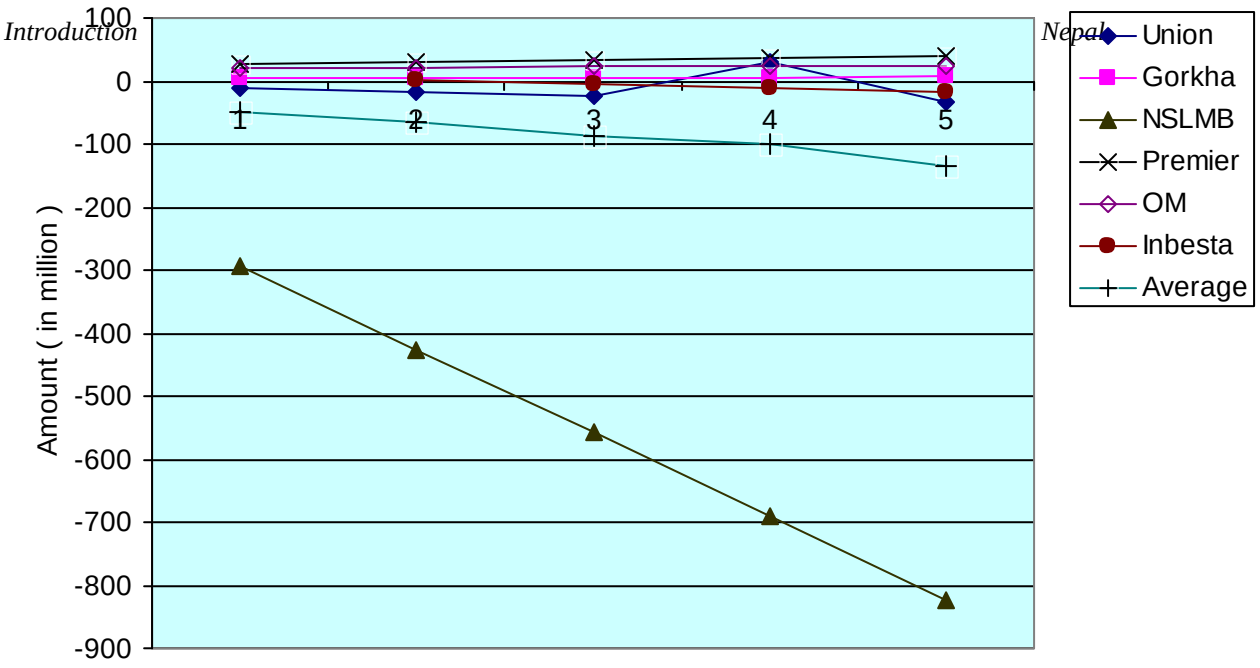
	Linear Eq^{n}s (2060=1)	2060	2064	Propensity to Growth
Union	-6.36 - 5.58X	-11.94	-34.26	-5.58
Gorkha	2.53 + 0.91X	3.44	7.11	0.91
NSLMB	-160- 132.75X	-425.50	-823.76	-132.75
Premier	22.97 + 3.43X	26.40	40.14	3.43
OM	20.36 + 0.62X	20.99	23.48	0.62
Inbesta	6.53 - 6.10X	(year2061)0.42	-17.89	-6.10
Combined Mean				-23.24

The Table 45 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 2060 and 2064 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.

It can be seen that Premier has the highest Propensity to Growth; way above the average of Rs. -23.24 million. In the present environment, it is pretty dubious that Premier could keep the expectation of growth of its EPS by Rs. 3.43 million in another year. Average growth seen to be in negative sign. Union and Inbesta have near about average negative growth and Gorkha and OM are likely to have their EPS increased by Rs. 0.91 million and Rs. 0.62 million respectively, which is quite above

the average. NSLMB has least Propensity to Growth which is in negative value i.e. -132.75 million.

Chart 7 Trend Behaviour of EPS



The above Chart 7 shows the overall increasing trend of EPS except for NSLMB. The average line is in decreasing trend. Trend line of NSLMB is decreasing rapidly and has crossed the average line from the year 2060. The slope of increasing trend of Union and Inbesta is near about to that of the average. Whereas the slope of OM and Premier is quite up but dramatically the slope of NSLMB is very low. It has crossed all the lines and reached the lowest peak in the year 2064.

4.7 Qualitative analysis of Recovery of Loan

Recovery is a vital part of distribution of Loans and Advances. It is the recovery part that brings income to the company and keeps its fund moving, which is an essential requirements of earnings of finance companies. In the present context, recovery is one of the main problems to the finance companies rather than distribution of credit.

The analysis of Recovery of Loan is basically done on the basis of the informal interviews taken. It is seen that, people are willing to take the loans but have hard time while set out paying them. The increasing of Non-Performing Loans and Loan Loss provision too point towards it. In many cases, especially in business loans, it is seen that people are ready to pay penalty rather make timely payments. It is very normal for the borrowers to keep couple of dues unpaid. And when some very harsh reminder is given, the borrowers clear their dues such that they do not fall under

further actions. Once the loan is given, it is more like the company has to, literally chase the borrower to recover its investment. It 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. It is seen that loanee who has some knowledge about regulations regarding loan granting procedure and recovery can manipulate it to his benefit.

Liquidity of the collateral, as said the guarantee of recovery, is not as easy part. Once the names of borrowers are published in papers in different notices, they tend to be more reluctant to pay. They probably deduce that since they are exposed they need not fear of it again. And after the long processing when company finally sets out liquidating the property, the borrower can come along and pay some part of the debt which will stop the liquidation and the debt continues. More than that if the borrower continues to pay couple of dues, his loan comes in the list of good loans and all the actions fades out. The most disturbing part is that the whole process might continue again and again for there is no such directives regarding recovery of loans. It was said that the directives regarding recovery of loans were made but is not circulated till date. There were news that the directives and regulations regarding the recovery of loans will come into action from mid July 2003 but no such actions were attempted till the completion of this thesis.

4.8 Finding of the Study

The findings were drawn analysis the five years data of above mentioned six 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.

The measurement of Lending strength in relative terms has revealed that Union has the highest Investment to Loans and Advances and Investment ratio. This ratio gives the portion of risk-free investment out of total Loans and Advances and Investment. Only Union exceeds the average ration. However, other finance

companies seem to tilt over to risky investments. The mean ratios range from 0.0 to 0.25 and the combined mean ratio is 0.07

OM has the highest Loans and Advances and Investment to Total Deposit ratio referring that it has the maximum mobilization of deposits than others. To the combined mean ratio of 1.94, OM has 5.18 and the least being of Union. The mean ratio range from 0.58 of Union to 21.29 of OM. This ratio let us know what part of deposits have been mobilized in total investments combining Loans and Advances and Investments. It seems that OM is making investments in high extend than any other finance companies. This ratio also tells about the success of finance companies to convert their liabilities into assets, in which OM has overrun all other five companies. After OM, Inbesta, Gorkha, Premier, NSLMB and then Union is in the run.

Loans and Advances to Shareholder's Equity ratio has gained the significant importance in measuring the capital fund and corresponding contribution if Loans and Advances. The highest Loans and Advances to Shareholder's Equity ratio is that of OM being 8.76 followed by Premier with the ratios 8.34, while the combined mean ratio is 6.24. The ratio of Inbesta is the least being 2.54 and is highly deviated from the combined mean ratio.

The absolute measure of lending strength reveals that NSLMB has the highest mean in Loans and Advances with an increasing trend and OM has the highest standard deviation. The lowest mean in Loans and Advances recorded is that of Inbesta of Rs. 4.08 million. NSLMB has the highest Non-Performing Loans with the mean 191.87 million but since NSLMB has the highest loan mobilization, it is pretty much obvious. But while OM has Rs. 340.40 million Loans and Advances and has Rs. 3.49 million as Non-Performing Loan, it is very alarming. Amazingly, Union has the highest mean in Interest Income from Loans and Advances, Rs. 40.64 millions. Where as OM, who has the highest mobilization of Loans and Advances has Rs. 650.45 millions. NSLMB is seem to be best doing since it had data in increasing trend and the increasing pace is higher too.

NSLMB has the highest Loan Loss Provision with pretty high C.V. Union has pretty high Loan Loss Provision in compared to others. All the six finance companies

have an increasing trend on Loan Loss Provision. In the context of Net Profit, Union and NSLMB has a negative mean. OM and Premier has high profits with Rs. 7.71 million and 6.26 million respectively. After them, Inbesta and Gorkha are in hierarchy line of making Net Profits.

The portfolio analysis has revealed that Except Union leasing financing has been left out by all the finance companies. NSLMB has given emphasis in housing loan and it has almost consistency through out the study period. After loan against fixed loan, hire purchase is least invested. OM too has an increasing trend in term loan and in housing loan too. It has moderately invested in hire purchase. Inbesta has a different story. It does not have increasing trend in any type of loan. All the loan categories have decreased volume in the last year of study.

The loan portfolio of Premier is pretty much same to Inbesta as for non of the loan category has increasing trend. Premier has concentrated on Again Fix Deposit Loan for it has given out loan maximum under this category through out the years except for 2063/64. However, Union has its investments in lease financing too, its being the first non-banking financial institution to introduce the leasing business in Nepal. Till the year 2061/62, OM had maximum investment made on term loan and in the year 2062/63 and 2063/64 the maximum investment was made on housing loan. Housing loan had the increasing trend but it dropped in the last year. In case of Union it has increasing trend in both housing loan Hire Purchase and term loan. In comparison to other finance companies, it has very low investment in Again Fix Deposit.

According to the directives of NRB, finance companies can investment only 40% of total loan in hire purchase else they have to make provision of 25% of the excess volume. But NSLMB has been neglecting this criteria of NRB since 2059/60 and 2060/61. Hire purchase covers more than 40% in the loan portfolio of NSLMB. Union has exceeded this percentage in 2059/60 to 2062/63. NRB has given the same criterion in regards to housing loan too. But Gorkha has more than 40% from year 2059/60 to 2061/62 and OM has in 2059/60. Union has been under its limit since 2059/60. In case of term loan, NRB directive has set the standard of 75% but the punishment of providing Loan Loss Provision is the same. Except Gorkha none of the

finance companies have ever exceeded this limit of 75%. In fact, 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. But generally, increase in this ratio suggests the increase in the Non-Performing Loans, which might result I questioning about the effectiveness in the credit policy of the company. With the combined mean ratio of 0.089. However, all the finance companies have exceed this combined mean ratio at some times in the years individually.

The combined mean ratio of Non-Performing Loans to Total Loans and Advances has concluded that it is pretty much alarming. 10.80% of Non-Performing Loan should not be taken lightly. This means 10.80% of volume Loans and Advances sets out Loan Loss Provision of 25% to 100%. This ratio of NSLMB is alarmingly high and is the only finance company which has the ratios in increasing trend. Premier, Union, OM and Inbesta has this ration less than 10%.

The ratio of Interest Income from Loans and Advances to Total Income explains the contribution of Interest Income from Loans and Advances in the Total Income. From the analysis, it is known that there is maximum contribution of Interest Income from Loans and Advances to the Total Income of the company. The combined mean ratio being 1.41, the mean ratios of all finance companies are above it except for Union and NSLMB, who has the ratio of 4.58 and 2.10. The mean ratio of finance companies ranged from .013 to 4.58.

The ratio of Interest Suspense to Interest Income from Loans and Advances among these finance companies are of varying nature. Gorkha has the least ratio of 0.20 where as OM has the maximum of 1.41, i.e. to say 1.41 has to maintain the Interest Suspense of almost 1.41% of Interest Income form Loans and Advances. This also depicts the failure of OM in realizing its loan interest in cash. NSLMB is way far from the situation of OM but with 0.56 of this ratio, if not alerted now, can bring

hazard situation to the company in future. where as others do not have specific trend but are fluctuating through out the study period.

The measurement of ratio of Loans and Advances to Total Deposits shows the high capability of OM to convert its liabilities into assets. OM has the mean ratio of 5.15, the highest amongst all. Inbesta is being just behind. Premier has the least ratio of 0.47 which shows that Premier has its tilt less towards investment in risky assets. The ratio of Interest Income to Interest Expenses is pretty interesting. According to the analysis, the one rupee of interest expense has been able earn Rs. 3.16 in Inbesta, which is the highest. The combined mean ratio being 3.16, all the finance companies except for Union, NSLMB and Premier have been able to maintain their mean ratios above the average.

Along with the ratio of Net Profit to Shareholder's Equity and EPS reflects the relative measure of profitability. Analyzing them both, it can be said that Premier is doing best than other finance companies. Net Profit to Shareholder's Equity ratio of Premier is the highest amongst all, 0.22. OM has the second position here and at the back end is NSLMB with negative ratio. Similarly, Premier has the highest EPS with OM following it. And NSLMB here too has a negative ratio. Net Profit to Shareholder's Equity ratio and EPS of all finance companies has fluctuating and mean EPS of Union, Gorkha, Premier and Inbesta are -6.36,2.53,22.97 and 8.17 respectively.

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

There is no uniformity in correlation of two variables in different finance companies. Union and OM 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. Gorkha and Premier have a moderate positive degree whereas NSLMB and Inbesta have a zero degree. NSLMB and Inbesta's zero

degree can be explained as a result of no change in Shareholder's Equity through out the study period. The analysis of 6 times P.Er says that the correlation of Union, NSLMB, Premier and Inbesta can't be taken relied on confidently, since their Correlation Coefficient is lesser than the value of 6 times of P.Er. Except for NSLMB and Inbesta, others have high degree of positive correlation which indicates good performance.

Between Loan and Advance OM, only, has a high degree of positive correlation of 0.9087. This means OM has maintained a steady ratio between Investments and Loans and Advances. NSLMB and Inbesta have moderate positive correlation highlighting their seasonal character, which other finance companies seem to be missing. As further explanations given by the Table 37, Union and Gorkha have negative correlations. 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 correlations registered in above Table 37 are not much reliable and significant except Premier and OM financs.

Loans and Advances is one of the main sources of Income in finance companies. This is what is also shown by the high degree positive correlation between Total Income and Loans and Advances. Except for Gorkha Union, NSLMB and Inbesta have moderate correlation for they are more inclined towards risk-free assets, Premier and OM has very high degree positive correlation between these two variables and are significant too. Correlation between Interest Suspense and Interest Income and between Loan Loss Provision and Loans and Advances is also high degree positive except for Gorkha and OM. Loan Loss Provision is like a by-product of Loans and Advances thus, with Loans and Advances Loan Loss Provision does increase in synchronize. Similarly, with Interest Income, Net Profit increases thus, there's high degree positive correlation between Interest Income and Net Profit in all finance companies.

The trend analysis of Loans and Advances has revealed that, OM has the highest trend line and thus is the best amongst six finance companies in accordance to giving out Loans and Advances. The trend line of NSLMB lies just below that of OM, demonstrating the good performance of the company. The Loans and Advances of

OM is likely to increase by Rs. 142.93 million in one year period, whereas Inbesta has a decreasing trend. The trend analysis of EPS, that checks the financial health of an organization, shows that NSLMB is the finance company with a decreasing trend. Along with the average line, all the other finance companies have an increasing trend of EPS. The trend line of Premier has the highest slope and has peaked quite high.

The average Propensity of Growth of Loans and Advances is Rs. 66.28 million and that of EPS is Rs. -23.24 million. The highest Propensity of Growth of EPS is that of Premier.

Chapter V
SUMMARY, CONCLUSION AND RECOMMENDATION

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

5.1 Summary

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

Studying the lending practices of the finance companies of Nepal is made in this thesis report. Six finance companies were taken as the sample for the study and the study is made around those six finance companies namely Union Finance Co. Ltd., Gorkha Finance Co. Ltd., Nepal Sir Lanka Merchant Banking & Finance Ltd., Premier Finance Company, OM Finance Ltd. and Inbesta Finance Ltd. The quantitative and qualitative analysis, for the conclusion, were made of the data collected from these six finance companies.

5.2 Conclusion

Qualitative analysis of Recovery of Loan has revealed the practical problems in collection of mobilized Loans and Advances. Once the loan is given, it is more like the company has to, literally chase the borrower to recover its investment. It 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 disturbing part is that there is no such directives regarding recovery of loans. It was said that the directives regarding recovery of loans were made but is not circulated till date.

5.3 Recommendation

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

Investment to Loans and Advances and Investment mean ratio of Gorkha, OM and Inbesta are way to below the combine mean. Investment in risk-free assets is also important. Thus, they should increase in their risk-free assets at least to the combined mean. It is also seen from Loans and Advances and Investment to Total Deposit ratio that Union have not been investing whole of Deposits it is collecting. Besides Deposits, it also has seen Shareholder's Equity to invest. This insufficient investment may result in insufficient income to cover all the expenses. Thus, Union should concentrate on increasing its investment in risky or riskf-ree assets.

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, Premier, however is working over this but it still is not sufficient. All the finance companies have increasing Loan Loss Provision. So they have to take extra care for this too especially the very same companies along with NSLMB and OM.

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. Finance companies have been mending the over investment but still NSLMB, Premier and OM have been violating the directives till the last two years. They have been investing more than 40% of total Loans and Advances in Hire Purchase and Housing Loan in different periods. They are recommended to work under the guidelines of NRB.

Limit assigned by NRB to invest in Term Loans is 75%; not even 60% of investment is made I this sector. This sector covers loans for business and industrial sector of the economy, thus vital. Low investment in this is probably due to present unwelcoming environment to trade and industry. But since this is more promising regarding repayment of credit, finance companies should try to invest more in Term Loans rather than excessive, over limit, investment in Hire Purchase and Housing Loans.

Interest Income from Loans and Advances to Total Income ratio reveals that Inbesta is very less inclined towards investment in risky assets. Contribution of interest income from Loans and Advances to the Total Income of Inbesta is very low, mean being only 0.13 in comparison to combined mean of 1.41. This side of investment is risky but has high return than that of risk-free investment. Thus, Inbesta should make more investment in Loans and Advances than in others also because lending is one of the main and significant functions of finance companies.

Interest Suspense to Total Interest Income from Loans and Advances mean ratio is highest of OM. It has to maintain almost 141% of Interest Income from Loans and Advances as Interest Suspense. OM has to work hard on collecting its repayment installments timely. High Interest Suspense decreases the profits of the company. Other finance companies are also recommended on concentrating in collecting their installment payments timely especially Gorkha with 0.20 as its mean ratio.

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Appendix:I

LIST OF NON BANK FINANCIAL INSTITUTIONS Mid July 2007 (Asard 2064)				
S.No.	**Names**	**Operation Date (A.D.)**	**Head Office**	**Paid up Capital** (Rs. In Million)
1	Nepal Housing Development Finance Co.Ltd.	1992/03/08	Naya Baneshwor, Kathmandu	70.5
2	Nepal Finance Co.Ltd.	1993/01/06	Kamaladi,Kathmandu	45.0
3	NIDC Capital Markets Ltd.	1993/03/11	Kamaladi, Kathmandu	74.9
4	National Finance Co.Ltd.	1993/05/07	Pako Newroad, Kathmandu	104.6
5	Annapurna Finance Co.Ltd.	1993/09/30	Chipledhunga, Pokhara	201.6
6	Nepal Share Markets and Finance Ltd.	1993/10/19	Ramshahapath, Kathmandu	400.0
7	Peoples Finance Ltd.	1993/04/15	Tripureshwor, Kathmadu	66.4
8	Mercentile Finance Co. Ltd.	1994/11/10	Birgunj, Parsa	18.0
9	Kathmandu Finance Ltd.	1994/11/10	Putalisadak, Kathmandu	38.0
10	Himalaya Finance & Savings Co.Ltd.	1993/11/11	Sundhara, Kathmandu	48.0
11	Union Finance Co. Ltd.	12/12/1995	Durbarmarg, Kathmandu	72.5
12	Narayani Finance Ltd.	1995/03/08	Narayangadh, Chitwan	66.7
13	Gorkha Finance Ltd.	1995/03/12	Kantipath, Kathmandu	30.0
14	Paschhimanchal Finance Co.Ltd.	1995/04/09	Butawal, Rupendehi	72.2
15	Nepal Housing & Merchant Finance Co.Ltd.	1995/04/11	Dillibazar, Kathmandu	80.4
16	Universal Finance Co.Ltd.	1995/04/27	Kantipath, Kathmandu	60.2
17	Samjhana Finance Co. Ltd.	1995/05/03	Banepa, Kavre	22.2
18	Goodwill Finance Ltd.	1995/05/16	Dillibazar, Kathmandu	50.0
19	Siddhartha Finance Co. Ltd.	1995/05/25	Siddarthanagar, Rupendehi	52.0
20	Shree Investment & Finance Co. Ltd.	1995/06/01	Dillibazar, Kathmandu	67.2
21	Lumbini Finance & Leasing Co. Ltd.	1995/06/26	Thamel, Kathmandu	60.0
22	Inbesta Finance Ltd.	1995/07/17	Birgunj, Parsa	24.0
23	Yeti Finance Co. Ltd.	1995/07/23	Hetauda, Makawanpur	31.3
24	Standard Finance Ltd.	1995/07/23	Pautalisadak, Ktm.	66.0
25	International Leasing & Finance Co. Ltd.	1995/10/31	Naya Baneshwor, Ktm.	120.0
26	Mahalaxmi Finance Co. Ltd.	1995/11/26	Birgunj, Parsa	80.0

27	Lalitpur Finance Co. Ltd.	1995/12/12	Lalitpur	50.6
28	Bhajuratna Finance & Saving Co. Ltd.	1996/01/09	Kantipath, Kathmandu	35.0
29	United Finance Ltd.	1996/1/25	Kamaladi, Kathmandu	75.0
30	General Finance Ltd.	1996/02/02	Chabahil, Kathmandu	24.2
31	Nepal Shreelanka Merchant Bank Ltd.	1996/02/04	Kamaladi, Kathmandu	100.0
32	Merchant Finance Co. Ltd.	1996/01/02	Kathmandu	33.4
33	Alpic Everest Finance Ltd.	1996/07/16	Baghbazar, Kathmandu	78.0
34	Nava Durga Finance Co.Ltd.	1997/02/09	Itachhe, Bhaktapur	39.5
35	Janaki Finance Ltd.	1997/03/07	Janakpurdham, Dhanusha	40.0
36	Pokhara Finance Ltd.	1997/03/16	Pokhara, Kaski	60.0
37	Central Finance Co. Ltd.	1997/04/14	Kupondole, Lalitpur	72.0
38	Premier Finance Co. Ltd.	1997/05/08	Manbhavan, Lalitpur	28.8
39	Arun Finance & Saving Co. Ltd.	1997/08/17	Dharan, Sunsari	11.0
40	Multipurpose Finance Co. Ltd	1998/3/25	RajbiRaj, Saptari	3.0
41	Butwal Finance Co. Ltd.	1998/06/21	Butawal, Rupendehi	63.3
42	Shrijana Finance Ltd.	1999/12/14	RajbiRaj, Saptari	14.0
43	Om Finance Ltd.	2000/09/17	Pokhara, Kaski	70.0
44	Cosmic Merchant Banking & Finance Ltd.	2000/11/20	Lal Durbar Marg, Ktm.	75.1
45	World Merchant Banking & Finance Ltd.	2001/08/10	Hetauda, Makawanpur	60.0
46	Capital Merchant Banking & Finance Ltd.	2002/02/01	Battisputali, Kathmandu	322.0
47	Crystal Finance Ltd.	2002/02/13	Bag Durbar, Kathmandu	49.0
48	Royal Merchant Banking & Finance Ltd.	2002/02/14	Durbarmarg, Kathmandu	55.0
49	Guheshworil Merchant Banking & Finance Ltd.	2002/06/13	Jawalakel, Lalitpur	55.0
50	Patan Finance Ltd.	6/23/2002	Man Bhawan, Lalitpur	50.0
51	Kist Merchant Banking & Finance Ltd.	2003/02/21	Kamalpokhari, Kathmandu	200.0
52	Fewa Finance Ltd.	2003/04/30	Pokhara, Kaski	70.0
53	Everest Finance Co. Ltd.	2003/07/02	Bhairahawa, Rupendehi	20.0
54	Birgunj Finance Ltd.	9/28/2003	Birgunj, Parsa	72.6
55	Prudential Bittiya Sanstha Ltd	2003/06/06	Dillibazar, Kathmandu	50.0
56	Investment Credit and Finance Co. Ltd.	2003/06/15	Bhatbhateni, Kathmandu	74.9
57	IME Financial Institution Ltd.	2005/08/01	Kantipath, Kathmandu	82.5
58	Sagarmatha Merchant Banking and Finance Co. Ltd	2005/08/29	Maanvawan,Lalitpur	30.0

59	Shikhar Bittya Sanstha Ltd.	2005/09/15	Thapathali,Kathmandu	30.0
60	Civil Merchant Bittiya sanstha Ltd.	2005/09/18	Kuleshwor,Kathmandu	50.0
61	Prabhut Finance Co. Ltd.	2006/02/16	Kantipath,Kathmandu	85.0
62	Imperial Financial Institution Ltd.	2006/03/08	Putalisadak,Kathmandu	50.0
63	Kuber Merchant Bittiya sanstha Ltd.	2006/03/24	Putalisadak,Kathmandu	50.0
64	Nepal Express Finance Ltd.	2006/05/04	Butawal, Rupendehi	50.0
65	Valley Finance Ltd.	2006/05/11	Maharajganj,Kathmandu	27.5
66	Seti Bittiya sanstha Ltd.	2006/06/07	Tikapur, Kailali	5.2
67	Hama Financial Institution Ltd.	2006/06/16	Tripureshwor, Kathmandu	31.5
68	Reliable Investment Bittiya sanstha Ltd.	2006/09/06	Sundhara, Kathmandu	95.4
69	Loard Buddha Financial Institutions Ltd.	2006/11/19	Newroad, Kathmandu	51.6
70	Api financial Institution Ltd.	2007/4/25	Lekhanath Chock, Kaski	18.8
71	Nameste Bitiya Sanstha Limited.	2007/07/07	Ghorai, Dang	5.1
72	Kaski Finance Limited	2007/7/30	Pokhara, Kaski	30.0
73	Suryadarshan Financial Institution Ltd.	2007/7/30	Baneshor, Kathmandu	30.0

Public Share Issued
Source : Nepal Rastra Bank Non-Banking Financial Statistics, Mid-July 2007 (No. 5)

Appendix : II

SOURCES AND USES OF FUNDS OF FINANCE COMPANIES

(From 2001 July to 2007 July)

(Rs. In Lakh)

SOURCES AND USES	2001 Mid-July (A)	2002 Mid-July (B)	2003 Mid-July (C)	2004 Mid-July (D)	2005 Mid-July (E)	2006 Mid-July (F)	2007 Mid-July (G)
No. of Finance Companies	48	54	57	58	59	70	74
1. CAPITAL FUND	**19289**	**26621**	**32052**	**36538**	**42500**	**431483.1**	**53798.6**
a. Paid-up Capital	12206	15226	19474	21558	24115	33567	44398.6
b. General Reserves	2426	3032	3391	4055	4811	5865.2	7114.7
c. Others Reserves	706	1827	433	999	1296	652.3	1503
2. DEPOSITS	**116540**	**134539**	**165103**	**193917**	**223416**	**243325**	**345147**
3. BORROWINGS	**2150**	**2448**	**1343**	**13065**	**9908**	**11548.1**	**34695.4**
a. NRB	0.0	0.0	139.	0.0	0.0	0.0	0.0
b. Commercial Banks	2150	2448	1204	13065	9908	9949.7	27078.8
c. Others	0.0	0.0	0.0	0.0	0.0	1409.1	3176.6
4. OTHERS	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
5. P/L ACCOUNTS	**3342.0**	**2664.0**	**4782**	**6155**	**9087**	**5721.4**	**13393.2**
TOTAL SOURCES OF FUNDS	**157972**	**184527**	**221165**	**271987**	**304367**	**388562.3**	**534663.3**
TOTAL USES OF FUNDS							
1. LIQUID FUNDS	**20485.**	**28624**	**26740**	**44698**	**39049**	**53866.6**	**75134.1**
a. Cash in Hand	1399	1704	1090	1321	1259	1987.3	2561.0
b. Bal. with NRB	172	312	1789	4301	4409	7499.3	9229.4
c. Bal with Dom. Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. INVESTMENTS	**12680**	**16234**	**23924**	**25105**	**24112**	**9632.4**	**12220.6**
a. Govt. Securities	8372	11200	7024	12700	5675	9632.4	12220.6
b. NRB Bond	0.0	0.0	0.0	0.0	0.0	0.0	0.0
c. Other	4308	5234	16900	12405	18437	0.0	0.0
3. LOANS & ADVANCES	**108653**	**119496**	**144737**	**175408**	**212233**	**270789.5**	**356164.6**
4. OTHERS	**0**	**0**	**0**	**0**	**0**	**0**	**0**
5. P/L ACCOUNTS	**0**	**0**	**0**	**0**	**0**	**784.6**	**8560.8**

(AGGREGATE)

Source : Nepal Rastra Bank Non-Banking Financial Statistics, Mid-July 2007 (No. 5)

Appendix III

Calculation of Regression equation of Loan & Advance on Deposit of Finance companies:

Year (N)	Loan & Advance on Deposit (Y)	X=x-3	X^2	XY
2059/60(1)	0.87	-2	4	-1.74
2060/61(2)	0.90	-1	1	-0.90
2061/62(3)	0.94	0	0	0
2062/63(4)	1.11	1	1	1.11
2063/64(5)	1.03	2	4	2.03
N=5	∑Y=4.85	∑X=0	$\sum X^2=10$	∑XY=0.53

$$a = \frac{Y}{N}$$

$$= \frac{4.85}{5} = 0.97$$

$$b = \frac{XY}{X2}$$

$$= \frac{0.53}{10} = 0.053$$

Appendix -V

Correlation coefficient between Total Deposit and Loan & Advance for Unique Finance

(In Million)

Year	Total Deposit (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	378.85	166.40	63040.35746	143528.4666	27688.49109
2060/61	518.78	223.07	115725.3983	269134.3983	49760.89233
2061/62	538.73	256.45	138156.8496	290235.0565	65765.02278
2062/63	594.52	436.19	259323.0805	353452.4157	190261.7074
2063/64	670.40	599.55	401936.5468	449438.0881	359455.4889
Total =	**∑x= 2,701.29**	**∑y= 1,681.65**	**∑xy= 978,182.23**	**$\sum x^2$= 1,505,788.43**	**$\sum y^2$= 692,931.60**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 978182.23-(2701.29)(1681.65)}{\sqrt{5x1505788.45 \, Z(2701.29)2 \text{ x } \sqrt{5x692931.60 \, Z(1681.65)2}}}$$

= 0.9062

r^2 = 0.8211

Probable error P.Er = $0.6745 \text{ X } \frac{1-r^2}{\sqrt{n}} = 0.0539$

6x PEr = 6X 0.0539

= 0.3234

(In Million)

Correlation coefficient between Total Deposit and Loan & Advance for NSLMB Finance

Year	Total Deposit (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	171.59	149.52	25657.14171	29443.64733	22357.58746
2060/61	132.60	126.78	16810.66621	17582.11027	16073.07053
2061/62	160.57	177.32	28471.86993	25782.46478	31441.81072
2062/63	247.62	265.23	65675.1421	61314.18315	70346.27338
2063/64	31.00	294.01	9114.006487	960.9561045	86440.07136
Total =	**∑X= 743.37**	**∑y= 1012.86**	**∑xy= 145728.83**	**$\sum x^2$= 135083.36**	**$\sum y^2$= 226658.81**

Appendix -VI

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 145728.83-(743.37)(1012.86)}{\sqrt{5x135083.36 \, Z(743.37)2 \text{ x } \sqrt{5x226658.81 \, Z(1012.86)2}}}$$

= -0.2114

r^2= 0.0446

Probable error P.Er = $0.6745 \text{ X } \frac{1-r^2}{\sqrt{n}} = 0.2881$

6x PEr = 6X 0.2881

= 1.7288

Appendix -VII

Correlation coefficient between Total Deposit and Loan & Advance for Premier Finance

(In Million)

Year	Total Deposit (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	589.32	350.64	206639.2139	347297.5143	122961.9621
2060/61	632.75	471.21	298159.3812	400372.5309	222040.7489
2061/62	700.88	602.78	422479.2466	491233.3533	363348.1167
2062/63	654.49	599.11	392108.547	428354.9623	358929.2202
2063/64	650.58	643.35	418551.7435	423258.2581	413897.5639
Total =	**∑x= 3228.02**	**∑y= 2667.09**	**∑xy= 1737938.13**	**$\sum x^2$= 2090516.62**	**$\sum y^2$= 1481164.31**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 1737938.13\text{-}(3228.02)(2667.09)}{\sqrt{5x2090516.62 \, Z(3228.02)} 2 \text{ x } \sqrt{5x1481164.31 \, Z(12667.09)2}}$$

= 0.8237

r^2= 0.6784

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.09701$

6x PEr = 6X 0.09701

= 0.582

Appendix -VIII

Correlation coefficient between Total Deposit and Loan & Advance for OM Finance

(In Million)

Year	Total Deposit (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	158.13	144.70	22881.88294	25004.85654	20939.15501
2060/61	247.07	185.15	45744.49057	61043.29385	34279.90669
2061/62	244.29	208.57	50950.05712	59675.89262	43500.11715
2062/63	283.87	250.18	71019.44057	80583.27207	62590.66936
2063/64	313.26	282.73	88566.86995	98129.47315	79936.13133
2059/60	4.21	90.97	383.2429642	17.74765014	8275.753043
2060/61	151.55	146.19	22154.42249	22966.89087	21370.69569
Total =	**Σx= 1246.61**	**Σy= 1071.33**	**Σxy= 279162.74**	**Σx²= 324436.79**	**Σy²= 241245.98**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 279162.74\text{-}(1246.61)(1071.33)}{\sqrt{5x324436.79 \, Z(1246.61)2 \text{ x } \sqrt{5x241245.98 \, Z(1071.33)2}}}$$

= 0.9549

r^2= 0.9118

Probable error P.Er = 0.6745 X $\frac{1\text{-}r^2}{\sqrt{n}}$ = 0.0266

6x PEr = 6X 0.0266

= 0.1596

Appendix -IX

2061/62	376.10	357.84	134691.0136	141680.5629	128046.2808
2062/63	484.14	456.57	221040.4422	234389.1799	208451.9307
2063/64	484.13	650.45	314904.3139	234383.3703	423087.7249
Total	$\Sigma x = 1500.44$	$\Sigma y = 1702.01$	$\Sigma xy = 693173.44$	$\Sigma x^2 = 633437.75$	$\Sigma y^2 = 789232.39$

Correlation Coefficient between Total Deposit and Loan & Advance for Investa Finance

(In Million)

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 693173.44\text{-}(1500.44)(1702.01)}{\sqrt{5x633437.75 \, Z(1500.44)2 \text{ x } \sqrt{5x789232.39 \, Z(1702.01)2}}}$$

= 0.9304

r^2= 0.8656

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.04054$

6x PEr = 6X 0.04054

= 0.2432

Appendix -X

Year	Total Deposit (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60					
2060/61	26.39	64.27	1696.220156	4130.187907	4130.187907
2061/62	22.10	61.65	1362.41629	3801.26393	3801.26393
2062/63	19.92	64.72	1289.29085	4188.155996	4188.155996
2063/64	18.21	54.50	992.6452538	2970.469966	2970.469966
Total =	**∑x= 86.63**	**∑y= 245.14**	**∑xy= 5340.57**	**$\sum x^2$= 15090.08**	**$\sum y^2$= 15090.08**

Correlation coefficient between Shareholder's equity and Loan & Advance for Union Finance

(In Million)

Year	Shareholder's equity(X)	Loan & Advance (Y)	XY	X^2	Y^2

$$r_{xy} X \frac{n \quad xy \; Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \; Z(\quad x)2x\sqrt{n \quad y2 \; Z(\quad y)2}}}$$

$$= \frac{4 \text{ x } 5340.57\text{-}(86.63)(245.14)}{\sqrt{4x15090.08 \; Z(86.63)2 \text{ x } \sqrt{5 \; x15090 \quad Z \; (1012 \quad .86 \;)2}}}$$

= -0.4794

r^2= 0.2298

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.2597$

6x PEr = 6X 0.2597

= 1.5584

Appendix -XI

2059/60	59.72	166.40	9937.739851	3566.777006	27688.49109
2060/61	65.98	223.07	14718.92273	4353.754046	49760.89233
2061/62	72.51	256.45	18596.1866	5258.390273	65765.02278
2062/63	72.52	436.19	[illegible]	[illegible]	[illegible]
2063/64	72.52	599.55	434376.26306	5258.468734	359455.4889
Total =	**∑x= 343.25**	**∑y= 1681.65**	**∑xy= 118359.56**	**$\sum x^2$= 23695.85879**	**$\sum y^2$= 692,931.60**

Correlation coefficient between Shareholder's equity and Loan & Advance for Gorkha Finance

(In Million)

$$r_{xy} = \frac{n\sum xy - (\sum x).(\sum y)}{\sqrt{n\sum x^2 - (\sum x)^2} \times \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 118359.56-(343.25)(1681.65)}{\sqrt{5 \times 23695.85879 - (343.25)^2} \times \sqrt{5 \times 692931.60 - (1681.65)^2}}$$

= 0.7115

r^2= 0.5062

Probable error P.Er = 0.6745 X $\frac{1-r^2}{\sqrt{n}}$ = 0.1489

6x PEr = 6X 0.1489

= 0.8937

Appendix -XII

Correlation coefficient between Shareholder's equity and Loan & Advance for NSLMB Finance

(In Million)

Year	Shareholder's equity(X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	25.00	149.32	3738.11545	625	22397.58746
2060/61	25.00	126.78	3169.49035	625	16073.07053
2061/62	25.00	177.32	4432.9597	625	31441.81072
2062/63	25.00	265.23	6630.717975	625	70346.27338
2063/64	30.00	294.01	8820.20772	900	86440.07136
Total =	**∑x= 130.00**	**∑y= 1012.86**	**∑xy= 26791.49**	**$\sum x^2$= 3400**	**$\sum y^2$= 226658.81**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 26791.49\text{-}(130.00)(1012.86)}{\sqrt{5x3400 \, Z(130.00)} 2 \text{ x } \sqrt{5x226658.81 \, Z(1012.86)2}}$$

= 0.6974

r^2= 0.4863

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.1549$

6x PEr = 6X 0.1549

= 0.9297

Appendix -XIII

2059/60	100.00	350.64	35064.036	10000	122948.6621
2060/61	100.00	471.21	47121.2	10000	222040.7489
2061/62	100.00	602.78	60278.364	10000	363348.1167
2062/63	100.00	599.11	59910.7015	10000	358929.2202
2063/64	100.00	643.35	64334.8711	10000	413897.5639
Total =	**∑x= 500**	**∑y= 2667.09**	**∑xy= 266709.17**	**$\sum x^2$= 50000**	**$\sum y^2$= 1481164.31**

Correlation coefficient between Shareholder's equity and Loan & Advance for Premier Finance

$$r_{xy} = \frac{n \sum xy - (\sum x).(\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 266709.17-(500)(2667.09)}{\sqrt{5 \times 50000 - (500)^2} \times \sqrt{5 \times 1481164.31 - (2667.09)^2}}$$

= 0.00

r^2 = 0.00

Probable error P.Er = 0.6745 X $\frac{1-r^2}{\sqrt{n}}$ = 0.3016

6x PEr = 6X 0.3015

= 1.8099

Appendix -XIV

Correlation coefficient between Shareholder's equity and Loan & Advance for OM Finance

(In Million)

Year	Shareholder's equity(X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	20.00	144.70	2894.0736	400	20939.15501
2060/61	20.00	185.15	3702.96674	400	34279.90609
2061/62	20.00	208.57	4171.33634	2500	43500.11715
2062/63	50.00	250.18	12509.08365	829.44	62590.66936
2063/64	28.80	282.73	8142.617808	4529.44	79936.13133
2059/60	20.00	80.97	1619.43333	400	6555.752043
Total =	**Σx= 138.80**	**Σy= 1071.33**	**Σxy= 31420.06**	**Σx= 4529.44**	**Σy= 241245.98**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 31420.06\text{-}(138.80)(1071.33)}{\sqrt{5x4529.44 \, Z(138.80)} 2 \text{ x } \sqrt{5x241245.98 \, Z(1071.33)2}}$$

= 0.5786

r^2= 0.3347

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.2006$

6x PEr = 6X 0.2006

= 1.2041

Appendix -XV

2060/61	20.00	146.19	2923.74388	400	21370.69569
2061/62	20.00	357.84	7156.711	400	128046.2808
2062/63	60.00	456.57	27393.92178	3600	208451.9307
2063/64	100.00	[illegible]	[illegible]	10000	[illegible]
Total =	**∑x= 220.00**	**∑y= 1702.01**	**∑xy= 104338.99**	**$\sum x^2$= 14800**	**$\sum y^2$= 789232.39**

Correlation coefficient between Shareholder's equity and Loan & Advance for Inkesta Finance

$$r_{xy} = \frac{n\sum xy - (\sum x).(\sum y)}{\sqrt{n\sum x^2 - (\sum x)^2} \times \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 104338.99-(220.00)(1702.01)}{\sqrt{5 \times 14800 - (220.00)^2} \times \sqrt{5 \times 789232.39 - (1702.01)^2}}$$

= 0.8984

r^2= 0.8071

Probable error P.Er = 0.6745 X $\frac{1-r^2}{\sqrt{n}}$ = 0.0581

6x PEr = 6X 0.0581

= 0.3491

Appendix -XVI

(In Million)

Year	Shareholder's equity(X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60					
2060/61	24.00	64.27	1542.40	576.00	4130.187907
2061/62	24.00	61.65	1479.71	576.00	3801.26393
2062/63	24.00	64.72	1553.18	576.00	4188.155996
2063/64	24.00	54.50	1308.05	576.00	2970.469966
2059/60	54.96	166.40	9143.688881	3020.880583	27688.49109
Total =	**∑x= 96.00**	**∑y= 245.14**	**∑xy= 5883.33**	**$\sum x^2$= 2304**	**$\sum y^2$= 15090.08**

Correlation coefficient between Investment and Loan & Advance for Union Finance

(In Million)

Year	Investment (X)	Loan & Advance (Y)	XY	X^2	Y^2

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{4 \text{ x } 5883.33\text{-}(96.00)(245.14)}{\sqrt{4x2304 \, Z(96.00)2 \text{ x } \sqrt{4x15090.08 \, Z(245.14)2}}}$$

= 0.00

r^2= 0.00

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.3372$

6x PEr = 6X 0.3372

= 2.0235

Appendix -XVII

2060/61	46.61	223.07	10396.50249	2172.132752	49760.89233
2061/62	85.83	256.45	22011.97366	7367.548343	65765.02278
2062/63	40.57	436.19	17697.42567	1646.147718	190261.7074
2063/64	12.57	599.55	7534.452282	157.9276794	359455.4889
Total =	**∑x= 240.54**	**∑y= 1681.65**	**∑xy= 66786.04**	**$\sum x^2$= 14364.63708**	**$\sum y^2$= 692,931.60**

Correlation coefficient between Investment and Loan & Advance for Gorkha Finance

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 66786.04-(240.54)(1681.65)}{\sqrt{5x14364.63708 \, Z(240.54)2 \text{ x } \sqrt{5x692931.60 \, Z(1681.65)2}}}$$

= -0.7484

r^2= 0.5601

Probable error P.Er = 0.6745 X $\frac{1-r^2}{\sqrt{n}}$ = 0.1326

6x PEr = 6X 0.1326

= 0.7961

Appendix -XVIII

(In Million)

Correlation coefficient between Investment and Loan & Advance for NSLMB Finance

Year	Investment (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	16.56	149.52	2476.784108	274.3793142	22357.58746
2060/61	9.59	126.78	1216.044575	42.00260806	16073.07053
2061/62	0.35	177.32	57.98311288	0.106929	31441.81072
2062/63	0.33	265.23	87.12763419	0.10791225	70346.27338
2063/64	0.83	294.01	243.5847365	0.68641225	86440.07136
Total =	**∑x= 27.64**	**∑y= 1012.86**	**∑xy= 4081.52**	**$\sum x^2$= 367.2831758**	**$\sum y^2$= 226658.81**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 4081.52\text{-}(27.64)(1012.86)}{\sqrt{5x367.2831758 \, Z(27.64)2 \text{ x } \sqrt{5x226658.81 \, Z(1012.86)2}}}$$

= -0.7069

r^2= 0.4997

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.1509$

6x PEr = 6X 0.1509

= 0.9055

Appendix -XIX

2059/60	63.59	350.64	22297.64126	4043.840717	122948.6621
2060/61	73.75	471.21	34751.30541	5438.881077	222040.7489
2061/62	119.43	602.78	71990.24759	14263.44464	363348.1167
2062/63	100.43	599.11	60168.11662	10086.11741	358929.2202
2063/64	44.89	643.35	28880.10313	2015.137149	413897.5639
Total =	**∑x= 402.09**	**∑y= 2667.09**	**∑xy= 218087.41**	**∑x^2= 35847.421**	**∑y^2 = 1481164.31**

Correlation coefficient between Investment and Loan & Advance for Premier Finance
(In Million)

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 218087.41\text{-}(402.09)(2667.09)}{\sqrt{5x35847.421 \, Z(402.09)2 \text{ x } \sqrt{5x1481164.31 \, Z(2667.09)2}}}$$

= 0.2515

r^2= 0.0632

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.2825$

6x PEr = 6X 0.2825

= 1.6955

Appendix -XX

Correlation coefficient between Investment and Loan & Advance for OM Finance

(In Million)

Year	Investment (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	21.87	144.70	3164.41764	478.2969	20939.15501
2060/61	15.59	185.15	2886.71993	243.0914421	34279.90669
2061/62	26.77	208.57	5583.646541	716.7132123	43500.11715
2062/63	33.08	250.18	8276.0508	1094.300757	62590.66936
2063/64	41.80	282.73	11818.22941	1747.276784	79936.13133
Total =	**∑x= 139.11**	**∑y= 1071.33**	**∑xy= 31729.06**	**$\sum x^2$= 4279.601198**	**$\sum y^2$= 241245.98**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 31729.06-(139.11)(1071.33)}{\sqrt{5x4279.601198 \, Z(139.11)2 \text{ x } \sqrt{5x241245.98 \, Z(1071.33)2}}}$$

= 0.8786

r^2= 0.7719

Probable error P.Er = $0.6745 \text{ X } \frac{1-r^2}{\sqrt{n}} = 0.0688$

6x PEr = 6X 0.0688

= 0.4128

Appendix -XXI

2059/60	0.00	90.97	0.00	0.00	8275.753043
2060/61	4.02	146.19	587.0877711	16.128256	21370.69569
2061/62	5.55	357.84	1985.987303	30.8025	128046.2808
2062/63	28.05	456.57	12806.65843	786.8025	208451.9307
2063/64	30.58	650.45	19888.86894	934.952929	423087.7249
Total =	**∑x= 68.19**	**∑y= 1702.01**	**∑xy= 31729.06**	**$\sum x^2$= 1768.686185**	**$\sum y^2$ = 789232.39**

Correlation coefficient between Investment and Loan & Advance for Inbesta Finance
(In Million)

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 31729.06\text{-}(68.19)(1702.01)}{\sqrt{5x1768.686185 \, Z(68.19)2 \text{ x } \sqrt{5x789232.39 \, Z(1702.01)2}}}$$

= 0.9087

r^2= 0.8257

Probable error P.Er = 0.6745 X $\frac{1\text{-}r^2}{\sqrt{n}}$ = 0.0525

6x PEr = 6X 0.0525

= 0.3154

Appendix -XXV

Year	Investment (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/61					
2060/61	2.00	64.27	128.533076	4.00	4130.187907
2061/62	1.50	61.65	92.4812865	2.25	3801.26393
2062/63	0.00	64.72	0	0.00	4188.155996
2063/64	0.00	54.50	0	0.00	2970.469966
Total =	**∑x= 3.50**	**∑y= 245.14**	**∑xy= 221.01**	**$\sum x^2$= 6.25**	**$\sum y^2$= 15090.08**

Correlation coefficient between Total Income and Loan & Advance for Union Finance

(In Million)

Year	Total Income (X)	Loan & Advance (Y)	XY	X^2	Y^2

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{4 \text{ x } 221.01-(3.50)(245.14)}{\sqrt{4x6.25 \, Z(3.50)2 \text{ x } \sqrt{4x15090.08 \, Z(245.14)2}}}$$

= 0.02735

r^2= 0.0007

Probable error P.Er = $0.6745 \text{ X } \frac{1-r^2}{\sqrt{n}} = 0.3370$

6x PEr = 6X 0.3370

= 2.0220

Appendix -XXVI

2059/60	104.20	166.40	17338.89958	10857.8484	27688.49109
2060/61	117.07	223.07	26115.42618	13705.85318	49760.89233
2061/62	118.28	256.45	30331.25946	13988.97563	65765.02278
2062/63	110.07	436.19	48012.74077	12116.06533	190261.7074
2063/64	120.05	599.55	71974.30649	14411.5223	359455.4889
Total =	**∑x= 569.67**	**∑y= 1681.65**	**∑xy= 193772.63**	**∑x^2= 65080.26484**	**∑y^2 = 692,931.60**

Correlation coefficient between Total Income and Loan & Advance for Gorkha Finance
(In Million)

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 193772.63\text{-}(569.67)(1681.65)}{\sqrt{5x65080.26484 \, Z(569.67)} 2 \text{ x } \sqrt{5x692931.60 \, Z(1681.65)2}}$$

= 0.4602

r^2 = 0.21178

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.2377$

6x PEr = 6X 0.2377

= 1.4266

Appendix -XXVII

Correlation coefficient between Total Income and Loan & Advance for NSMB Finance

(In Million)

Year	Total Income (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	13.68	149.52	2045.49568	187.1424	22353.87746
2060/61	24.14	126.78	3060.079543	582.594769	16073.07053
2061/62	3.55	177.32	630.0304964	12.62454093	31441.81072
2062/63	7.49	265.25	1987.708098	56.1647873	70346.27338
2063/64	3.52	294.01	1036.00631	12.41679997	86440.07136
Total =	**∑x= 52.39**	**∑y= 1012.86**	**∑xy= 8759.32**	**$\sum x^2$= 850.9432972**	**$\sum y^2$= 226658.81**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 8759.32\text{-}(52.39)(1012.86)}{\sqrt{5x850.9432972 \, Z(52.39)2 \text{ x } \sqrt{5x226658.81 \, Z(1012.86)2}}}$$

= -0.7276

r^2= 0.5294

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.1419$

6x PEr = 6X 0.1419

= 0.8517

Appendix -XXVIII

2059/60	10.08	350.64	3535.969595	101.6935099	122948.6621
2060/61	12.09	471.21	5698.075978	146.2257266	222040.7489
2061/62	26.78	602.78	16145.20596	717.4047798	363348.1167
2062/63	(29.34)	599.11	(17578.35291)	860.8897625	358929.2302
2063/64	(29.23)	643.35	(18804.57458)	854.3467172	413897.5639
Total =	**∑x= (9.61)**	**∑y= 2667.09**	**∑xy= (11003.68)**	**∑x^2= 2680.560496**	**∑y = 1481164.31**

Correlation coefficient between Total Income and Loan & Advance for Premier Finance
(In Million)

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } -11003.68-(-9.61)(2667.09)}{\sqrt{5x2680.560496 \, Z(Z9.61)2 \text{ x } \sqrt{5x1481164.31 \, Z(2667.09)2}}}$$

= -0.4710

r^2= 0.2218

Probable error P.Er = $0.6745 X \frac{1-r^2}{\sqrt{n}} = 0.2347$

6x PEr = 6X 0.2347

= 1.4084

Appendix -XXIX

Year	Total Income (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	25.02	144.70	3620.735832	626.0046772	20939.15501
2060/61	33.45	185.15	6193.929693	1119.161886	34279.90669
2061/62	40.16	208.57	8375.555533	1612.637737	43500.11715
2062/63	37.64	250.18	9417.566905	1416.993416	62590.66936
2063/64	45.36	282.73	12824.16333	2057.382092	79936.13133
Total =	**∑x= 181.63**	**∑y= 1071.33**	**∑xy= 40431.95**	**$\sum x^2$= 6832.261904**	**$\sum y^2$= 241245.98**

Correlation coefficient between Total Income and Loan & Advance for OM Finance

(In Million)

Year	Total Income (X)	Loan & Advance (Y)	XY	X^2	Y^2

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 40431.95-(181.63)(1071.33)}{\sqrt{5x6832.261904 \, Z(181.63)} 2 \text{ x } \sqrt{5x241245.98 \, Z(1071.33)2}}$$

= 0.9149

r^2= 0.8370

Probable error P.Er = 0.6745 X $\frac{1-r^2}{\sqrt{n}}$ = 0.0491

6x PEr = 6X 0.0491

= 0.2950

Appendix -XXX

2059/60	20.66	90.97	1879.009434	426.629025	8275.753043
2060/61	36.91	146.19	5395.184582	1362.052836	21370.69569
2061/62	49.89	357.84	17850.62641	2488.513225	128046.2808
2062/63	63.82	456.57	29135.71864	4072.354225	208451.9307
2063/64	77.52	650.45	50421.08296	6008.885289	423087.7249
Total =	**∑x= 248.78**	**∑y= 1702.01**	**∑xy= 104681.62**	**$\sum x^2$= 14358.4346**	**∑y = 789232.39**

Correlation coefficient between Total Income and Loan & Advance for Inbesta Finance
(In Million)

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 104681.62-(248.78)(1702.01)}{\sqrt{5x14358.4346 \, Z(248.78)2 \text{ x } \sqrt{5x789232.39 \, Z(1702.01)2}}}$$

= 0.9809

r^2= 0.9621

Probable error P.Er = $0.6745 \text{ X } \frac{1-r^2}{\sqrt{n}} = 0.0114$

6x PEr = 6X 0.00114

= 0.0685

Appendix -XXXI

Year	Total Income (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/61					
2060/61	14.07	64.27	904.2022337	197.9526593	4130.187907
2061/62	10.98	61.65	674.0435966	119.522027	3801.26393
2062/63	11.48	64.72	742.7789653	131.7335342	4188.155996
2063/64	12.03	54.30	655.8395147	144.8004774	2970.469966
Total =	**∑x= 48.51**	**∑y= 245.14**	**∑xy= 2976.86**	**$\sum x^2$= 594.0086979**	**$\sum y^2$= 15090.08**

Correlation coefficient between Interest Suspense and Interest Income for Union Finance

(In Million)

Year	Interest Suspense (X)	Interest Income (Y)	XY	X^2	Y^2

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{4 \text{ x } 2976.86\text{-}(48.51)(245.14)}{\sqrt{4x594.0086979 \, Z(48.51)2 \text{ x } \sqrt{4x15090.08 \, Z(245.14)2}}}$$

= 0.2012

r^2= 0.0404

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.3236$

6x PEr = 6X 0.3236

= 1.9417

Appendix -XXXII

2059/60	12.92	26.230	339.0172458	167.0216598	688.1304679
2060/61	15.94	0330.33	531.3127163	254.1492133	1110.738054
2061/62	20.36	03060.11	735.1178895	414.3817589	1304.107384
2062/63	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2063/64	4.34	93.54	405.7156226	18.81296936	8749.557991
Total =	**∑x= 62.64**	**∑y= 230.57**	**∑xy= 2386.76**	**$\sum x^2$= 936.8490519**	**$\sum y^2$= 13562.85**

Correlation coefficient between Interest Suspense and Interest Income for Gorkha Finance

(In Million)

$$r_{xy} = \frac{n\sum xy - (\sum x).(\sum y)}{\sqrt{n\sum x^2 - (\sum x)^2} \times \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 2386.76-(62.64)(230.57)}{\sqrt{5 \times 13562.85 - (62.64)^2} \times \sqrt{5 \times 13562.85 - (230.57)^2}}$$

= -0.7516

r^2= 0.5649

Probable error P.Er = $0.6745 \times \frac{1-r^2}{\sqrt{n}}$ = 0.1312

6x PEr = 6X 0.1312

= 0.7874

Appendix -XXXIII

Correlation coefficient between Interest Suspense and Interest Income for NSLMB Finance

(In Million)

Year	Interest Suspense (X)	Interest Income (Y)	XY	X^2	Y^2
2059/60	4.28	27.02	115.6456214	18.3241014	730.2448535
2060/61	4.57	22.58	103.0825383	20.8395902	509.8953287
2061/62	5.89	23.36	137.4987668	34.65609789	545.5291286
2062/63	7.07	28.71	202.9635166	49.96551594	824.4523909
2063/64	9.10	37.40	340.2619891	82.78184699	1398.594323
Total =	**∑x= 30.90**	**∑y= 139.07**	**∑xy= 899.48**	**$\sum x^2$= 206.5671524**	**$\sum y^2$= 4008.72**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 899.48\text{-}(30.90)(139.07)}{\sqrt{5x206.5671524 \, Z(30.90)2 \text{ x } \sqrt{5x4008.72 \, Z(139.07)2}}}$$

= 0.8544

r^2= 0.7299

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.0814$

6x PEr = 6X 0.0814

= 0.4888

Appendix -XXXIV

2059/60	32.05	65.88	2111.516142	1027.323717	4339.917735
2060/61	38.52	72.86	2806.492326	1483.525856	5309.242938
2061/62	70.26	58.91	4138.851787	4936.446522	.3470.126545
2062/63	0.00	18.00	0.0000	0.0000	324.0000
2063/64	0.00	19.85	0.0000	0.0000	393.8505384
Total =	**∑x= 141.94**	**∑y= 234.98**	**∑xy= 9076.33**	**∑x^2= 7448.53712**	**∑y^2= 13818.66**

Correlation coefficient between Interest Suspense and Interest Income for Premier Finance

(In Million)

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5 \text{ x } 9076.33-(141.94)(234.98)}{\sqrt{5x7448.53712 \, Z(141.94)2 \text{ x } \sqrt{5x13818.66 \, Z(234.98)2}}}$$

= 0.7809

r^2= 0.6098

Probable error P.Er = $0.6745 X \frac{1-r^2}{\sqrt{n}} = 0.1177$

6x PEr = 6X 0.1177

= 0.7062

Appendix -XXXV

Year	Interest Suspense (X)	Interest Income (Y)	XY	X^2	Y^2
2059/60	5.10	22.27	113.6106905	26.01780359	496.0983328
2060/61	4.98	27.60	137.3978088	24.78504406	761.6753808
2061/62	5.44	35.83	195.0178318	29.62263496	1283.881558
2062/63	5.79	34.27	198.5463793	33.56532589	1174.44606
2063/64	4.39	42.29	185.7968536	19.29815906	1788.796055
Total =	**∑x= 25.71**	**∑y= 162.27**	**∑xy= 830.37**	**$\sum x^2$= 133.2889676**	**$\sum y^2$= 5504.90**

Correlation coefficient between Interest Suspense and Interest Income for OM Finance

(In Million)

Year	Interest Suspense (X)	Interest Income (Y)	XY	X^2	Y^2

$$r_{xy} = \frac{n\sum xy - (\sum x).(\sum y)}{\sqrt{n\sum x^2 - (\sum x)^2} \times \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 830.37-(25.71)(162.27)}{\sqrt{5 \times 133.2889676 - (25.71)^2} \times \sqrt{5 \times 5504.90 - (162.27)^2}}$$

= -0.2496

r^2= 0.0623

Probable error P.Er = $0.6745 \times \frac{1-r^2}{\sqrt{n}}$ = 0.2828

6x PEr = 6X 0.2828

= 1.6971

Appendix -XXXVI

2059/60	0.00	17.22	0	0	296.6100973
2060/61	0.00	31.88	0	0	1016.561079
2061/62	0.00	44.10	0	0	1944.617464
2062/63	9.69	56.61	[illegible]	[illegible]	[illegible]
2063/64	9.95	68.61	682.7019191	99.02351562	4706.78008
Total =	**∑x= 19.64**	**∑y= 218.42**	**∑xy= 1231.06**	**∑x^2= 192.8379078**	**∑y^2= 11169.8**

Correlation coefficient between Interest Suspense and Interest Income for Inbesta Finance

(In Million)

$$r_{xy} = \frac{n\sum xy - (\sum x).(\sum y)}{\sqrt{n\sum x^2 - (\sum x)^2} \times \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 1231.06-(19.64)(218.42)}{\sqrt{5 \times 192.8379078 - (19.64)^2} \times \sqrt{5 \times 11169.8 - (218.42)^2}}$$

= 0.8596

r^2= 0.7389

Probable error P.Er = 0.6745 X $\frac{1-r^2}{\sqrt{n}}$ = 0.0787

6x PEr = 6X 0.0787

= 0.4725

Appendix -XXXVI

Year	Interest Suspense (X)	Interest Income (Y)	XY	X^2	Y^2
2059/60					
2060/61	0.00	10.14	0	0	102.8652148
2061/62	0.00	8.94	0	0	79.95244304
2062/63	9.69	8.46	81.94992804	93.81439232	71.58593196
2063/64	9.95	8.57	85.25781176	99.02351552	73.40574032
Total =	**∑x=19.64**	**∑y=36.11**	**∑xy= 167.21**	**∑x^2= 192.8379078**	**∑y^2= 327.81**

Correlation coefficient between Loan Loss Provision and Loan & Advance for Union Finance

(In Million)

Year	Loan Loss Provision (X)	Loan & Advance (Y)	XY	X^2	Y^2

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{4 \text{ x } 167.21\text{-}(19.64)(36.11)}{\sqrt{4x192.8379078 \, Z(19.64)2 \text{ x } \sqrt{4x327.81 \, Z(36.11)2}}}$$

= -0.7602

r^2= 0.5779

Probable error P.Er = 0.6745 X $\frac{1\text{-}r^2}{\sqrt{n}}$ =0.1423

6x PEr = 6X 0.1423

= 0.8541

Appendix -XXXVII

2059/60	9.64	166.40	1604.416379	92.96829899	27688.49109
2060/61	12.05	223.07	2687.920737	145.1926915	49760.89233
2061/62	12.47	256.45	3198.303407	155.5408066	65765.02278
2062/63	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2063/64	13.28	599.55	7963.553399	176.4284722	359455.4889
Total =	**∑x= 67.02**	**∑y= 1681.65**	**∑xy= 23993.78**	**$\sum x^2$= 953.4160584**	**$\sum y^2$= 692931.60**

Correlation coefficient between Loan Loss Provision and Loan & Advance for Gorkha Finance

$$r_{xy} = \frac{n\sum xy - (\sum x).(\sum y)}{\sqrt{n\sum x^2 - (\sum x)^2} \times \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 23993.78 - (67.02)(1681.65)}{\sqrt{5 \times 953.4160584 - (67.02)^2} \times \sqrt{5 \times 692931.60 - (1681.65)^2}}$$

= 0.5486

r^2= 0.3009

Probable error P.Er = 0.6745 X $\frac{1-r^2}{\sqrt{n}}$ = 0.2108

6x PEr = 6X 0.2108

= 1.2653

Appendix -XXXVIII

(In Million)

Year	Loan Loss Provision (X)	Loan & Advance (Y)	XY	X^2	Y^2
2059/60	6.82	149.52	1019.561921	46.49457423	22357.58746
2060/61	6.74	126.78	854.5129814	45.42955462	16073.07053
2061/62	9.07	177.32	1608.62887	82.30082435	31441.81072
2062/63	10.97	265.23	2908.82569	120.2802435	70346.27338
2063/64	16.61	294.01	4882.514185	275.7858062	86440.07136
Total =	**∑x= 50.20**	**∑y=1012.86**	**∑xy= 11274.04**	**$\sum x^2$= 570.2909998**	**$\sum y^2$= 226658.81**

Correlation coefficient between Interest Income and Net Profit for Union Finance

(In Million)

Year	Interest income (X)	Net Profit (Y)	XY	X^2	Y^2
2059/60	26.23	0.93	24.41576324	688.1304679	0.866303009
2060/61	33.38	0.90	30.12864083	1110.738054	0.817255888
2061/62	36.11	2.30	83.17450299	1304.107384	5.304776304
2062/63	41.36	(28.33)	(1171.454087)	1710.31336	802.3703206

$$r_{xy} = \frac{n\sum xy - (\sum x).(\sum y)}{\sqrt{n\sum x^2 - (\sum x)^2} \times \sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 11274.04-(50.20)(1012.86)}{\sqrt{5 \times 570.2909998 - (50.20)^2} \times \sqrt{5 \times 226658.81 - (1012.86)^2}}$$

= 0.9259

r^2= 0.8572

Probable error P.Er = 0.6745 X $\frac{1-r^2}{\sqrt{n}}$ =0.8572

6x PEr = 6X 0.8572

= 0.2584

Appendix -XXXVIII

2063/64	93.54	(24.92)	(2330.625598)	8749.557991	620.8102951
Total =	**∑x= 230.57**	**∑y= (49.10)**	**∑xy= 3364.36**	**$\sum x^2$= 13562.84726**	**$\sum y^2$= 1430.17**

Correlation coefficient between Interest Income and Net Profit for Inbesta Finance

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{5x3364.36\text{-}(230.57)(\text{-}49.10)}{\sqrt{5x13562.84726 \, Z(230.57)} 2 \, x \sqrt{5x1430.17 \, Z(Z49.10)2}}$$

= -0.6600

r^2= 0.4356

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.1702$

6x PEr = 6X 0.1702

= 1.0215

Appendix -XXXVIX

(In Million)

Year	Interest income (X)	Net Profit (Y)	XY	X^2	Y^2
2059/60					
2060/61	10.14	4.63	46.99681872	102.8652148	21.47179661
2061/62	8.94	4.10	36.68445164	79.95244304	16.83186831
2062/63	8.46	4.32	36.59005814	71.58593196	18.70245058
2063/64	8.57	(5.22)	(44.68608279)	73.40574032	27.20285888
Total =	**∑x=36.112424**	**∑y=7.85**	**∑xy= 75.59**	**$\sum x^2$= 327.8093301**	**$\sum y^2$= 84.21**

$$r_{xy} X \frac{n \quad xy \, Z(\quad x).(\quad y)}{\sqrt{n \quad x2 \, Z(\quad x)2x\sqrt{n \quad y2 \, Z(\quad y)2}}}$$

$$= \frac{4x75.59\text{-}(36.112424)(7.85)}{\sqrt{4x327.8093301 \, Z(36.112424)} \, 2 \, x \, \sqrt{4x84.21 \, Z(7.85)2}}$$

= 0.4261

r^2= 0.1815

Probable error P.Er = $0.6745 \text{ X } \frac{1\text{-}r^2}{\sqrt{n}} = 0.2760$

6x PEr = 6X 0.2760

= 1.6562

Appendix XXXX

Trend Analysis of EPS for Union Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	1.55	-2	4	-3.1	-11.942
2060/61(2)	0.60	-1	1	-0.6	-17.522
2061/62 (3)	1.53	0	0	0	-23.102
2062/63 (4)	-18.88	1	1	-18.88	-28.682
2063/64 (5)	-16.61	2	4	-33.22	-34.262
N=5	∑Y=-31.81	∑X=0	$\sum X^2$=10	∑XY=-55.8	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{\text{Z}31.81}{5} = -6.362$$

$$b = \frac{XY}{X2}$$

$$= \frac{\text{Z}55.8}{10} = -5.58$$

Appendix XXXXI

Trend Analysis of EPS for Gorkha Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	0.92	-2	4	-1.84	3.447
2060/61(2)	2.53	-1	1	-2.53	4.364
2061/62 (3)	1.62	0	0	0	5.281
2062/63 (4)	1.62	1	1	1.62	6.198
2063/64 (5)	5.96	2	4	11.92	7.115
N=5	∑Y=12.65	∑X=0	$\sum X^2$=10	∑XY=9.17	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

$Yc = a + bx$

As $x = 0$

$$a = \frac{Y}{N}$$

$$= \frac{12.65}{5} = 2.53$$

$$b = \frac{XY}{X2}$$

$$= \frac{9.17}{10} = 0.917$$

Appendix XXXXII

Trend Analysis of EPS for NSLMB Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	-8.59	-2	4	17.18	-292.753
2060/61(2)	-9.71	-1	1	9.71	-425.506
2061/62 (3)	-26.78	0	0	0	-558.259
2062/63 (4)	-155.42	1	1	-155.42	-691.012
2063/64 (5)	-599.5	2	4	-1199	-823.765
N=5	∑Y=-800	∑X=0	$\sum X^2$=10	∑XY=-1327.53	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{Z800}{5} = -160$$

$$b = \frac{XY}{X2}$$

$$= \frac{Z1327.53}{10} = -132.753$$

Appendix XXXXII

Trend Analysis of EPS for Premier Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	2.13	-2	4	-4.26	26.408
2060/61(2)	16.92	-1	1	-16.92	29.842
2061/62 (3)	56.57	0	0	0	33.276

2062/63 (4)	22.98	1	1	22.98	36.71
2063/64 (5)	16.27	2	4	32.54	40.144
N=5	∑Y=114.87	∑X=0	$\sum X^2$=10	∑XY=34.34	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{114.87}{5} = 22.974$$

$$b = \frac{XY}{X2}$$

$$= \frac{34.34}{10} = 3.434$$

Appendix XXXXIII

Trend Analysis of EPS for OM Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	14.67	-2	4	-29.34	20.991
2060/61(2)	9.95	-1	1	-9.95	21.614
2061/62 (3)	45.39	0	0	0	22.237
2062/63 (4)	18.14	1	1	18.14	22.86
2063/64 (5)	13.69	2	4	27.38	23.483

N=5	∑Y=101.84	∑X=0	$\sum X^2$=10	∑XY=6.23	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{101.84}{5} = 20.368$$

$$b = \frac{XY}{X2}$$

$$= \frac{6.23}{10} = 0.623$$

Appendix XXXXIV

Trend Analysis of EPS for Inbesta Finance

(in million)

Year (x)	EPS (Y)	X=x-2.5	X^2	XY	Y_C= Trand Value
2059/60(1)					
2060/61(2)	19.3	-1.5	2.25	-28.95	0.429
2061/62 (3)	17.09	-0.5	0.25	-8.545	-5.678
2062/63 (4)	18.01	0.5	0.25	9.005	-11.785
2063/64 (5)	-21.72	1.5	2.25	-32.58	-17.892
N=4	∑Y=32.68	∑X=0	$\sum X^2$=5	∑XY=-61.07	

The number of years is even (i.e. N=4) therefore, the origin is taken at 2.5

The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{32.68}{4} = 6.536$$

$$b = \frac{XY}{X2}$$

$$= \frac{Z61.07}{5} = -6.107$$

Appendix XXXXIV

Trend Analysis of Loan & Advance for Union Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	166.39	-2	4	-332.78	444.265
2060/61(2)	223.07	-1	1	-223.07	552.206
2061/62 (3)	256.44	0	0	0	660.147
2062/63 (4)	436.18	1	1	436.18	768.088
2063/64 (5)	599.54	2	4	1199.08	876.029
N=5	∑Y=1681.62	∑X=0	$\sum X^2$=10	∑XY=1079.41	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{1681.62}{5} = 336.324$$

$$b = \frac{XY}{X2}$$

$$= \frac{1079.41}{10} = 107.941$$

Appendix XXXXV

Trend Analysis of Loan & Advance for Gorkha Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	149.52	-2	4	-299.04	245.305
2060/61(2)	126.77	-1	1	-126.77	288.046
2061/62 (3)	177.31	0	0	0	330.787
2062/63 (4)	265.22	1	1	265.22	373.528
2063/64 (5)	294	2	4	588	416.269
N=5	∑Y=1012.82	∑X=0	$\sum X^2$=10	∑XY=427.41	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{1012.82}{5} = 202.564$$

$$b = \frac{XY}{X2}$$

$$= \frac{427.41}{10} = 42.741$$

Appendix XXXXVI

Trend Analysis of Loan & Advance for NSLMB Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	350.64	-2	4	-701.28	604.743
2060/61(2)	471.21	-1	1	-471.21	676.072
2061/62 (3)	602.78	0	0	0	747.401
2062/63 (4)	599.1	1	1	599.1	818.73
2063/64 (5)	643.34	2	4	1286.68	890.059
N=5	∑Y=2667.07	∑X=0	$\sum X^2$=10	∑XY=713.29	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{2667.07}{5} = 533.414$$

$$b = \frac{XY}{X2}$$

$$= \frac{713.29}{10} = 71.329$$

Appendix XXXXVII

Trend Analysis of Loan & Advance for Premier Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	144.7	-2	4	-289.4	248.368
2060/61(2)	185.14	-1	1	-185.14	282.476
2061/62 (3)	208.56	0	0	0	316.584
2062/63 (4)	250.18	1	1	250.18	350.692
2063/64 (5)	282.72	2	4	565.44	384.8
N=5	∑Y=1071.3	∑X=0	$\sum X^2$=10	∑XY=341.08	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{1071.3}{5} = 214.26$$

$$b = \frac{XY}{X2}$$

$= \frac{341.08}{10} = 34.108$

Appendix XXXXVIII

Trend Analysis of Loan & Advance for OM Finance

(in million)

Year (x)	EPS (Y)	X=x-3	X^2	XY	Y_C= Trand Value
2059/60(1)	90.97	-2	4	-181.94	483.332
2060/61(2)	146.18	-1	1	-146.18	626.266
2061/62 (3)	357.83	0	0	0	769.2
2062/63 (4)	456.56	1	1	456.56	912.124
2063/64 (5)	650.45	2	4	1300.9	1055.068
N=5	∑Y=1701.99	∑X=0	$\sum X^2=10$	∑XY=1429.34	

The number of years is even (i.e. N=5) therefore, the origin is taken at 3
The equation of trend line is,

Yc = a + bx

As x = 0

$a = \frac{Y}{N}$

$= \frac{1701.99}{5} = 340.398$

$b = \frac{XY}{X2}$

$$= \frac{1429.34}{10} = 142.934$$

Appendix XXXXVIII

Trend Analysis of Loan & Advance for Inbesta Finance

(in million)

Year (x)	EPS (Y)	X=x-2.5	X^2	XY	Y_C= Trand Value
2059/60(1)					
2060/61(2)	64.26	-1.5	2.25	-96.39	47.713
2061/62 (3)	61.65	-0.5	0.25	-30.825	46.402
2062/63 (4)	64.71	0.5	0.25	32.355	45.091
2063/64 (5)	54.5	1.5	2.25	81.75	43.78
N=4	∑Y=245.12	∑X=0	$\sum X^2$=5	∑XY=-13.11	

The number of years is even (i.e. N=4) therefore, the origin is taken at 2.5
The equation of trend line is,

Yc = a + bx

As x = 0

$$a = \frac{Y}{N}$$

$$= \frac{49.024}{4} = 49.024$$

$$b = \frac{XY}{X2}$$

$$= \frac{13.11}{5} = -1.311$$