CHAPTER - I

INTRODUCTION

1.1 Background of the Study

1.1.1 Investment and Investment Policies

The word investment has gained so much popularity among the people that everyone is talking about it. People want to earn more that is why they sacrifice their present consumption. Thus, the investment is the sacrifice of present consumption for future income. It is the use of money for the purpose of making more money, to gain income or to increase capital, or both (Rosenberg, 1983). It is a process of exchanging income during one period of time for an asset that is expected to produce earnings in future periods. Thus, consumption in the current period is foregone in order to obtain a greater return in the future (Britannica encyclopaedia CD, 2003).

The word investments bring forth visions of profit, risk, speculation, and wealth. It can be financially rewarding and exciting for the knowledgeable investors where as it may result in disaster for the uninformed. The investors make choice among the various available investment alternatives on the basis of their objectives and time horizon. They must consider the expected return and risk of the portfolio and must also develop an appropriate investment strategy (Cheney and Moses, 1992). The investment, generally, has a higher risk than saving and the return can come in the form of income or capital gain, or a mixture of both. Until the investors have adequate savings to meet any unforeseen financial emergency, he/she should not invest (Cowdell, et. al., 2001).

Investors expect some positive return from the funds they have invested. If the investment is properly undertaken, the return will be commensurate with the risk the investors assume (Fischer and Jordan, 2000). It is just the means of employing money to generate more money in future because the return is the primary motive of investment with some degree of risk. Thus, it is the sacrifice of current rupees for future rupees (Shrestha, et. al., 2003). It is a commitment of money that is expected to generate additional money. It requires a present certain sacrifice for a future uncertain benefit with some degree of risk (Francis, 1995).

Investment is one of the main sources of economic growth in an enterprise. It is required not only to increase the total capital stock of plant, equipment and buildings but also to employ labour in productive activity. Thus, enterprise can be seen as a collection of investment projects, with the expectation of receiving a return commensurate with the risk involved (Wilson, et. al., 1987).

The essence of investment is to give up current resources in anticipation of generating a larger quantity of future resources. But all the investments are not made with the intention of securing a return in excess of cost. Some investments are made to meet legal and safety criteria; while some are made for more public-spirited motives such as investment in the arts and in education. Most of the investments intended to have a financial inducement. The investor's aim will be to secure the maximum net cash flow (after tax) from the investment, and this will be achieved only from investments having the highest rate of return (Wilson, et. al., 1987).

Investment is the expenditures on capital goods or on inventories of goods or raw materials that are used to produce other goods and services, causing future production and income to rise. It increases the productivity of labour and leads to a higher standard of living. It is necessary for production, employment and income generation (Rose, 2000).

The essence of investment is to forego present consumption of resources in order to increase the total amount of resources which can be consumed in the future. On the other hand, it is making an outlay of cash now in the expectation of extra cash coming in the future (Dixon, 1994).

Investment policy is the plan that directs an investor's efforts towards goals. Without it, an investor is likely to pursue inefficient approaches that lead to unsatisfactory results. It is a combination of philosophy and planning as it expresses the investor's attitudes towards important investment management issues. It is the set of guidelines and procedures that directs the long term management of the investor's assets. It delineates the investor's specific goals and how s/he expects to achieve them (Sharpe, et. al., 2003).

A comprehensive investment policy should address a group of issues that includes (Sharpe, et. al., 2003).

- **Mission Statement**

A description of long-run financial goals.

- **Risk Tolerance**

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

- **Investment Objectives**

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

- **Policy Asset Mix**

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

- **Active Management**

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

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

1.2. Focus of the Study

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

After the adoption of liberal policy by the government for the growth and development of financial institutions, lots of them are being emerging in the country.

During this study period there are 64 finance companies operating in the various part of the country. This study mainly focuses on the investment scenario of the finance companies. It shows what finance companies are doing to mobilize their funds. Whether the return from investment is appropriate for them or not. Thus this study evaluates the performance of finance companies.

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

1.3. Statement of the Problem

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

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

Nepal is known as a capital scarce country. It is said that Nepal has low saving rate and as a consequence of which investment rate is also low. The low investment rate has also constrained the growth rate of GDP. As the growth rate of country during ninth plan is adequately slim from the target growth rate of 6%. The economic performance of the country is not satisfactory as expected. Against the targeted ratio of 17% of gross savings and 25% of gross investment to GDP during the ninth plan period, it is estimated that such ratios of gross savings and gross investment would be far below to the tune of 10% and 17% respectively (Vaidya, 2002).

There are various problems in resources mobilization by financial institutions in Nepal. The major one is the poor investment climate due to heavy regulatory

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

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

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

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

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

1.4. Objectives of the Study

The objectives of the study are

- To highlight the overall investment policies of the finance companies of Nepal.
- To examine the investment policies of the finance companies of Nepal.

- To analyze the existing financial situation of finance companies of Nepal and analyze the effect of investment policy on Net Profit, Interest on Loan & Advances investment policies of the finance companies of Nepal.
- To suggest and recommend the measures for the improvement of investment scenario.

1.5. Introduction of Selected Finance Companies

- **Peoples Finance:** The total share capital of the People Finance Company is 40,000,000. Average of total investment to total deposit ratio for the fiscal year 2055/56 to 2064/65 is 0.1328
- **Shree Investment Finance:** The total share capital of the Shree Investment Finance Company is 40,000,000. Average of total investment to total deposit ratio for the fiscal year 2055/56 to 2064/65 is 0.2013
- **Ace Finance:** The total share capital of the Ace Finance Company is 90,000,000. Average of total investment to total deposit ratio for the fiscal year 2055/56 to 2064/65 is 2.983
- **Kathmandu Finance:** The total share capital of the Kathmandu Finance is 30,000,000. Average of total investment to total deposit ratio for the fiscal year 2055/56 to 2064/65 is 0.1259
- **Universal Finance:** The total share capital of the Universal Finance 31,500,000. Average of total investment to total deposit ratio for the fiscal year 2055/56 to 2064/65 is 0.1654
- **Union Finance:** The total share capital of the Union Finance is 72,514,759. Average of total investment to total deposit ratio for the fiscal year 2055/56 to 2064/65 is 0.1821

1.6. Limitations of the Study

Every study has its own limitations. The study can not be conduct without any limitation. Likewise, this study has also some limitations which are as follows:

- As the study is simply the partial fulfillment of MBS program, the time assigned for it is limited i.e. within the speculative time the report has to be completed which weakened the adequacy of the study.

- The whole study is based on the secondary data so the accuracy of the data is based on the reliability of the source.
- The study covers only a period of ten years from 2055/56 to 2064/65 and conclusion drawn confines only to above period.
- The sample of six finance companies is taken as there are only few finance companies operating for more than ten years. Therefore it is assumed that these finance companies represent all other finance companies.

1.7. Organization of the Study

The entire study has been organized into five chapters.

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

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

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

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

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

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

CHAPTER - II

REVIEW OF LITERATURE

2.1. Conceptual Review

2.1.1. Investment and Investment Policies

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

"Investment, in its broadest sense, means the sacrifice of the certain present value for (possibly uncertain) future values" (Sharpe, et. al., 2003).

"Investment is the employment of funds with the aim of achieving additional income of growth in value" (Singh, 1991).

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

"The term investing can cover a wide range of activities. It often refers to investing money in certificates of deposits, bonds, common stocks or mutual funds. More knowledgeable investors would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompasses very conservative positions and aggressive speculation" (Charles, 1988).

"Financial investment is a form of this general or extended sense of the term. It means an exchange of financial claims, stocks and bonds (collectively termed securities), real estate mortgages etc. Investors to differentiate between the pseudo-investment concept of the consumer and the real investment of the businessman often use the term financial investment. Semantics aside, there is still a difference between an "Investment" in a ticket on a horse and the construction of a new plant; between the

pawning of watch and the planting of a field of corn. Some investments are simple transaction among people, other involve nature. The later are “real” investment. The former is “Financial Investment”. We now turn to a closer examination of finance and investment decisions themselves” (Bhalla, 1983).

For doing investment, one should make an investment policy. “Investment policy is the set of guidelines and procedures that direct the long-term management of investor’s assets (Sharpe, et. al., 2003).

“A banker seeks optimum combination of earning, liquidity and safety, while formulating investment policy” (Chandler, 1973).

“Investment policy fixed responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets” (Bexley, 1987).

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

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

a) Return

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

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

where,

R = Rate of return

P_t = Price of the security in period t

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

I = Interest payment

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

b) Risk

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

i. Credit Risk (Default Risk)

Credit risk refers to the prospect that the issuer of a bond will be unable and/or unwilling to pay interest and repay principal as agreed. "The majority of the finance companies are allocated as loans to consumers and businesses; default risk is a major concern. Customers that borrow from finance companies usually exhibit a moderate degree of risk. The loan delinquency rate of finance companies is typically higher than that of other lending financial institutions. However, their higher average rate charged on loans can possibly more than offset a higher default level. The relative high return and high risk loan characteristics of finance companies can make their performance quite sensitive to prevailing economic conditions" (Madura, 1998).

ii. Interest Rate Risk

The volatility of bond prices due to changing interest rates is referred to as interest rate risk. Managers of financial institutions who wish to minimize interest rate risk will hold a relatively short maturity portfolio and vice versa. "Both liability and asset maturities of finance companies are short or intermediate term. Therefore, they are not

as susceptible to increasing interest rates as are savings institutions. However, they can still be adversely affected, because their assets are typically not as rate sensitive as their liabilities. They can shorten their average asset life or make greater use of adjustable rates if they wish to reduce their interest rate risk" (Madura, 1998).

iii. Liquidity Risk

Liquidity risk is the ability of the holder to sell or liquidate the asset without substantial fluctuation in its price. Though the liquidity is a secondary consideration for the investment portfolio, nevertheless, liquidity risk is a factor that must be considered in managing the investment portfolio. "Finance companies generally do not hold assets that could be easily sold in the secondary market. Thus, if they are in need of funds, they have to borrow. However, their balance sheet structure does not call for much liquidity. Virtually all of their funds are from borrowings rather than deposits anyway. Consequently, they are not susceptible to unexpected deposit withdrawals. Overall, the liquidity risk of finance companies is less than that of other financial institutions" (Madura, 1998).

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

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

a) Client Constraints

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

b) Regulatory Constraints

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

c) Tax and Accounting Issues

Tax considerations are very important in investment. There are tax factors that must be incorporated into the investment policy. There are some earnings from investment which may be taxed. Generally accepted accounting principles (GAAP) and regulatory accounting principles (RAP) are important considerations in developing investment policies.

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

The investment policy statement serves four basic purposes:

1. Identifying objectives—to establish clear, reasonable and definable expectations, risk and return objectives, and guidelines for the investment of the assets.
2. Defining the asset allocation policy—to set forth a structure and identify the

   investment asset classes that will achieve a diversified portfolio, as well as to determine how those assets are to be best allocated to help achieve the investor's objectives.
3. Establishing management procedures—to provide a guide for selecting, monitoring and evaluating the performance of those charged with managing and investing the assets, and making changes as appropriate.

4. Determining communication procedures—to provide a concise method of communicating the process and objectives among all parties involved with the investments and to assign responsibility for implementation.

2.1.2. Features of a Sound Lending and Investment Policy

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

Some necessities to sound lending and investment policies which most of the financial institutions must consider can be explained as under:

a) Safety and Security

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

M = Marketability

A = Ascertain ability

S = Stability

T = Transferability

b) Profitability

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

c) Liquidity

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

d) Purpose of Loan

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

e) Diversification

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

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

f) Tangibility

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

g) Legality

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

2.1.3. Finance Companies and Investment Policies

Of all the financial institutions, finance companies are the one that provide the short and intermediate term credit to consumers and businesses. Although other financial institutions provide this service, only the finance company specializes in it. Many finance companies operate with a single office. They have to compete with other depository institutions such as commercial banks, savings institutions, credit unions, etc. that provide loans to consumers and businesses. The main source of finance company funds are loans from banks, sales of commercial paper, bonds, and capital. Likewise, the main uses of finance company funds are consumer loans, business loans, leasing, and real estate loans (Madura, 1998).

The early finance companies provided services that commercial banks did not, pioneering the field of asset-based lending for industrial firms and consumers. Major manufacturers of vehicles and other products developed well-functioning captive finance companies. Today consumers may obtain small loans for a wide variety of purposes and larger second mortgage loans. Through finance companies, consumers also may purchase high-ticket items and arrange financing with retail installment contracts. Some finance companies issue credit cards and own savings banks. Finance companies are very much essential for financing the industrial firms because the industrial firms have a greater selection of services including inventory floor plans, working capital loans, lease financing, highly leveraged transaction loans, and private-label credit cards (Johnson, 1993).

Consumer credit is the short and intermediate term credit that is extended through regular channels to finance the purchase of commodities and services for personal consumption, or to refinance debts incurred for such purposes. The finance companies play a vital role in providing the consumer credit. Today, finance companies are a major lender to consumers and businesses needing money to buy cars, television sets, boats, industrial equipment, retail inventories, home repairs or hospital services. Thus, finance companies serve as financial intermediaries, by purchasing wholesale quantities of money and then reselling it to individual consumers and businesses in retail quantities at retail prices. The growth of these financial institutions can be directly tied to changes in life-styles, preference for private home ownership, and the related demand for consumer durables (Edmister, 1980).

Finance companies comprise a heterogeneous group of financial institutions. Their activities are specialized and they account for a very small proportion of total lending by financial institutions. Their main business is the provision of installment credit. They also provide a significant amount of finance to companies in terms of installment loans as well as through leasing and factoring. Thus, the finance companies act as financial intermediaries by obtaining funds mainly from banks, and therefore ultimately individuals and companies, and lending to individuals and companies. They undertake a transformation of the funds, which reflect relatively high interest charges on their installment loans (Buckle, et. al.; 1995, p. 118). Finance companies, which although now designated as banks, interact between the retail and wholesale markets, providing loans to both the personal and commercial sectors. Now they are not confined within installment lending only, but also provide personal loans and offer leasing, factoring, stocking loans and block discounting to the commercial and industrial sector (Piesse, et. al., 1995).

2.1.4. History of Finance Companies

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

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

Initial step to organize financial services originated from the establishment of the first Investment Bank in Philadelphia, USA in 1764. The first commercial bank “The Bank of North America” opened in the same city in 1781. Then the first investment

company, “The Massachusetts Hospital Life Insurance Company” was founded in 1816 which is usually designated as the first Saving Bank Insurance Company which is as old as the country itself.

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

The more interesting development in US credit market has taken place in the 20th century, and then there has been the rapid growth in consumer credit. Installment credit was used for only a few items such as Pianos, Encyclopedias and Sewing machines and total household expenditures. But the activities increase towards consumer’s durable goods such as automobiles boats and household appliance (Ranlett, 1990).

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

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

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

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

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

Commercial Finance Companies

Commercial finance companies are those that make loans to industrial firms on the basis of accounts receivable. "In exchange for the loan, the borrowing firm signed over its right to the receivables to the finance company and upon collecting the receivables, turned over all proceeds to the finance company. Since the borrowing firm's original customer was not aware of this arrangement, the technique became known as non-notification accounts receivable financing". Thus, the commercial finance companies were offering loans collateralized by equipment and inventory and gaining the reputation of finding innovative ways to finance small business (Johnson, 1993).

Sales Finance Companies

Commercial banks did not offer automobile loans as they were considered to be consumer purchases, not productive investment. "Commercial finance companies started sales finance departments or subsidiaries that offered installment loans. Soon firms exclusively involved in sales finance sprang up and were so successful that they

began to finance also the retail purchases of radios, refrigerators, washing machines, dryers, furniture, vacuum cleaners, and other consumer durables. Some sales finance companies operated as *captive finance companies,* a finance company that is wholly owned by a manufacturing firm and handles the retail and wholesale financing of only that manufacturer" (Johnson, 1993).

"Sales finance companies are different from other consumer credit institutions by virtue of their indirect extension of credit. Sales finance companies typically purchase the installment contract the notes signed by purchases of consumer durable goods from the dealers involved. The other consumer credit sources deal directly with the borrower. Thus we can say that sales finance companies acted as go between obtaining credit from commercial bank channeling it into the purchase of consumption goods" (Ranlett, 1990).

Consumer Finance Companies

"Consumer finance companies made loans available to wage earners on the basis of their gainful employment for purposes including medical expense and emergency needs. Household furnishings were commonly used as collateral. Customers of these firms were generally considered to be high credit risks and unable to obtain financing from commercial banks" (Johnson, 1993).

Credit Union

"The concept of credit union has been spectacular throughout the post-war period in the USA. This credit union may operate under either federal or state charter. Credit unions are co-operative associations where members must be linked by some common board such as employment, church or labour union membership. Funds are derived almost entirely from member's share accounts, which typically are accumulated in small increments under payroll deduction schemes. They are used largely for installment cash loans to members, although credit unions also hold relatively small amounts of other financial assets such as cash, US Government securities and saving and loan shares" (Ranlett, 1990).

2.1.5. Growth and Development of Finance Companies in Asian Countries

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

Most governments in South Asian countries have been enacted legislation to protect both depositors and investors invested in the industry. Singapore and Malaysia have been enacted protective legislation regulating all finance companies. Then Hong Kong requires a banking license for those finance companies that accept deposit. In Philippines also general publics are allowed to deposit as a result of the passage in 1993 of a truth in lending act (Triffin, 1996).

2.1.6. Finance Companies of Nepal

Finance companies, licensed under the finance companies act 2042, are the second largest group of deposit taking financial institutions in Nepal. Though the finance companies act was published in gazette in 2042 (finance company act, 2042). The real establishment and functioning come only after the economic liberalization policy of the government in the 8^{th} plan (National Planning Commission, eight plan, 2049-053). In Nepal, various financial institutions are in operation from many years. Finance companies came in operation under the Finance Company Act, 1985. They are registered as limited liability companies with the office of the registrar of companies according to the provisions made in the Companies Act, 1965. They accept time deposits and advance loans to individuals, firms, companies or institutions for agriculture as well as non-agriculture purposes in order to increase economic activities. They also perform functions of merchant banking with prior approval of NRB. They have become popular among low-income and medium class people as they make loans available for hire purchase and for the purchase of vehicles, machinery, tools, equipment, durable household goods or other similar movable properties.

After adopting the financial liberalization policies, there has been a growing tendency to establish new finance companies. Many finance companies came into operation especially in Kathmandu and other urban areas. The first finance company, the Nepal Housing Development Finance Company Limited, began operations in 1992. Since then many finance companies came into operation within a short span of time. In the fiscal year 1998/99 there was 45 finance companies, of which 30 were based in Kathmandu. In the fiscal year 2001/02 the number of finance companies reached to 54, of which 36 were based in Kathmandu. Similarly, in the year 2003 the number has rose up to 58, of which only 37 were operating within Kathmandu. Now in 2006 there are 60 finance companies operating in our country. The minimum paid up capital for the finance companies are fixed at Rs. 15 crore, 5 crore, 2 crore and Rs. 1 crore for leasing and finance company based in Kathmandu, outside the valley (Eastern, Central and Western Development Region), and in only one district (Western and Far Western development Region) respectively.

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

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

2.1.7. Functions of Finance Company

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

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

2.1.8. Characteristics of Finance Companies

The major characteristics of finance companies are:

) Services and Credits

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

) Resource Mobilization

Finance companies have been very effective in mobilizing resources. There has been an increase in the fixed deposits. In order to supplement their funds, these companies have also borrowed from commercial banks. Finance companies are also allowed to

issue debentures with the prior approval of the Nepal Rastra Bank to supplement their financial resources.

- **Investment in Government Securities**

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

- **Profitability**

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

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

The main sources of funds for finance companies are loans from banks, commercial paper, deposits, bonds and capital. Finance companies use funds for consumer loans, business loans and leasing, and real estate loans (Madura, 1998).

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

In the fiscal year 1999/00, there were 46 finance companies operating. The aggregate source of funds of finance companies was recorded to Rs. 13.05 billion, of which 74.6 percent is the public deposit. The capital fund was Rs. 1.73 billion and deposit liability was Rs. 9.74 billion. Finance companies borrowed fund from commercial banks only. Total borrowing was Rs. 175.9 million and other liabilities were Rs. 1.41 billion.

On the uses side, aggregate liquid assets of finance companies were Rs. 1.74 billion. The aggregate investment was Rs. 1.13 billion, of which 74.6 percent was invested in government securities. The loan and advances occupied 69.4 percent of the total

sources of funds. It was Rs. 9.06 billion. Of the total loans and advances, 46.7 percent (Rs. 4.23 billion) accounted for term loan, 25.9 percent (Rs. 2.34 billion) for housing, 18.1 percent (Rs. 1.64 billion) for hire purchases, 2.6 percent (Rs. 235.3 million) for leasing and the rest 6.7 percent (Rs. 607.6 million) for other purposes. Other assets of finance companies were Rs. 1.13 billion.

In the fiscal year 2001/02, there were 54 finance companies operating. The aggregate source of funds of finance companies was recorded to Rs. 18.4 billion, of which 72.9 percent is the public deposit. The capital fund was Rs. 2.9 billion and deposit liability was Rs. 13.5 billion. The aggregate borrowing of finance companies was Rs. 244.8 million and other liabilities were Rs. 1.8 billion.

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

During mid-April, 2003 the number of finance companies reached to 55. The aggregate sources of fund were Rs. 20.77 billion. The capital fund was Rs. 2.52 billion and public deposit was rs. 15.42 billion. The aggregate borrowing from commercial banks was Rs. 274.3 million and other liabilities were Rs. 2.57 billion. On the uses side, the loan and advances amount to Rs. 13.63 billion. The aggregate investment amount to Rs. 2.31 billion and the liquid assets amount to Rs. 2.17 billion.

The other assets were Rs. 2.66 billion.

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

2.1.10. Problems of Finance Companies

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

- **Low credibility**

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

- **Poor Regulatory Framework**

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

- **Financial Sustainability**

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

be surviving on the strength of inflows of new deposits as opposed to their income stream.

⁾ Higher Concentration and Growing Competition

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

⁾ Weak Supervision

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

⁾ Self Dealing

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

2.1.11. Contribution of Finance Companies towards National Economy

Financial institution is the pillars of a nation's economy. Finance companies are recent feature in our country. For the continuous growth and development of any

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

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

Finance companies have to channel funds by gradually shifting priorities from hire purchase and trading to industry to help in the capital formation within the country. Thus in the course of time, industrial financing should get higher priority in the lending strategy of the finance companies. This will ensure their future sustainability for mobilizing public, private and external financial resources and channeling them into productive areas as short-term loans and long term loans on different commercial

business activities. Expansion and growth of both small and medium scale industries help the development of industrialization, which creates the market for industrial products within the country. Finance can help consumers to consume domestic products and at the same time helping industries both in financing and creation of market for their products (Sharma, 1999)

2.2. Review of Relevant Studies

2.2.1. Review of Related Journals

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

"Investment Policy Explains All"

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

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

However, the study's use of R-squared has prompted recent critics to contend that the analysis focused on explaining short term volatility, not returns earned over time. In this, they are right. R-squared is not the correct way to measure the percent of return

attributable to policy. The high average R-squared result cited by their study tells us only that the average plan in the sample adhered very closely to its policy targets and used broad diversification within asset classes. It tells us nothing about the importance of asset allocation. R-squared measures the percent of volatility explained by policy, not the percent of return.

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

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

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

However, critics of the authors' study go astray when they debate the correct measure for estimating the importance of investment policy, by focusing on the distinction between cross-sectional R-squared, which measures the tendency for policy to differentiate performance across funds, and cross-temporal R-squared, which is

measured for each individual fund. In both cases, R-squared is an incorrect measure because it relates to the variability of returns, rather than the magnitude of returns. In their studies, they take the (in their opinion) correct approach to the question of asking how much of a portfolio's return can be explained by policy, by examining the magnitude of return.

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

"Portfolio Selection"

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

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

According to the Markowitz, the expected return of the portfolio is the weighted average of the expected returns of the individual assets in the portfolio. The

weights are defined as the portion of the investor's wealth invested in a particular asset.

Conclusion:

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

2.2.2. Review of Related Articles

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

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

Thomas K. Philips (1997), has stated in his article, "*An Opportunistic Approach to Alternative Investing*", that capital should be committed to alternative investments based on both their expected returns and the nature of the current opportunity set. An investor seeking the best return from alternative investments would, as a result, direct most new commitments at a given time to a few asset categories, and invest in the remaining categories only on a very selective basis. Over time, such an investor would build a diversified portfolio of private partnerships with outstanding

managements that have had the foresight to launch their partnerships when good properties or deals were available at fair prices in their market segment.

Ajay Ghimire (1999), entitled "*Process Involved in Financing a Corporation: a Nepalese Context*". In this article he puts stress on the establishment of finance companies as "Financing and investment are two sides of the same coin. A firm F taking money from firm G (G could be any legal entity including a financial institutions) to finance activities of firm F can be as firm G investing in firm F. such investments do not necessarily have to be in the form of equity or common stock (Residual Claim). Further, firm G's financing of firm F does not necessarily have to be in the form of debt or loan (fixed claim). Between common stock and plain vanilla debt a firm could design and sell many claims in order to finance its assets".

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

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

Shiba Raj Shrestha (1998), Deputy Chief Officer of Nepal Rastra Bank, Banking Operation Department has given a short glimpse on the "*Portfolio Management in Commercial Bank, Theory and Practice*". According to him, the portfolio management becomes very important for both individuals as well as institutional

investors. Investors would like to select a best mix of investment assets subject to following aspect:

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

However, Shrestha ha also presented following approach to be adopted for designing a good portfolio and its' management.

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

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

- The survival of the banks depends upon its own financial health and various activities.
- In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standards and give their clients the benefits of global strengths, local insights and product philosophy.
- With the discipline and systematic approval to the selection of appropriate countries, financial assets and the management of various risks, the portfolio manager could enhance the opportunity for each investor (client) to earn superior returns overtimes.

- The Nepalese Banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the client base and to contribute in national economy.

In the above aspect, he has suggested following strategies:

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

2.2.3. Review of Related Dissertations

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

Ganga Ram Manandhar (2003) conducted the study titled *"A Comparative Study in Investment Policies of Finance Companies in the Context of Nepal"* to show the present investment policies adopted by the finance companies and to compare them whether they were mobilizing the fund efficiently.

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

He had concluded that the trend of lending of finance companies was changing from consumer durables to term loan. Few finance companies follow the aggressive investment strategy while more are following conservative strategy. They are having the unhealthy competition on interest rate on deposit collection which might be

leading them to failure. So they should work together and build the public confidence and enhance their image in the minds of the public.

Ruru Kusom Gautam (2000) has presented in her study titled *"Investment Analysis of the Finance Companies in Context of Nepal"* that finance companies are contributing on supply of credit timely. She found that the overall performance of finance companies is satisfactory and Nepal Rastra Bank has played more active role to enhance the operation. Few aggressive and more conservative strategies is adopted by finance companies. Initially the major part of lending was on consumer durables but the trend is changing towards term loan. And the unhealthy interest rate competition was also prevailing.

Finally she had stressed on the part that finance companies

- Have to prove that they can really contribute to the national economy
- Are efficient and viable agencies for mobilization of savings and its channel into productive sectors
- Are professionally managed and competent enough to ensure adequate rate of return on investment
- Are strategically well planned to be competitive with banks and other agencies and are trust worthy.

Prakash Shrestha (2003) conducted the study titled *"Portfolio Analysis on Investment of Nepalese Commercial Banks"* to help commercial banks to minimize risk on investment and maximize return. The study mainly focuses on portfolio techniques followed by commercial banks.

He had found that the commercial banks give first priority to invest their resources on loan and advances; second on government securities and finally on shares and debentures. Even though they have made maximum investment in government securities. He has suggested that even though there is higher return with low risk, the banks should not make investment on only one sector.

Finally he had concluded that commercial banks should be successful in formulation and effective implementation of sound investment policy for good performance. They

should try to maximize their return and minimize their risk by investing their funds in the appropriate combination of risky and less risky assets.

Sarbodaya Upadhyaya (2002) conducted the study titled *"A Study on Investment Policy of Nepal Industrial Development Corporation (NIDC)"* to show the investment policy prevailing and the loan disbursement system of NIDC.

He has found that the NIDC's financial position is not sound. As far as investment is concern, it gives first priority to direct loan while second is the equity investment and third one is guarantee loan. It has given first priority to hotel, lodges and tourism related industries and least priority to the education related industries. He has also suggested that the NIDC should give priority to invest in the projects using indigenous raw materials and fulfilling the primary needs of people.

Raja Ram Khadka (1998) in his study titled *"A Study on the Investment Policy of Nepal Arab Bank Ltd. (NABIL) in Comparison to Other Joint Venture Banks of Nepal"* showed the present investment policy adopted by NABIL and compared with other Joint Venture Banks. The study focuses on whether it is backward or forward in investing its fund efficiently.

From this study he found that loan and advances of NABIL is increasing while total investment is decreasing in comparison to other joint venture banks. He has suggested that the NABIL should find some different sectors for investment.

Min Bahadur Ranabhat (1997) in his study titled *"An Analysis of Financial Performance of Finance Companies in Context of Nepal"* has stated that finance companies have provided various services for the customers. It includes hire purchase and housing loan and recently shifting towards term loan. He also found the unhealthy competition of interest rate for the collection of deposits and uses of the same. There must be some demarcation line for it.

Finance companies are playing with public money. Thus their activities should be monitored and controlled, which is being conducted by Nepal Rastra Bank. They should make their performance transparent to the investing public. The finance

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

2.3. Directives Issued by Nepal Rastra Bank for Finance Companies

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

1. Investment Policies & Procedures should be Approved

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

2. Provision Related to Investment on Government Securities and NRB Saving Certificate

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

3. Provision Related to Investment on Shares and Debentures of Other Companies

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

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

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

iv. Finance companies can not invest more than 10% of core capital in the shares and debentures of a particular company on which they have financial motive. Finance companies can not invest more than 20% of core capital in the shares

and debentures of different companies with financial motive. Amounts equal to such investment should be deducted from core capital and transferred to capital reserve.

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

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

4. Provision Related to Investment Review

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

5. Valuation of Shares and Debentures

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

6. Timeframe to Adjust the Investment

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

7. Action Against Defaulters

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

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

1. Sector-Wise Loan Limit

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

Areawise Loan Limit

	Main areas	**Sub-areas under main area**	**Specified %**
1	Hire Purchase Loan	1) Vehicles 2) Machinery and Equipments 3) Household durables and other transferable assets	40
2	Real Estate Loan	1) Private housing, land and godowns 2) Institutional land and building 3) Institutional godowns	40
3	Lease Investment	1) Vehicles 2) Machinery and Equipments 3) Household durables and other transferable assets	60
4	Term Loan: (mid and long term only)	 1) Agricultural and agro-based industries 2) Industries 3) Business 4) Education 5) Health 6) Tourism 7) Hydropower 8) Others	75 40 40 40 40 40 40 40 40
5	Fund based Merchant Banking transaction	Venture capital Bridge finance Other merchant banking transaction	40

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

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

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

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

2. Additional Provision on Loss on Loans if more than Limit of Loan is Provided

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

3. Timeframe to Adjust Sector-Wise Loan Limit

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

4. Action Against Defaulters

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

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

CHAPTER - III

RESEARCH METHODOLOGY

3.1. Introduction

Research methodology refers to the research process i.e. methods and process applied for the research purpose. It sequentially refers to the various steps to be adopted by a researcher.

3.2. Research Design

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances" (Kerlinger, 1994).

The research design had been prepared keeping in mind the objective of the study. The analysis of this study is based on that research design. The main objective of this study is to analyze the investment policy of finance companies. For this secondary data have been collected from different sources and the suitable financial and statistical tools were used to analyze and interpret those collected data.

3.3. Population and Sample

The entire number of finance companies will be population for the study. During the study period, there are 60 finance companies registered with the Nepal Rastra Bank. Since it is not possible to study the whole population, the sampling is done. The sample is collected by using the following formula.

$$N = \left(Z_{\alpha/2} \times C \times \theta\right)^2$$

where,

N = basic sampling unit

$Z_{\alpha/2}$ = normal value of 95% confidence interval = 1.96

C = coefficient of variation set at 10% = 0.10

θ = standard error set at 8% = 0.08

$\therefore N = \left(1.96 \times 0.10 \times 0.08\right)^2 = 6$

Thus the sample unit for this study is 6 and from population the sample finance companies are selected on the basis of Judgemental sampling, as only few finance

companies are being operating for more than ten years during my study period. The sampled finance companies are

1. People's Finance
2. Shree Investment and Finance Co. Ltd.
3. Ace Finance
4. Kathmandu Finance
5. Universal Finance
6. Union Finance

3.4. Sources and Collection of Data

The sources of data are entirely based on the secondary data. The problem of collecting data is very acute in every company. The study is entirely based on the published annual reports of the finance companies. On the basis of the study, the collected raw data is properly arranged, tabulated and calculated to fulfill the objectives of the study.

The secondary data required are collected from the concerned finance companies, security exchange board, Nepal Rastra Bank.

3.5. Data Analysis Tools

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

3.5.1. Financial Tools

The financial tools are the major tools to examine the financial strength and weakness of the finance companies. The financial tool used in this study is the ratio analysis. It is the widely used tool. It shows the relationship between two variables. Analysis and interpretation of various ratios gives better understanding of the firm. Though there are many ratios, only those ratios have been enclosed, which are related with this study.

Total Investment to Total Deposit Ratio

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

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

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

Total Loan and Advances to Total Deposit

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

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

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

Hire Purchase to Total Investment and Loan and Advances

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

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

Investment on Government Securities to Total Investment and Loan and Advances

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

$$\frac{\text{Investment on Government securities}}{\text{Total Investment and Loan and Advances}}$$

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

Term Loan to Total Investment and Loan and Advances

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

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

Real Estate Finance to Total Investment and Loan and Advances

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

$$\frac{\text{Real Estate Finance}}{\text{Total Investment and Loan and Advances}}$$

Loan against Fixed Deposit to Total Investment and Loan and Advances

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

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

Other Investment to Total Investment and Loan and Advances

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

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

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

Total Liquidity to Total Deposit

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

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

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

Interest on Investment to Total Investment

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

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

Interest on Loan and Advances to Total Loan and Advances

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

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

Net Profit to Total Capital Employed

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

$$\frac{\text{Net Profit}}{\text{Total Capital Employed}}$$

The denominator includes paid up capital and reserves and surplus.

Net Profit to Total Assets

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

$$\frac{\text{Net Profit}}{\text{Total Assets}}$$

Operating Expenses to Total Revenues

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

$$\frac{\text{Operating Expenses}}{\text{Total Revenues}}$$

Total Income to Total Expenditure

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

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

3.5.2. Statistical Tools

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

Mean

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

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

where,

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

X = sum of the values of the variables

N = number of observations

Coefficient of Variation (CV)

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

$$\text{CV } X \frac{\text{Standard Deviation}}{\text{Mean}} \mid 100$$

Correlation Coefficient

It is used to measure the closeness of the relationship between the variables. The correlation coefficient can be calculated by using following formula.

$$r X \frac{N \quad xyZ \quad x \quad y}{\sqrt{N \quad x^2 Zf \quad xÅ} \sqrt{N \quad y^2 Zf \quad yÅ}}$$

where,

r = coefficient of correlation

N = number of pairs of observations

Multiple Correlation

The multiple correlation coefficient is calculated to find out the relationship between four variables, with one as dependent variable and rest three as independent variables. The multiple correlation can be calculated using following formula.

$$R_{1234} = \sqrt{1 - (1 - r_{14}^2)(1 - r_{13\,4}^2)(1 - r_{12\,34}^2)}$$

Multiple Regression Analysis

It enables us to measure the joint effect of any number of independent variables upon dependent variables. It shows the average relationship between these variables. The multiple regression equation of Y on X_1, X_2 and X_3 is as follows.

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

Two Way Analysis of Variance (ANOVA)

The ANOVA test is carried out to test whether all the means of different groups of sample have same common means or not. Here, in two way analysis, the test is done to study the effect of two factors on various sample groups. The residual calculated is the measuring rod for testing significance. The technique use in analysis of variance is F distribution. This F distribution with v_1 and v_2 degree of freedom is calculated as follows:

Between Rows

$$F = \frac{MSR}{MSE}$$

where,

MSR = mean sum of squares between rows

MSE = mean sum of squares for residual

Between column

$$F \; X \frac{MSC}{MSE}$$

where,

MSC = mean sum of squares between column

MSE = mean sum of squares for residual

Least Significance Difference (LSD)

The least significance difference test is done to decide which company is more significant, after having the knowledge about significant difference among the means from ANOVA. After the null hypothesis from the ANOVA test is rejected then this LSD test is carried out. It is computed as follows.

$$LSD \; X t_{\sim/2, NZa} \sqrt{MSE \;\; \frac{1}{n_1} \Gamma \frac{1}{n_2}}$$

where,

$t_{\sim/2}$ = level of significance of t-test.

N = total number of observations

a = number of sample

MSE = mean sum of square of residual

n_1 = number of observation of first sample

n_2 = number of observation of second sample

This analysis will draw the conclusion whether the selected individual samples are in similar pattern or are in different pattern.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Financial Ratio Analysis

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

As per our second objectives to examine the investment policies of finance companies of Nepal, we need to examine the total deposit and investment and its ratio of six finance companies.

People Finance

Fiscal Year	Deposit	Investment	Ratio
2055/56	138,631,752	12,500,000	1.0132
2056/57	160,751,131	17,500,000	0.9463
2057/58	192,196,187	12,700,000	0.9201
2058/59	196,649,398	34,151,018	0.9363
2059/60	184,430,138	32,558,338	1.0115
2060/61	187,002,549	41,940,691	0.8819
2061/62	161,365,028	43,115,271	0.8690
2062/63	142,117,437	40,115,271	0.6936
2063/64	187,346,174	18,142,271	0.9685
2064/65	337,566,922	8,086,350	1.0555

Shree Investment Finance

Fiscal Year	Deposit	Investment	Ratio
2055/56	41,134,644	5,823,184	0.9381
2056/57	93,884,438	22,621,000	1.1141
2057/58	123,523,631	29,636,000	1.1503
2058/59	213,255,950	42,646,000	0.8814
2059/60	307,302,545	53,271,000	1.0133
2060/61	337,419,949	33,941,000	1.0503
2061/62	354,274,398	44,475,646	0.8808
2062/63	408,026,982	49,000,000	0.9359
2063/64	499,338,208	47,500,000	0.8944
2064/65	572,653,020	58,092,900	0.9494

Ace Finance

Fiscal Year	Deposit	Investment	Ratio
2055/56	103,589,347	968,725	1.1356
2056/57	284,248,148	80,020,222	0.7709
2057/58	357,401,875	119,836,922	0.8032
2058/59	470,043,795	101,781,761	0.9539
2059/60	556,811,575	168,781,761	0.7567
2060/61	555,337,981	157,950,925	0.9170
2061/62	675,150,919	216,350,925	0.8092
2062/63	779,903,302	240,195,485	0.7671
2063/64	794,415,942	198,720,505	0.8779
2064/65	779,379,641	221,703,200	0.8673

Kathmandu Finance

Fiscal Year	Deposit	Investment	Ratio
2055/56	29,108,510	4,309,490	1.5411
2056/57	34,003,370	4,981,080	1.5904
2057/58	56,601,716	6,858,430	1.3838
2058/59	92,495,800	9,655,050	1.2108
2059/60	140,041,216	15,893,010	1.0963
2060/61	194,963,643	23,140,410	1.0215
2061/62	234,741,283	27,211,170	1.0084
2062/63	239,779,429	20,186,279	1.0347
2063/64	245,981,153	21,226,279	0.9632
2064/65	248,324,243	31,222,824	0.9933

Universal Finance

Fiscal Year	Deposit	Investment	Ratio
2055/56	29,426,243	7,016,923	1.6574
2056/57	66,744,641	12,688,756	1.0827
2057/58	99,873,581	14,071,505	1.0608
2058/59	206,909,639	32,755,624	0.9741
2059/60	254,397,678	47,341,704	0.8181
2060/61	297,666,345	46,252,529	0.9776
2061/62	337,209,272	54,540,060	0.9263
2062/63	394,968,521	65,151,497	0.9182
2063/64	384,102,452	66,024,193	0.8554
2064/65	456,994,325	67,276,489	0.9602

Union Finance

Fiscal Year	Deposit	Investment	Ratio
2055/56	33,621,074	2,279,500	0.0045
2056/57	80,855,258	16,451,700	0.1478
2057/58	175,093,006	51,262,275	0.3350
2058/59	185,995,331	39,443,730	0.4267
2059/60	173,494,212	24,915,457	0.5666
2060/61	241,236,319	26,658,791	0.6298
2061/62	303,454,273	53,727,116	0.5106
2062/63	378,851,511	54,962,538	0.4392
2063/64	518,781,648	46,606,145	0.4300
2064/65	538,734,681	85,834,424	0.4760

All the ratios has not been calculated as the study only focuses on the investment section of the finance companies so only those ratios have been calculated which are related to the study. The average mean ratio of six financial companies as per ten financial year(2055/56 to 2064/65) statement is as follows:

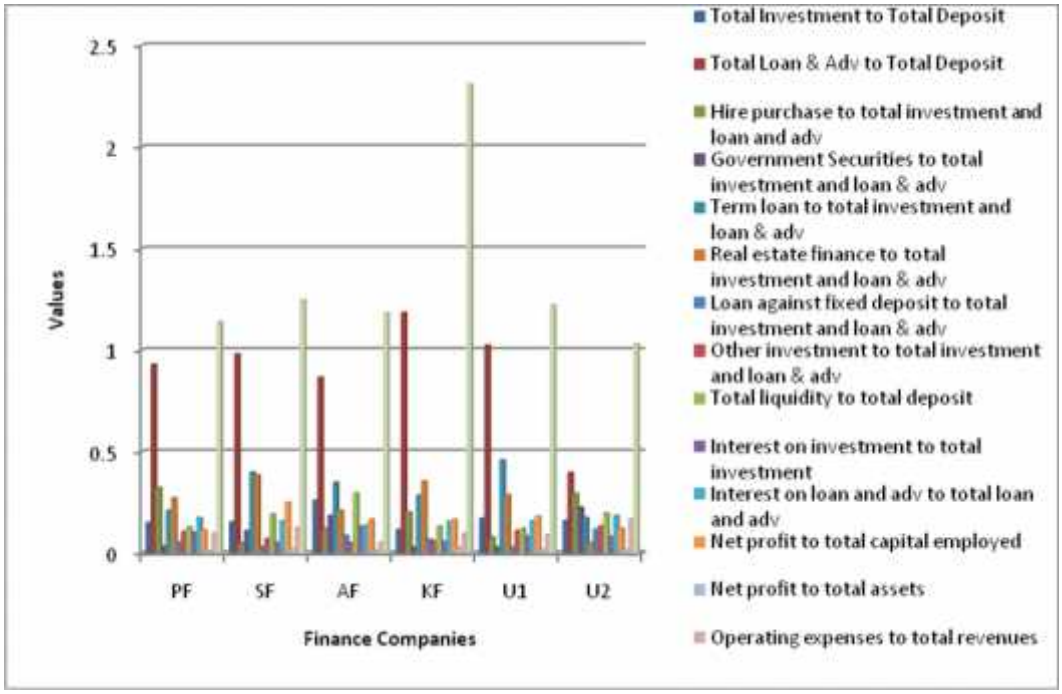
Table 4.1
Mean of Ratios of Finance Companies

Ratios	PF	SF	AF	KF	U1	U2
Total Investment to Total Deposit	0.1510	0.1539	0.2593	0.1164	0.1715	0.1602
Total Loan & Adv to Total Deposit	0.9296	0.9808	0.8659	1.1844	1.0231	0.3966
Hire purchase to total investment and loan and adv	0.3234	0.0518	0.1217	0.2020	0.0795	0.2951
Government Securities to total investment and loan & adv	0.0338	0.1110	0.1859	0.0300	0.0290	0.2243
Term loan to total investment and loan & adv	0.2105	0.3980	0.3493	0.2853	0.4592	0.1740
Real estate finance to total investment and loan & adv	0.2716	0.3851	0.2108	0.3551	0.2862	0.0530
Loan against fixed deposit to total investment and loan & adv	0.0547	0.0320	0.0866	0.0673	0.0295	0.1182
Other investment to total investment and loan & adv	0.1060	0.0722	0.0516	0.0603	0.1119	0.1333
Total liquidity to total deposit	0.1303	0.1913	0.2954	0.1312	0.1227	0.1974
Interest on investment to total investment	0.1018	0.0531	0.1300	0.0574	0.0825	0.0819
Interest on loan and adv to total loan and adv	0.1752	0.1606	0.1390	0.1576	0.1587	0.1849
Net profit to total capital employed	0.1134	0.2509	0.1659	0.1657	0.1824	0.1229
Net profit to total assets	0.0113	0.0209	0.0155	0.0258	0.0183	0.0185
Operating expenses to total revenues	0.0984	0.1250	0.0531	0.0975	0.0891	0.1687
Total income to total expenditure	1.1382	1.2440	1.1819	2.3078	1.2209	1.0288

Source: Annex 1 to 15 for Details

Figure 4.1

Mean of Ratios of Finance Companies



The above table and figure shows the mean of the calculated ratios of the finance companies for the period of 2055/56 to 2064/65. The total investment to total deposit ratio shows the deposit mobilization of finance companies in terms of the total investment. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, total investment to total deposit, of Ace Finance is higher i.e. 0.2593 and Kathmandu Finance is lower i.e. The total loan and advances to total deposit ratio shows the deposit mobilization of finance companies in terms of the total loan and advances. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, total loan and advances to total deposit, of Kathmandu Finance is higher i.e. 1.1844 and Union Finance is lower i.e. 0.3966, in comparison to others. It shows that the Kathmandu Finance is good at mobilizing its deposits in loan and advances.

The hire purchase to total investment and loan and advances ratio shows the hire purchase finance of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, hire purchase to total

investment and loan and advances, of People's Finance is higher i.e. 0.3234 and Shree Investment and Finance is lower i.e. 0.0518, in comparison to others. It shows that the People's Finance is good in financing hire purchase.

The government securities to total investment and loan and advances ratio table shows the investment in government securities of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, government securities to total investment and loan and advances, of Union Finance is higher i.e. 0.2243 and Universal Finance is lower i.e. 0.0290, in comparison to others. It shows that the Union Finance is good in investing in government securities.

The term loan to total investment and loan and advances ratio shows the term loan of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, term loan to total investment and loan and advances, of Universal Finance is higher i.e. 0.4592 and Union Finance is lower i.e. 0.1740, in comparison to others. It shows that the Universal Finance is good in term loan.

The real estate finance to total investment and loan and advances ratio shows the real estate finance of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, real estate finance to total investment and loan and advances, of Shree Investment and Finance is higher i.e. 0.3851 and Union Finance is lower i.e. 0.0530, in comparison to others. It shows that the Shree Investment and Finance is good in real estate finance.

The loan against fixed deposit to total investment and loan and advances ratio shows the loan against fixed deposits of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, loan against fixed deposits to total investment and loan and advances, of Union Finance is higher i.e. 0.1182 and Universal Finance is lower i.e. 0.0295, in comparison to others. It shows that the Union Finance is good in providing loan against fixed deposits.

The other investment to total investment and loan and advances ratio shows the other investments (investments on shares and debentures, trade investment and investment in other financial institutions) of finance companies out of the total investment and loan and advances. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, other investments to total investment and loan and advances, of Union Finance is higher i.e. 0.1333 and Ace Finance is lower i.e. 0.0516, in comparison to others. It shows that the Union Finance is good in other investments.

The total liquidity to total deposit ratio shows the liquidity maintained by finance companies out of the total deposits. While talking about liquidity, it includes cash and bank balance, NRB balance and investment in government securities. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, total liquidity to total deposit, of Ace Finance is higher i.e. 0.2954 and Universal Finance is lower i.e. 0.1227, in comparison to others. It shows that the Ace Finance is maintaining high liquidity than others.

The interest on investment to total investment ratio shows the income from the interest on investment of finance companies in terms of the total investment. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, interest on investment to total investment, of Ace Finance is higher i.e. 0.1300 and Shree Investment and Finance is lower i.e. 0.0531, in comparison to others. It shows that the Ace Finance is earning more interest on investment than others.

The interest on loan and advances to total loan and advances ratio shows the income from the interest on loan and advances of finance companies in terms of the total loan and advances. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, interest on loan and advances to total loan and advances, of Union Finance is higher i.e. 0.1849 and Ace Finance is lower i.e. 0.1390, in comparison to others. It shows that the Union Finance is earning more interest on loan and advances then others.

The net profit to total capital employed ratio shows the equity mobilization of finance companies in terms of the net profit. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, net profit to total capital employed, of Shree Investment and Finance is higher i.e. 0.2509 and People's Finance is lower i.e. 0.1134, in comparison to others. It shows that the Shree Investment and Finance is good at mobilizing its equity.

The net profit to total assets ratio shows the profit earning capacity of finance companies by utilizing total assets. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, net profit to total assets, of Kathmandu Finance is higher i.e. 0.0258 and People's Finance is lower i.e. 0.0113, in comparison to others. It shows that the Kathmandu Finance is good at utilizing its assets to earn profit.

The operating expenses to total revenues ratio shows the expenses for operation out of total revenues. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, operating expenses to total revenues, of Union Finance is higher i.e. 0.1687 and Ace Finance is lower i.e. 0.0531, in comparison to others. It shows that the Union Finance has high operating expenses in terms of their income than others.

The total income to total expenditure ratio shows the total income to total expenditure ratios i.e. the finance companies potentiality to cover the expenditure through their income. According to the observation of the figures from the fiscal year 2055/56 to 2064/65, it has been found that the mean of yearly ratios, total income to total expenditure, of Kathmandu Finance is higher i.e. 2.3078 and Union Finance is lower i.e. 1.0288, in comparison to others. It shows that the Kathmandu Finance is good at covering its expenditure through its income.

The following table & graph shows the (average of 10 fiscal year) coefficient of variation of calculated ratios of finance company for the period of 2055/56 to 2064/65.

Table 4.2

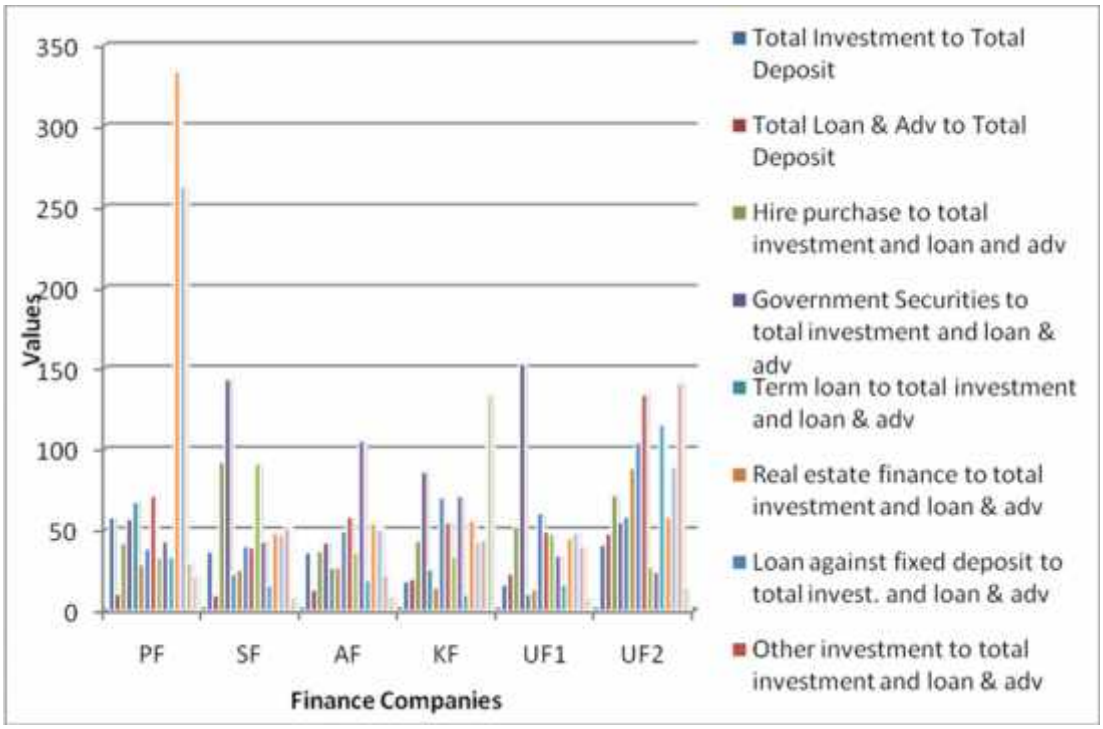
Coefficient of Variation of Ratios of Finance Companies

Ratios	PF	SF	AF	KF	UF1	UF2
Total Investment to Total Deposit	58.0048	36.6558	36.3444	18.3733	16.4243	41.0425
Total Loan & Adv to Total Deposit	10.9407	9.8813	13.3961	20.0149	23.1827	47.9791
Hire purchase to total investment and loan and adv	42.3725	92.3714	37.1868	43.5039	52.3545	71.7373
Government Securities to total investment and loan & adv	57.0779	143.4482	42.5091	86.2982	153.1004	55.1323
Term loan to total investment and loan & adv	67.5180	22.8767	27.0834	25.9353	10.8106	58.5298
Real estate finance to total investment and loan & adv	28.9894	25.4385	26.9172	14.4010	13.5092	88.3448
Loan against fixed deposit to total invest. and loan & adv	38.6823	40.3683	49.5513	70.2605	60.6660	104.5383
Other investment to total investment and loan & adv	71.3215	39.4535	58.4059	54.9618	49.1845	133.9840
Total liquidity to total deposit	33.3614	91.1261	36.1233	33.9125	47.8414	27.3539
Interest on investment to total investment	43.0841	43.1740	105.4681	71.0282	34.3846	24.4380
Interest on loan and adv to total loan and adv	33.6474	15.8576	19.1645	10.2885	16.6134	115.2953
Net profit to total capital employed	333.6799	48.2452	54.4249	56.1417	45.2013	58.4888
Net profit to total assets	262.7542	47.2269	50.4712	42.9168	48.4666	89.1919
Operating expenses to total revenues	29.8174	52.0286	22.3942	44.0839	39.9747	141.2706
Total income to total expenditure	21.5582	8.7991	9.1118	133.8432	8.2931	14.6792

Source: Annex 1 to 15 for Details

Figure 4.2

Coefficient of Variation of Ratios of Finance Companies



The above table and graph shows the average of 10 fiscal year coefficient of variation of the calculated ratios of the finance companies for the period of 2055/56 to 2064/65. The C.V. of total investment to total deposit ratio shows that the Universal Finance is more consistent in mobilizing its deposits in investment as its CV is less i.e. 16.4243% whereas People's Finance is less consistent as its CV in more i.e. 58.0048%, in comparison to others.

The C.V. of total loan and advances to total deposit ratio shows that the Shree Investment and Finance is more consistent in mobilizing its deposits in loan and advances as its CV is less i.e. 9.8813% whereas Union Finance is less consistent as its CV in more i.e. 47.9791%, in comparison to others.

The C.V. of hire purchase to total investment and loan and advances ratio shows that the Ace Finance is more consistent in financing hire purchase as its CV is less i.e. 37.1868% whereas Shree Investment and Finance is less consistent as its CV in more i.e. 92.3714%, in comparison to others.

The C.V. of government securities to total investment and loan and advances ratio shows that the Ace Finance is more consistent in investing in government securities as its CV is less i.e. 42.5091% whereas Universal Finance is less consistent as its CV in more i.e. 153.1004%, in comparison to others.

The C.V. of tem loan to total investment and loan and advances ratio shows that the Universal Finance is more consistent in term loan as its CV is less i.e. 10.8106% whereas People's Finance is less consistent as its CV in more i.e. 67.5180%, in comparison to others.

The C.V. of real estate finance to total investment and loan and advances ratio shows that the Universal Finance is more consistent in real estate finance as its CV is less i.e. 13.5092% whereas Union Finance is less consistent as its CV in more i.e. 88.3448%, in comparison to others.

The C.V. of loan against fixed deposit to total investment and loan and advances ratio shows that the People's Finance is more consistent in loan against fixed deposits as its CV is less i.e. 38.6823% whereas Union Finance is less consistent as its CV in more i.e. 104.5383%, in comparison to others.

The C.V. of other investment to total investment and loan and advances ratio shows that the Shree Investment and Finance is more consistent in other investments as its CV is less i.e. 39.4535% whereas Union Finance is less consistent as its CV in more i.e. 133.9840%, in comparison to others.

The C.V. of total liquidity to total deposit ratio shows that the Union Finance is more consistent in maintaining liquidity as its CV is less i.e. 27.3539% whereas Shree Investment and Finance is less consistent as its CV in more i.e. 91.1261%, in comparison to others.

The C.V. of interest on investment to total investment ratio shows that the Union Finance is more consistent in earning interest on investment as its CV is less i.e. 24.4380% whereas Ace Finance is less consistent as its CV in more i.e. 105.4681%, in comparison to others.

The C.V. of interest on loan and advances to total loan and advances ratio shows that the Kathmandu Finance is more consistent in earning interest on loan and advances as its CV is less i.e. 10.2885% whereas Union Finance is less consistent as its CV in more i.e. 115.2953%, in comparison to others.

The C.V. of net profit to total capital employed ratio shows that the Universal Finance is more consistent in mobilizing its equity as its CV is less i.e. 45.2013% whereas People's Finance is less consistent as its CV in more i.e. 333.6799%, in comparison to others.

The C.V. of net profit to total assets ratio shows that the Kathmandu Finance is more consistent in mobilizing its equity as its CV is less i.e. 42.9168% whereas People's Finance is less consistent as its CV in more i.e. 262.7542%, in comparison to others.
The C.V. of operating expenses to total revenues ratio shows that the Ace Finance is more consistent as its CV is less i.e. 22.3942% whereas Union Finance is less consistent as its CV in more i.e. 141.2706%, in comparison to others.

The C.V. of total income to total expenditure ratio shows that the Universal Finance is more consistent as its CV is less i.e. 8.2931% whereas Kathmandu Finance is less consistent as its CV in more i.e. 133.8432%, in comparison to others.

4.2 Statistical Analysis

4.2.1 Correlation and Regression Analysis

The Karl Pearson's coefficient of correlation, popularly known as Pearson's coefficient of correlation, has been used to find the relationship between the major variables under consideration. The regression analysis has been carried out to determine the relationship between the major variables under consideration and how the dependent variables are being affected by other variables.

The correlation matrix and multiple regression analysis of the following variables are carried out to find the relation between them and to measure the joint effect of independent variables on the dependent variable i.e. net profit.

Table 4.3

Average Data for 10 Financial year (2055/56 to 2064/65) of Net Profit, Interest on Investment and Interest on Loan & advances

	Net Profit(Y)	Interest on Investment(X1)	Interest on Loan & Advance(X2)
PF	9824654	6812805	46504760
SF	7924822	4154476	41844309
AF	6368446	5239350	43657391
KF	5416545	3942595	33671561
UF1	8924654	6407201	44279341
UF2	8839696	5239350	41019116

Source: Annual Reports of Finance Companies

The above table shows the average data, as per their headings, of all finance companies, related to the study, during each fiscal year from 2055/56 to 2064/65. The data taken are the net profit, interest on investment and interest on loan & advances.

Based on the past data from 2055/56 to 2064/65 and the average data of six finance companies (PF, SF, AF, KF, U1 and U2) above table correlation matrix is prepared to examine the degree of association among the variables under consideration for the data analysis. For this purpose Karl Pearson's coefficient of correlation of 6 finance companies (PF, SF, AF, KF, U1 and U2) are compared and presented in the matrix form in the table below.

Table 4.4

Correlation Matrix of Net Profit, Interest on Investment and Interest on Loan & Advances

		Net Profit	Interest on Investment	Interest on Loan & Advances
Net Profit	Pearson Correlation			
	Sig. (2-tailed)			
	N			
Interest on Investment	Pearson Correlation	.842**		
	Sig. (2-tailed)	.002		
	N	10		
Interest on Loan & Advances	Pearson Correlation	.915**	.888**	
	Sig. (2-tailed)	.000	.001	
	N	10	10	

**. *Correlation is significant at the 0.01 level (2-tailed).*

The above table shows the correlation along with their significance among all the three variables separately. According to the observation of the figures, it has been found that there is a positive correlation among all the three variables. The correlation between net profit and interest on investment, between net profit and interest on loan & advances and between interest on investment and interest on loan & advances is significant at 99% confidence level or 1% error in two tailed test. The analysis shows that net profit have highly positive correlation with interest on loan & advances.

The multiple regression analysis is carried out to find the impact of the independent variables on the dependent variable. For this, the net profit (Y) is taken as dependent variable and interest on investment (X_1) and interest on loan and advances (X_2) is taken as independent variables. The required multiple regression equation is

$$Y = a + b_1X_1 + b_2X_2$$

Based on the data of six finance companies (PF, SF, AF, KF, U1 and U2).

Table 4.5

Multiple Regression Analysis of Net Profit on Interest on Investment and Interest on Loan and Advances

	Coefficients	**Standard Error**	**t Stat**	**P-value**
Intercept	-1025387.5	1300932.1	-0.7882	0.4564
Interest on Investment	0.2294	0.5402	0.4247	0.6838
Interest on Loan & Advances	0.1794	0.0744	2.4127	0.0466

From the above table following estimated regression equation is derived:

$$Y = -1025387.5 + 0.2294\ X_1 + 0.1794\ X_2$$

The above derived result shows that, if the other independent variables are assumed to be zero then the average value of dependent variable i.e. net profit will be equal to intercept i.e. -102587.50. If the interest on investment is increases by Rs. 1 then the average net profit will increase by 0.2294 others remaining constant. Similarly, if the interest on loan and advances increases by Rs. 1 then the average net profit will increase by 0.1794 others remaining constant. Thus, this shows that there is a positive impact on the net profit through independent variables considered i.e. with every increase in the independent variables there will be increase in the net profit also.

Multiple R	0.91715
R Square	0.84116
Adjusted R Square	0.79578
Standard Error	1480133.9
Observations	10

The multiple R represents the multiple correlation of net profit on interest on investment and interest on loan and advances. It shows the better relationship between them as its value is about 0.91715. The adjusted value of R square is 0.79578; it indicates that 79.578% of the total variation in net profit is explained by the independent variables, interest on investment and interest on loan and advances. The

standard error shows that the predicted value through above regression model may be fluctuated by the amount of standard error i.e. 1480133.90.

In order to test the significance of the proposed regression line, analysis of variance (ANOVA) is carried out. The results are shown below.

ANOVA

	df	SS	MS	F	Significance F
Regression	2	8.12135	4.06068	18.53516399	0.001597
Residual	7	1.53356	2.1908		
Total	9	9.65491			

The above ANOVA table shows the reliability of the regression analysis. Since the calculated F-ratio is greater than the critical value of F-ratio i.e. 18.54 > 9.55 at 1% level of significance, the regression equation is significant i.e. the assumed regression model is seems to be best fit. The correlation matrix and multiple regression analysis of the following variables are carried out to find the relation between them and to measure the joint effect of independent variables on the dependent variable i.e. total investment and loan & advances. The following table shows the average of ten financial year (2055/56 to 2064/65)

Table 4.6

Average Data of Total Investment and Loan and Advances and its Various Sectors

Finance Co.	Total Invt. And Loan & Adv.	Hire purchase	Govt. Securities	Term Loan	Real Estate Finance	Loan against Fixed Deposit	Other Invt.
PF	70,560,972	20,392,636	2,990,904	21,651,421	19,884,900	3,149,044	2,492,067
SF	128,064,886	25,783,140	21,448,811	35,723,867	34,937,292	5,910,127	7,194,982
AF	180,547,464	29,961,866	29,070,333	52,017,072	42,282,043	17,225,629	10,157,189
KF	245,633,840	40,283,231	23,998,500	78,561,248	60,811,061	22,572,769	19,407,031
UF1	286,996,716	44,502,121	28,715,167	89,528,818	77,610,752	18,228,148	28,411,712
UF2	333,418,331	66,523,069	27,673,333	102,043,054	92,532,275	17,339,208	27,307,391

Source: Annual Reports of Finance Companies

The above table shows the average data, as per their headings, of finance companies, related to the study, during each fiscal year from 2055/56 to 2064/65. The data taken are the total investment and loan & advances, hire purchase, government securities,

term loan, real estate finance, loan against fixed deposit and other investments (investment in shares and debentures, trade investment and investment in other financial institutions).

Based on the past data from 2055/55 to 2064/65 and the above average data of 2055/56 to 2064/65) correlation matrix is prepared to examine the degree of association among the variables under consideration for the data analysis. For this purpose Karl Pearson's coefficient of correlation is compared and presented in the matrix form in the table below.

Table 4.7

Correlation Matrix of Total Investment and Loan and Advances and Its Various Sectors

		Total Invt. And Loan & Adv.	Hire purchase	Govt. Securities	Term Loan	Real Estate Finance	Loan against Fixed Deposit	Other Invt.
Total Invt. And Loan & Adv.	Pearson Correlation							
	Sig. (2-tailed)							
	N							
Hire purchase	Pearson Correlation	.681*						
	Sig. (2-tailed)	.030						
	N	10						
Govt. Securities	Pearson Correlation	.786**	.323					
	Sig. (2-tailed)	.007	.362					
	N	10	10					
Term Loan	Pearson Correlation	.983**	.553	.802**				
	Sig. (2-tailed)	.000	.0975	.005				
	N	10	10	10				
Real Estate Finance	Pearson Correlation	.984**	.624	.747*	.979**			
	Sig. (2-tailed)	.000	.054	.013	.000			
	N	10	10	10	10			
Loan against Fixed Deposit	Pearson Correlation	.893**	.551	.713*	.875**	.846**		
	Sig. (2-tailed)	.001	.099	.021	.001	.002		
	N	10	10	10	10	10		
Other Invt.	Pearson Correlation	.982**	.724*	.726*	.953**	.954**	.872**	
	Sig. (2-tailed)	.000	.018	.017	.000	.000	.001	
	N	10	10	10	10	10	10	

** Correlation is significant at the 0.05 level (2-tailed).*

*** Correlation is significant at the 0.01 level (2-tailed).*

The above table shows the correlation along with their significance among all the seven variables separately. According to the observation of the figures, it has been found that there is a positive correlation among all the seven variables. The

correlation of total investment and loan and advances to hire purchase is significant at 95% confidence level or 5% error in two tailed test. Likewise, the correlation of total investment and loan and advances to govt. securities, term loan, real estate finance, loan against fixed deposits and other investments is significant at 99% confidence level or 1% error in two tailed test. The analysis shows that the total investment and loan and advances have high positive correlation with real estate finance than other variables. Similarly, hire purchase is highly correlated with total investment and loan and advances; government securities with term loan; term loan with total investment and loan and advances; real estate finance with total investment and loan and advances; loan against fixed deposit with total investment and loan and advances; and other investment with total investment and loan and advances.

Though all the variables taken above shows the positive correlation and are highly significant, the result presented from this analysis will be not realistic as the time period taken is low in comparison to variables taken for this analysis. Thus, for further analysis only those variables are taken which are highly correlated to total investment and loan and advances. Those variables are term loan, real estate finance and other investments.

4.2.2 Analysis of Variance (ANOVA)

In order to test the significance differences of the performances of the various finance companies, analysis of variance is carried out. This ANOVA has been concentrated towards the two way classification of the Finance companies and sector-wise investment and loan & advances. The average data of Finance companies are presented in rows and the sector-wise investment and loan & advances are classified in column. The data presented below are the average data calculated during the study period i.e. 2055/56 to 2064/65.

Table 4.8

Distribution of investment sectors by finance companies

	X1	X2	X3	X4	X5	X6
P	61,192,914	6,300,000	49,193,495	57,019,953	10,748,617	19,780,921
S	11,620,955	37,660,790	134,796,010	126,929,982	8,976,356	22,639,883
A	68,117,307	116,334,543	193,820,461	136,029,881	54,100,917	36,056,501
K	31,616,657	3,197,669	53,937,040	60,993,246	14,486,406	13,270,734
U1	16,757,295	2,867,118	132,685,960	81,115,321	6,445,643	36,059,321
U2	61,930,240	27,244,862	32,956,207	12,454,726	12,779,729	12,016,023

Source: Annual reports of finance companies

Legend

P - People's Finance

S - Shree Investment and Finance

A - Ace Finance

K - Kathmandu Finance

U1 - Universal Finance

U2 - Union Finance

X1 - Hire Purchase

X2 - Government Securities

X3 - Term Loan

X4 - Real Estate Finance

X5 - Loan against Fixed Deposits

X6 - Others (Investment on Shares and Debentures, Term Loan and Investment on other Financial Institutions)

In order to compute the analysis of variance (ANOVA), to test the significance between the finance companies and between the sectors of the investment and loan and advances, the following hypothesis are developed:

H_0: (i) There is no significant difference between finance companies in comparison to their investment i.e. $\mu_1 X \mu_2 X \mu_3 X \mu_4 X \mu_5 X \mu_6$

(ii) There is no significant difference between sectors of investment and loan & advances made by the finance companies i.e.

$\mu_1 X \mu_2 X \mu_3 X \mu_4 X \mu_5 X \mu_6$

H_1: (i) There is a significant difference between finance companies in comparison to their investment i.e. $\mu_1 \mid \mu_2 \mid \mu_3 \mid \mu_4 \mid \mu_5 \mid \mu_6$

(ii) There is a significant difference between sector of investment and loan & advances made by the finance companies i.e.

$\mu_1 \mid \mu_2 \mid \mu_3 \mid \mu_4 \mid \mu_5 \mid \mu_6$

Table 4.9

Anova Results

Source of Variation	SS	Df	MS	F	F crit
Rows	2.3138	5	4.62758	5.09028	2.60299
Columns	3.2515	5	6.50291	7.15313	2.60299
Error	2.2728	25	9.09101		
Total	7.838	35			

Between Finance Companies

Since calculated value of F-ratio is greater than the critical value of F-ratio at 5% level of significance, H_0 is rejected i.e. there is a significant difference between the finance companies in terms of the investment made by them. This shows that there is a great disparity among the finance companies as far as the investments are concerned since its F-ratio is 5.09. Thus it is clear that the finance companies are adopting different investment policy.

Between Sector-wise Investment

Since calculated value of F-ratio is greater than the critical value of F-ratio at 5% level of significance, H_0 is rejected i.e. there is a significant difference between the sector of investment made by the Finance companies. This shows that there is no similarity among the sector of investments as far as the finance companies are concerned since its F-ratio is 7.15.

Thus the above ANOVA test shows that the finance companies and sector of investments are different so far as the investments are concerned.

4.2.3 Least Significant Difference (LSD)

Since the null hypothesis from the analysis of variance F test is rejected, this least significant difference is being calculated to find out the individual comparisons between finance companies and between sectors of investment and loan & advances.

Between Finance Companies

Table 4.10

Absolute Differences of Averages between Finance Companies

	P	S	A	K	U1	U2
P	-	23,064,679	66,703,952	4,455,691	11,949,126	7,475,686
S		-	43,639,272	27,520,371	11,115,553	30,540,365
A			-	71,159,643	54,754,825	74,179,637
K				-	16,404,818	3,019,994
U1					-	19,424,812
U2						-

Table 4.11

Least Significant Differences between Finance Companies

	P	S	A	K	U1	U2
P	-	35,546,855	35,546,855	35,546,855	35,546,855	35,546,855
S		-	35,546,855	35,546,855	35,546,855	35,546,855
A			-	35,546,855	35,546,855	35,546,855
K				-	35,546,855	35,546,855
U1					-	35,546,855
U2						-

Table 4.12

Accepted Hypothesis between Finance Companies

	P	S	A	K	U1	U2
P	-	H_0	H_1	H_0	H_0	H_0
S		-	H_1	H_0	H_0	H_0
A			-	H_1	H_1	H_1
K				-	Ho	H_0
U1					-	H_0
U2						-

For People's Finance (P) and Shree Investment Finance (S)

H_0: There is no significant difference between People's finance and Shree Investment and finance in terms of their investment i.e. $«_1 X «_2$

$H_{1:}$ There is a significant difference between People's finance and Shree Investment and finance in terms of their investment i.e. $«_1 \mid «_2$

From the above tables, since LSD of People's finance and Shree Investment and finance is greater than the absolute difference of averages of People's finance and Shree Investment and finance, H_0 is accepted i.e. there is no significant difference between People's finance and Shree Investment and finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

For People's Finance (P) and Ace Finance (A)

Proceeding as above, the LSD of People's finance and Ace finance is lower than the absolute difference of averages of People's finance and Ace finance, H_1 is accepted i.e. there is a significant difference between People's finance and Ace finance in terms of their investments. This shows that there is a great disparity in the investment policies adopted by these two finance companies.

For People's Finance (P) and Kathmandu Finance (K)

Proceeding as above, the LSD of People's finance and Kathmandu finance is greater than the absolute difference of averages of People's finance and Kathmandu finance, H_0 is accepted i.e. there is no significant difference between People's finance and Ace finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

For People's Finance (P) and Universal Finance (U1)

Proceeding as above, the LSD of People's finance and Universal finance is greater than the absolute difference of averages of People's finance and Universal finance, H_0 is accepted i.e. there is no significant difference between People's finance and

Universal finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

For People's Finance (P) and Union Finance (U2)

Proceeding as above, the LSD of People's finance and Union finance is greater than the absolute difference of averages of People's finance and Union finance, H_0 is accepted i.e. there is no significant difference between People's finance and Union finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

For Shree Investment and Finance (S) and Ace Finance (A)

Proceeding as above, the LSD of Shree Investment and finance and Ace finance is lower than the absolute difference of averages of Shree Investment and finance and Ace finance, H_1 is accepted i.e. there is a significant difference between Shree Investment and finance and Ace finance in terms of their investments. This shows that there is a great disparity in the investment policies adopted by these two finance companies.

For Shree Investment and Finance (S) and Kathmandu Finance (K)

Proceeding as above, the LSD of Shree Investment and finance and Kathmandu finance is greater than the absolute difference of averages of Shree Investment and finance and Kathmandu finance, H_0 is accepted i.e. there is no significant difference between Shree Investment and finance and Kathmandu finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

For Shree Investment and Finance (S) and Universal Finance (U1)

Proceeding as above, the LSD of Shree Investment and finance and Universal finance is greater than the absolute difference of averages of Shree Investment and finance and Universal finance, H_0 is accepted i.e. there is no significant difference between Shree Investment and finance and Universal finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

For Shree Investment and Finance (S) and Union Finance (U2)

Proceeding as above, the LSD of Shree Investment and finance and Union finance is greater than the absolute difference of averages of Shree Investment and finance and Union finance, H_0 is accepted i.e. there is no significant difference between Shree Investment and finance and Union finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

For Ace Finance (A) and Kathmandu Finance (K)

Proceeding as above, the LSD of Ace finance and Kathmandu finance is lower than the absolute difference of averages of Ace finance and Kathmandu finance, H_1 is accepted i.e. there is a significant difference between Ace finance and Kathmandu finance in terms of their investments. This shows that there is a great disparity in the investment policies adopted by these two finance companies.

For Ace Finance (A) and Universal Finance (U1)

Proceeding as above, the LSD of Ace finance and Universal finance is lower than the absolute difference of averages of Ace finance and Universal finance, H_1 is accepted i.e. there is a significant difference between Ace finance and Universal finance in terms of their investments. This shows that there is a great disparity in the investment policies adopted by these two finance companies.

For Ace Finance (A) and Union Finance (U2)

Proceeding as above, the LSD of Ace finance and Union finance is lower than the absolute difference of averages of Ace finance and Union finance, H_1 is accepted i.e. there is a significant difference between Ace finance and Union finance in terms of their investments. This shows that there is a great disparity in the investment policies adopted by these two finance companies.

For Kathmandu Finance (K) and Universal Finance (U1)

Proceeding as above, the LSD of Kathmandu finance and Universal finance is greater than the absolute difference of averages of Kathmandu finance and Universal finance, H_0 is accepted i.e. there is no significant difference between

Kathmandu finance and Universal finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

For Kathmandu Finance (K) and Union Finance (U1)

Proceeding as above, the LSD of Kathmandu finance and Union finance is greater than the absolute difference of averages of Kathmandu finance and Union finance, H_0 is accepted i.e. there is no significant difference between Kathmandu finance and Union finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

For Universal Finance (U1) and Union Finance (U2)

Proceeding as above, the LSD of Universal finance and Union finance is greater than the absolute difference of averages of Universal finance and Union finance, H_0 is accepted i.e. there is no significant difference between Universal finance and Union finance in terms of their investments. This shows that the investment policies adopted by these two finance companies are in similar pattern.

Between Sectors of Investment and Loan & Advances

Table 4.13

Absolute Differences of Averages between Sectors of Investment and Loan & Advances

	X1	X2	X3	X4	X5	X6
X1	-	9,605,064	57,692,301	37,217,957	23,949,617	18,568,664
X2		-	67,297,365	46,823,021	14,344,552	8,963,600
X3			-	20,474,344	81,641,918	76,260,965
X4				-	61,167,574	61,167,574
X5					-	5,380,953
X6						-

Table 4.14

Least Significant Differences between Sectors of Investment and Loan & Advances

	X1	X2	X3	X4	X5	X6
X1	-	35,546,855	35,546,855	35,546,855	35,546,855	35,546,855
X2		-	35,546,855	35,546,855	35,546,855	35,546,855
X3			-	35,546,855	35,546,855	35,546,855
X4				-	35,546,855	35,546,855
X5					-	35,546,855
X6						-

Table 4.15

Accepted Hypothesis between Sectors of Investment and Loan & Advances

	X1	X2	X3	X4	X5	X6
hX1	-	H_0	H_1	H_1	H_0	H_0
gX2		-	H_1	H_1	H_0	H_0
tX3			-	H_0	H_1	H_1
rX4				-	H_1	H_1
lX5					-	H_0
oX6						-

For Hire Purchase (X1) and Government Securities (X2)

H_0: There is no significant difference between investment in hire purchase and government securities i.e. $«_1 \, X « _2$

$H_{1:}$ There is a significant difference between investment in hire purchase and government securities i.e. $«_1 \mid «_2$

From the above tables, since LSD of hire purchase and government securities is greater than the absolute difference of averages of hire purchases and government securities, H_0 is accepted i.e. there is no significant difference between the investment in hire purchase and government securities. This shows that the investments made by the finance companies in these two sectors are in similar pattern.

For Hire Purchase (X1) and Term Loan (X3)

Proceeding as above, the LSD of hire purchase and term loan is lower than the absolute difference of averages of hire purchase and term loan. It indicates that the H_1 is accepted i.e. there is a significant difference between the investment in hire purchase and term loan. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For Hire Purchase (X1) and Real Estate Finance (X4)

Proceeding as above, the LSD of hire purchase and real estate finance is lower than the absolute difference of averages of hire purchase and real estate finance. It indicates that the H_1 is accepted i.e. there is significant difference between the investment in hire purchase and real estate finance. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For Hire Purchase (X1) and Loan against Fixed Deposits (X5)

Proceeding as above, the LSD of hire purchase and loan against fixed deposits is greater than the absolute difference of averages of hire purchase and loan against fixed deposits. It indicates that the H_0 is accepted i.e. there is no significant difference between the investment in hire purchase and loan against fixed deposits. This shows that the investments made by the finance companies in these two sectors are in similar pattern.

For Hire Purchase (X1) and Other Investments (X6)

Proceeding as above, the LSD of hire purchase and other investments is greater than the absolute difference of averages of hire purchase and other investments. It indicates that the H_0 is accepted i.e. there is no significant difference between the investment in hire purchase and other investments. This shows that the investments made by the finance companies in these two sectors are in similar pattern.

For Government Securities (X2) and Term Loan (X3)

Proceeding as above, the LSD of government securities and term loan is lower than the absolute difference of averages of government securities and term loan. It indicates that the H_1 is accepted i.e. there is a significant difference between

the investment in government securities and term loan. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For Government Securities (X2) and Real Estate Finance (X4)

Proceeding as above, the LSD of government securities and real estate finance is lower than the absolute difference of averages of government securities and real estate finance. It indicates that the H_1 is accepted i.e. there is a significant difference between the investment in government securities and real estate finance. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For Government Securities (X2) and Loan against Fixed Deposits (X5)

Proceeding as above, the LSD of government securities and loan against fixed deposits is greater than the absolute difference of averages of government securities and loan against fixed deposits. It indicates that the H_0 is accepted i.e. there is no significant difference between the investment in government securities and loan against fixed deposits. This shows that the investments made by the finance companies in these two sectors are in similar pattern.

For Government Securities (X2) and Other Investments (X6)

Proceeding as above, the LSD of government securities and other investments is greater than the absolute difference of averages of government securities and other investments. It indicates that the H_0 is accepted i.e. there is no significant difference between the investment in government securities and other investments. This shows that the investments made by the finance companies in these two sectors are in similar pattern.

For Term Loan (X3) and Real Estate Finance (X4)

Proceeding as above, the LSD of term loan and real estate finance is greater than the absolute difference of averages of term loan and real estate finance. It indicates that the H_0 is accepted i.e. there is no significant difference between the investment in term loan and real estate finance. This shows that the investments made by the finance companies in these two sectors are in similar pattern.

For Term Loan (X3) and Loan against Fixed Deposits (X5)

Proceeding as above, the LSD of term loan and loan against fixed deposits is lower than the absolute difference of averages of term loan and loan against fixed deposits. It indicates that the H_1 is accepted i.e. there is a significant difference between the investment in term loan and loan against fixed deposits. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For Term Loan (X3) and Other Investments (X6)

Proceeding as above, the LSD of term loan and other investments is lower than the absolute difference of averages of term loan and other investments. It indicates that the H_1 is accepted i.e. there is a significant difference between the investment in term loan and other investments. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For Real Estate Finance (X4) and Loan against Fixed Deposits (X5)

Proceeding as above, the LSD of real estate finance and loan against fixed deposits is lower than the absolute difference of averages of real estate finance and loan against fixed deposits. It indicates that the H_1 is accepted i.e. there is a significant difference between the investment in real estate finance and loan against fixed deposits. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For Real Estate Finance (X4) and Other Investments (X6)

Proceeding as above, the LSD of real estate finance and other investments is lower than the absolute difference of averages of real estate finance and other investments. It indicates that the H_1 is accepted i.e. there is a significant difference between the investment in real estate finance and loan against fixed deposits. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For Loan against Fixed Deposits (X5) and Other Investments (X6)

Proceeding as above, the LSD of loan against fixed deposits and other investments is greater than the absolute difference of averages of loan against fixed deposits and other investments. It indicates that the H_0 is accepted i.e. there is no significant difference between the investment in real estate finance and loan against fixed deposits. This shows that the investments made by the finance companies in these two sectors are in similar pattern.

4.3 Major Findings

On the basis of the analysis of the data from fiscal year 2055/56 to 2064/65, the following findings have been drawn.

Financial Ratios

The mean and coefficient of variation of financial ratios of finance companies have drawn the following results.

- The Ace Finance is significant in mobilizing its deposits in investment and Kathmandu Finance in loan and advances in comparison to others. Likewise, the Kathmandu Finance is less significant in mobilizing its deposits in investment and Union Finance in loan and advances. While mobilizing deposits in investment, Universal Finance is more consistent and People's Finance is less consistent. Likewise, mobilizing deposits in loan and advances, Shree Investment and Finance is more consistent and Union Finance is less consistent.
- The People's finance is significant in financing hire purchase; Union Finance in government securities, loan against fixed deposits and other investments; Universal Finance in term loan; Shree Investment and Finance in real estate finance in comparison to others. Likewise, the Shree Investment and Finance is less significant in financing hire purchase, Universal Finance in government securities and loan against fixed deposits, Union Finance in term loan and real estate finance, and Ace Finance in other investments. While considering investment in these sectors, the Ace Finance is more consistent in hire purchase, government securities; Universal Finance in term loan and real estate finance; People's finance in loan against fixed deposits; and Shree Investment and Finance in other investments. Likewise, the Shree Investment and Finance is less consistent in hire purchase; Universal Finance in government securities; People's

Finance in term loan; and Union Finance in real estate finance, loan against fixed deposits and other investments.

- The Ace Finance has maintained the high liquidity where as Universal Finance has maintained less liquidity in comparison to others. But the Union Finance is more consistent in maintaining liquidity where as Shree Investment and Finance is less consistent in comparison to others.
- The Ace Finance is earning more interest on investment and Union Finance on loan and advances in comparison to others. Likewise, Shree Investment and Finance is earning less interest on investment and Ace Finance on loan and advances. But the Union Finance is more consistent in earning interest on investment and Kathmandu Finance on loan and advances. Likewise, the Ace Finance is less consistent in earning interest on investment and Union Finance on loan and advances.
- The Shree Investment and Finance is significant at mobilizing its equity where as People's Finance is less significant in comparison to others. But the Universal Finance is more consistent in mobilizing equity where as People's Finance is less consistent in comparison to others.
- The Kathmandu Finance is significant as well as more consistent at utilizing its assets to earn profit where as People's Finance is less significant as well as less consistent in comparison to others.
- The Union Finance has high operating expenses in terms of their incomes with less consistency where as Ace Finance has low operating expenses in terms of their incomes with more consistency in comparison to others.
- The Kathmandu Finance is significant at covering its expenditure through its income where as Union Finance is less significant in comparison to others. But the Universal Finance is more consistent at covering its expenditure through its income where as Kathmandu Finance is less consistent in comparison to others.

Correlation

Correlation analysis has drawn the following results:

- The correlation analysis shows that there is a positive relationship between the net profits and interest on investment and interest on loan and advances and are highly

correlated individually. This means that the net profit of finance companies is highly affected by those items mentioned above. Not only individually but also there is combined effect of them on net profit.

- It has also shown the high positive correlation between total investment and loan and advances and term loan, real estate finance and other investment (investment in shares and debentures, trade investment and investment in other financial institutions) individually. Not only individually but also there is combined effect of them on total investment and loan and advances. That is the major portion of total investment and loan and advances in finance companies is occupied by these three factors.

Regression

Regression has drawn the following results:

- Interest on investment and interest on loan and advances are the most important factors that have positive impact on the net profit. About 79.578% of total variation on net profit is due to these two independent factors.
- Term loan, real estate finance and other investment (investment in shares and debentures, trade investment and investment in other financial institutions) are the major sector where the most of the finance companies are operating. About 98.760% of total variation in total investment and loan and advances is due to these three independent factors.

Trend Analysis

From trend analysis following results are drawn.

- The trend of net profit from the fiscal year 2055/56 to 2064/65 shows that there is a rising trend in the net profit of the finance companies. During the year 2064/65 the net profit has rose upto Rs 9,303,285. The projection has also been done and if the other factors remain constant, the net profit can be raised upto Rs. 12,491,951.93 in year 2066/67 and upto Rs. 13,446,352.85 in year 2067/68. Thus the finance companies are good in earning profit and expected to be better in future if they follow the same trend.
- The trend of total investment and loan and advances from the fiscal year 2055/56 to 2064/65 shows that there is a rising trend. This means that the finance

companies are doing well in mobilizing their resources. The projection has also been done which shows that the total investment and loan and advances of the finance companies can be raised upto Rs. 578,269,097.50 in the year 2066/67 and upto Rs. 622,512,741.90 in the year 2067/68, if other factors remain constant. Thus the finance companies are expected to have better opportunities for investment in the future.

ANOVA

From the two way analysis of variances between the finance companies and between the sectors of investment and loan and advances following results has been drawn.

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

Least Significant Difference (LSD)

From the analysis of least significant difference, following results has been drawn.

- Among the finance companies in comparison to their investment, LSD has analyzed whether they are significantly different or not. In case of People's finance and Shree investment and finance, there is no significant difference. Likewise, between People's finance and Kathmandu finance, between People's finance and Universal finance, between People's finance and Union finance, between Shree Investment and finance and Kathmandu finance, between Shree Investment and finance and Universal finance, between Shree Investment and finance and Union finance, between Kathmandu finance and Universal finance, between Kathmandu finance and Union finance and between Universal finance and Union finance; there is no disparity i.e. they have the similar pattern of risk in terms of investment. Similarly, between People's finance and Ace finance,

between Shree Investment and finance and Ace finance, between Ace finance and Kathmandu finance, between Ace finance and Universal finance and between Ace finance and Union finance; there is a great disparity in terms of investment. This analysis has shown that only Ace finance has disparity with others in terms of investment but others are in similar pattern.

- Among the sectors of investment and loan and advances made by the finance companies, LSD has analyzed whether they are significantly different or not. In case of hire purchase and government securities, there is no disparity among them. Likewise, between hire purchase and loan against fixed deposits, between hire purchase and other investments, between government securities and loan against fixed deposits, between government securities and other investments, between term loan and real estate finance and between loan against fixed deposits and other investments; there is no significant difference i.e. they have similar pattern of risk. Similarly, between hire purchase and term loan, there is a significant difference. Likewise, between hire purchase and real estate finance, between government securities and term loan, between government securities and real estate finance, between term loan and loan against fixed deposits, between term loan and other investments, between real estate finance and loan against fixed deposits and between real estate finance and other investments; there is a significant difference i.e. great disparity exists among those sectors. This analysis has shown that term loan and real estate finance, having similar pattern of risk, has disparity with other in terms of sector, but other are in similar pattern.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

This study mainly focuses on whether the finance companies are adopting the appropriate policies for investing their collected funds. For this secondary data are collected from different sources for the period of 2055/56 to 2064/65. These collected data are analyzed on the basis of financial tools and statistical tools to know the investment pattern of the finance companies. The analysis shows that the finance companies are performing well in investing their funds. They are having good return on their investment. The performance of the finance companies is satisfactory.

5.2 Conclusion

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

5.3 Recommendations

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

- The finance companies should focus on new schemes and instruments for fund mobilization which will help them to shift from traditional business financing to the dynamic and innovative areas. Merchant banking, venture capital and bridge finance might be some new areas for the future investment to expand their activities.
- The finance companies can form a portfolio as there is a saying that all the eggs should not be kept in same basket. They should have continuous monitoring on the portfolio from time to time to maintain good position.
- The finance companies are not gaining the public confidence as needed; they should work together to make the people believe that their deposits are safe in finance companies. The public deposits are the major source of finance companies for the investments.
- The finance companies should consider the present political and economical scenario of the country to make their investment. They should prepare and follow the specific investment policy to invest. Considering the present scenario, the educational loan and real estate finance is more sound than term loan/business loan.
- Finance companies are facing the problem of low credibility. To overcome this problem they should improve their managerial capability, make their transaction transparent, improve accounting and auditing practices, improve innovativeness, avoid family domination. This will help in their growth.
- The inappropriate and rigid regulatory framework of NRB is hindering the growth of the finance companies. The NRB should have flexibility and timely review their regulatory framework which will provide more facilities for the growth of the finance companies.

BIBLIOGRAPHY

Bellemore, D. H., Phillips, H. E. and Ritchie, J.C. (1979), *Investment Analysis and Portfolio Selection – An Integrated Approach,* Cincinnati: South-Western Publishing Co.

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

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

Bodie, Z., Kane, A., and Marcus, A.J. (1999), *Investments,* New York: McGraw Hill companies, Inc.

Buckle, M., and Thompson, J. (1995), *The UK Financial System – Theory and Practice,* New York: Manchester University Press.

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

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

Edmister, R.O. (1980), *Financial Institutions Markets and Management,* USA: McGraw Hill Book Company.

Fabozzi, F.J., and Markowitz, H.M. (2002), *The Theory & Practice of Investment Management,* New Jersey: John Wiley & Sons, Inc.

Francis, J.C. (1995), *Investments: Analysis and Management,* New York: McGraw-Hill, Inc.

Francis, J.C., and Kirzner, E. (1988), *Investments – Analysis and Management,* Canada: McGraw Hill Ltd.

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

Hatch, J.E. (1983), *Investment Management in Canada,* Canada: Prentice Hall Canada Inc.

Haugen, R.A. (2002), *Modern Investment Theory,* New Delhi: Prentice Hall of India Pvt. Ltd.

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

Kent, R.P. (1972), *Money and Banking,* USA: Dryden Press.

Kerlinger, F.N. (1994), *Foundation of Behavioural Research,* New Delhi: Surjeet Publication.

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

Mayo, H.B. (1980), *Basic Investments – An Introduction,* New York: Dryden Press.

Montgomery, D.C. (1991), *Design and Analysis of Experiments,* New York: John Wiley & Sons.

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

Piesse, J., Ken, P., and Charles, W. (1995), *British Financial Markets and Institutions – An International Perspective,* UK: Prentice Hall International Ltd.

Pomareda, C. (1984), *Financial Policies and Management of Agricultural Development Banks,* London: Westview Press.

Ritter, L. S., and W. L. Silber, 1993, *Principles of Money, Banking and Financial Markets,* New York: Harper Collins Publishers.

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

Rose, P.S., and Donald, R.F. (1985), *Financial Institutions,* Texas, USA: Business Publications, Inc.

Sekaran, U. (2000), *Research Methods for Business,* New York: John Wiley & Sons.

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

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

Shrestha, M.K., Poudel, R.B. and Bhandari, D.B. (2003), *Fundamentals of Investments,* Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Singh, P. (1991), *Investment Management,* Bombay: Himalayan Publishing House.

Sinkey, J.F. (1992), *Commercial Bank Financial Management – in the financial services industry,* New York:MacMillan Publishing Company.

Taggart, R.A. (1996), *Quantitative Analysis for Investment Management*, New Jersey: Prentice Hall.

Van Horne, J.C. (1997), *Financial Management and Policy*, New Delhi: Prentice Hall of India.

Welshans, M.T., and Melicher, R.W. (1980), *Finance: an Introduction to Financial Markets and Institutions,* Cincinnati, Ohio: South-Western Publishing Company.

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

Journals and Articles

Brinson, G. P., R. Hood, and G. L. Beebower, (July-August 1986), *Determinants of Portfolio Performance,* Financial Analysts Journal, 39-44. The study was updated in Gary P. Brinson, Brian D. Singer, and Gilbert L. Beebower, (May-June 1991), *Determinants of Performance II: An Update,* Financial Analysts Journal, 40-48.

Gaumnitz, J.E. (June 1970), *Appraising Performance of Investment Portfolio,* Journal of Finance Vol. XXV, 555-560.

Ghimire, A. (1999), *Process involved in financing a corporation: a Nepalese context.*

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

Philips, T.K. (1997), *An Opportunistic Approach to Alternative Investing.*

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

Shrestha, S.R. (1998), *Portfolio Management in Commercial Banks, Theory and Practice,* Nepal Bank Patrika, 13.

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

Vaidya, S. (2002), *Business Confidence in Corporate Nepal,* Monitor Nepal, Kathmandu.

Thesis

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

Khadka, R.R. (1998), *A Study on the Investment Policy of NABIL in Comparison to other Joint Venture Banks of Nepal,* An Unpublished Master's Thesis, Central Department of Management, T.U.

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

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

Shrestha, P. (2003), *Portfolio Analysis on Investment of Nepalese Commercial Banks,* An Unpublished Master's Thesis, Central Department of Management, T.U.

Upadhyaya, S. (2002), *A Study on Investment Policy of NIDC,* An Unpublished Master's Thesis, Central Department of Management, T.U.

Websites

www.fiscalreference.com/topics/investment_policy.htm

www.fpanet.org/journal/articles/2003_issues

www.investmentpolicy.com

www.oswego.edu/economic/journals.htm

www.sbmin.com

Annex 1
Total Investment to Total Deposit Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.0902	0.1416	0.0094	0.1480	0.2385	0.0678
2056/57	0.1089	0.2409	0.2815	0.1465	0.1901	0.2035
2057/58	0.0661	0.2399	0.3353	0.1212	0.1409	0.2928
2058/59	0.1737	0.2000	0.2165	0.1044	0.1583	0.2121
2059/60	0.1765	0.1734	0.3031	0.1135	0.1861	0.1436
2060/61	0.2243	0.1006	0.2844	0.1187	0.1554	0.1105
2061/62	0.2672	0.1255	0.3204	0.1159	0.1617	0.1771
2062/63	0.2823	0.1201	0.3080	0.0842	0.1650	0.1451
2063/64	0.0968	0.0951	0.2501	0.0863	0.1719	0.0898
2064/65	0.0240	0.1014	0.2845	0.1257	0.1472	0.1593

Source: Annual Reports of Finance Companies

Annex 2
Total Loan & Advances to Total Deposit Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	1.0132	0.9381	1.1356	1.5411	1.6574	0.0045
2056/57	0.9463	1.1141	0.7709	1.5904	1.0827	0.1478
2057/58	0.9201	1.1503	0.8032	1.3838	1.0608	0.3350
2058/59	0.9363	0.8814	0.9539	1.2108	0.9741	0.4267
2059/60	1.0115	1.0133	0.7567	1.0963	0.8181	0.5666
2060/61	0.8819	1.0503	0.9170	1.0215	0.9776	0.6298
2061/62	0.8690	0.8808	0.8092	1.0084	0.9263	0.5106
2062/63	0.6936	0.9359	0.7671	1.0347	0.9182	0.4392
2063/64	0.9685	0.8944	0.8779	0.9632	0.8554	0.4300
2064/65	1.0555	0.9494	0.8673	0.9933	0.9602	0.4760

Source: Annual Reports of Finance Companies

Annex 3
Hire Purchase to Total Investment and Loan & Advances Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.4608	0.1841	0.1374	0.3799	0.1562	-
2056/57	0.4473	0.0402	0.1786	0.1780	0.1151	-
2057/58	0.4772	0.0348	0.1270	0.1861	0.0957	0.0395
2058/59	0.4074	0.0586	0.0928	0.2432	0.1093	0.2776
2059/60	0.3701	0.0506	0.1053	0.2086	0.0892	0.3833
2060/61	0.3163	0.0367	0.1796	0.2980	0.0763	0.6029
2061/62	0.2641	0.0381	0.1778	0.1934	0.0546	0.4771
2062/63	0.2666	0.0320	0.0747	0.0948	0.0389	0.3771
2063/64	0.1674	0.0233	0.0780	0.1395	0.0310	0.3808
2064/65	0.0573	0.0196	0.0653	0.0989	0.0287	0.4129

Source: Annual Reports of Finance Companies

Annex 4
Government Securities to Total Investment and Loan & Advances Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.0261	0.1070	0.0082	0.0610	0.0793	0.3293
2056/57	0.0531	0.0811	0.2671	0.0699	0.1243	0.5211
2057/58	0.0475	0.1017	0.2696	0.0575	0.0647	0.2329
2058/59	0.0412	0.0706	0.1556	0.0403	0.0112	0.2155
2059/60	0.0411	0.0391	0.2078	0.0289	0.0040	0.1664
2060/61	0.0435	0.0230	0.1836	0.0220	0.0021	0.1120
2061/62	0.0491	0.0393	0.2403	0.0066	0.0016	0.2197
2062/63	0.0361	0.5570	0.2409	0.0065	0.0012	0.2071
2063/64	-	0.0405	0.1429	0.0068	0.0013	0.1143
2064/65	-	0.0508	0.1435	-	-	0.1246

Source: Annual Reports of Finance Companies

Annex 5
Term Loan to Total Investment and Loan & Advances Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.0668	0.4253	0.6014	0.1548	0.3920	-
2056/57	0.0488	0.3577	0.3503	0.2600	0.4759	-
2057/58	0.1100	0.3531	0.3299	0.2920	0.4066	0.2066
2058/59	0.1496	0.3141	0.3896	0.2856	0.3902	0.2171
2059/60	0.2098	0.2807	0.3325	0.3028	0.4271	0.2613
2060/61	0.2073	0.3367	0.2750	0.2188	0.4988	0.2144
2061/62	0.2371	0.3561	0.2837	0.2534	0.5021	0.1937
2062/63	0.1820	0.5256	0.2958	0.3936	0.5153	0.2638
2063/64	0.3838	0.5220	0.3190	0.4039	0.4993	0.2677
2064/65	0.5099	0.5086	0.3160	0.2883	0.4847	0.1156

Source: Annual Reports of Finance Companies

Annex 6
Real Estate Finance to Total Investment and Loan & Advances Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.3475	0.1996	0.1965	0.3446	0.3056	-
2056/57	0.3592	0.3817	0.1857	0.4557	0.2080	-
2057/58	0.3150	0.4042	0.1112	0.4137	0.3156	0.0567
2058/59	0.2449	0.4175	0.1613	0.3616	0.3268	0.0491
2059/60	0.2020	0.5055	0.2025	0.2822	0.2576	0.0319
2060/61	0.1851	0.5166	0.2379	0.2932	0.2647	0.0175
2061/62	0.1828	0.4581	0.1854	0.3519	0.2758	0.0453
2062/63	0.1934	0.2943	0.2439	0.3689	0.2807	0.0750
2063/64	0.3030	0.3203	0.2841	0.3428	0.2862	0.1072
2064/65	0.3831	0.3537	0.2993	0.3365	0.3413	0.1474

Source: Annual Reports of Finance Companies

Annex 7

Loan against Fixed Deposits to Total Investment and Loan & Advances Ratio

Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.0432	0.0599	0.0565	0.0332	0.0205	0.0617
2056/57	0.0416	0.0426	0.0179	0.0220	0.0517	0.4207
2057/58	0.0309	0.0353	0.1374	0.0277	0.0649	0.2309
2058/59	0.0416	0.0250	0.1713	0.0303	0.0339	0.1241
2059/60	0.0696	0.0171	0.0736	0.1125	0.0408	0.1213
2060/61	0.0886	0.0226	0.0707	0.0859	0.0231	0.0160
2061/62	0.0808	0.0229	0.0695	0.0983	0.0189	0.0263
2062/63	0.0687	0.0344	0.0991	0.0675	0.0128	0.0359
2063/64	0.0549	0.0382	0.0972	0.0316	0.0161	0.0714
2064/65	0.0275	0.0216	0.0725	0.1639	0.0123	0.0733

Source: Annual Reports of Finance Companies

Annex 8

Other Investment to Total Investment and Loan & Advances Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.0556	0.0242	-	0.0266	0.0464	0.6090
2056/57	0.0501	0.0967	0.0593	0.0145	0.0251	0.0582
2057/58	0.0195	0.0709	0.0249	0.0230	0.0525	0.2426
2058/59	0.1152	0.1144	0.0294	0.0391	0.1286	0.1165
2059/60	0.1075	0.1069	0.0783	0.0649	0.1813	0.0358
2060/61	0.1592	0.0644	0.0531	0.0821	0.1351	0.0373
2061/62	0.1861	0.0855	0.0433	0.0965	0.1471	0.0401
2062/63	0.2532	0.0580	0.0456	0.0687	0.1502	0.0412
2063/64	0.0909	0.0557	0.0789	0.0754	0.1660	0.0585
2064/65	0.0222	0.0457	0.1035	0.1124	0.0866	0.0940

Source: Annual Reports of Finance Companies

Annex 9
Total Liquidity to Total Deposit Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.0624	0.1247	0.1182	0.1816	0.1558	0.2497
2056/57	0.1223	0.1243	0.3215	0.2023	0.1931	0.2019
2057/58	0.1835	0.1584	0.3326	0.1746	0.1988	0.1666
2058/59	0.0705	0.1607	0.1918	0.1315	0.0336	0.1591
2059/60	0.0980	0.0567	0.3692	0.1034	0.1662	0.1265
2060/61	0.1719	0.0895	0.2393	0.0870	0.0710	0.1301
2061/62	0.1476	0.2274	0.4021	0.0819	0.0858	0.2173
2062/63	0.1587	0.6702	0.4783	0.0754	0.0673	0.2990
2063/64	0.1727	0.1480	0.2713	0.1375	0.1607	0.2256
2064/65	0.1150	0.1529	0.2300	0.1371	0.0946	0.1984

Source: Annual Reports of Finance Companies

Annex 10
Interest On Investment To Total Investment Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.0908	0.0607	0.5092	-	0.1240	0.0666
2056/57	0.0863	0.0407	0.0385	-	0.0494	0.0739
2057/58	0.1717	0.0439	0.1169	0.0042	0.1080	0.0901
2058/59	0.0758	0.0394	0.1404	0.0663	0.1082	0.1101
2059/60	0.1116	0.0293	0.0733	0.0698	0.1129	0.1164
2060/61	0.0726	0.0450	0.0883	0.0707	0.0808	0.0893
2061/62	0.0499	0.0233	0.0598	0.1007	0.0592	0.0527
2062/63	0.0630	0.0831	0.0953	0.1057	0.0499	0.0649
2063/64	0.1169	0.0889	0.1236	0.0830	0.0719	0.0741
2064/65	0.1794	0.0764	0.0549	0.0738	0.0610	0.0812

Source: Annual Reports of Finance Companies

Annex 11

Interest on Loan and Advances to Total Loan and Advances Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.1844	0.1352	0.0927	0.1198	0.1273	0.7822
2056/57	0.1931	0.1436	0.1504	0.1812	0.1766	0.0204
2057/58	0.0858	0.1970	0.1833	0.1683	0.2106	0.1119
2058/59	0.2109	0.1973	0.1468	0.1589	0.1578	0.1336
2059/60	0.2342	0.1603	0.1711	0.1721	0.1849	0.1579
2060/61	0.1691	0.1670	0.1360	0.1595	0.1481	0.1305
2061/62	0.1486	0.1850	0.1427	0.1536	0.1577	0.1520
2062/63	0.2816	0.1556	0.1334	0.1539	0.1460	0.1257
2063/64	0.1361	0.1297	0.1188	0.1553	0.1550	0.1222
2064/65	0.1080	0.1357	0.1145	0.1539	0.1230	0.1131

Source: Annual Reports of Finance Companies

Annex 12

Net Profit To Total Capital Employed Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.2857	0.0300	(0.0040)	0.0272	-	0.1791
2056/57	0.2714	0.2895	0.1374	0.1163	0.1194	0.1707
2057/58	(0.8165)	0.4105	0.2668	0.1622	0.2637	0.0111
2058/59	0.4519	0.3659	0.2624	0.1850	0.2568	0.0552
2059/60	0.5940	0.3391	0.1922	0.2539	0.1343	0.0813
2060/61	0.0002	0.3581	0.2381	0.2834	0.2695	0.2366
2061/62	0.0645	0.1820	0.0494	0.2602	0.2244	0.1439
2062/63	0.0287	0.1593	0.2029	0.2192	0.1757	0.1683
2063/64	0.1172	0.1526	0.1975	0.0203	0.1919	0.1407
2064/65	0.1368	0.2220	0.1168	0.1293	0.1887	0.0422

Source: Annual Reports of Finance Companies

Annex 13

Net Profit To Total Assets Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.0183	0.0036	(0.0008)	0.0248	-	0.0576
2056/57	0.0261	0.0210	0.0125	0.0386	0.0215	0.0284
2057/58	(0.0609)	0.0334	0.0219	0.0386	0.0349	0.0010
2058/59	0.0336	0.0320	0.0182	0.0314	0.0195	0.0048
2059/60	0.0532	0.0282	0.0152	0.0324	0.0108	0.0074
2060/61	0.0000	0.0290	0.0191	0.0296	0.0209	0.0177
2061/62	0.0068	0.0099	0.0059	0.0247	0.0198	0.0195
2062/63	0.0034	0.0171	0.0228	0.0208	0.0159	0.0249
2063/64	0.0167	0.0142	0.0236	0.0024	0.0217	0.0178
2064/65	0.0162	0.0205	0.0162	0.0151	0.0176	0.0058

Source: Annual Reports of Finance Companies

Annex 14

Operating Expenses to Total Revenues Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	0.0533	0.2861	0.0754	0.1966	0.1705	0.7500
2056/57	0.0831	0.1902	0.0449	0.1527	0.1334	0.4480
2057/58	0.1220	0.1228	0.0443	0.0899	0.0918	0.0976
2058/59	0.0821	0.1072	0.0448	0.0707	0.0874	0.0434
2059/60	0.0730	0.0908	0.0405	0.0768	0.0768	0.0389
2060/61	0.1066	0.0876	0.0426	0.0875	0.0705	0.0521
2061/62	0.1561	0.0887	0.0535	0.0919	0.0649	0.0440
2062/63	0.1120	0.0916	0.0595	0.0652	0.0663	0.0638
2063/64	0.1124	0.1082	0.0572	0.0685	0.0647	0.0740
2064/65	0.0832	0.0772	0.0684	0.0747	0.0645	0.0754

Source: Annual Reports of Finance Companies

Annex 15

Total Income To Total Expenditure Ratio

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	1.1597	1.0245	0.9912	1.3176	1.0000	0.6170
2056/57	1.2676	1.2104	1.1257	1.4125	1.1949	1.1319
2057/58	0.5596	1.3009	1.1706	1.4422	1.3542	1.0382
2058/59	1.2524	1.3413	1.1561	1.3849	1.2145	1.0170
2059/60	1.4868	1.3483	1.1677	11.0951	1.1104	1.0268
2060/61	1.0002	1.3229	1.1988	1.3629	1.2809	1.0958
2061/62	1.1233	1.1032	1.0722	1.3457	1.2441	1.0930
2062/63	1.0340	1.2276	1.3299	1.3109	1.2564	1.1306
2063/64	1.2329	1.2259	1.3022	1.1213	1.2532	1.1053
2064/65	1.2655	1.3352	1.3050	1.2847	1.3004	1.0328

Source: Annual Reports of Finance Companies

Annex 16

Cash Balance

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	230,265	294,283	604,968	922,819	64,650	101,171
2056/57	465,878	707,020	1,782,508	482,547	105,593	77,486
2057/58	343,480	1,983,097	2,893,391	241,012	1,848,348	370,092
2058/59	930,329	5,925,158	1,893,416	334,711	2,738,799	346,984
2059/60	978,512	1,731,752	1,290,575	345,393	17,841,833	349,720
2060/61	853,374	5,902,784	2,601,771	286,154	8,353,324	316,005
2061/62	855,260	5,934,021	4,311,899	546,869	7,298,354	764,496
2062/63	1,932,480	3,442,418	909,699	203,054	3,820,354	676,147
2063/64	930,127	902,231	943,951	486,124	12,780,281	537,762
2064/65	2,410,503	3,243,373	2,219,800	1,487,445	8,215,367	297,246

Source: Annual Reports of Finance Companies

Annex 17

Bank Balance

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	4,421,645	359,908	10,666,026	1,362,920	94,255	7,494,404
2056/57	10,194,563	10,627,446	9,727,304	2,270,660	2,225,465	1,449,001
2057/58	25,931,285	10,116,519	6,295,282	4,744,362	10,244,428	3,205,970
2058/59	3,933,962	27,064,465	2,675,984	6,925,160	1,603,511	3,646,587
2059/60	8,098,678	21,412,295	81,664,378	9,238,616	23,415,847	1,089,600
2060/61	22,291,302	35,347,265	7,798,456	11,770,908	12,082,299	11,068,912
2061/62	13,954,351	75,643,701	83,849,124	16,933,024	21,041,650	19,341,924
2062/63	15,622,857	29,998,363	170,152,445	16,134,184	22,275,444	66,763,457
2063/64	31,433,521	53,016,274	86,557,893	31,580,223	48,438,389	85,684,097
2064/65	36,395,786	53,696,032	48,263,915	32,548,366	34,997,068	53,930,441

Source: Annual Reports of Finance Companies

Annex 18

Total Investment

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	12,500,000	5,823,184	968,725	4,309,490	7,016,923	2,279,500
2056/57	17,500,000	22,621,000	80,020,222	4,981,080	12,688,756	16,451,700
2057/58	12,700,000	29,636,000	119,836,922	6,858,430	14,071,505	51,262,275
2058/59	34,151,018	42,646,000	101,781,761	9,655,050	32,755,624	39,443,730
2059/60	32,558,338	53,271,000	168,781,761	15,893,010	47,341,704	24,915,457
2060/61	41,940,691	33,941,000	157,950,925	23,140,410	46,252,529	26,658,791
2061/62	43,115,271	44,475,646	216,350,925	27,211,170	54,540,060	53,727,116
2062/63	40,115,271	49,000,000	240,195,485	20,186,279	65,151,497	54,962,538
2063/64	18,142,271	47,500,000	198,720,505	21,226,279	66,024,193	46,606,145
2064/65	8,086,350	58,092,900	221,703,200	31,222,824	67,276,489	85,834,424

Source: Annual Reports of Finance Companies

Annex 19

Total Loan and Advances

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	140,465,565	38,588,058	117,633,384	44,859,376	48,771,627	150,000
2056/57	152,126,326	104,593,823	219,114,190	54,079,631	72,264,552	11,948,032
2057/58	176,836,565	142,088,930	287,057,871	78,326,737	105,949,417	58,660,136
2058/59	184,122,254	187,972,390	448,364,402	111,996,946	201,550,603	79,363,258
2059/60	186,549,724	311,389,111	421,334,015	153,522,333	208,126,301	98,297,545
2060/61	164,914,512	354,386,660	509,232,368	199,154,832	291,000,299	151,936,970
2061/62	140,224,479	312,044,921	546,350,049	236,703,650	312,371,586	154,936,069
2062/63	98,579,609	381,855,730	598,255,930	248,104,135	362,659,593	166,398,592
2063/64	181,439,827	446,628,647	697,386,473	236,916,848	328,551,495	223,071,496
2064/65	356,290,926	543,684,769	675,956,974	246,669,013	438,796,719	256,446,920

Source: Annual Reports of Finance Companies

Annex 20

Investment on Government Securities

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	4,000,000	4,750,000	968,725	3,000,000	4,426,698	800,000
2056/57	9,000,000	10,321,000	79,886,700	4,126,685	10,558,479	14,800,000
2057/58	9,000,000	17,461,000	109,695,000	4,900,000	7,766,000	25,600,000
2058/59	9,000,000	16,271,000	85,600,000	4,900,000	2,620,000	25,600,000
2059/60	9,000,000	14,271,000	122,600,000	4,900,000	1,020,000	20,500,000
2060/61	9,000,000	8,941,000	122,500,000	4,900,000	699,000	20,000,000
2061/62	9,000,000	14,000,000	183,300,000	1,750,000	583,000	45,833,442
2062/63	5,000,000	240,000,000	202,000,000	1,750,000	499,000	45,833,442
2063/64	-	20,000,000	128,025,000	1,750,000	499,000	30,833,442
2064/65	-	30,592,900	128,770,000	-	-	42,648,296

Source: Annual Reports of Finance Companies

Annex 21

Hire Purchase Loan

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	70,492,948	8,174,041	16,298,882	18,677,220	8,712,727	-
2056/57	75,867,160	5,118,928	53,428,516	10,510,000	9,774,238	-
2057/58	90,438,394	5,979,104	51,676,026	15,853,183	11,484,914	4,339,575
2058/59	88,929,628	13,511,162	51,079,835	29,581,280	25,615,451	32,982,030
2059/60	81,090,632	18,446,745	62,133,062	35,342,518	22,775,921	47,223,849
2060/61	65,424,031	14,266,283	119,796,723	66,242,367	25,741,064	107,667,947
2061/62	48,414,424	13,587,398	135,646,116	51,029,308	20,036,200	99,563,596
2062/63	36,982,871	13,788,921	62,648,567	25,425,160	16,643,235	83,479,031
2063/64	33,404,759	11,536,904	69,882,267	36,014,703	12,240,304	102,704,227
2064/65	20,884,288	11,800,066	58,583,077	27,490,835	14,548,900	141,342,148

Source: Annual Reports of Finance Companies

Annex 22

Real Estate Finance

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	53,152,052	8,863,368	23,306,385	16,941,305	17,046,292	-
2056/57	60,929,961	48,553,725	55,554,673	26,911,285	17,674,105	-
2057/58	59,705,474	69,403,896	45,233,056	35,243,065	37,878,229	6,228,540
2058/59	53,450,224	96,279,641	88,734,491	43,990,928	76,571,840	5,839,242
2059/60	44,249,185	184,348,662	119,510,254	47,813,164	65,809,679	3,933,566
2060/61	38,281,379	200,597,920	158,742,824	65,186,500	89,256,111	3,128,917
2061/62	33,520,842	163,332,839	141,386,509	92,861,225	101,180,841	9,457,065
2062/63	26,823,330	126,807,668	204,529,004	98,981,234	120,085,136	16,591,947
2063/64	60,480,770	158,279,581	254,618,574	88,486,713	112,913,499	28,909,910
2064/65	139,606,310	212,832,518	268,683,038	93,517,044	172,737,477	50,458,071

Source: Annual Reports of Finance Companies

Annex 23
Term Loan

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	10,214,080	18,888,762	71,326,277	7,609,991	21,869,413	-
2056/57	8,278,393	45,499,876	104,779,376	15,358,578	40,426,977	-
2057/58	20,841,276	60,642,130	134,240,116	24,871,677	48,798,023	22,709,207
2058/59	32,658,632	72,426,056	214,331,446	34,741,937	91,415,812	25,793,606
2059/60	45,964,889	102,353,137	196,242,279	51,307,258	109,113,213	32,192,131
2060/61	42,879,509	130,742,428	183,506,943	48,629,263	168,208,704	38,291,477
2061/62	43,468,072	126,954,366	216,346,480	66,862,849	184,224,030	40,421,747
2062/63	25,245,826	226,453,727	247,974,980	105,598,427	220,470,110	58,389,334
2063/64	76,603,372	257,942,846	285,813,677	104,265,582	197,028,701	72,199,836
2064/65	185,780,904	306,056,776	283,643,036	80,124,839	245,304,614	39,564,735

Source: Annual Reports of Finance Companies

Annex 24
Loans against Fixed Deposits

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	6,606,485	2,661,887	6,701,839	1,630,859	1,143,195	150,000
2056/57	7,050,812	5,421,294	5,351,625	1,299,768	4,389,232	11,948,032
2057/58	5,851,421	6,063,800	55,908,673	2,358,811	7,788,252	25,382,814
2058/59	9,083,770	5,755,531	94,218,630	3,682,801	7,947,500	14,748,380
2059/60	15,245,018	6,240,567	43,448,420	19,059,394	10,427,488	14,948,000
2060/61	18,329,593	8,780,029	47,185,878	19,096,702	7,794,420	2,848,628
2061/62	14,821,141	8,170,318	52,970,944	25,950,268	6,930,515	5,493,662
2062/63	9,527,582	14,805,414	83,103,379	18,099,314	5,461,112	7,938,280
2063/64	10,950,926	18,869,315	87,071,955	8,149,850	6,368,991	19,257,523
2064/65	10,019,423	12,995,408	65,047,823	45,536,295	6,205,728	25,081,966

Source: Annual Reports of Finance Companies

Annex 25

Other Investments

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	8,500,000	1,073,184	-	1,309,490	2,590,225	1,479,500
2056/57	8,500,000	12,300,000	17,733,522	854,395	2,130,277	1,651,700
2057/58	3,700,000	12,175,000	10,141,922	1,958,430	6,305,505	26,662,275
2058/59	25,151,018	26,375,000	16,181,761	4,755,050	30,135,624	13,843,730
2059/60	23,558,338	39,000,000	46,181,761	10,993,010	46,321,704	4,415,457
2060/61	32,940,691	25,000,000	35,450,925	18,240,410	45,553,529	6,658,791
2061/62	34,115,271	30,475,646	33,050,925	25,461,170	53,957,060	8,360,850
2062/63	35,115,271	25,000,000	38,195,485	18,436,279	64,270,317	9,129,096
2063/64	18,142,271	27,500,000	70,695,505	19,476,279	65,508,730	15,772,703
2064/65	8,086,350	27,500,000	92,933,200	31,222,824	43,820,236	32,186,128

Source: Annual Reports of Finance Companies

Annex 26

Total Interest Income

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	27,377,513	5,614,375	11,403,162	5,733,649	7,077,614	492,431
2056/57	31,244,238	16,247,715	36,036,294	10,246,020	13,389,203	1,616,144
2057/58	17,717,888	30,850,973	66,616,345	13,801,340	23,836,551	11,275,337
2058/59	41,819,322	40,507,638	80,100,542	19,012,167	35,355,916	15,045,507
2059/60	47,698,253	53,459,119	84,468,069	28,115,356	43,823,988	18,491,418
2060/61	31,762,542	64,147,098	83,212,923	33,989,250	46,847,531	22,384,449
2061/62	25,398,902	62,710,377	90,882,055	39,107,101	52,472,878	26,898,607
2062/63	31,718,140	63,489,566	102,702,959	40,315,132	56,187,799	26,232,241
2063/64	26,947,864	62,134,002	107,707,555	38,548,009	55,673,558	110,929,493
2064/65	39,919,350	78,204,200	89,984,685	40,257,258	58,061,231	101,467,976

Source: Annual Reports of Finance Companies

Annex 27

Interest Income on Investment

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	1,135,148	353,611	493,308	-	870,282	151,810
2056/57	1,509,989	921,513	3,080,380	-	626,689	1,215,985
2057/58	2,180,927	1,300,941	14,008,290	28,480	1,520,204	4,616,725
2058/59	2,588,078	1,679,312	14,286,349	640,086	3,545,085	4,341,991
2059/60	3,634,147	1,560,445	12,368,767	1,109,569	5,346,679	2,900,415
2060/61	3,046,568	1,527,516	13,940,548	1,636,140	3,738,320	2,381,014
2061/62	2,153,254	1,037,337	12,936,465	2,739,930	3,226,916	2,832,951
2062/63	2,526,712	4,070,445	22,897,863	2,134,629	3,249,154	3,564,400
2063/64	2,121,625	4,223,705	24,566,704	1,762,171	4,748,837	3,453,790
2064/65	1,450,426	4,435,482	12,175,406	2,304,765	4,101,364	6,968,656

Source: Annual Reports of Finance Companies

Annex 28

Interest Income on Loan and Advances

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	25,903,629	5,216,904	10,909,854	5,372,416	6,207,332	117,335
2056/57	29,379,329	15,023,265	32,955,914	9,798,711	12,762,514	243,432
2057/58	15,174,018	27,986,005	52,608,055	13,183,085	22,316,347	6,561,856
2058/59	38,839,945	37,079,558	65,814,193	17,799,081	31,810,831	10,600,740
2059/60	43,683,368	49,915,608	72,099,302	26,422,038	38,477,309	15,517,068
2060/61	27,892,627	59,189,697	69,272,375	31,769,360	43,109,211	19,832,552
2061/62	20,838,014	57,732,343	77,945,590	36,367,171	49,245,962	23,546,966
2062/63	27,764,270	59,419,121	79,805,096	38,180,503	52,938,645	20,920,922
2063/64	24,696,516	57,910,297	82,816,327	36,785,838	50,924,721	27,258,301
2064/65	38,468,924	73,768,718	77,418,767	37,952,493	53,959,867	29,002,974

Source: Annual Reports of Finance Companies

Annex 29

Other Incomes (Commission & Discount Received, Non Operating and Other Income)

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	2,767,521	1,911,635	1,193,055	1,896,792	1,747,206	4,874,189
2056/57	2,358,292	3,982,966	6,915,614	1,570,234	557,370	26,842,476
2057/58	2,354,742	4,285,996	10,658,757	1,951,902	1,316,827	30,215,897
2058/59	1,563,596	5,592,980	15,348,885	2,629,359	2,826,395	60,523,339
2059/60	1,316,450	5,014,518	17,645,483	3,540,971	3,646,209	54,076,722
2060/61	1,178,391	6,124,270	22,632,309	4,701,308	6,628,684	51,630,548
2061/62	2,676,276	2,879,912	13,803,957	3,744,404	5,221,389	70,286,558
2062/63	3,508,900	3,046,654	19,263,777	4,063,446	3,689,700	77,969,243
2063/64	6,949,277	3,780,201	16,683,560	3,902,817	6,237,277	6,142,583
2064/65	9,793,945	2,943,262	14,802,442	6,015,810	4,528,510	16,810,391

Source: Annual Reports of Finance Companies

Annex 30

Net Profit

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	3,143,615	180,043	(112,057)	1,336,825	-	3,331,075
2056/57	5,250,547	2,822,749	4,271,655	2,453,894	2,064,037	3,316,970
2057/58	(15,799,478)	6,067,791	9,564,753	3,566,467	4,879,101	220,634
2058/59	8,743,951	8,369,241	10,621,976	4,264,841	5,076,809	1,133,857
2059/60	13,667,519	10,697,124	11,010,804	6,249,499	3,495,894	1,705,042
2060/61	4,219	12,408,410	14,185,836	7,507,000	8,168,577	5,274,887
2061/62	1,687,086	4,586,754	5,199,515	7,411,279	8,023,915	7,442,281
2062/63	773,080	8,595,308	23,361,153	6,770,081	7,414,495	12,033,809
2063/64	4,664,156	8,515,847	23,847,793	830,678	10,022,001	11,157,699
2064/65	7,046,155	13,953,472	16,003,518	5,390,926	9,670,880	3,754,757

Source: Annual Reports of Finance Companies

Annex 31

Total Deposits

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	138,631,752	41,134,644	103,589,347	29,108,510	29,426,243	33,621,074
2056/57	160,751,131	93,884,438	284,248,148	34,003,370	66,744,641	80,855,258
2057/58	192,196,187	123,523,631	357,401,875	56,601,716	99,873,581	175,093,006
2058/59	196,649,398	213,255,950	470,043,795	92,495,800	206,909,639	185,995,331
2059/60	184,430,138	307,302,545	556,811,575	140,041,216	254,397,678	173,494,212
2060/61	187,002,549	337,419,949	555,337,981	194,963,643	297,666,345	241,236,319
2061/62	161,365,028	354,274,398	675,150,919	234,741,283	337,209,272	303,454,273
2062/63	142,117,437	408,026,982	779,903,302	239,779,429	394,968,521	378,851,511
2063/64	187,346,174	499,338,208	794,415,942	245,981,153	384,102,452	518,781,648
2064/65	337,566,922	572,653,020	779,379,641	248,324,243	456,994,325	538,734,681

Source: Annual Reports of Finance Companies

Annex 32

Total Assets

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	172,120,495	49,402,181	139,145,888	53,853,990	62,685,944	57,828,745
2056/57	201,532,394	134,233,377	341,128,088	63,538,617	95,789,060	116,800,003
2057/58	259,634,560	181,884,618	436,643,522	92,331,507	139,918,491	210,678,780
2058/59	260,364,060	261,156,153	584,873,506	136,019,267	259,788,971	238,200,244
2059/60	256,942,823	378,836,103	722,031,255	193,000,242	323,874,248	229,753,667
2060/61	268,082,717	427,458,512	742,678,343	253,870,239	389,927,632	298,455,837
2061/62	247,514,259	461,158,223	885,869,529	300,213,102	405,530,878	381,846,569
2062/63	225,805,123	503,402,473	1,025,086,222	325,718,365	467,073,259	484,199,497
2063/64	279,394,294	600,086,438	1,009,018,403	346,137,728	460,960,482	625,341,506
2064/65	435,499,555	681,838,390	985,160,439	356,801,333	550,737,762	648,702,792

Source: Annual Reports of Finance Companies

Annex 33

Share Capital

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	10,000,000	6,000,000	28,168,500	20,000,000	11,250,000	18,600,000
2056/57	13,000,000	9,000,000	29,914,000	20,000,000	17,121,500	18,600,000
2057/58	17,000,000	12,000,000	30,000,000	20,000,000	17,121,500	18,600,000
2058/59	17,000,000	18,000,000	30,000,000	20,000,000	17,121,500	19,000,000
2059/60	17,000,000	24,000,000	45,000,000	20,000,000	22,499,500	19,000,000
2060/61	20,000,000	24,000,000	45,000,000	20,000,000	24,750,000	19,000,000
2061/62	20,000,000	24,000,000	90,000,000	20,000,000	27,750,000	45,500,000
2062/63	20,000,000	40,000,000	90,000,000	20,000,000	31,500,000	59,722,500
2063/64	31,325,500	40,000,000	90,000,000	30,000,000	31,500,000	65,982,983
2064/65	40,000,000	40,000,000	90,000,000	30,000,000	31,500,000	72,514,759

Source: Annual Reports of Finance Companies

Annex 34

Reserve and Surplus

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	1,003,248	4,500	-	29,108,510	-	-
2056/57	6,349,637	750,698	1,168,198	1,095,731	159,981	829,242
2057/58	2,349,637	2,782,532	5,855,370	1,987,348	1,379,756	1,210,491
2058/59	2,349,637	4,874,842	10,477,346	3,053,558	2,648,959	1,549,114
2059/60	6,009,403	7,549,123	12,298,864	4,615,933	3,522,932	1,975,374
2060/61	6,874,907	10,651,226	14,586,631	6,492,683	5,565,076	3,294,096
2061/62	6,170,415	1,197,915	15,286,146	8,485,215	8,007,538	6,235,118
2062/63	6,943,495	13,946,742	25,147,299	10,882,172	10,697,033	11,765,669
2063/64	8,475,061	15,805,886	30,760,095	11,002,807	20,719,034	13,334,927
2064/65	11,521,215	22,853,957	47,022,895	11,679,508	19,759,039	16,431,311

Source: Annual Reports of Finance Companies

Annex 35

Total Income

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	30,145,034	7,526,010	12,596,217	7,630,441	8,824,820	5,366,620
2056/57	33,602,530	20,230,681	42,951,908	11,816,254	13,946,573	28,458,620
2057/58	20,072,630	35,136,969	77,275,102	15,753,242	25,153,378	41,491,234
2058/59	43,382,918	46,100,618	95,449,427	21,641,526	38,182,311	75,568,846
2059/60	49,014,703	58,473,637	102,113,552	31,656,327	47,470,197	72,568,140
2060/61	32,940,933	70,271,368	105,845,232	38,690,558	53,476,215	74,014,997
2061/62	28,075,178	65,590,289	104,686,012	42,851,505	57,694,267	97,185,165
2062/63	35,227,040	66,536,220	121,966,736	44,378,578	59,877,499	104,201,484
2063/64	33,897,141	65,914,203	124,391,115	42,450,826	61,910,835	117,072,076
2064/65	49,713,295	81,147,462	104,787,127	46,273,068	62,589,741	118,278,367

Source: Annual Reports of Finance Companies

Annex 36

Total Expenses exp - Profit - Income Tax Provision

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	25,993,419	7,345,967	12,708,274	5,791,100	8,824,820	8,697,695
2056/57	26,509,618	16,714,120	38,157,066	8,365,277	11,671,364	25,141,650
2057/58	35,869,626	27,009,635	66,014,925	10,922,820	18,574,240	39,966,240
2058/59	34,638,967	34,371,302	82,558,693	15,627,245	31,439,477	74,309,005
2059/60	32,965,642	43,368,040	87,446,251	2,853,192	42,751,941	70,673,649
2060/61	32,934,893	53,118,035	88,291,556	28,389,352	41,748,896	67,542,900
2061/62	24,993,546	59,453,133	97,638,028	31,842,345	46,372,899	88,915,964
2062/63	34,068,961	54,199,859	91,711,290	33,854,336	47,657,278	92,167,676
2063/64	27,492,985	53,769,965	95,522,064	37,858,733	49,403,862	105,914,377
2064/65	39,283,052	60,777,430	80,297,067	36,019,926	48,130,772	114,523,610

Source: Annual Reports of Finance Companies

Annex 37
Operating Expenses

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	1,607,858	2,153,106	949,425	1,500,407	1,505,015	4,024,830
2056/57	2,791,955	3,846,882	1,926,980	1,804,093	1,860,227	12,749,147
2057/58	2,448,895	4,313,717	3,420,097	1,416,472	2,309,583	4,047,924
2058/59	3,562,314	4,943,402	4,272,128	1,529,623	3,335,328	3,282,794
2059/60	3,576,616	5,308,668	4,132,288	2,429,931	3,645,063	2,825,279
2060/61	3,510,068	6,155,043	4,509,667	3,384,645	3,769,802	3,854,616
2061/62	4,383,242	5,820,195	5,602,706	3,935,955	3,742,362	4,273,250
2062/63	3,945,464	6,092,722	7,252,609	2,894,881	3,969,781	6,647,296
2063/64	3,810,213	7,129,917	7,117,856	2,909,137	4,007,127	8,664,268
2064/65	4,136,626	6,265,139	7,163,981	3,458,610	4,034,775	8,923,441

Source: Annual Reports of Finance Companies

Annex 38
Total Liquidity
Cash Bank & HMG Securities

Fiscal Year	People's Finance	Shree Investment and Finance	Ace Finance	Kathmandu Finance	Universal Finance	Union Finance
2055/56	8,651,910	5,131,007	12,239,719	5,285,739	4,585,603	8,395,575
2056/57	19,660,441	11,666,734	91,396,512	6,879,891	12,889,537	16,326,487
2057/58	35,274,765	19,560,616	118,883,673	9,885,373	19,858,777	29,176,061
2058/59	13,864,290	34,260,623	90,169,400	12,159,871	6,962,310	29,593,571
2059/60	18,077,190	17,415,047	205,554,953	14,484,008	42,277,680	21,939,320
2060/61	32,144,677	30,191,049	132,900,227	16,957,062	21,134,623	31,384,917
2061/62	23,809,611	80,577,722	271,461,023	19,229,893	28,923,004	65,939,862
2062/63	22,555,337	273,440,781	373,062,144	18,087,238	26,594,798	113,273,046
2063/64	32,363,648	73,918,505	215,526,844	33,816,347	61,717,670	117,055,301
2064/65	38,806,289	87,532,305	179,253,715	34,035,811	43,212,435	106,875,983

Source: Annual Reports of Finance Companies