Investment Policy of Finance Companies in Nepal

A Thesis

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Master of Business Studies (MBS)**

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DECLARATION

I hereby declare that the work reported in this thesis entitled
"**Investment Policy of Finance Companies in Nepal**" submitted to
Ramsworup Ramsagar Campus, faculty of Management, Tribhuvan University, is my
original work done in the form of partial fulfillment of the requirement for the degree
of Master of Business Studies (MBS) under the supervision of Mr. Binod Lal Karn.

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RECOMMENDATION

This is to certify that the Thesis

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Entitled

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has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA – VOCE SHEET

We have conducted the viva – voce examination of the thesis presented by

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and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for the requirement of the degree of Master of Business Studies (MBS)

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LIST OF ABBREVIATIONS

Adv.	- Advances
ANOVA	- Analysis of Variance
BJFL	- Birgunj Finance Limited
BUFL	- Butwal Finance Limited
CV	- Coefficient of Variation
FD	- Fixed Deposit
FY	- Fiscal Year
GDP	- Gross Domestic Product
Govt.	- Government
Inv.	- Investments
LSD	- Least Significance Difference
MFL	- Mahalaxmi Finance Limited
NRB	- Nepal Rastra Bank
SD	- Standard Deviation
SFL	- Siddhartha Finance Limited
SIFCL	- Shree Investment and Finance Company Limited
UFL	- United Finance Limited
USA	- United State of America

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1. Introduction

1.1. Background

The word "Investment" is the most used terms among the people who want to earn more and more by sacrificing their present consumption. So, Investment is the sacrifice of present consumption for future income. It is the use of capital for the purpose of making more money i.e. to gain income or increase the capital. "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 Encyclopedia CD; 2007)

There are four dimensions of Investment, they are: Profit, Risk, Speculation and Wealth. *"The investment, generally, has a higher risk than saving and 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; 2001: 2). *"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: 3)

"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 in the expectation of extra cash coming in the future." (Dixon; 1994: 2)

"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: 2). "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; 2003: 1). "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: 1)

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 labor in productive activity. Thus, enterprise can be seen as a collection of investment projects with the expectation of receiving a return commensurate with the risk involved.

"The essence of investment is to give up current resources in anticipation of generating a larger quantity of future resources. But all the investments are not made with the intension 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 art and in education. 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; 1987: 5)

"Investment is the expenditure 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 labor and leads to a higher standard of living. It is necessary for production, employment and income generation." (Rose; 2000: 1)

"Investment policy is the plan that directs an investor's effort 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; 2003: 13)

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)

"A comprehensive investment policy should address a group of issues that includes": (Sharpe; 2003: 13)

- **Mission Statement**

  A description of long - run financial goals.

- **Risk Tolerance**

  The amount of risk, 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 group of securities expected to exceed the performance of specified benchmarks.

1.2. Focus of the Study

This study will focus on the investment practices and policies of Financial Institutions, especially Finance Companies in Nepal to analyze whether they are utilizing their available funds successfully.

When the government adopted the liberal policy for the growth and development of financial institutions, many finance companies with commercial banks and development banks emerged and been established. And lots of institutions are being emerges in the country. During this study period, about 80 finance companies are

being operated all over the country. And about dozen more are under process to start operation.

This study mainly focuses on the investment scenario of finance companies to highlight their investment practices for mobilizing of fund. It also analyze whether the return from investment is appropriate for them or not. Thus, this study evaluates the performance of finance companies.

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

1.3. Statement of the Problem

Without establishment and sound operation of financial institutions, economic growth of the country is not possible. Many financial institutions have been established in our country for the economic development. Financial institutions help the economy of the country by capital formation and its proper utilization. But Nepal is suffering from such a problem, financial institutions are not being able to operate in full fledge, even there are about 80 finance companies registered in the central bank, only few of them are being operated in real sense. And most of finance companies are not being able to invest in the productive sector. The development of the country is possible only if such financial institutions are able to invest in productive sectors.

There is a trend in Nepalese finance companies that they only rely upon the instructions and directives of Nepal Rastra Bank. They don't have their own clear policies and vision towards investment portfolio optimization. There are no any investment policies in an organized manner formulated by any finance company.

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. Nepal is also known as capital scarce country. 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: 15)

There are many problems in resource mobilization by financial institutions in Nepal. The major one is the poor investment climate due to heavy regulatory procedure. Before investing, the financial institutions have to investigate about the various risk associated with it like financial risk, business risk etc., if such risks are not taken in consideration and ignored, then there is chance of capital loss. Thus, unsecured loan and investment may cause the liquidation of those institutions. The central bank of Nepal, Nepal Rastra Bank is also playing important role to make these institutions to invest their funds in productive sector. Nepal Rastra Bank has issued various regulations and directives to have sufficient liquidity and security.

Generally all finance companies are following the same practices for investment portfolios. Due to this, it has created the problems of investment management for the finance companies. And the finance companies are not achieving desired results in their resource mobilizations and returns on investments. Such competition is increasing very fast due to increase the number of finance companies but the investment opportunity is not increasing comparatively.

There have been various studies conducted in this topic. Most of the earlier studies are concentrated only on the investment patterns, but not focused to show their relationship between the companies and investment sectors. This study attempts to fill the gap and will be helpful for financial institutions, investors, public and researchers to avail their requirement.

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

- What type and pattern of investment is adopted by finance companies in Nepal?

) The effectiveness and efficiency of investment practices in finance companies.

) The relationship between investment, and loans and advances with deposits and net profit.

) How investment practice affects the total earnings of the finance companies?

1.4. Objectives of the Study

The objectives of this study are:

) To summarize the overall investment practices of the finance companies in Nepal

) To analyze and examine the investment practices of the finance companies in Nepal

) To analyze the relationship between investment, loan and advances and deposits, and its effects to profitably of finance companies in Nepal

1.5. Limitations of the Study

Every study has its own limitations. It is impossible to conduct a study without any limitations. 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. So, within the speculative time the report has to be completed which weakens the adequacy of the study

) The study covers only a period of six years from FY 2060/61 to 2065/66 and conclusion drawn confines to above period only

) The whole study is based on the secondary data, so the accuracy of the data is based on the reliability of the sources

) Six leading finance companies have been chosen for this study. Therefore it is assumed that these finance companies represent all other finance companies

1.6. Scheme of the Study

The entire study has been organized and presented into five chapters.

First Chapter

First chapter includes the introduction part. It comprises of background of investment and investment policy and practices, focus of the study, statement of problems, objectives of the study, and limitations of study and scheme of the study.

Second Chapter

Second chapter deals with the review of available literature. It comprises of conceptual review about investment and investment practices, historical background, growth and development, functions, characteristics, sources and uses of fund and its presence in Nepal. It also includes review from journals, articles and unpublished master's dissertations.

Third Chapter

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

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

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

Besides these chapters, bibliography and appendix will be presented at the end.

2. Review of Literature

2.1. Conceptual Review

2.1.1. Investment and Investment Policies

Generally, finance companies collect fund from general public and business houses as different type of deposits and the collected fund is invested in different productive sectors as loans to customers and investment on different securities. Thus, the profitability of finance companies depends upon its sound investment policy and practice.

"Investment, in its broadest sense, means the sacrifice of the certain present value for (possibly uncertain) future values." (Sharpe; 2003: 1)

"Investment is the employment of funds with the aim of achieving additional income of growth in value." (Singh; 1991: 1)

"The term investing can cover a wide range of activities. It often refers to investing money in certificates of deposit, 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: 2)

By summarizing the above definitions, it is clear that investment is the mobilization of present fund to gain benefits in the future. Thus, finance companies directly deal in investment of the collected funds in profitable, marketable and secured sector.

"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 pawing of watch and the planting of a field of corn. Some investment are simple transaction among people, other involved 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: 2)

To earn more in future, one has to invest in different types of securities. And for investment, one should prepare proper investment policy.

In case of finance companies, the definition of Chandler, 1973 is suitable- "A banker seeks optimum combination of earning, liquidity and safety, while formulating investment policy." (Chandler; 1973: 72)

"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: P 18)

"The investment policy should specify precisely what meant by the investment portfolio – that is, what assets compose the investment portfolio."(Rose and Fraser; 1985: 27) 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 institutions 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 practice 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 wiling to accept a relatively low return.

Now, take a look over return and risk

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 by the following formula:

$$\text{Rate of Return (R) X} \frac{P_t \, ZP_{t-1} \, \Gamma I}{P_{t-1}}$$

Where,
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).

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

a) 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 customers 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: 7)

b) Interest Rate Risk
The volatility of bond prices due to 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: 8)

c) *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: P 8)

"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." (Fabozzi and Markowitz; 2002: 23)

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 maximum on the level of the risk exposure or a permissible range for the risk measure relative to the benchmark.

b) Regulatory Constrains

There are many types of regulatory constrains. These involve constrains 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 practices. 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.

"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.fpnet.org/journal/articles/2007_issues).

The investment policy statement serves four basic purposes

a) **Identifying Objectives:** To establish clear, reasonable and definable expectations, risk and return objectives, and guidelines for the investment of the assets.

b) **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.

c) **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.

d) **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.

There are many types of investment media or channels for making investments are available. They are: (Singh; 1991: 8)

1. Direct Investment Alternative

    a. Fixed Principal Investments

        i. Cash

        ii. Saving Accounts

        iii. Government Bonds

        iv. Corporate Bonds and Debenture

    b. Variable Principal Securities

        i. Preference Shares

        ii. Equity Shares

        iii. Convertible Debenture of Preference Securities

    c. Non Security Investments

        i. Real Estate

        ii. Mortgages

        iii. Commodities

        iv. Business Ventures

        v. Art, Antiques and Other Valuables

2. Indirect Investment Alternatives

    a. Pension Fund

    b. Providend Fund

    c. Insurance

    d. Investment Companies

    e. Unit Trust and Other Trust Funds

2.1.2. Features of a Sound Lending and Investment Practices

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

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

a) **Safety and Security:** The financial institution 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 financial institution 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 investment and lending. So, they must invest their fund where they gain maximum profit. The profit of these institutions mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

c) **Liquidity:** Depositors deposit their money in financial institutions with the confidence that they can withdraw their money when they need. To maintain such confidence of the depositors, the institution must consider this point while investing its 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 financial institution. If borrower misuse the loan granted by these institutions, they can never repay in time and the institution 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 its eggs on the same basket". The statement is very important for the financial institutions and it should always be careful not to grant loan in only one sector. To minimize risk, diversification of its investment in different sectors should be adopted.

Diversification of loan helps to sustain loss according to the law of average because if securities of a company are 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 does not 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 financial institution should prefer tangible security to intangible one.

g) **Legality:** Illegal securities will bring out many problems for the investor. The financial institutions must follow the rules and regulations as well as different guidelines and directives issued by the governing body Nepal Rastra Bank and other concerning bodies while mobilizing its fund.

2.1.3. Finance Companies and Investment Practices

In Nepal, finance companies provide short and intermediate term credit to consumers. Although other types of financial institutions like commercial banks and development banks also provide such services but the finance companies are specialized in it. Most of the finance companies are being operated with a single office and they have to compete with banks, saving institutions, credit unions etc that provide loans to

consumers. The main sources of fund of finance companies are from the loans from banks, sale of commercial paper, bonds and capital. Likewise, the main uses of funds of finance companies are consumer loan, business loan, leasing and real estate loans.

"The early finance companies provided services that commercial banks did not, pioneering the field of asset-based lending for industrial firms, business firms and individuals. Major manufacturers of vehicle and other consumer products developed well-functioning captive finance companies. Now a day, consumers may obtain small loans for a wide variety of purposes and larger second mortgage loans. Through finance companies, consumers may also purchase high-ticket items and arrange financing with retail installment contracts. Some finance companies issue credit cards and own saving 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: 12)

"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 equipments, retail inventories, and home repair 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 price. 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: 46)

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; 1995: 118). "Finance companies, which although now designated as banks which 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; 1995: 103)

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 there 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 year 1850, the Famous Singer Sewing Machine Company also sold its sewing machine payable on installments 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 the 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 consumers' durables such as automobiles, boats and household appliances." (Ranlett; 1990: 75)

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 efficiency to accomplish their objectives.

Most governments of South Asian countries have enacted legislation to protect both depositors and investors in this invested industry. Singapore and Malaysia have enacted protective legislation regulating all finance companies. The Hong Kong requires a banking license 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, portfolio management, mutual fund management, 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 receivables. "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 firms' original customer was not aware of this arrangement, the technique became known as non-notification accounts receivables 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: 46)

Sales Finance Companies:

Commercial banks did not offer automobile loans as they were considered to be consumer purchase, not productive investment. "Commercial finance companies started sales finance department 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: 48)

"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 durables from the dealer 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: 79)

Consumer Finance Companies:

"Consumer finance companies made loans available to wage earners on the basis of their gainful employment for purposes including medical expenses 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: 48)

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 labor union membership. Funds are derived almost entirely from members' share accounts, which typically 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 an saving and loan shares." (Ranlett; 1990: 80)

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 deposits. In Philippines also general publics are allowed to deposit as a result of passage in 1993 of a truth in lending act. (Triffin; 1996: 65)

2.1.6. Finance Companies of Nepal

Finance companies, licensed under the finance companies act 2042 (Now, licensed under Bank and Financial Institution Act 2063), are the second largest group of deposit taking financial institutions in Nepal. Though the finance companies act was published in gazette in 2042 (finance company act, 2042). The real establishment and functioning come only after the economic liberalization policy of the government in the 8th plan (National Planning Commission, eight plan, 2049-053).

In Nepal, various financial institutions are in operation from many years. Finance companies came in operation under the Financial 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 Nepal Rastra Bank. 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, equipments, and consumer durables 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 year 2003, there were 58 finance companies, of which 37 were based in Kathmandu. At that time, the minimum paid-up capital for the finance companies were fixed at rupees 150 million, 50 million, 20 million and 10 million for leasing and finance companies 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 deposits 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 operations 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, 1999/00).

2.1.7. Functions of Finance Company

According to Bank and financial institution Act, 2063, 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 buildings 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 loan-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 Transaction Act, 2040.
6. To mobilize savings and
7. To perform merchant banking functions by taking per-consent from Nepal Rastra Bank and Security Exchange Board of Nepal.

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 loans, 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 prior approval of the central bank to supplement their financial resources.

Investment in Government Securities
Finance companies make investment in government securities and NRB bond.

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 number of finance companies has been increased.

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: 144)

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 rupees 13.05 billion, of which 74.6 percent is the public deposit. The capital fund was rupees 1.73 billion and deposit liability was rupees 9.74 billion. Finance companies borrowed fund from commercial banks only. Total borrowing was rupees 175.9 million and other liabilities were rupees 1.41 billion.

On the use side aggregate liquid assets of finance companies were rupees 1.74 billion. The aggregate investment was rupees 1.13 billion, of which 74.60 percent was invested in government securities. The loan and advances occupied 69.40 percent of

the total uses of funds. It was rupees 9.06 billion. Of the total loans and advances, 46.70 percent accounted for term loan, 25.90 percent for housing, 18.10 percent for hire-purchase, 2.60 percent for leasing and the rest 6.70 percent for other purposes. Other assets of finance companies were rupees 1.13 billion.

(Banking and Financial Statistics No 35, NRB; 2000)

In the fiscal year 2001/02, there were 54 finance companies operating. The aggregate source of funds of finance companies was recorded to rupees 18.45 billion, of which 72.90 percent is the public deposit. The capital fund was rupees 2.90 billion and deposit liability was rupees 13.50 billion. Total borrowing was rupees 244.80 million and other liabilities were rupees 1.8 billion.

On the use side aggregate liquid assets of finance companies were rupees 2.90 billion. The aggregate investment was rupees 1.60 billion, of which 93.30 percent was invested in government securities. The loan and advances occupied 64.80 percent of the total uses of funds. It was rupees 12.00 billion. Of the total loans and advances, 44.30 percent accounted for term loan, 26.30 percent for housing, 20.40 percent for hire-purchase, 3.00 percent for leasing and the rest 6.00 percent for other purposes. Other assets of finance companies were rupees 2.02 billion.

(Banking and Financial Statistics No 39, NRB; 2002)

In the fiscal year 2004/05, there were 60 finance companies operating. The aggregate source of funds of finance companies was recorded to rupees 30.43 billion, of which 73.40 percent is the public deposit. The capital fund was rupees 4.25 billion and deposit liability was rupees 22.35 billion. Total borrowing was rupees 990.80 million and other liabilities were rupees 1.94 billion.

On the use side aggregate liquid assets of finance companies were rupees 3.90 billion. The aggregate investment was rupees 2.41 billion, of which 23.53 percent was invested in government securities. The loan and advances occupied 69.73 percent of the total uses of funds. It was rupees 21.22 billion. Of the total loans and advances, 46.87 percent accounted for term loan, 32.10 percent for housing, 16.92 percent for

hire-purchase, 1.16 percent for leasing and the rest 2.95 percent for other purposes. Other assets of finance companies were rupees 2.90 billion.

(Banking and Financial Statistics No 45, NRB; 2005)

In the fiscal year 2006/07, the number of finance companies reached to 74. The aggregate sources of fund were rupees 53.47 billion. The capital fund was rupees 5.38 billion and public deposit was rupees 34.51 billion. The aggregate borrowing from commercial banks was rupees 270.79 million and other liabilities were rupees 8.34 billion.

On the uses side, the loan and advances amount to rupees 35.61 billion. The aggregate investment amount to rupees 1.22 billion and the liquid assets amount to rupees 7.51 billion. The other assets were rupees 2.61 billion.

(Banking and Financial Statistics No 49, NRB; 2007)

In the fiscal year 2007/08, the number of finance companies reached to 78. The aggregate sources of fund were rupees 80.38 billion. The capital fund was rupees 7.44 billion and public deposit was rupees 52.28 billion. The aggregate borrowing from commercial banks was rupees 357.73 million and other liabilities were rupees 13.24 billion.

On the uses side, the loan and advances amount to rupees 51.49 billion. The aggregate investment amount to rupees 717.5 million and the liquid assets amount to rupees 17.74 billion. The other assets were rupees 2.93 billion.

(Banking and Financial Statistics No 51, NRB; 2008)

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 in Nepal

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

Low Credibility

Many of finance companies have low credibility in the financial market. Weak managerial capability, family domination, lack of transparency in their transactions, poor accessibility, weak accounting and auditing practices, loan delays in the publications of their financial statements, delays in the issuance of share to the general public, lack of innovation, and poor professional background of the promoters are some of the major 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 obligor limit, and sector wise lending limit have been found rigid and inappropriate and have hindered their financial resources mobilization efforts and thereby limited their capacity to lend with negative impact on the sustainability of their operations.

Financial Sustainability

Their low capital base and higher transaction costs, combined with growing competition for 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 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 though to be surviving on the strength of inflows of new deposits as opposed to their income stream.

High 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 co-

operatives are also beginning to affect their operations, in financial resources 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 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-side and on-side, 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 a perception that some weak units were functioning like ponzi scheme, sustaining high interest payments on deposit by incoming new deposits.

2.1.11. Contribution of Finance Companies towards National Economy

Financial institution is the pillar 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 growth and development of finance companies are 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 economics 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 for production and consumer's credit for consumption. The relationship between production 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 development on the other hand.

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

2.2. Review of Relevant Studies

2.2.1. Review of Journals and Articles

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

Harry M. Markowitz, (1952) in his article "*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 reverent believes about the future performance and the choice of the portfolio. Thus, he establishes the relationship between expected return and its level of risk at 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 best on the following reasonable assumptions:

) The risk of 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 the investor's utility (indifference) curves are only a function of expected return and risk.

) Investors adhere to the dominance principal. That is, for only the given levels of risk, investors prefer assts with the same expected return, investors prefer lower to higher risk.

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

$$R_p \text{ X } \quad R_i \mid X_i$$

$$R_p \text{ X} R_1 X_1 \Gamma R_2 X_2 \Gamma ...... \Gamma R_n X_n$$

Where

R_p = Expected return on portfolio

R_i = Expected return on security

X_i = The proportion of total portfolio invested in security

Markowitz has presented the risk of the portfolio consists of the risk of the individual securities and the covariance between the returns of the securities among all combinations of them. Thus, portfolio risk can be calculated as follows:

$$\dagger_p^2 \; X \; X_1^2 \dagger_1^2 \; \Gamma \; X_2^2 \dagger_2^2 \; \Gamma \; 2X_1.X_2.\dagger_1.\dagger_2 r_{12}$$

Where
$\dagger_p^2$ = Portfolio risk

X_1 = Proportion of funds invested in security 1

X_2 = Proportion of funds invested in security 2

$\dagger_1^2$ = Variance of the returns on security 1

$\dagger_2^2$ = Variance of the returns on security 2

r_{12} = Correlation between the returns of securities 1 and 2.

According to Markowitz, only by adopting the large number of securities in a portfolio doesn't give maximum return with minimum risk. So, he claims that only through diversification variance can not be eliminated. He also claims that a portfolio with maximum expected return is not necessarily the one with minimum variance. There is a rate at which the investor can gain the expected return by taking on variance, a reduce variance by giving up exceptive return.

Jack E. Gaumnitz, (1970), has conducted the study to compare the portfolio return along with recognizing the importance of variability or risk in his research work "*Appraising performance of investment portfolio*". The main purpose of his study were to present evidence on the way of portfolio return as the sole criterion in measuring portfolio performance in lieu of theoretically correct returns variability of return measure and to examine portfolio strategy given the results to maximizing return or minimizing variability in order to maximize stock holder utility.

To support his study, he used capital market line.

$$R_p \, \mathrm{X} r^* \, \Gamma \frac{r \, \mathrm{Z} r^*}{\dagger_r} \mathrm{X} \dagger_{Rp}$$

Or,

$$R_p \, \mathrm{X} r^* \, \Gamma_{\shortmid} \dagger_{Rp}$$

$$_{\shortmid} \, \mathrm{X} \frac{r \, \mathrm{Z} r^*}{\dagger_r}$$

Where,

R_p = the overall rate of return on the investor's portfolio with standard deviation of $\dagger_{Rp}$.

r* = the risk less rate of return

r = return on the portfolio with a standard deviation of $\dagger_r$

$_{\shortmid}$ = Market price of risk

In this model, it was clear that the portfolio with highest $_{\shortmid}$ value will be one that allows the investors to attain his highest indifferent curve through borrowing or lending at the risk less rate. Thus, the investor wants to select that mutual fund or other portfolio that maximizes $_{\shortmid}$. The $_{\shortmid}$ can be maximized either by minimizing $\dagger_r$ or by trying to maximize the return r.

To test relationships between $_{\shortmid}$, r and $\dagger_r$; he had selected several investment portfolios. He had used 100 portfolios for the year 1960 – 63 and 51 portfolios for the year 1964 – 65 included 59 mutual funds, 45 random portfolios, 45 cluster portfolios and 2 standard and poor.

From his study, he concluded that

) The mean return on a portfolio used as a good portfolio performance can be used as a good proxy for the theoretically correct $_{\shortmid}$ 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 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 $_{\shortmid}$ value.

Gary P. Brinson, Randolph Hood and Gilbert L. Beebower, (1986), in their study on "*Determinants of portfolio performance*", examined the quarterly investment returns of 91 large pension plans over a 10-year period (1974-1983), concluding that investment policy explained an average 93.60% of the variation in total plan returns. An update to the study in May-June1991, which used data from 1977 to 1987, similarly found that 91.50% 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-square is not the correct way to measure the percent of return attributable to policy. The high average R-square 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.

Ronald J. Surz, Dale Stevens and Mark Wimer, (1999), conducted a study on "*Investment Policy Explains All*", to criticize the study done by Gray 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.

They stated that 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 93.60%, as stated in the 1986 study, but a significant lower number.

"*Exactly how much of a return of a portfolio 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 original 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 1.40, 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 author's 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.

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 investment would, as a result, direct most new commitments at a given time to a few assets 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 dues where available at fair prices in their market segment.

Ajay Ghimire, (1999), in his article "*Process Involved in Financing a Corporation: a Nepalese Context*", puts stress on the establishment of finance companies as: "Financing and investment are two sides of 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 firm 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".

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 within and outside the firm affects the outcome. Therefore, there is no "One best investment policy" for 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.

Amy Dittmer and Anil Shivdashani (2003) in their article "*Divestiture and divisional investment policies*", explain the increase in the efficiency of the segmented investment following the divestitures and it is associated with the decrease in the

diversification discount. The view is that the inefficient investment policies of the diversified firms are to blame for the diversification discount.

In their study, they have tried to examine the changes in the degree of diversification for firms and to test whether the changes in diversification are associated with simultaneous changes in the diversification discount and investment policy. Their study does not rely on the cross-sectional comparisons of the discount across firms. Their study is more focused and how the changes explain the change in diversification discount. The diversification discount is calculated using a sales multiplier as follows:

$$\text{Diversification Discount} = 1\,Z\log\frac{V}{I(V)}$$

Where,

$$I(V)\,X\ {}_{iZ1}^{\ n}\,Sales_i\ \mid \bullet M_i(V/Sales)_{MS}{}'$$

V = Sum of market value of equity and book value of assets less the book value of equity and deferred taxes

I(V) = Imputed firm value

$Sales_i$ = Segment i's Sales

$M_i(V/Sales)_{MS}$ = Sales multiplier

n = Number of segments per firm

To determine the efficiency of investment policy, they calculated the weighted investment ratio (WIR). The increase in WIR represents an improvement in the efficiency of investment policy.

$$WIR\,X\,\frac{{}_{jX1}^{\ n}\,Sales_j(MB_j\,Z\overline{MB})\left[\dfrac{I_j}{Sales_j}\,Z\,\dfrac{I_j^{ss}}{Sales_j^{ss}}\right]\,Z\,{}_{jX1}^{\ n}\,W_j\left[\dfrac{I_j}{Sales_j}\,Z\,\dfrac{I_j^{ss}}{Sales_j^{ss}}\right]}{Sales}$$

Where

$Sales_j$ = Sales of segment j

MB_j = Median of market-to-book (MB) ratio of single segment firms

$\overline{MB}$ = Sales – weighted average of segment MBs for the firm

I_j = Capital expenditure for segment j

$$\frac{I_j^{ss}}{Sales_j^{ss}} = \text{Sales – weighted average capital expenditure to assets ratio}$$

W_j = Segment j sales divided by firm sales

In conclusion, this study suggests that divisional investment practice becomes more efficient after the divestiture. The results of this study make four primary contributions according to the authors. They are:

- ⌡ They illustrate that changes in organizational structure have a significant impact on the investment policies of retained segments.
- ⌡ They indicate that the changes in divisional investment are associated with changes in the diversification discount. The results suggest that inefficient divisional investment policies are at least partly responsible for the discount.
- ⌡ The findings support the view that corporate focus leads to more efficient investment policies.
- ⌡ The paper contributes to the literature on asset sales by showing that improvement in the management of the firm's retained operations is an important source of gains from assets sales. The evidence identifies investment policies as specific mechanism by which firms improve the management of their remaining assets after asset sales.

Shiva Raj Shrestha, (Baishekh 2055 BS), in his article, 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 aspects:

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

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

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

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

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

Under this heading, the relevant master's thesis from the students of Tribhuvan University has been presented.

Meen Bahadur Ranabhat, (July 1997) in his thesis "*An Analysis of Financial Performance of Finance Companies in Context of Nepal*" with the objective to explorer the financial performances of finance companies, which shows that finance companies have provided various services for the customers. It includes Hire-Purchase and Housing loan and recently shifting towards term loan. He has also found the unhealthy competition of interest rates for the collection of deposits and uses of the same. Their must be some demarcation line for it.

Raja Ram Khadka, (October 1998), in his thesis "*A Study of Investment Policy of Nepal Arab Bank Limited (NABIL) in Comparison to Other Joint Venture Banks of Nepal*", with the objective to show the present investment policy adopted by NABIL and how much it is effective compared with other joint venture banks, focuses on whether it is backward or forward in investing its fund efficiently.

From his 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.

Ruru Kusom Gautam, (2000), in her thesis "*Investment Analysis of the Finance Companies in Context of Nepal*", with the objective to find out whether finance companies are contributing on supply of credit timely. She found that the overall performance of finance companies is satisfactory and NRB has played more active role to enhance the operation. Few aggressive and more conservative strategies are adopted by finance companies. Initially the major part of lending was a consumer

durables but the trend is changing towards term loan. And the unhealthy interest rates competition was also prevailing.

Finally, she had stressed on the part those finance companies

) Have to prove that they can really contribute to the national economy.

) Are efficient and viable agencies for mobilization of savings and its channel into productive sectors?

) Are professionally managed and competent enough to ensure adequate rate of return on investment.

) Are strategically well planned to be competitive with banks and other agencies that are trustworthy.

Sarbodaya Upadhyay, (July 2002), conducted a study on *"A Study on Investment Policy of Nepal Industrial Development Corporation (NIDC)"* with the objective 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 concerned, 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 hotels, lodges and tourism related industries and least priority to 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.

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

He has found from the study that none of the finance companies possesses well functioning in all aspects. Some of them are stronger in one aspect like profit making but weaker in another like deposits mobilization. He has also suggested that the finance companies should concentrate on productive sector rather than consumer

goods which will contribute on capital formation for overall national development. They should strictly monitor and control their credit outflows and repayment schedules.

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

Prakash Shrestha, (September 2003), conducted a study on *"Portfolio Analysis on Investment of Nepalese Commercial Banks"* with the objective to analyze investment portfolio and 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 the commercial banks give the 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 had suggested that even though there is higher return with low risk, the banks shouldn't make investment on only one sector.

Finally, he had concluded that commercial banks should be successful in formulation and effective implementation of sound investment practice 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.

Dipesh Shrestha, (August 2004), in his thesis "*Investment Policy of Finance Companies in Nepal*", with the objectives to highlight and examine the investment policies of finance companies of Nepal has stated that the performance of finance companies can be expected to be satisfactory and he also suggests focusing on new schemes and instruments for fund mobilization.

Finance companies are playing with public money. Thus, their activities should be monitored and controlled, which 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 resource mobilization.

3. Research Methodology

3.1. Introduction

Research methodology refers to the research process i.e. methods and processes 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 practices 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 78 finance companies registered with the Nepal Rastra Bank. Since, it is not possible to study the whole population, the sampling is done. Thus, for this study 6 finance companies from population are selected on the basis of judgmental sampling. The sampled finance companies are:

1. Shree Investment and Finance Company Limited (SIFCL)
2. United Finance Limited (UFL)
3. Mahalaxmi Finance Limited (MFL)
4. Siddhartha Finance Limited (SFL)
5. Butwal Finance Limited (BUFL)
6. Birgunj Finance Limited (BJFL)

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 and security exchange board and Nepal Rastra Bank.

3.5. Data Analysis Tools

For the analysis of 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 detail.

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 the 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.

Net profit to total income

This ratio can be obtained by dividing net profit by total income. It shows how much part of total income is converted to net profit. This can be mentioned as:

$$\text{Net profit to total income ratio X} \frac{\text{Net Profit}}{\text{Total Income}}$$

Interest income to total loan and advance

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

$$\text{Interest income to total loan and advance ratio X} \frac{\text{Interest Income}}{\text{Total Loan and Advance}}$$

Net profit to total loan and advances

This ratio can be obtained by dividing net profit by total loan and advances. It shows how efficient the finance companies in utilizing the funds in loans and advances. This can be mentioned as:

$$\text{Net Profit to total loan and advance ratio X} \frac{\text{Net Profit}}{\text{Total Loan and Advances}}$$

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:

$$\text{Net profit to total assets ratio X} \frac{\text{Net Profit}}{\text{Total Assets}}$$

Total loan and advances to total deposit

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

$$\text{Total loan and advances to total deposit ratio X} \frac{\text{Total Loan and Advances}}{\text{Total Deposits}}$$

Operating expenses to total assets

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

$$\text{Operating expenses to total assets ratio X} \frac{\text{Operating Expenses}}{\text{Total Assets}}$$

<u>Total liquidity to total deposit</u>

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

$$\text{Total liquidity to total deposit ratio X} \frac{\text{Total Liquidity}}{\text{Total Deposit}}$$

The numerator includes cash and bank balances, investment on government securities and NRB deposits.

<u>Total investment to total deposit ratio</u>

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

$$\text{Total investment to total deposit ratio X} \frac{\text{Total Investment}}{\text{Total Deposits}}$$

<u>Investment on government securities to total investment and loan and advances</u>

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

$$\text{Investment on govt. securities to total inv. and loan \& adv. ratio X} \frac{\text{Investment on Govt. Securities}}{\text{Total Inv. and Loan \& Advances}}$$

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

<u>Other investment to total investment and loan and advances</u>

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

$$\text{Other investment to total inv. and loan \& adv ratio X} \frac{\text{Other Investments}}{\text{Total Inv. and Loan and Adv.}}$$

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

Loan against fixed deposit to total investment and loan and advance

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

$$\text{Loan against FD to total inv. and loan \& adv. ratio} \; X \frac{\text{Loan Against Fixed Deposit}}{\text{Total Inv. and Loan and Adv.}}$$

Other loan and advance to total investment and loan and advances

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

$$\text{Other loan \& adv. to total inv. and loan \& adv ratio} \; X \frac{\text{Other Loan and Advances}}{\text{Total Inv. and Loan and Adv.}}$$

Interest on investment to total investment

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

$$\text{Interest on investment to total investment ratio} \; X \frac{\text{Interest on Investment}}{\text{Total Investment}}$$

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 owners' funds. This can be mentioned as:

$$\text{Net profit to total capital employed ratio} \; X \frac{\text{Net Profit}}{\text{Total Capital Employed}}$$

The denominator includes paid-up capital and reserves and surplus.

Operating expenses to total revenues

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

$$\text{Operating expenses to total revenues ratio} \; X \frac{\text{Operating Expenses}}{\text{Total Revenues}}$$

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 recovering their expenses through their incomes. This can be mentioned as:

$$\text{Total income to total expenditure ratio} = \frac{\text{Total Income}}{\text{Total Expenditure}}$$

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.

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

Where,

$\overline{X}$ = Mean of variables

X = Sum of the values of the variables

N = Number of observations

Standard Deviation (SD)

Standard deviation is used to measure of how widely values are dispersed from the average value (the mean).

$$SD = \sqrt{\frac{(x - \overline{x})^2}{(n-1)}}$$

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.

$$CV = \frac{Standard Deviation}{Mean} \times 100$$

Correlation Coefficient

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

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

Where,

r = co-efficient 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 by using following formula.

$$R_{1.234} = \sqrt{1 - (1-r_{14}^2)(1-r_{13.4}^2)(1-r_{12.34}^2)}$$

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 some 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 of testing significances. The technique used in analysis of variance is F-distribution. This F-distribution with v_1 and v_2 degree 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 Columns

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

Where,

MSC = Mean sum of squares between columns

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 differences 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.

$$LSD \ X t_{a/2,N\mathbb{Z}a} \sqrt{MSE \ \frac{1}{n_1} \Gamma \frac{1}{n_2}}$$

Where,
$t_{a/2}$ = 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.

4. 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 ratios has not been calculated as the study only focuses on the investment selection of the finance companies so only those ratios have been calculated which are related to the study.

Table 1: Mean of Ratios of Finance Companies

Ratios	SIFCL	UFL	MFL	SFL	BUFL	BJFL
Net Profit to Total Income Ratio	0.1667	0.1265	0.1761	0.1755	0.2339	0.1585
Interest Income to Loan and Advances Ratio	0.1309	0.1166	0.1132	0.1468	0.1330	0.0958
Net Profit to Loan and Advances Ratio	0.0246	0.0171	0.0252	0.0276	0.0142	0.0176
Net Profit to Total Assets Ratio	0.0196	0.0281	0.0020	0.0234	0.0101	0.0121
Total Loan and Advances to Total Deposits Ratio	0.9546	1.4146	0.9363	1.1189	0.8733	1.0763
Operating Expenses to Total Assets Ratio	0.0171	0.0288	0.0694	0.0935	0.0999	0.0208
Total Liquidity to Total Deposit Ratio	0.0015	0.0698	0.0531	0.1385	0.2079	0.0216

Source: Annual Reports of Finance Companies
(Refer Annex 1 to 7 for details)

The above table shows the mean of the calculated ratios of the finance companies for the period of 2060/61 to 2065/66. Since, Birgunj Finance Limited was established in fiscal year 2061/62, only five year data for this finance company has been taken in consideration.

The net profit to total income ratio shows the capacity of finance companies to convert its income to net profit. According to the observation of the figures from the fiscal year 2060/61 to 2065/66, it has been found that the mean of yearly ratios, net profit to total income of Butwal Finance higher i.e. 0.2339 and United Finance is lower i.e. 0.1265, in comparison to others. It shows that the BUFL is good at converting its income to net profit.

The interest income 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 2060/61 to 2065/66, it has been found that the mean of yearly ratios, interest income to total loan and advances of Siddhartha Finance is higher i.e. 0.1468 and Birgunj Finance is lower i.e. 0.0958, in comparison to others. It shows that the SFL is earning more interest on loan and advances than others.

The net profit to total loan and advances ratio shows the efficiency of finance companies to utilize its funds in loan and advances. According to the observation of the figures from the fiscal year 2060/61 to 2065/66, it has been found that the mean of yearly ratios, net profit to total loan and advances of Siddhartha Finance is higher i.e. 0.0276 and Butwal Finance is lower i.e. 0.0142, in comparison to others. It shows that the SFL is good for utilizing its funds in loan and advances for increasing net profit.

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 2060/61 to 2065/66, it has been found that the mean of yearly ratios, net profit to total assets of United Finance is higher i.e. 0.0281 and Mahalaxmi Finance is lower i.e. 0.0020, in comparison to others. It shows that the UFL is good at utilizing its assets to earn profit.

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 2060/61 to 2065/66, it has been found that the mean of yearly ratios, total loan and advances to total deposit of United Finance is higher i.e. 1.4146 and Butwal Finance is lower i.e. 0.8733 in comparison to others. It shows that United Finance is good at mobilizing its deposits in loan and advances.

The operating expenses to total assets ratio shows the expenses for operation of finance companies out of total assets. According to the observation of the figures from the fiscal year 2060/61 to 2065/66, it has been found that the mean of yearly ratios, operating expenses to total assets of Butwal Finance is higher i.e. 0.0999 and SIFC is

lower i.e. 0.0171, in comparison to others. It shows that the Butwal Finance has high operating expenses in terms of their assets than others.

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 balances, NRB balance and investment in government securities. According to the observation of the figures from the fiscal year 2060/61 to 2065/66, it has been found that the mean of yearly ratios, total liquidity to total deposit of Butwal Finance is higher i.e. 0.2079 and SIFCL is lower i.e. 0.0015, in comparison to others. It shows that the BUFL is maintaining high liquidity than others.

The above data is presented in following chart:

Figure 1: Mean of Ratios of Finance Companies
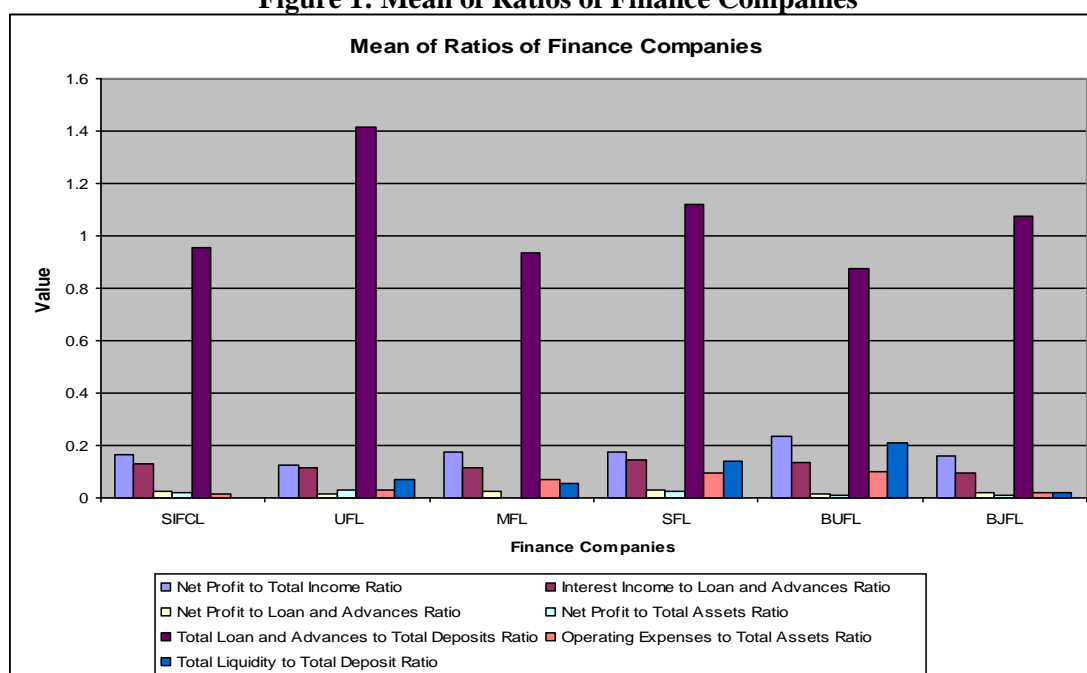
Table 2: Current Year (Fiscal Year 2065/66) Ratios of Finance Companies

Ratios	SIFCL	UFL	MFL	SFL	BUFL	BJFL
Total investment to total deposit ratio	0.0091	0.0129	0.1223	0.0074	0.0532	0.0094
Investment on government securities to total investment and loan and advances	0.0506	0.0256	0.0113	0.0000	0.0824	0.0124
Other investment to total investment and loan and advances	0.0084	0.0080	0.1170	0.0062	0.0558	0.0094

Loan against fixed deposit to total investment and loan and advance	0.0165	0.0039	0.0295	0.0127	0.0222	0.0226
Other Loan and Advance to total inv. and loan and adv.	0.9243	0.9624	0.8421	0.9810	0.8395	0.9553
Interest on investment to total investment	0.0597	0.0459	0.0059	0.0000	0.0305	0.0000
Net profit to total capital employed	0.1891	0.1404	0.1771	0.2364	0.1376	0.1720
Operating expenses to total revenues	0.1745	0.2706	0.1749	0.1632	0.2081	0.1744
Total income to total expenditure	1.2886	1.2120	1.2023	1.3165	1.1351	1.1769

Source: Annual Reports of Finance Companies

The above table shows the financial ratios of the finance companies for the year of 2065/66.

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 of the fiscal year 2065/66, it has been found that the ratio of total investment to total deposit of Mahalaxmi Finance is higher i.e. 0.1223 and Siddhartha Finance is lower i.e. 0.0074, in comparison to others. It shows that the MFL is good at mobilizing its deposits in investment.

The investment on government security to total investment and loan and advances ratio 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 of the fiscal year 2065/66, it has been found that the investment on government securities to total investment and loan and advances ratio of Butwal Finance is higher i.e. 0.0825 and Siddhartha Finance is lower i.e. 0.0000 in comparison to others. It shows that BUFL is good in investing in government securities.

The other investment to total investment and loan and advances ratio shows the other investment (investment in shares, 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 of the fiscal year 2065/66, it has been found that the other investment to total investment and loan and advances

ratio of Mahalaxmi Finance is higher i.e. 0.1170 and Siddhartha Finance is lower i.e. 0.0062 in comparison to others. It shows that MFL is good in other investments.

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 of the fiscal year 2065/66, it has been found that the loan against fixed deposit to total investment and loan and advances ratio of Mahalaxmi Finance is higher i.e. 0.0295 and United Finance is lower i.e. 0.0039 in comparison to others. It shows that MFL is good in providing loan against fixed deposits.

The other loan and advances to total investment and loan and advances ratio shows the other loan and advances (loan and advances except loan against fixed deposit) of finance companies out of the total investment and loan and advances. According to the observation of the figures of the fiscal year 2065/66, it has been found that the other loan and advances to total investment and loan and advances ratio of Siddhartha Finance is higher i.e. 0.9810 and Butwal Finance is lower i.e. 0.8395 in comparison to others. It shows that SFL is good in providing other loan and advances (except loan against fixed deposits).

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 of the fiscal year 2065/66, it has been found that the interest on investment to total investment ratio of SIFC is higher i.e. 0.0598 and Siddhartha Finance and Birgunj Finance is lower i.e. 0.0000, in comparison to others. It shows that the SIFC is earning more interest on investment than 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 of the fiscal year 2065/66, it has been found that the net profit to total capital employed ratio of SFL is higher i.e. 0.2364 and Butwal Finance is lower i.e. 0.1376, in comparison to others. It shows that the SFL is good at mobilizing its equity.

The operating expenses to total revenues ratio shows the expenses for operation of finance companies out of total revenues. According to the observation of the figures of the fiscal year 2065/66, it has been found that the operating expenses to total revenues ratio of United Finance is higher i.e. 0.2706 and Siddhartha Finance is lower i.e. 0.1633, in comparison to others. It shows that the UFL has high operating expenses in terms of their income than others.

The total income to total expenditure ratio shows the finance companies potentiality to cover the expenditure through their income. According to the observation of the figures of the fiscal year 2065/66, it has been found that the total income to total expenditure ratio of Siddhartha Finance is higher i.e. 1.3165 and Butwal Finance is lower i.e. 1.1352, in comparison to others. It shows that the SFL is good at covering its expenditure through its income.

The above data is presented in the following chart:

Figure 2: Current Year (Fiscal Year 2065/66) Ratios of Finance Companies
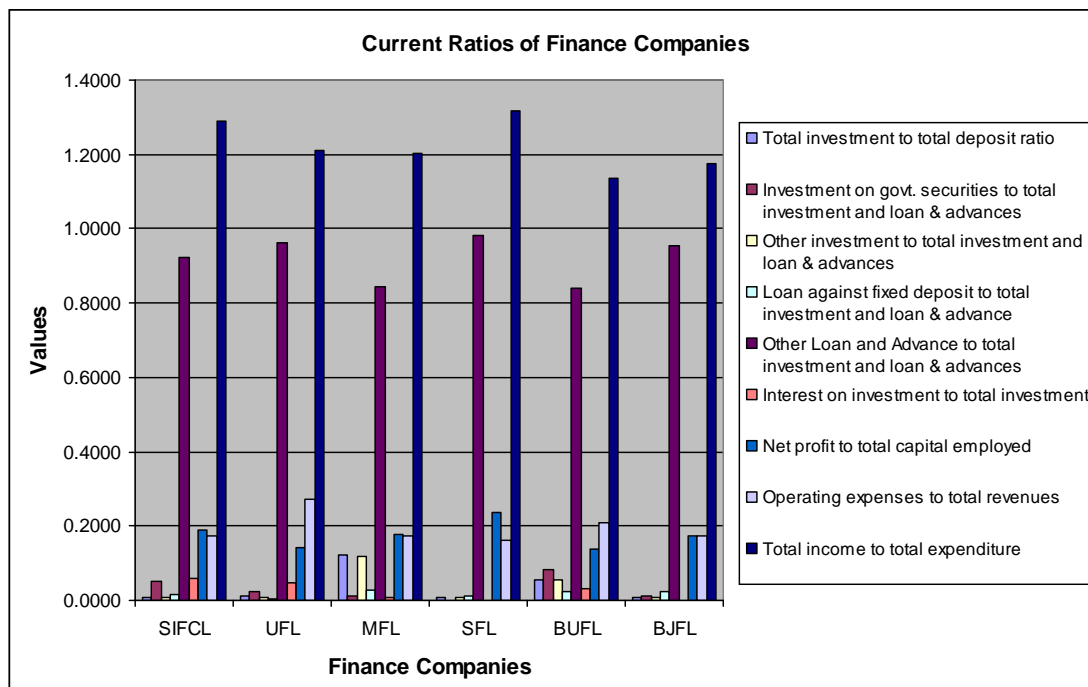
Table 3: Coefficient of Variation of Ratios of Finance Companies

Ratios	SIFCL	UFL	MFL	SFL	BUFL	BJFL
Net Profit to Total Income	23.9938	54.2714	8.0325	29.3883	160.4385	22.8324
Interest Income to Loan and Advances	10.7920	14.9214	13.5522	12.5848	8.7192	20.2598
Net Profit to Loan and Advances	18.9317	47.9570	17.3898	31.0722	21.8270	30.3991
Net Profit to Total Assets	22.0002	106.1313	0.0000	30.0654	20.5732	47.2804
Total Loan and Adv. to Total Deposits	5.2057	17.3701	4.9881	8.7778	4.1499	10.9583
Operating Expenses to Total Assets	6.2281	8.5678	6.6663	21.2060	10.0238	33.8985
Total Liquidity to Total Deposit	22.4661	68.2529	75.3807	32.1023	25.4107	16.3716

Source: Annual Reports of Finance Companies

The above table shows the coefficient of variation of the calculated ratios of the finance companies for the period of 2060/61 to 2065/66.

The CV of net profit to total income ratios show that the Mahalaxmi Finance is more consistent in converting its income to net profit as its CV is less i.e. 8.0325% whereas Butwal Finance is less consistent as its CV is more i.e. 160.4385%, in comparison to others.

The CV of interest income to total loan and advances ratios show that the Butwal Finance is more consistent in earning interest from loan and advances as its CV is less i.e. 8.7192% whereas Birgunj Finance is less consistent as its CV is more i.e. 20.2598%, in comparison to others.

The CV of net profit to loan and advances ratios show that the Mahalaxmi Finance is more consistent in utilizing its funds in loan and advances as its CV is less i.e. 17.3898% whereas United Finance is less consistent as its CV is more i.e. 47.9570%, in comparison to others.

The CV of net profit to total assets ratios show that the Mahalaxmi Finance is very much consistent in utilizing its assets to earn more profit as its CV is less i.e. 0.00% whereas United Finance is less consistent as its CV is more i.e. 106.1313%, in comparison to others.

The CV of total loan and advances to total deposits ratio shows that the Butwal Finance is more consistent in mobilizing its deposits in loan and advances as its CV is less i.e. 4.1499% whereas United Finance is less consistent as its CV is more i.e. 17.3701%, in comparison to others.

The CV of operating expenses to total assets ratio shows that the SIFC is more consistent in operation expenses out of its total assets as its CV is less i.e. 6.2281% whereas Birgunj Finance is less consistent as its CV is more i.e. 33.8985%, in comparison to others.

The CV of total liquidity to total deposits ratio shows that the Birgunj Finance is more consistent in maintaining liquidity as its CV is less i.e. 16.3716% whereas Mahalaxmi Finance is less consistent as its CV is more i.e. 75.3807%, in comparison to others.

The above data is presented in following chart:

Figure 3: Coefficient of Variation of Ratios of Finance Companies
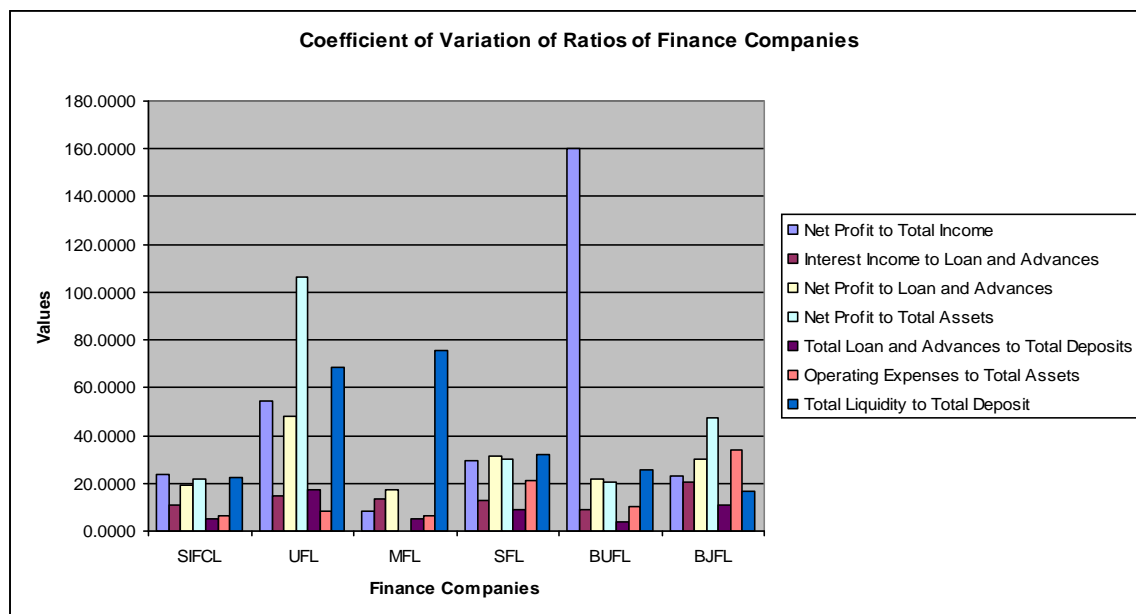
4.2. Statistical Analysis

4.2.1. Correlation and Regression Analysis

The Karl Pearson's coefficient of correlation, popularly known as Pearsonia 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: Average Data of Net Profit, Interest on Investment, Interest on Loan and Advances and Operating Profit (in '000)

Fiscal Year	Net profit (Y)	Interest on Investment (X_1)	Interest on loan and advances (X_2)	Operating Expenses (X_3)
2060/61	6417	479	38941	5521
2061/62	9578	716	47667	7663
2062/63	10223	1284	48741	10332
2063/64	11393	844	60909	12664
2064/65	14065	1135	70842	15165
2065/66	20783	2032	94105	20919

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 2060/61 to 2065/66. The data taken are the net profit, interest on investment, interest on loan and advances and operating expenses.

Based on the past data from 2060/61 to 2065/66 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 5: Correlation Matrix of Net Profit, Interest on Investment, Interest on Loan and Advances and Operating Expenses

	Net Profit	Interest on investment	Interest on loan & adv.	Operating Expenses
Net Profit	1			
Interest on investment	0.923518134	1		
Interest on loan & advances	0.988800719	0.869822998	1	
Operating expenses	0.979911455	0.898480838	0.98749277	1

The above table shows the correlation among all the four variables separately. According to the observation of the figures, it has been found that there is a high degree of positive correlation among all the four variables. The correlation among all four variable are significant at 99% confident level or 1% error in two tailed test.

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), interest on loan and advances (X_2) and operating expenses (X_3) is taken as independent variables. The required multiple regression equation is:

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

Table 6: Multiple Regression Analysis of Net Profit on Interest on Investment, Interest on Loan and Advances and Operating Expenses

Regression	Coefficients	Standard Error	t Stat	P-value
Intercept	-3047.63985	1213.014171	-2.512452	0.128567
Interest on investment	2.890956903	0.8502223	3.4002365	0.076677
Interest on loan & advances	0.26529539	0.064798303	4.09417186	0.0548
Operating expenses	-0.32992766	0.263036284	-1.2543047	0.336456

From the above table, following estimated regression equation is derived:

$$Y = -3047.6398 + 2.8909\ X_1 + 0.2652\ X_2 - 0.3299\ X_3$$

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. -3047.6398. If the interest on investment is increases by Rs. 1, then the average net profit will increase by 2.8909, others remaining constant. Similarly, if the interest on loan and advances increases by Rs. 1, then the average net profit will increase by 0.2652, other remaining constant. Similarly, if the operating expenses increase by Rs. 1, then average net profit will decrease by 0.3299, other remaining

constant. Thus, it shows that there is a positive impact on the net profit through interest on investment and interest on loan and advances. And, there is a negative impact on net profit through operating expenses.

Regression Statistics	
Multiple R	0.998392221
R Square	0.996787027
Adjusted R Square	0.991967566
Standard Error	442.5875827
Observations	6

The multiple R represents the multiple correlation of net profit on interest on investment, increase on loan and advances and operating expenses. It shows the better relationship between them as its value is about 0.9984. The adjusted value of R square is 0.9967; it indicated that 99.67% of the total variation in net profit is explained by the independent variables, interest on investment, interest on loan and advances and operating expenses. The standard error shows that the predicted value through above regression model may be fluctuated by the amount of standard error i.e. 442.58.

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

	df	SS	MS	F	Significance F
Regression	3	121541246.8	40513748.9	206.8255	0.004815587
Residual	2	391767.5367	195883.768		
Total	5	121933014.4			

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. 206.82 > 4.19 at 10% 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 join effect of the independent variable i.e. total investment and loan and advances.

Table 7: Average Data of Total Investment and Loan and Advances and Its Various Sectors (in '000)

Year	Total Inv. and loan & Adv.	Govt. Securities	Other Investments	Loan Against FD	Other Loans
2060/61	360402	9095	15633	3956	331718
2061/62	468252	10314	19111	4678	434149
2062/63	495681	12278	24313	7513	451577
2063/64	532559	13177	21527	8765	489091
2064/65	704229	21304	35902	9946	637076
2065/66	903626	26702	33486	15780	827659

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 2060/61 to 2065/66. The data taken are the total investment and loan and advances, investment in government securities, investment in other securities, loan against fixed deposit and other loan.

Based on the past data from 2060/61 to 2065/66 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 8: Correlation Matrix of Total Investment and Loan and Advances and Its Sectors

	Total Inv. and loan & Adv. (X1)	Govt. Securities (X2)	Other Investments (X3)	Loan Against FD (X4)	Other Loans (X5)
X1	1				
X2	0.987839822	1			
X3	0.89406561	0.921257866	1		
X4	0.966810151	0.949398548	0.82515829	1	
X5	0.999733298	0.985022963	0.88411671	0.966988	1

The above table shows the correlation among all the five variables separately. According to the observation of the figures, it has been found that there is highly positive correlation among all the five variables. The correlation of total investment and loan and advances to government securities, other investment, loan against FD and other loan is significant at 99% confidence level or 1% error in two-tailed test. Similarly, the correlation of investment in government securities to other investment, loan against FD and other loans is also significant at 99% confidence level in two-

tailed test. The analysis shows that the total investment and loan and advances have very high positive correlation with other loan than other variables.

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 very highly correlated to total investment and loan and advances. Those variables are loan against FD and other loan.

Table 9: Correlation Matrix of Total Investment and Loan and Advances, Loan Against FD and Other Loan

		Total investment and loan & advances	Loan against FD	Other Loan
Total Inv. and loan & advance	Pearson Correlation Significance(2-tailed) N			
Loan against FD	Pearson Correlation Significance(2-tailed) N	0.9668 0.0000 6		
Other Loan	Pearson Correlation Significance(2-tailed) N	0.9997 0.0000 6	0.9669 0.0000 6	

The above table shows the correlation along with their significance at the 0.01 level in two tailed test among all the three variables. According to the observation of the figures, it has been found that there is highly positive correlation among all the three variables. The correlation of total investment and loan and advances to loan against FD and other loan are significant at 99% confidence level or 1% error in two-tailed test. Similarly, the correlation of loan against FD and other loan is also significant at 99% confidence level in two-tailed test.

The multiple regression analysis is carried out to find the impact of the independent variables on the dependent variable. For the multiple regression analysis, the total investment and loan and advances (Y) is taken as dependent variable and loan against FD(X_1), and other loan(X_2) is taken as independent variables. The required multiple regression equation is:

$$Y = a + b_1X_1 + b_2X_2$$

Table 10: Multiple Regression Analysis of Total Investment and Loan and Advances on Loan Against FD and Other Loan

	Coefficients	Standard Error	t Stat	P-Value
Intercept	-5068.25877	12382.45445	-0.4093097	0.709782
Loan against FD (X_1)	0.056121765	2.387185788	0.02350959	0.98272
Other Loan (X_2)	1.101236056	0.057700046	19.0855318	0.000314

From the above table following estimated regression equation is derived:

$$Y = -5068.28877 + 0.05612\ X_1 + 1.1012\ X_2$$

The above derived result shows that, if the other independent variables are assumed to be zero then the average value of the dependent variable i.e. total investment and loan and advances will be equal to intercept i.e. -5068.28877. If the loan against FD increases by Rs.1 then the average of total investment and loan and advances will increase by 0.0561 other remaining the constant. But, if other loan increases by Rs. 1 then the average of total investment and loan and advances will also increase by 1.1012, other remaining the constant. Thus, this shows that there is a positive impact of loan against FD and other loan on total investment and loan and advances.

Regression Statistics	
Multiple R	0.999733347
R Square	0.999466765
Adjusted R Square	0.999111276
Standard Error	5814.369445
Observations	6

The multiple R represents the multiple correlation of total investment and loan and advances on loan against FD and other loan. It shows nearly about perfectly positive correlation between them as the value is 0.9997. It shows the better relationship between them as its value is about 0.9997; even it seems to be perfect. The adjusted value of R Square is 0.9991, it indicates that 99.91% of the total variation in total investment and loan and advances is explained by the independent variables i.e. loan against FD and other loan. The standard error shows that the predicted value through above regression model may be fluctuated by the amount of standard error i.e. 5814.36.

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

	df	SS	MS	F	Significance F
Regression	2	1.90098E+11	9.5049E+10	2811.521	1.23134E-05
Residual	3	101420676.1	33806892		
Total	5	1.90199E+11			

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. 2811.52>16.69 at 1% level of significance, the regression equation is significant i.e. the assumed regression model is seems to be best fit.

4.2.2. Trend Analysis of Net Profit

The trend values of the net profit for the study period i.e. fiscal year 2060/61 to 2065/66 of the finance companies have been calculated and also forecasted. The required trend equation is:

$$Y = a + Bx$$

Table 11: Trend Analysis of Net Profit (in '000)

Year (X)	Net Profit (Y)
2060/61	6417
2061/62	9578
2062/63	10223
2063/64	11393
2064/65	14065
2065/66	20783

Source: Annual Reports of Finance Companies

The above data is presented in following chart:

Figure 4: Trend Analysis of Net Profit

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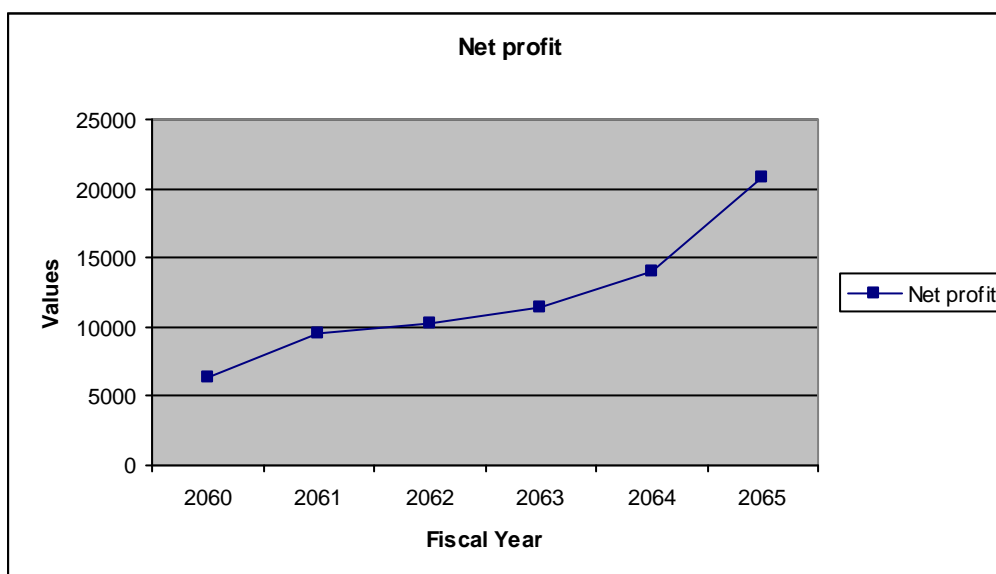
The above table and chart shows the present trend of net profit of finance companies from the year 2060/61 to 2065/66. It shows that the finance companies are in increasing trend in terms of net profit. The trend line derived from the above table is:

$$Y = 13311.69 + 2470.32 \ X$$

The above trend line shows that there is chance of increasing in the net profit of the finance companies in future if the above trend is continued. The finance companies can raise their net profit up to 23192.97 and 30603.93 thousand, in average, in the fiscal year 2066/67 and 2069/70 respectively. This indicated that the finance companies are good in earning profit and expected to be better in future if they follow the same trend.

Regression Statistics	
Multiple R	0.935864752
R Square	0.875842834
Adjusted R Square	0.844803543
Standard Error	1945.434236
Observations	6

The above table shows that the adjusted value of R Square is 0.844803543; it indicates that 84.48% of the total variation in net profit is explained by the independent variables i.e. fiscal year. The value of standard error is 1945.43, which indicates that the predicted value through the trend line may fluctuate by that amount.

4.2.3. Trend Analysis of Total Investment and Loan and Advances

The trend values of the total investment and loan and advances for the study period i.e. fiscal year 2060/61 to 2064/65 of the finance companies have been calculated and also forecasted. The required trend equation is: $Y = a + b \ X$

Table 12: Trend Analysis of Total Investment and Loan and Advances (in '000)

Year	Total Investment and loan & advances
2060/61	360402
2061/62	468252
2062/63	495681
2063/64	532559
2064/65	704229
2065/66	903626

Source: Annual Reports of Finance Companies

The above data is presented in following chart:

Figure 5: Trend Analysis of Total Investment and Loan and Advances
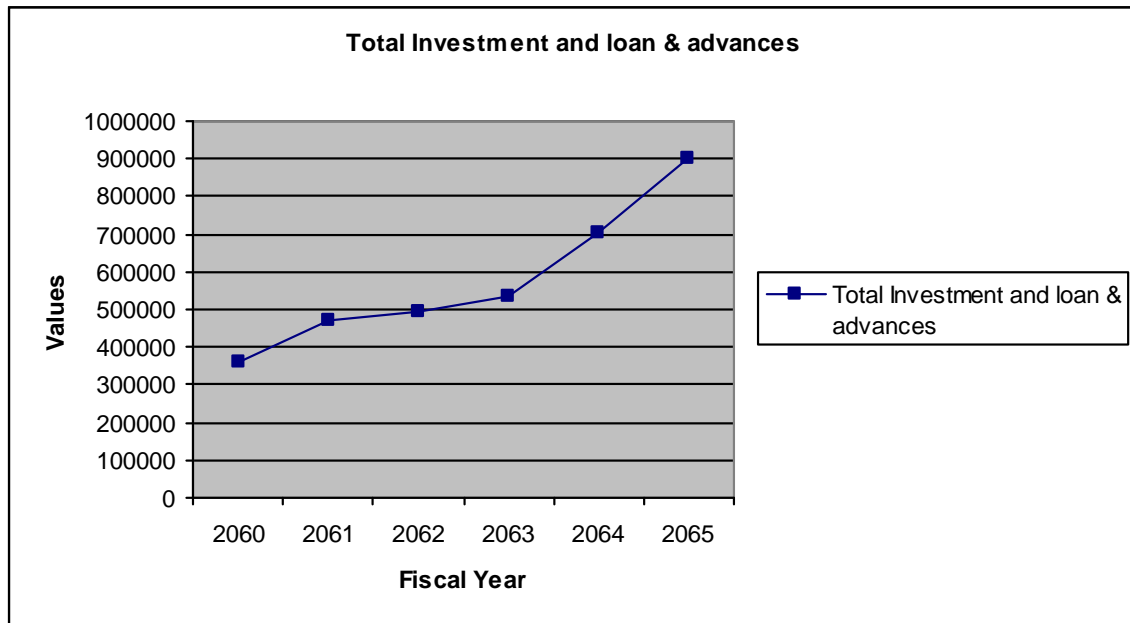
The above table and chart shows the present trend of total investment and loan and advances of finance companies from the fiscal year 2060/61 to 2065/66. It shows that the finance companies are in increasing trend in terms of total investment and loan and advances. The trend line derived from the above table is:

$$Y = 626899.96 + 98883.66 \ X$$

The above trend shows that there is chance of increase in the total investment and loan and advances of the finance companies in future if the above trend is continued. The finance companies can raise their total investment and loan and advances up to 1022434.60 and 1319085.58 thousand, in average, in the fiscal year 2066/67 and 2069/70 respectively. This indicates that the finance companies are good in raising investment and loan and advances and expected to be better in future if they follow the same trend.

Regression Statistics	
Multiple R	0.948504627
R Square	0.899661027
Adjusted R Square	0.874576284
Standard Error	69073.09912
Observations	6

The above table shows that the adjusted value of R Square is 0.874576284; it indicates that 87.45% of the total variation in total investment and loan and advances is explained by the independent variable i.e. fiscal year. The value of standard error is 69073.09, which indicates that the predicted value through the trend line may fluctuate by that amount.

4.2.4. 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 and advances. The average data of finance companies are presented in rows and the sector-wise investment and loan and advances are classified in column. The data presented below are the average data of last three fiscal years under the study period.

Table 13: Distribution of Investment Sectors of Finance Companies (in '000)

	Inv. in Govt. Securities	Other Investments	Loan Against FD	Other Loans
SIFCL	31244.67	12533.67	11568.00	668697.67
UFL	32500.00	4295.67	4367.33	861692.67
MFL	12500.00	95735.67	18655.67	749592.67
SFL	0.00	12399.33	13653.67	529301.33
BUFL	42835.00	50865.00	11989.67	562179.67
BJFL	3285.67	6000.00	8747.33	536187.33

Source: Annual Reports of Finance Companies

In order to compute the analysis of variance (ANOVA), to test the significance between the finance companies and between the sectors of 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. $\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 = \mu_6$

[ii] There is no significant difference between sectors of investment and loan and advances made by finance companies i.e. $\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 = \mu_6$

H_1: [i] There is significant difference between finance companies in comparison to their investment i.e. $\mu_1 \quad \mu_2 \quad \mu_3 \quad \mu_4 \quad \mu_5 \quad \mu_6$

[ii] There is significant difference between sectors of investment and loan and advances made by finance companies i.e. $\mu_1 \quad \mu_2 \quad \mu_3 \quad \mu_4 \quad \mu_5 \quad \mu_6$

ANOVA: Two-Factor Without Replication

SUMMARY	Count	Sum	Average	Variance
SIFCL	4	724044	181011	1.05788E+11
UFL	4	902855.6667	225713.9167	1.7994E+11
MFL	4	876484	219121	1.26501E+11
SFL	4	555354.3333	138838.5833	67798486220
BUFL	4	667869.3333	166967.3333	69699817856
BJFL	4	554220.3333	138555.0833	70276707801
Investment in Govt. Securities	6	122365.3333	20394.22222	307763245.1
Other Investments	6	181829.3333	30304.88889	1321507475
Loan Against FD	6	68981.66667	11496.94444	22907658.91
Other Loans	6	3907651.333	651275.2222	18061246428

ANOVA Results

Source of Variation	SS	df	MS	F	P-value	F crit
Rows	28748186395	5	5749637279	1.235260262	0.341081	2.901295
Columns	1.79019E+12	3	5.96731E+11	128.2025763	6.48E-11	3.287382
Error	69818937636	15	4654595842			
Total	1.88876E+12	23				

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 1.23. Thus it is clear that the finance companies are adopting different investment practices.

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 significant difference between the sectors 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 128.20.

4.2.5. 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 and advances.

Between finance companies

Table 14: Absolute Differences of Averages Between Finance Companies

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
SIFCL	-	44702.91	38110.00	42172.42	14043.67	42455.92
UFL		-	6592.92	86875.33	58746.58	87158.83
MFL			-	80282.42	52153.67	80565.92
SFL				-	28128.75	283.50
BUFL					-	28412.25
BJFL						-

Table 15: Least Significant Difference Between Finance Companies

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
SIFCL	-	36045.67	36045.67	36045.67	36045.67	36045.67
UFL		-	36045.67	36045.67	36045.67	36045.67
MFL			-	36045.67	36045.67	36045.67
SFL				-	36045.67	36045.67
BUFL					-	36045.67
BJFL						-

Table 16: Accepted Hypothesis Between Finance Companies

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
SIFCL	-	H_1	H_1	H_1	H_0	H_1
UFL		-	H_0	H_1	H_1	H_1
MFL			-	H_1	H_1	H_1
SFL				-	H_0	H_0
BUFL					-	H_0
BJFL						-

For SIFCL and UFL

H_0:   There is no significant difference between SIFCL and UFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between SIFCL and UFL in terms of their investment i.e. $\mu_1 \quad \mu_2$

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From the above tables, since LSD of SIFCL and UFL is lower than the absolute difference of averages of SIFCL and UFL, H_1 is accepted i.e. there is a significant difference between SIFCL and UFL in terms of their investments. This shows that there is great disparity in the investment practices adopted by these two finance companies.

For SIFCL and MFL

H_0:   There is no significant difference between SIFCL and MFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between SIFCL and MFL in terms of their investment i.e. $\mu_1 \quad \mu_2$

From the above tables, since LSD of SIFCL and MFL is lower than the absolute difference of averages of SIFCL and MFL, H_1 is accepted i.e. there is a significant difference between SIFCL and MFL in terms of their investments. This shows that there is great disparity in the investment practices adopted by these two finance companies.

For SIFCL and SFL

H_0:   There is no significant difference between SIFCL and SFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between SIFCL and SFL in terms of their investment i.e. $\mu_1 \quad \mu_2$

From the above tables, since LSD of SIFCL and SFL is lower than the absolute difference of averages of SIFCL and SFL, H_1 is accepted i.e. there is a significant difference between SIFCL and SFL in terms of their investments. This shows that there is great disparity in the investment practices adopted by these two finance companies.

For SIFCL and BUFL

H_0:   There is no significant difference between SIFCL and BUFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between SIFCL and BUFL in terms of their investment i.e. $\mu_1 \quad \mu_2$

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

For SIFCL and BJFL

H_0: There is no significant difference between SIFCL and BJFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1: There is significant difference between SIFCL and BJFL in terms of their investment i.e. $\mu_1 \neq \mu_2$

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

For UFL and MFL

H_0: There is no significant difference between UFL and MFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1: There is significant difference between UFL and MFL in terms of their investment i.e. $\mu_1 \neq \mu_2$

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

For UFL and SFL

H_0: There is no significant difference between UFL and SFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1: There is significant difference between UFL and SFL in terms of their investment i.e. $\mu_1 \neq \mu_2$

From the above tables, since LSD of UFL and SFL is lower than the absolute difference of averages of UFL and SFL, H_1 is accepted i.e. there is a significant

difference between UFL and SFL in terms of their investments. This shows that there is great disparity in the investment practices adopted by these two finance companies.

For UFL and BUFL

H_0:   There is no significant difference between UFL and BUFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between UFL and BUFL in terms of their investment i.e. μ_1 μ_2

From the above tables, since LSD of UFL and BUFL is lower than the absolute difference of averages of UFL and BUFL, H_1 is accepted i.e. there is a significant difference between UFL and BUFL in terms of their investments. This shows that there is great disparity in the investment practices adopted by these two finance companies.

For UFL and BJFL

H_0:   There is no significant difference between UFL and BJFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between UFL and BJFL in terms of their investment i.e. μ_1 μ_2

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

For MFL and SFL

H_0:   There is no significant difference between MFL and SFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between MFL and SFL in terms of their investment i.e. μ_1 μ_2

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

For MFL and BUFL

H_0:   There is no significant difference between MFL and BUFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between MFL and BUFL in terms of their investment i.e. $\mu_1 \quad \mu_2$

From the above tables, since LSD of MFL and BUFL is lower than the absolute difference of averages of MFL and BUFL, H_1 is accepted i.e. there is a significant difference between MFL and BUFL in terms of their investments. This shows that the investment policies adopted by these two finance companies are not in similar pattern.

For MFL and BJFL

H_0:   There is no significant difference between MFL and BJFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between MFL and BJFL in terms of their investment i.e. $\mu_1 \quad \mu_2$

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

For SFL and BUFL

H_0:   There is no significant difference between SFL and BUFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between SFL and BUFL in terms of their investment i.e. $\mu_1 \quad \mu_2$

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

For SFL and BJFL

H_0:   There is no significant difference between SFL and BJFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between SFL and BJFL in terms of their investment i.e. $\mu_1 \neq \mu_2$

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

For BUFL and BJFL

H_0:   There is no significant difference between BUFL and BJFL in terms of their investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between BUFL and BJFL in terms of their investment i.e. $\mu_1 \neq \mu_2$

From the above tables, since LSD of BUFL and BJFL is greater than the absolute difference of averages of BUFL and BJFL, H_0 is accepted i.e. there is no significant difference between BUFL and BJFL 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 and advances

Table 17: Absolute Differences of Averages Between Sectors of Investment and Loan and Advances

	Investment in Govt. securities	Other Investment	Loan Against FD	Other Loan
Investment in govt. securities	-	9910.67	8897.27	630881.00
Other investment		-	18807.94	620970.33
Loan against FD			-	639778.27
Other loan				-

Table 18: Least Significant Differences Between Sectors of Investment and Loan and Advances

	Investment in govt. securities	Other investment	Loan against FD	Other loan
Investment in govt. securities	-	36045.67	36045.67	36045.67
Other investment		-	36045.67	36045.67
Loan against FD			-	36045.67
Other loan				-

Table 19: Accepted Hypothesis Between Sectors of Investment and Loan and Advances

	Investment in govt. securities	Other investment	Loan against FD	Other loan
Investment in govt. securities	-	H_0	H_0	H_1
Other investment		-	H_0	H_1
Loan against FD			-	H_1
Other loan				-

For investment in government securities and other investment

H_0:   There is no significant difference between investment in government securities and other investment i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between investment in government securities and other investment i.e. $\mu_1 \ \mu_2$

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

For investment in government securities and loan against FD

H_0:   There is no significant difference between investment in government securities and loan against FD i.e. $\mu_1 = \mu_2$

H_1:   There is significant difference between investment in government securities and loan against FD i.e. $\mu_1 \ \mu_2$

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

For investment in government securities and other loan

H_0:   There is no significant difference between investment in government securities and other loan i.e. $\mu_1 = \mu_2$

H$_1$:   There is significant difference between investment in government securities and other loan i.e. $\mu_1 \neq \mu_2$

From the above tables, since LSD of investment in government securities and other loan is lower than the absolute difference of averages of investment in government securities and other loan, H$_1$ is accepted i.e. there is a significant difference between the investment in government securities and other loan. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For other investment and loan against FD

H$_0$:   There is no significant difference between other investment and loan against FD i.e. $\mu_1 = \mu_2$

H$_1$:   There is significant difference between other investment and loan against FD i.e. $\mu_1 \neq \mu_2$

From the above tables, since LSD of other investment and loan against FD is greater than the absolute difference of averages of other investment and loan against FD, H$_0$ is accepted i.e. there is no significant difference between the other investment and loan against FD. This shows that investment made by the finance companies in these two sectors are in similar pattern.

For other investment and other loan

H$_0$:   There is no significant difference between other investment and other loan i.e. $\mu_1 = \mu_2$

H$_1$:   There is significant difference between other investment and other loan i.e. $\mu_1 \neq \mu_2$

From the above tables, since LSD of other investment and other loan is lower than the absolute difference of averages of other investment and other loan, H$_1$ is accepted i.e. there is a significant difference between the other investment and other loan. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

For loan against FD and other loan

H$_0$:   There is no significant difference between loan against FD and other loan i.e. $\mu_1 = \mu_2$

H$_1$:   There is significant difference between loan against FD and other loan i.e. μ_1

μ_2

From the above tables, since LSD of loan against FD and other loan is lower than the absolute difference of averages of loan against FD and other loan, H$_1$ is accepted i.e. there is a significant difference between the loan against FD and other loan. This shows that there is a great disparity in the investment made by the finance companies in these two sectors.

4.3. Major Findings

On the basis of the analysis of the data from fiscal year 2060/61 to 2065/66, 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:

) Mahalaxmi Finance is significant in mobilizing its deposits in investment and United Finance in loan and advances in comparison to others. Likewise, Siddhartha Finance is less significant in mobilizing its deposits in investment and Butwal Finance in loan and advances.

) Butwal Finance is significant in investment in government securities, Mahalaxmi Finance in other investment and loan against FD, Siddhartha Finance in other loan and advances in comparison to others. Likewise, Siddhartha Finance and is less significant in investment in government securities and other investment, United Finance in loan against FD, Butwal Finance in other loan and advances.

) Butwal Finance has maintained the high liquidity where as SIFCL has maintained less liquidity in comparison to others. But Birgunj Finance is more consistent in maintaining liquidity where as Mahalaxmi Finance is less consistent in comparison to others.

) SIFCL is earning more interest on investment and Siddhartha Finance on loan and advances in comparison to others. Likewise, Butwal Finance is earning less interest on investment and Birgunj Finance on loan and advances.

)   Siddhartha Finance is significant at mobilizing its equity whereas Butwal Finance is less significant in comparison to others.

)   United Finance is significant at utilizing its assets to earn profit whereas Mahalaxmi Finance is less significant as well as consistent in comparison to others. But, Mahalaxmi Finance is more consistent to utilize its assets to earn profit.

)   Butwal Finance has high operating expenses in terms of their assets with less consistency where as SIFCL has less operating expenses in terms of their assets with more consistency in comparison to others.

)   United Finance is significant at utilizing its funds in loan and advances to earn more profit. Likewise, Siddhartha Finance is less significant at utilizing its funds in loan and advances for increasing net profit.

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, interest on loan and advances and operating expenses and are highly correlated individually. This means that the finance company's net profit is highly affected by those items mentioned above. Not only individually but also combined effect of them on net profit.

)   It has also shown that the high positive correlation between total investment and loan and advances and investment in government securities, other investment, loan against FD and other loan individually, not only individually but also there is combined effect of them on total investment and loan and advances in finance companies is occupied by these factors.

Regression

Regression analysis has drawn the following results:

)   Interest on investment, interest on loan and advances and operating expenses are the most important factors that have positive and negative impact on the net profit. About 99.67% of total variation on net profit is due to these independent factors.

)   Loan against FD and other loan are the major sector where the most of the finance companies are operating. About 99.91% of total variation in total investment and loan and advances is due to these independent factors.

Trend Analysis

Following results are drawn from trend analysis:

)   The trend of net profit from fiscal year 2060/61 to 2065/66 shows that there is a rising trend in the net profit of finance companies. During the fiscal year 2065/66, the net profit has risen up to Rs. 20,783 thousands, in average. The projection has also been done and if other factors remain constant, the net profit can be raised up to Rs. 30,603.93 thousand, in average, in the fiscal year 2069/70. 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 2060/61 to 2065/66 shows that there is a raising trend. This means that the finance companies are doing well in mobilizing their resources. During the fiscal year 2065/66, total investment and loan and advances risen up to Rs. 903,626 thousands, in average. The projection has also been done which shows that the total investment and loan and advances, in average, of the finance companies can be raised up to Rs. 1,319,085.58 thousand, in the fiscal year 2069/70, 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 practices so there is a great disparity among the finance companies as far as the investment 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 been analyzed whether they are significantly different or not. In case of SIFCL and United Finance, there is a significant difference. Likewise, between SIFCL and Mahalaxmi Finance, between SIFCL and Siddhartha Finance, between SIFCL and Birgunj Finance, between United Finance and Siddhartha Finance, between United Finance and Butwal Finance, between United Finance and Birgunj Finance, between Mahalaxmi Finance and Siddhartha Finance, between Mahalaxmi Finance and Butwal Finance, between Mahalaxmi Finance and Birgunj Finance; there is a great disparity in terms of investment i.e. they do not have the similar pattern of risk in terms of investment. Similarly, between SIFCL and Butwal Finance, between United Finance and Mahalaxmi Finance, between Siddhartha Finance and Butwal Finance, between Siddhartha Finance and Birgunj Finance; there is no disparity i.e. they have the similar pattern of risk in terms of investment.

)   Among the sectors of investment and loan and advances made by finance companies, LSD has been analyzed whether they are significantly different or not. In case of investment on government securities and other investment, there is no disparity among them. Likewise, between investment on government securities and loan against FD, between other investment and loan against FD; there is no significant difference i.e. they have similar pattern of risk. Similarly, between investment in government securities and other loan, there is a significant difference. Likewise, between other investment and other loan, between loan against FD and other loan; there is a significant difference

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i.e. great disparity exists among those sectors. This analysis has shown that only other loan has disparity with others but remaining sectors are in similar pattern.

5. 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 the scattered funds and mobilizes that fund for investment in the country. Only through such capital investment, the rate of economic growth in the nation is possible. After the adoption of financial liberalization policy by the government, there has been a tremendous growth in finance companies in Nepal. Their main objective is to collect the deposits from public and invest them in different sectors. For protecting such deposit and minimize the risk, Nepal Rastra Bank (NRB), the central bank of Nepal, 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 given keen importance to their investment practices.

This study mainly focuses on whether the finance companies are adopting the appropriate practices for investing their collected funds. For this, secondary data are collected from different sources for the period of 2060/61 to 2065/66. These collected data are analyzed on the basis of financial tools and statistical tools to know the investment pattern of 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 finance companies is found satisfactory.

5.2. Conclusion

In conclusion, the performance of the finance companies can be expected to be satisfactory as their income is in positive trend. Likewise, they are creating good image in public by accruing their deposits, providing satisfactory consumer services 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 other loan (real estate finance, term loan, hire purchase loan, margin lending etc.). Their investment in productive sector is also

in increasing trend. This is positive sign to accelerate the economic development of the country.

The NRB use to supervise and monitor the finance companies regularly. It also issues directives time to time to control their operations. NRB issued "Banking and Financial Institution Ordinance 2060" in fiscal year 2061/62 , which was the first umbrella act for all types (commercial banks, development banks and finance companies) of financial institutions in the country. Now, it has been established as an act, "Banking and Financial Institution Act 2062", which is inducing them to perform better to create an atmosphere for investment.

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 financing 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 the same basket. They should have continuous monitoring on the portfolio from time to time maintaining good position.

⌡ The finance companies are not yet 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.

⟩ Finance companies are facing the problem of low credibility. To overcome this problem, they should improve their managerial capability, make their transactions transparent, improve accounting and auditing practices, improve innovativeness, and avoid family domination. This will help in their growth.

⟩ The improper and rigid regulatory framework of NRB is hindering the growth of 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.

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ANNEX

Net Profit to Total Income Ratio

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
2060/61	0.1292	0.0257	0.1745	0.1119	0.0782	-
2061/62	0.1292	0.0722	0.2039	0.2010	0.0554	0.1032
2062/63	0.1720	0.1155	0.1741	0.1266	0.0776	0.2021
2063/64	0.1426	0.1624	0.1720	0.2170	0.1024	0.1714
2064/65	0.2039	0.2084	0.1659	0.1568	0.0905	0.1654
2065/66	0.2232	0.1750	0.1661	0.2399	0.9991	0.1504

Interest Income to Loan and Advances Ratio

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
2060/61	0.1556	0.1250	0.1410	0.1627	0.1433	-
2061/62	0.1297	0.1197	0.1190	0.1688	0.1505	0.0667
2062/63	0.1357	0.1419	0.1094	0.1500	0.1329	0.0968
2063/64	0.1295	0.1189	0.1094	0.1461	0.1251	0.1001
2064/65	0.1186	0.1001	0.1015	0.1184	0.1222	0.0945
2065/66	0.1164	0.0939	0.0989	0.1345	0.1240	0.1211

Net Profit to Loan and Advances Ratio

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
2060/61	0.0225	0.0039	0.0309	0.0199	0.0131	-
2061/62	0.0191	0.0110	0.0303	0.0362	0.0099	0.0086
2062/63	0.0257	0.0187	0.0241	0.0190	0.0129	0.0226
2063/64	0.0208	0.0222	0.0238	0.0334	0.0160	0.0191
2064/65	0.0278	0.0263	0.0221	0.0206	0.0140	0.0176
2065/66	0.0315	0.0206	0.0202	0.0364	0.0190	0.0201

Net Profit to Total Assets Ratio

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
2060/61	0.0171	0.0027	0.0020	0.0162	0.0100	-
2061/62	0.0142	0.0870	0.0020	0.0280	0.0069	0.0070
2062/63	0.0209	0.0163	0.0020	0.0163	0.0091	0.0176
2063/64	0.0165	0.0197	0.0020	0.0288	0.0114	0.0157
2064/65	0.0234	0.0240	0.0020	0.0189	0.0099	0.0049
2065/66	0.0252	0.0186	0.0020	0.0320	0.0130	0.0151

Total Loan and Advances to Total Deposits Ratio

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
2060/61	0.9359	1.1600	0.9763	1.0580	0.9422	-
2061/62	0.8944	1.0900	0.9929	0.9995	0.8537	1.2786
2062/63	0.9494	1.6300	0.9054	1.0837	0.8588	1.0784
2063/64	0.9219	1.3750	0.9474	1.0956	0.8413	1.0055
2064/65	0.9972	1.6509	0.8657	1.2338	0.8819	1.0292
2065/66	1.0285	1.5816	0.9300	1.2425	0.8620	0.9898

Operating Expenses to Total Assets Ratio

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
2060/61	0.0165	0.0328	0.0761	0.1206	0.1115	-
2061/62	0.0163	0.0296	0.0709	0.0988	0.1111	0.0298
2062/63	0.0180	0.0295	0.0705	0.1098	0.1026	0.0226
2063/64	0.0189	0.0280	0.0705	0.0866	0.0931	0.0210
2064/65	0.0167	0.0269	0.0629	0.0707	0.0931	0.0205
2065/66	0.0164	0.0258	0.0655	0.0743	0.0880	0.0101

Total Liquidity to Total Deposit Ratio

	SIFCL	UFL	MFL	SFL	BUFL	BJFL
2060/61	0.0013	0.1048	0.0945	0.1525	0.1387	-
2061/62	0.0015	0.1419	0.1127	0.2051	0.1812	0.0200
2062/63	0.0015	0.0605	0.0330	0.0844	0.2647	0.0200
2063/64	0.0021	0.0211	0.0205	0.1410	0.2618	0.0200
2064/65	0.0017	0.0203	0.0224	0.0932	0.1672	0.0200
2065/66	0.0011	0.0699	0.0352	0.1550	0.2336	0.0279

CURRICULUM VITAE

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2007

Pass

Intermediate in Commerce (I. Com.)

2003

Second Division

School Leaving Certificate (SLC)

2001

Second Division

Computer Skills

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- MS Office Package
- Accounting Packages: Tally, Fact
- Graphics Design: Adobe Photoshop, CorelDraw, Macromedia Freehand