

BASIC ANALYTICAL PROCEDURES/REVIEWS:

To begin with, the figures of the current year should be compared with those of the previous year and any disproportionate increase/decrease should be enquired into; in particular the composition of the advances as classified into Standard, Sub Standard, Doubtful or Loss assets as well as the impact on the movements in provisions related thereto.

Attention must be focused on any divergent trends between revenue and related assets or liabilities.

Analysis needs to be made of the propensity of upward/downward movements in income not realised on the NPAs to determine the potential loss of revenue, which can also be gauged independently on a year-wise comparison of the aggregate of **unapplied interest and the interest suspense** in relation to advances.

Financial and performance ratios should be considered useful in connection with any audit; and for banks these ratios could be categorised into those relating to:

a) ASSET QUALITY**b) LIQUIDITY****c) EARNINGS****a) ASSET QUALITY RATIOS**

-Loan Losses to Total Advances

-NPAs to Total Advances

-Net Profit to Loan Losses

-Doubtful Advances to Gross Income

-Permanent/Current Investments to Total Investments

-Market value to cost of:

.Permanent Investments

.Current Investments

b) LIQUIDITY RATIOS

-Cash and liquid securities (e.g. those due within 30 days) to total assets

-Inter-bank and money market deposit liabilities to total assets

c) EARNINGS RATIOS

-Return on: . average total assets

. average total equity

-Interest on: . advances as a percentage of Average Advances

.Deposits as a percentage of Average Deposits

-Income/yield on Average Investments and return of Treasury Functions.

-Average interest earned on advances to average interest expended on Deposits and borrowings (Average cost of borrowing vis-a-vis average yield on moneys applied)

-Ratio of unapplied interest income/income suspense to Advances.

(ATTENTION IS ALSO DRAWN TO THE RBI'S SPECIFIC REQUIREMENTS RELATING TO DISCLOSURE OF CERTAIN BUSINESS RATIOS, which are given hereunder:

Items	Current year	Previous Year
(i) Interest Income as a percentage to Working Funds \$		
(ii) Non-interest income as a percentage to Working Funds		
(iii) Operating Profit as a percentage to Working Funds \$		
(iv) Return on Assets@		
(v) Business (Deposits plus advances) per employee #		
(vi) Profit per employee		

\$ Working funds to be reckoned as average of total assets (excluding accumulated losses, if any) as reported to Reserve Bank of India in Form X under Section 27 of the Banking Regulation Act, 1949, during the 12 months of the financial year.

@ 'Return on Assets would be with reference to average working funds (i.e. total of assets excluding accumulated losses, if any).

For the purpose of computation of business per employee (deposits plus advances) inter bank deposits may be excluded.