Bank Valuation & Value-Based Management: Deposit & Loan Pricing, Performance Evaluation & Risk Management

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2nd Edition

Professor Dermine’s book covers the full range of critical topics in banking today—valuation, pricing, and risk management. Analytical, complete, and relevant, this book is a gem! At a time of increased scrutiny of the banking industry, this volume uses an analytic approach that will serve the reader well for years to come. A must-read for anyone in the profession.” - Anthony M. Santomero, Director, Citigroup; Former President, Federal Reserve Bank of Philadelphia; Senior Advisor, McKinsey & Company; and Richard K. Mellon Professor Emeritus of Finance, the Wharton School

Unlike banking textbooks that emphasise institutional arrangements in the banking world, the primary purpose of this book is to propose a sound valuation model for banks. Surprisingly, very few publications on the subject are available. Anchored in the fields of economics and finance, this book provides not only useful tools for valuing banks, but also an integrated value-based management framework for discussing managerial issues such as fund transfer pricing, risk-adjusted performance evaluation, deposit pricing, capital management, loan pricing and provisioning, securitization, and the measurement of interest-rate risk. To create value in banking, it is necessary to first understand the drivers of value. A sound and explicit bank valuation model is, as shown in this book, a very powerful tool for evaluating decisions that enhance shareholder value. In short, the book provides rigorous foundations for discussing asset and liability management, the control of long-term value creation and risks in banks. The second edition incorporates a discussion of the significant impact of the Basel III regulations on capital and liquidity.

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Introduction Value of company is a relatively informal term, which is typically used to determine the financial health and welfare of a firm (in our case, a bank) in the long run. The term economic value (or shareholder value) is an essential part of the concept of value-based management, commonly utilized by academic researchers and business practitioners. The most important performance dimensions for banks are profitability and risk (and not production possibilities and technology); that makes bank a business corporation organized for the purpose of maximizing the value of the shareholders’ wealth invested in the firm at an acceptable level of risk. [15, p.150].

valuation6, uses option pricing models to measure the value of assets that share option characteristics. Bank Valuation & Value-Based Management provides bankers, bank regulators, auditors, and risk managers with foundational concepts and practical tools for effectively managing a bank. An expert in asset and liability management, European financial markets, and banking theory, Jean Dermine provides rigorous foundations to discuss asset and liability management at a global level, with an integrated focus on an institution’s banking book. He covers bank valuation, fund transfer pricing, deposit and loan pricing, risk management, and performance measurement, and addresses two high-profile issues: “Bank Valuation & Value-Based Management” provides bankers, bank regulators, auditors, and risk managers with foundational concepts and practical tools for effectively managing a bank. He covers bank valuation, fund transfer pricing, deposit and loan pricing, risk management, and performance measurement, and addresses two high-profile issues: portfolio credit risk and liquidity risk. This thorough and innovative guide presents insightful coverage on the hazards of measuring portfolio credit risk, the impact of liquidity risk on fund transfer pricing, and the practice of performance measurement in the banking industry. Numerous real-world examples from the U.S. subprime crisis help illustrate the nature and dynamics of these issues.