Contents ___

Preface				vii	
Acknowledgments					
1	Ban	ank Business Models			
	1.1	Econor	nics of banking	1	
	1.2	Commo	ercial banks	3	
		1.2.1	Structure of the industry in the US	3	
		1.2.2	Overview of the US regulation	5	
		1.2.3	Commercial banks' balance sheets	6	
	1.3	Investn	nent banks	7	
		1.3.1	Structure of the US banking industry	9	
		1.3.2	Typical balance sheet for an investment bank	10	
		1.3.3	The banking industry outside the US	12	
			X O		
2	Fina		tatements Analysis for Banks	15	
	2.1	Balance	e sheet	15	
		2.1.1	Assets	16	
		2.1.2	Investment property	17	
		2.1.3	Intangibles	18	
		2.1.4		20	
		2.1.5	Goodwill	20	
		2.1.6	Securities	21	
		2.1.7	Equity stakes	25	
		2.1.8	Loans and receivables	27	
		2.1.9	Impairment test	30	
		2.1.10		32	
		2.1.11		35	
		2.1.12	De-recognition of financial assets and liabilities	37	

1V		Conten	its	
	2.2	The U	US GAAP for banks	44
		2.2.1	Reversal of impairment	49
		2.2.2	Transfer among different categories	49
	2.3	Profit	& loss statement	49
	2.4	Major	r differences between IAS/IFRS and US GAAP	51
			ple of IAS/IFRS application	54
3	The	Regula	atory Capital for Banks	61
	3.1		latory capital requirements	61
		3.1.1	Definition of capital according to basel I and II	62
		3.1.2	The risk-weighted assets	64
	3.2	Basel	II	68
		3.2.1	Does Basel II work?	70
	3.3	The re	eform of Basel III	73
		3.3.1	New definition of capital	73
		3.3.2	Change in RWA computation	75
			New coefficients	75
		3.3.4	Leverage ratio	77
		3.3.5	Liquidity ratios	78
	3.4	Mana	eform of Basel III New definition of capital Change in RWA computation New coefficients Leverage ratio Liquidity ratios ging the regulatory capital	78
4	Assessing and Preparing the Business Plan for a Bank			
	4.1	Status	s quo analysis	82
		4.1.1	Asset quality	82
		4.1.2	Toxic and illiquid assets	83
		4.1.3	Goodwill	84
		4.1.4	Capitalization	84
	4.2	Intern	al consistency	85
		4.2.1	Historical versus projected performance	86
		4.2.2	ROE framework	86
		4.2.3	P&L and balance sheet drivers	87
		4.2.4	P&L versus balance sheet	88
		4.2.5	Asset side versus liability side	89
		4.2.6	Financial versus operating forecasts	92
	4.3	Exteri	nal consistency	92
		4.3.1	Macroeconomic outlook	93
		4.3.2	Competitive dynamics	94
		4.3.3	Business plan versus market consensus	96
	4.4		orecasting model of a bank	96
		4.4.1	Balance sheet	97
		4.4.2	P&L	99
		4.4.3	Checking forecasts	101

			Contents	V
5	Ban	k Valuation		105
	5.1	Why bank valuation is different		105
	5.2	· ·		108
		5.2.1 The cost of capital for financial institutions		108
		5.2.2 The dividend discount model		111
		5.2.3 The cash flow to equity model		118
		5.2.4 The excess return model		120
	5.3	Relative valuation		123
		5.3.1 Market multiples		126
		5.3.2 Deal multiples		129
		5.3.3 Multiples from fundamentals		131
		5.3.4 Value maps and other regressions		134
	5.4	Asset/liability-based valuation		137
	5.5	The sum of the parts framework		143
	5.6	Bank valuation in M&A	Oliv	144
	5.7	The valuation of Wells Bank	OM	148
6	Inst	rance Business Models and Financial Statements		159
	6.1	The business model of insurance companies		159
	6.2	Segmentation by products		160
		6.2.1 Life and health		160
		6.2.2 Property and casualty		161
		6.2.3 Reinsurance		161
	6.3	Distribution channels		162
	6.4	Insurance balance sheet under US GAAP		162
		6.4.1 Reserves and separate accounts		162
		6.4.2 Deferred policy acquisition costs		167
	6.5	Insurance contracts under IAS/IFRS		167
		6.5.1 Recognition of insurance contracts		168
		6.5.2 A equacy of insurance liabilities		169
		6.5.3 Unbundling		170
		6.5.4 Reinsurance		171
		6.5.5 Discretionary participation features		171
	6.6	Case study		172
7	Reg	ulatory Capital for Insurance Companies		177
	7.1	, see 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		177
	7.2	•		178
		7.2.1 Risk-based capital		178
	7.3	Solvency II – European-based regulation		181
		7.3.1 Valuation of assets and liabilities		182
		7.3.2 Best estimate and risk margin		184

235

Index

V1	(Contents	
		7.3.3 Own funds	184
		7.3.4 SCR and MCR	187
	7.4	Main differences between solvency II and US regulation	on 190
8	Asse	essing the Business Plan for an Insurance Company	193
	8.1	Status quo analysis	193
		8.1.1 Asset valuation	194
		8.1.2 Reserve adequacy	194
		8.1.3 Solvency	195
	8.2	Internal consistency	195
		8.2.1 Historical versus projected performance	196
		8.2.2 P&L versus balance sheet	197
		8.2.3 Asset side versus liability side	198
		8.2.4 Financial versus operating forecasts	199
	8.3	External consistency	200
		 8.2.4 Financial versus operating forecasts External consistency 8.3.1 Macroeconomic outlook 8.3.2 Competitive dynamics 	201
		8.3.2 Competitive dynamics	202
		8.3.3 Business plan versus market convensus	203
	8.4		204
		8.4.1 Non-life business	204
		8.4.2 Life	206
		8.4.3 Checking forecasts	208
9	Inci	rance Companies Valuation	209
	9.1	Appraisal value	209
	7.1	9.1.1 The value-in-force	210
		9.1.2 The ANAV	212
		9.1.3 The business goodwill	213
	9.2		215
	9.3		216
	7.5	9.3.1 Step 1	217
		9.3.2 Step 2	217
10		Valuation of Other Financial Companies	227
		The valuation of finance companies	227
	10.2	2 The valuation of funds	229
Re	ferenc	ces	233