

## Bank Valuation

A two-day intensive case-study based workshop offering a structured approach to the analysis and valuation of bank equity. Key drivers, performance indicators, forecasts and stress tests are combined to address the challenges of bank valuation post credit crisis.

### TARGET AUDIENCE

Targeted for equity analysts and investors, M&A and equity capital market professionals. The workshop is highly intensive and assumes participants will be familiar with financial terms, general accounting and valuation principles. For analysts who wish to refresh these skills, we recommend the workshop: Introduction to Bank Financial Statements. We also offer an advanced level workshop Advanced Bank Analysis: Evaluating Complex Financial Statements which could serve as a follow on to Bank Valuation for very experienced analysts.

### OBJECTIVES

The goal of this workshop is to give participants a structured approach to bank valuation. Specifically, participants will be equipped to:

- Identify and benchmark the key performance drivers for banks in order to identify strong and weak performers.
- Anticipate the economic, regulatory and strategic issues which will drive bank valuations and capital needs going forward.
- Forecast future performance and growth in order to value potential earnings and dividend flows.
- Use multiples, dividend methodologies and distributable profit to assess the current and future equity value of a bank.
- Recognise both the upside potential of bank performance and the risk of further stress on bank earnings and capital that could cause valuations to fall.

### CONTENT

#### ANALYTIC OVERVIEW

##### Valuation goals

- Shareholder perspective: equity performance indicators – share price, return vs. index, total shareholder return, beta, multiples, economic value added
- M&A opportunities: consolidating markets, distressed banks, growth opportunities
- Capital needs: growth pressures, regulatory changes, distressed recapitalisations
- Differing perspectives: shareholder vs. regulators, debt markets and rating agencies; regulatory and refinancing constraints on bank valuation.

##### Structured approach

- Value parameters: key parameters of value: franchise, true asset quality, market potential for growth, protected market position, future outlook, potential for diversification of activities, time frame for action and etc
- Value drivers: operating environment, management and franchise, financial fundamentals
- Structure: financing alternatives: ordinary vs. hybrid capital; key considerations: dilution regulatory and rating constraints.

#### OPERATING ENVIRONMENT

##### Macro-economic and competitive factors

- Impact of interest rates, credit growth and other macro-economic variables on performance
- Competitive and structural issues of the banking system: drivers of differential profitability in key markets.

##### Regulation and supervision

- Key regulations: implementation of liquidity, capital, lending limits and other guidelines in different markets

- Capital adequacy: risk weighted assets Basel I and II
- Hybrid capital; types of hybrid capital – historic and recent innovations e.g. reserve capital instruments, trust preferred securities, contingent convertibles etc. changing regulations
- Tier one core capital requirements: composition and adjustments to tier one and core tier one capital
- Impact of M&A on capital: positive and negative goodwill; impact of dilution on share price; impact of consolidation on risk weighted assets and capital ratios.

#### MANAGEMENT AND FRANCHISE

- Bank business models and sources of franchise.
- Structured approach to the assessment of management: strategy, systems, skills and structure
- Risk management challenges: key risks and the models and processes used; lessons learned from the credit crisis
- Economic capital models to manage risk and allocate capital.

#### FINANCIAL DRIVERS

##### Statement logic

- Relating the bank's businesses to its financial statements
- Review of key accounting principles: IFRS and GAAP standards
- Performance drivers: asset growth and quality
- Business drivers of growth, credit appetite, liquidity needs
- Loan quality: portfolio analysis, impaired loans, reserve adequacy
- Trading and investment portfolios: quality and purpose of securities and derivatives portfolios; realised and unrealised gains and losses; impact on earnings and capital
- Impairment provisions: estimating potential requirements for provisions and write downs.

##### Performance drivers: earnings

- Key drivers of earnings: income stability and diversity, growth potential, cost control
- Core income sources: benchmarking and forecasting net interest, fees, commissions and trading
- Expense management: forecasting and sensitising expenses; management targets and peer comparisons

##### Financial structure - liquidity

- Funding: stability and variety of funding sources, contingency funding
- Liquidity: assessing dependence on short-term wholesale funding, inter-bank market; key challenges of repo and CP funding; defining liquid asset needs
- Gap / asset and liability (ALM) management: managing re-pricing and refinancing risk
- Capital markets funding; use of securitisation, covered bonds and unsecured bond markets to source stable funding.

#### VALUATION

- Multiples valuation: price / earnings and price / book valuations
- Cost of equity: bank betas and risk premia
- Dividend discount model: three-stage dividend discount model – key assumptions relating to growth phases and payout levels
- Distributable profit methodology: building assumptions about required capital retention into earnings forecasts
- Distressed bank valuations: valuing banks in distressed markets with negative earnings and / or equity.

