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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Value-based management (VBM) tackles this problem head on. It provides a precise and unambiguous metric—value—upon which an entire organization can be built. The thinking behind VBM is simple. Value-based management can best be understood as a marriage between a value creation mindset and the management processes and systems that are necessary to translate that mindset into action. Taken alone, either element is insufficient. Taken together, they can have a huge and sustained impact. Managers' performance should be evaluated by a combination of metrics that reflects their organizational responsibilities and control over resources (Exhibit 6).