COMMERCIAL BANK COST ESTIMATION ON THE BASIS OF NET WEALTH METHOD

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The article deals with commercial bank cost estimating features on the basis of net wealth method. Special attention is given to the detection of loan portfolio market value, non-material assets and liability ies of a bank taking into account the specific character of banking business activities.

In modern Russian conditions net wealth method is considered to be the most widespread in the process of commercial bank cost estimating by means of cost-in-no-object approach. The method of banks estimation with the help of cost-in-no-object approach in Russian and foreign scientific literature are not enough introduced, the method itself needs development.

Economic essence of net wealth method consists in element-by-element market value of a commercial bank assets and commitments. Assets balance estimating can not reflect its actual market value, that's why, for bank market value detection by net wealth method, the estimation of reasonable market value of every balance asset separately is carried out beforehand and then liabilities current value is detected.

The use of net wealth method for bank cost estimating presupposes the conduction of several stages:

1. Commercial bank financial condition analysis.

2. Market value estimating of commercial bank assets.

2.1. Loan portfolio estimating.

2.2. Investment portfolio estimating.

2.3. Non-material bank assets estimating.

2.4. Fixed assets and sock of materials estimating.

2.5. Estimating other articles of the assets side of the balance sheet.

3. Market value commercial bank liabilities.

4. Commercial bank market value detection. Every stage is analyzed in details.

1. Commercial bank financial condition analysis is believed to be an indispensable stage in the process of bank business estimating. For bank cost estimating by net wealth method, the structure and dynamics of assets and liabilities, return on assets, liabilities maintenance costs should be analyzed.

2. Market value estimating of commercial bank assets includes a number of consecutive actions.

2.1. Loan portfolio estimating is the most important stage in bank assets cost estimating. Special classification can be provided on various criteria for the detection of loan portfolio market value. The entire loan portfolio can be divided into the following segments according to the groups of borrowers: credits given to credit organizations, state organizations, other legal entities, individual persons, other credits. Urgency and profitability is detected according to every segment. Cash flow for credit bank portfolio is built on every credit group and is brought to current cost on the basis of discounting. Then it is necessary to estimate adequacy of creative reserves on the possible loan losses and correct loan portfolio quantity of value.

2.2. Investment portfolio estimating of a commercial bank doesn't differ from standard procedures.

2.3. Non-material bank assets estimating. The value of non-material bank assets reflected in accounting, as a rule, is incommensurably small in comparison with other aggregate assets. The estimation of non-material assets according to market value can influence considerably on the total value bank capital cost.

2.4. Fixed assets and stock of materials estimating. In the process of estimating of these assets there is no other specifics connected with bank cost estimating.

2.5. Estimating other articles of the assets side of the balance sheet. Other assets are estimated according to their balance cost.

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3. Market value commercial bank liabilities. Depository portfolio estimating can be held from analogy with loan portfolio estimating with the use of profitable approach.

4. Commercial bank market value detection. The detection of total market cost of bank's equity capital by net wealth method is implemented on the basis of subtraction from their assets market cost liabilities.

Thus, at the present time commercial bank market cost estimating in the network of cost-based approach, as a rule, is detected with the use of net wealth method. Net wealth method, as opposed to other methods, is oriented to the detection of current assets and liabilities estimating from the point of generated expenses. Bank business fair estimating can be received only with a glance at competent corrections in all the elements of assets and liabilities. The most important stages are credit and depositary portfolio cost estimating, as well as non-material assets estimating. Labour intensiveness of calculation is regarded as the main drawback of net wealth method.

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