

Valuation of Liability in Joint Venture

The Assignment

A bank in the middle east wished to evaluate its stake in a joint venture for accounting purposes. The bank had entered into a 50% stake in an equally owned limited liability company with another company. In case of the termination of the contract, the bank would get a payout whose value would be determined by which party terminates the contract. The bank wished to evaluate the value of its stake in the joint venture for audit and tax purposes.

Our Solution

We analyzed the impact of the termination of the JVA and made an estimate of the detrimental value.

We modelled the payoff in case of termination of the JVA as an embedded option whose strike value was determined by which party exercised the option contract. Using the Binomial Options Pricing Model, the value of the embedded option was evaluated at different time periods.

Takeaways for the Client

The client was able to evaluate the assets i.e. the stake in the JVA and determine its mark-to-market value on an annual basis for recognition in the income statement.

ASSIGNMENT DETAILS

- ▲ SECTOR
BANKING
- ▲ DOMAIN
VALUATION
- ▲ GEOGRAPHY
MENA
- ▲ PROJECT DURATION
2 WEEKS