

## **The Valuation of Equity Book Value and Net Income of Financial Firms in Times of Financial Crisis**

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**Abstract :** This paper examines the changes in the value relevance of book value of equity and net income of financial firms over the crisis period. It also examines how these changes vary with three variables, namely, fair value exposure, ownership concentration, and regulatory capital ratios. Using a sample of financial firms operating in the European Economic Area over 2005-2011, our findings suggest that the value relevance of book value of equity increases while that of net income decreases during the financial crisis. We find that more exposure to fair value accounting mitigates the impact of the crisis on the value relevance of book value of equity and net income. We also find that more concentrated ownership appears to have a mitigating impact on the changes in the value relevance of both book value of equity and net income in times of financial crisis. Finally, we find evidence that the level of regulatory capital ratios tends to have an attenuating effect on the changes in the value relevance of net income (but not book value of equity) in times of financial crisis.

**Keywords :** value relevance, financial crisis, financial firms, fair value, ownership concentration, regulatory capital

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