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**Session S4-B – Quantitative Methods in Banking and Finance, Room 12**  
**(9:20-11:00)**

**The art of financial modelling of a company**

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**Abstract**

In financial markets and academic community, the term Financial modelling refers to replication of behaviour of a single financial asset or portfolio of assets. Such instruments typically have well-defined characteristics, suitable for translation into rigorous mathematical models. In contrast to its primary meaning, in corporate finance world, this term usually denotes a technique of comprehensive quantification of the entire company's operations. Rather than employing any formal mathematical model, a company's financial model is largely heuristic, tailor-made numerical representation of past and expected future business performance. By analysts themselves, the financial modelling of a company is considered to be more art than science. However, well-constructed company models do possess both explanatory and predictive powers; i.e. they qualify as valid models of reality. They are therefore regarded as paramount decision support tools that enable structured view on companies for various purposes, such as strategy, investments and planning. The paper elaborates on the main steps and principles for building the financial model of a company. Furthermore, it provides some practical observations on the approach to modelling. Finally, it describes the use of models for analysis, forecasting and operational optimisation.

**Keywords:** *Financial modelling, Corporate finance, Decision support, Business plan, Fundamental analysis*