

# Contents

Acknowledgements	vii
Introduction: Capital Allocation in Banking	ix
<b>Part One: The Role and Definition of Capital</b>	<b>1</b>
1 The Role of Capital: Why are Banks required to hold Capital?	3
2 Introduction to Capital Allocation Techniques: How do Banks invest their Capital? And how do they measure the Return on that Capital?	25
<b>Part Two: Capital Allocation in Practice</b>	<b>37</b>
3 Regulatory Capital: Is it really as irrelevant as everybody says?	39
4 Value-at-Risk and Capital Allocation: the RAPM Approach	58
5 A Top-down Approach: Determining the Cost of Capital and the 'Earnings at Risk' Buffer	94
6 Earnings-volatility-based Approaches	112
<b>Part Three: Limitations of the RoC Approach</b>	<b>139</b>
7 Feeding the Model: the importance of clean data	141
8 Limitations of RoC: The Stock Market's perspective	162
9 Shareholder Value as a Key Performance Measure	172
10 Implementing Capital Allocation Policies and Procedures: Moving from a passive system to an active one	191
Index	208