

## **How to Use This Manual**

This manual can be used as an educational tool and read straight through, but it will be most useful as a reference document. It is written for bank treasurers, chief financial officers, chief executive officers, or presidents, but it will be a useful document for staff in these areas or anyone in the corporation who is involved in managing the bank's capital.

### **ORGANIZATION OF THE MANUAL**

Part 1 includes Chapter 1, Introduction to Capital Management.

Part 2 addresses risk-adjusted return on capital (RAROC) and deals with the shareholder/management connection vis-à-vis RAROC. Capital allocation is one of the most basic elements of an effective RAROC system. Chapters include:

- Chapter 2: Measuring Performance Risk Against Capital: Risk-Adjusted Performance Measures
- Chapter 2A: Using EVA to Measure Bank Capital Performance
- Chapter 3: Introduction to Capital Allocation
- Chapter 4: Allocating Capital for Credit Risk
- Chapter 5: Allocating Capital for Interest Rate Risk and Market Risk
- Chapter 6: Allocating Capital for Operational and Other Risks
- Chapter 6A: Managing Operational Risk to Preserve Capital

Part 3 addresses regulatory issues. Chapters include:

- Chapter 7: Introduction to Regulatory Issues
- Chapter 8: Types and Definitions of Regulatory Capital
- Chapter 9: Asset Risk Weightings
- Chapter 10: Off-Balance Sheet Risk Weights
- Chapter 11: Regulatory Ratios and Prompt Corrective Action
- Chapter 12: Capital for Market Risk
- Chapter 12A: The New Capital Guidelines: Basel II and Its Impact on Bank Capital Regulation

Part 4 addresses practical matters:

- Chapter 13: Practical Issues in Capital Management
- Chapter 13A: Identifying Capital Management Planning Risks
- Chapter 13B: Determining the Market Value of a Bank's Capital

Part 5 addresses BSA/AML issues. Its chapters include:

- Chapter 14: Understanding the BSA/AML Compliance Process
- Chapter 15: Integrating Regulatory Requirements into Policies and Procedures
- Chapter 16: Monitoring: Transitions Related to Products and Services
- Chapter 17: Monitoring: Persons and Entities

Part 6 is Peer Analysis. Current peer group data from the Uniform Bank Performance Report are included on the CD and will be updated annually as this manual is updated. This valuable peer analysis tool allows you to see your relative capital position by inputting your bank's own data and comparing it against that of your peer group. Note that this data is provided using the revised peer group structure implemented by the FFIEC effective with the March 31, 2004, reports. The changes were made retroactively for all quarters.

## **Appendix**

This section contains a glossary with key terms and formulas. This is a quick reference when you need to look up an unfamiliar term or need to know exactly how a capital ratio formula is calculated.

## **Regulatory References**

These references now are available on the accompanying CD in a fully searchable format. Because the regulators have continually upgraded their risk-based capital measurement requirements to close loopholes left by the original regulations, copies of both original and subsequent regulations are included. You should use the regulatory chapters in conjunction with the regulatory references.

The CD contains complete versions of the regulatory documents from each of the primary U.S. regulators (the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC)). These include the relevant sections of the Bank Holding Company Act addressing capital requirements for bank holding companies, the

FDIC Rules and Regulations relating to capital requirements, sections of the OCC's Code of Federal Regulations related to bank capital, and capital-related sections of the Federal Reserve Board's Regulation H.

Regulatory documents will be updated as new regulations are implemented.