



**Universität  
Zürich<sup>UZH</sup>**

**University of Zurich**

Department of Banking & Finance

Chair for Banking

Prof. Dr. Steven Ongena

Bachelor Thesis

**Change in Regulatory Framework of Banks:**

Balance Sheet Structure Analysis of the Development in the Equity Capital and  
the Market Risk of Selected Banks from 2007 to 2015.

Prepared by:

Astrid Besmer

Professor and Supervisor:

Prof. Dr. Steven Ongena

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## **Abstract**

The banking regulations have strongly adapted in the last few years. A determining factor for the revisions was the financial crisis starting in 2007 and that exposed the financial situation of the banks. The revisions in regulation led to significant changes in the banking sector. The aim of this thesis is to examine these changes, in particular, the development of the capital and the development of the market risk.

To examine the changes, the thesis is structured in two parts, the theoretical review of the regulatory change that basically states how the banks should have adapted according to the revised provisions. The second part consists of an empirical analysis that illustrates how the banks actually reacted on the regulatory adjustments. For the empirical analysis, a selection of banks was chosen, due to criteria that enable a comparability between the banks and therefore of the results of the analysis. The time period subject to the thesis is set from 2007 to 2015. This time period includes the turbulences of the financial crisis and it also includes the reaction of the banks and the regulators to the crisis. To make a statement on how the banks' capital and market risk developed, the risk-weighted assets (RWA), the capital ratios, the relative market risk and as an additional measure the leverage ratio were examined. To gain an even more detailed picture on the development, the heterogeneous sample of selected banks was subdivided into three categories. The aim was to look with more detail at specific groups, depending on their size and systemic relevance.

The results show that the regulators increased the quality and the quantity of the capital after the financial crisis. Empirically, the most important findings are that the RWA density is decreasing over the examined time period, which can be considered as a reaction of the banks to reduce their balance sheet exposure or risk profile to meet the higher capital requirement. Furthermore, a significant increase in the capital ratios could be examined. The increase is stronger for the larger banks, they did however start at a lower level and the systemically relevant banks need to fulfil additional requirements under Basel III. The market risk, which is also subject to intensified measurement of the exposure does not show an explicit trend but it is generally decreasing from 2007 to 2015. It is assumed that these findings are based on two opposite effects that have an impact on the market risk development, one is the revised regulatory provision for an intensified measurement of the exposure, which lead to a higher relative market risk and the other impact is the reduction of trading activities of the bank in the years following the crisis as the trading activities were one of the major source of losses for the banks, which lead to a change in the banking structure. Additionally, the leverage ratio was examined and also showed an increasing trend which let to conclude that the banks are increasing their capital base and as a consequence their stability and resilience.