

Economic vs. regulatory capital of financial institutions

This thesis is focused on Assets and Liability Management connected with economic and regulatory capital. The main aim is to analyze development of these capitals and their influence on bank's output. In the first, theoretical, part of thesis we follow up the division of risk categories, we define an economic capital and its management and quantification methods. Then we focused on development of international bank regulation and its current and future state. The regulatory capital is defined as well as its management. The last chapter of theoretical part is dedicated to ratings. Then the most important, analytical, part follows. We analyze data of top 50 world banks from year 2007 to 2011. We use especially quantitative methods and OLS regression. We investigate development of economic and regulatory capital during and after the crisis and changes in division of risks they cover. We looking for a relationship between these capitals as well as its impact on bank's rating. At the end of the analysis we focused on relationship between capital adequacy and bank's profitability and we consider reasons of bank's lack of transparency about economic capital. Finally we conclude the results of the analysis. The most important discovery is undermining of presumption of negative relationship between regulatory capital change and profitability.