UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS OF CAPITAL STRUCTURE DECISIONS OF MALAYSIAN BANKS

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ABSTRACT

Determining the optimal capital structure is one of the foremost popular issues in corporate finance and it is one of the most important financing decisions that need to be made by financial managers. A wrong financing decision could affect the performance of the company as well as diminishing the shareholder's return thus can lead to bankruptcy. Therefore, it is the responsibility of financial managers to ensure that conscious steps must be taken in order to avoid making wrong financing decision which could lead the company to bankruptcy. This study aims to examine the determinants of capital structure decisions of Malaysian banks. This study used secondary data and the data was obtained from the ORBIS Database by Bureau van Dijk for forty three (43) Malaysian Banks from the period of 2013 to 2016. This study uses profitability, liquidity and bank size as independent variables and banks' leverage as dependent variable. Three hypotheses were developed and the findings show that liquidity and bank size are important determinants of capital structure decisions of Malaysian banks since they have significance influence on leverage. However, profitability is found to have no significant impact on the capital structure of banks in Malaysia. In addition, the findings show that liquidity is the most influential determinants that influence capital structure of Malaysian banks.

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TABLE OF CONTENTS

	Page
EXAMINATION CERTIFICATE	**ii**
AUTHOR'S DECLARATION	**iii**
ABSTRACT	**iv**
ACKNOWLEDGEMENT	**v**
TABLE OF CONTENTS	**vi**
LIST OF TABLES	**x**
LIST OF FIGURES	**xi**
LIST OF SYMBOLS	**xii**
LIST OF ABBREVIATION/NOMENCLATURE	**xiii**
CHAPTER ONE: INTRODUCTION	**1**
1.1 Introduction	1
1.2 Background of Study	1
1.3 Problem Statement	6
1.4 Research Questions	9
1.5 Research Objectives	10
1.6 Scope of Study	11
1.7 Significance of Proposed Study	12
1.8 Definition of Terms, Terminology and Concepts	14
1.9 Conclusion	17
CHAPTER TWO: LITERATURE REVIEW	**18**
2.1 Introduction	18
2.2 Overview of Financial Systems And Banks In Malaysia	18
2.3 Regulations for Malaysian Bank	20
2.4 Capital Structure	21
2.4.1 Capital Structure for Banks	22
2.5 Theory of Capital Structure	23
2.5.1 Miller and Modigliani Theory	23

CHAPTER ONE
INTRODUCTION

1.1 INTRODUCTION

This research aimed to investigate and analyze the factors that might influence the capital structure of Malaysian banks. This chapter outlines the research background, problem statement, research objectives, and research questions. Apart from this, this chapter also identifies the scope of the study, the significance of the study and definition of terms, terminology, and concepts. The background of study in this research provides an overview of this study. The problem statement explains the issues on capital structure specifically in the banking sector. Research objectives and research questions will be clearly described in this chapter. This chapter will also explain the scope that this study focuses on. The significance of this study explains the potential benefits that will be gained from this study. Lastly, the definition of terms, terminology, and concepts used throughout this study will be explained further in this chapter.

1.2 BACKGROUND OF THE STUDY

This study investigates the determinants of capital structure in banking sectors in Malaysia. In corporate finance, the capital structure can be defined as a way of company finances its assets using two main capital sources namely debt and equity (Ganguli, 2013). There are many definitions of capital structure and past researchers define it differently. Senner (1989) described the capital structure as the proportion of debt to the total capital of the company. Pike & Neale (2006) defined a capital structure "as a way which company raises the capital needed in order to start and expand its business activities". In other words, capital structure refers to the proportions of debt and equity that a company uses to finance its operations.

Financial managers of a company play a vital role in making decisions in selecting the appropriate amounts of debt and equity in order to maximize company value as well as maximize the shareholders' wealth. It is the responsibility of the