



**UNIVERSITI TEKNOLOGI MARA**

**THE EFFECT OF CAPITAL STRUCTURE  
TOWARDS BANKS PERFORMANCE IN  
MALAYSIA**

**NUR ASYIQIN HUSNA BINTI MOHAMED TARMIZI  
2019602518**

Final Year Project Paper submitted in fulfillment  
of the requirements for the degree of  
**Bachelor of Business Administration  
(Hons) Investment Management**

**Faculty of Business and Management**

**July 2021**

## **ABSTRACT**

This paper seeks to investigate the effect of capital structure towards the banks performance particularly on commercial banks that are listed in Bursa Malaysia. There are many factors that affect the bank's performance to enable it to achieve its objective to enhance the value of the bank and shareholder's wealth. The ability of a bank to carry out its day-to-day operations and run its businesses is tightly related to capital structure. In many years, a lot of empirical studies have been conducted to explore if there is any relationship between capital structure and firm's performance and these studies produced mixed results. For this purpose, this research paper will be focused on four capital structures measures that consist of short-term debt ratio (STD), total debt ratio (TD), debt to equity ratio (DTE) and asset growth ratio (GROWTH) as the independent variables. Panel data regression model and multiple regression models were used to determine the effect of each capital structure to a dependent variable which is bank performance that will be measured by using the bank's return on equity (ROE). Sample in this study are 8 commercial banks that are listed in Bursa Malaysia and a 10 years' time frame was used to regain the data from each bank's annual report which results in a total of 80 observations. Results indicate that performance of banks in Malaysia is higher when they have higher debt to finance their assets and growth while the Malaysian banks performance will be lower when there is increment in total asset.

## **ACKNOWLEDGEMENT**

First and foremost, praises and thanks to Allah SWT, the Almighty, for His showers the countless blessings throughout this final year project paper to complete successfully. Peace and prayers be upon His Final Phophet and messenger, Muhammad SAW, the ideal role model for human beings.

I would like to express my deepest appreciation and thanks to my FYP advisor, Puan Nor Haliza Hamzah who has a genius mind in which she has provided me with invaluable guidance throughout this assignment. She always responded to my inquiries in a short time and came out with better solutions towards the problem that I have faced. Without her guidance and continually help, this paper would be impossible.

I would also like to thank my beloved family members for their substantial moral support and encouragement in my studies. I am grateful to my parents for their love, caring, prayer and sacrifices for educating and preparing me for the future.

Finally, I would like to thank my friends and classmates who are also there for me when I need an opinion and support throughout the period of completion of this project paper. I am really grateful to have supportive friends like them.

## **TABLE OF CONTENTS**

	<b>Page</b>
<b>AUTHOR'S DECLARATION</b>	<b>II</b>
<b>ABSTRACT</b>	<b>III</b>
<b>ACKNOWLEDGEMENT</b>	<b>IV</b>
<b>TABLE OF CONTENTS</b>	<b>V</b>
<b>LIST OF FIGURES</b>	<b>VII</b>
<b>LIST OF TABLES</b>	<b>VIII</b>
<b>LIST OF ABBREVIATIONS</b>	<b>IX</b>
<b>CHAPTER ONE INTRODUCTION</b>	<b>1</b>
1.1 Introduction	1
1.2 Background of Study	2
1.3 Problem Statement	3
1.4 Research Questions	4
1.5 Research Objective	5
1.6 Significance of the Study	6
1.7 Scope of the Study	6
1.8 Limitation of the Study	6
1.9 Definition of Key Terms	7
1.10 Summary	8
<b>CHAPTER TWO LITERATURE REVIEW</b>	<b>9</b>
2.1 Introduction	9
2.2 Bank Performance and Capital Structure	9
2.3 Short-Term Debt Ratio	11
2.4 Total Debt Ratio	12
2.5 Debt to Equity Ratio	13
2.5 Asset Growth Ratio	14
2.7 Research Framework	15
2.8 Summary	15

# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction

Capital structure refers to different sources of funds used by a firm to finance its day-to-day operations and run its businesses. In financial terms, capital structure is the way a firm finances its assets via a combination of equity, debt and hybrid securities stated by Saad (2010). The capital structure is extremely important to both financial and non-financial firms because it can influence the return that the firm earns for its stakeholders and ability of a firm to survive in a recession or competitive environment.

How a firm is financed becomes of great importance to both company's managers and capital providers. This is because of the fact that the wrong financial combination used by a firm can affect its performance. Bank performance is the reflection of how the bank's resources are used which enable it to achieve its objectives to enhance the value of the bank and shareholder's wealth. The level of bank profit is commonly used to measure the bank performance. The good performance of the bank shows that the bank is efficiently gaining profit thus will be more attractive for investors to invest in.

Optimum capital structure can be obtained by having the right financial decision in order to maintain the perfect balance between maximising the company's profitability and minimizing its cost of capital. Banking is one of the industries that use a high level of debt to invest the value of companies as its operating profit derives from lending and borrowing activities. Thus, it is crucial for managers to reach this balance, so that the company can have a great benefit from the sources of financing via debt and equity. In addition, an effective capital structure allows banks to deliver their services to customers more efficiently.

Therefore, a good capital structure is expected to enhance banks performance and a proper evaluation on which capital structure that will give better profit to the banks is needed. This chapter will explain on the background of the research and how important the capital structure in the firm is, especially in the banking sector which