DETERMINANTS OF CAPITAL ADEQUACY BY USING FINANCIAL INDICATORS: EVIDENCE OF BANKS IN MALAYSIA.

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ABSTRACT

Capital adequacy ratio is important in the banking system as it measures the stability and soundness of banking institution. The research is undertaken with the goal of studying the Malaysian banks capital adequacy ratio determinants . It is important to know the relationship of the determinants towards the bank capital since Malaysians' banks need to act in accordance with the regulatory requirement to retain their minimum assets. This is to ensure the financial strength of the banks. This paper includes 30 banks, including 16 commercial banks and 14 investment banks, and the period is between 2011 and 2018. The data of this study were collected from the financial statements of the chosen bank and Thomson Reuters Eikon Datastream. The dependent variable in this study is the capital adequacy ratio and the independent variables are asset returns, equity returns and leverage. This study used regression model of ordinary least squares (OLS) model in order to test the relationship between the dependant and independent variables. The variables are chosen based on observation of previous studies and the researcher also conducted a diagnostic check, such as multicollinearity test, heteroscedasticity test and autocorrelation test in order to assure that the data is free from the problem of multicollinearity, heteroscedasticity as well as autocorrelation. The finding shows that return on asset has a positive significant relationship with capital adequacy ratio and leverage has negative and significant relationship with capital adequacy ratio meanwhile return on equity has insignificant relationship towards capital adequacy ratio.