



**THE INFLUENTIAL FACTORS OF CAPITAL ADEQUACY RATIO OF  
COMMERCIAL BANKS IN MALAYSIA**

**SITI INTAN SHARFINAT BINTI ZAWAWI  
2014128015**

**BACHELOR OF BUSINESS ADMINISTRATION  
WITH HONOURS (FINANCE)  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA (TERENGGANU)**

### ACKNOWLEDGEMENT

In the name of Allah, Most Gracious and Most Merciful. First and foremost, Alhamdulillah, praises to Allah S.W.T for giving me the will and strength in enduring all the problems in completing this project paper. I am indebted to many people whose kindly giving me assistance but indeed, the followings deserve special mention.

First of all, I would like to convey my sincere gratitude to my advisor, Madam Salwani binti Affandi for her continuous guidance, encouragement and contributions throughout this project paper. I appreciate for her knowledgeable supervision in helping me to complete this paper despite her busy schedule. A special thanks also for Prof. Dr. Wan Mansoor Wan Mahmood as my second examiner for his supports and guidance during the preparation and completion of this paper.

I dedicated my sincere thanks to many helpful friends and colleagues who constantly wish me success and for their unfailing support and unceasing encouragement throughout my study.

Deep appreciation is also extended to my parents for their lifetime encouragement and inspiration during my study to keep me heading the right direction. Finally, special appreciation addressed to UiTM Terengganu for giving me opportunities to pursue my study in Bachelor of Business Administration (Hons) Finance.

Thanks.

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**ABSTRACT**

This paper investigates the influential factors of capital adequacy ratio of commercial bank in Malaysia. The objectives of this study are to investigate the relationship between capital adequacy ratios with the influential factors and to identify the most significant factor which influences capital adequacy ratio of commercial banks in Malaysia. A research framework and hypothesis are developed and tested using linear regression analysis. This study uses panel data methods which involves the dependent variable, capital adequacy ratio (CAR) while the banks size, loan asset ratio (LAR), equity ratio (EQR), return on asset (ROA), return on equity (ROE) and deposit asset ratio (DAR) are the independent variables. The data of the variables are collected by applying yearly data for ten (10) years from 2006 to 2015 for twenty (20) commercial banks in Malaysia. The results of this paper determines that capital adequacy ratio (CAR) has positively affect bank size (BS), which means that the commercial banks in Malaysia has high supervisory control on their capital adequacy ratio. Besides, there is also positive relationship between deposit asset ratio (DAR), equity ratio (EQR) and return on asset (ROA) with capital adequacy ratio. This concludes that increasing in deposits from customers and profitability of the banks will positively affect the banks capital adequacy ratio. However, the loan asset ratio (LAR) and bank size (EQR) has adversely affect the capital adequacy ratio which is if there is an increase in the loan asset ratio and total assets will decrease the level of capital adequacy required by the banks.

**Keywords:** Capital Adequacy Ratio, Bank Size, Deposit Asset Ratio, Return on Asset, Loan Asset Ratio and Equity Ratio.