FINANCIALS AND MACROECONOMICS IMPACT ON CAPITAL ADEQUACY RATIO: EVIDENCE FROM MALAYSIAN COMMERCIAL BANKS

AZYREN SHAWALNEY BINTI ALUYI @ AMRAM

2015136667

SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENT FOR THE
BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS
(FINANCE)

FACULTY OF BUSINESS AND MANAGEMENT
UNIVERSITI TEKNOLOGI MARA CAWANGANTERENGGANU

DECEMBER 2017

ACKNOWLEDGEMENT

Bismilahirrahmanirrahim...

In the name of Allah, the Most Gracious and the Most Merciful. Alhamdulillah, all praises are due to Allah SWT for the strengths and blessing in completion of this research. Final Year Project is not an easy task and it would not possible to complete without support and help of numerous people. Hence, I would like to extend my sincere to all of them.

First and foremost, I would like to seize this opportunity to express my sincere gratitude to my advisor, Madam Salwani binti Affandi for her endless guidance and words of encouragement throughout this project paper. If it was not because of her guidance, patience and willingness to work with me, I would not have managed to cross the finishing line I am greatly indebted to her for supervising me and will always cherish the wonderful experience of working with her. A special thanks I would like to dedicate to Dr. Zuriyati binti Ahmad as my second examiner for her supports and guidance in preparation and completion of this research.

Finally, I would also like to thanks to all my family, friends and classmates for the continuous idea and information sharing, and the bonding and enjoyment of life as a student in university.

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ABSTRACT

This study investigates the impact of financial and macroeconomic variables on banks capital adequacy ratio (CAR) in the Malaysian commercial banks, with specific attention on return on assets (ROA), banks size (SIZE), deposits (DEPO), inflation (INF) and economic condition(GDP). The time period examined is from 2010 to 2016 which consist in total of 147 annual data observations. A research framework and hypothesis are developed and tested using linear regression analysis. The objectives of this study are to identify the most significant factor that influence the capital adequacy ratio of commercial banks in Malaysia and to investigate the relationship between banking capital adequacy ratio (CAR) with return on assets (ROA), bank's size (SIZE), deposits (DEPO), economic condition (GDP) and inflation (INF). From Random Effect Model regression, it revealed that only return on assets (ROA) and inflation (INF) have an insignificant relationship with capital adequacy ratio (CAR) while deposits (DEPO), banks size (SIZE) and economic condition (GDP) have a significant relationship with capital adequacy ratio (CAR). It showed that inflation signifies a positive relationship with capital adequacy ratio (CAR) whereas return on assets (ROA), deposits (DEPO), banks size (SIZE) and economic condition (GDP) were concluded to have a negative relationship with capital adequacy ratio (CAR). The results has provided fruitful insights into the effects of financial and macroeconomic factors on capital adequacy ratio in Malaysian commercial banks. The findings can assist banks' manager to promote banks' withstanding in consistent to Central Bank of Malaysia main focus that is to promote monetary stability and financial stability that conducive towards the sustainable Malaysian economic growth.