UNIVERSITI TEKNOLOGI MARA

BANK CAPITAL REQUIREMENT ON BANK RISK TAKING: CASE OF COMMERCIAL BANK IN MALAYSIA

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ABSTRACT

In term of finance, capital requirement is the standardized requirement in place for banks that determine how much liquidity is required to be held for a certain level of assets. Banks are highly levered firms, and the nature of their leverage is unique in the sense that a substantial portion of bank debt is "demandable" and is also part of the economy's payments system. Besides, banks are the most important financial intermediaries, which results from their role as providers of payments, loans and deposits, and as producers of information. Capital regulation was provoked by the concern that banks may hold capital less than what is socially optimal relative to their risk. In this case, regulators can enforce remedial covenants, such as restricting asset growth and certain activities or enforcing the raise of additional capital, which constrain the actions of banks. Because regulatory enforcements impose substantial costs on banks, they provide a vital incentive for banks to limit risk-taking. The expected study will determine capital adequacy ratio impact on bank risk taking with focus on Malaysia banking sector. The data of the expected study will be taken from the annual report as annually of the commercial bank in Malaysia. The type of the data that will be use is panel data which consist of eleven commercial banks from 2010 until 2015. The expected study is focus on effect of capital requirement on bank risk taking in Malaysia. The expected findings will depends on the variables effect of capital requirement on commercial bank risk's taking.

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TABLE OF CONTENTS

AUTHOR'S DECLARATION .... **i**

ABSTRACT .... **iii**

ACKNOWLEDGEMENT .... **iv**

LIST OF TABLES .... **ix**

LIST OF FIGURES .... **x**

LIST OF SYMBOLS .... **xi**

LIST OF ABBREVATION .... **xii**

CHAPTER ONE 1

1.1 Introduction 1

1.2 Background Of The Study 3

1.3 Problem Statement 5

1.4 Research Question 7

1.4.1 Main Research Questions 7

1.4.2 Specific Research Questions 7

1.5 Research Objective 8

1.5.1 Main Research Objective 8

1.5.2 Specific Research Objectives 8

1.6 Significance Of The Study 9

1.6.1 Students 9

1.6.2 Future Researcher 9

CHAPTER ONE
INTRODUCTION

1.1 INTRODUCTION

Capital requirement is one of the most interesting topics in financial research for the researcher to know what the jargon meaning of capital requirement. Capital requirement is the requirement amount and percentage that had been standardized for banks and other depository institutions to determine how efficiency for a certain level of assets in banks. All the requirement had been set by national bank and federal bank. In some cases, capital requirement is an important component of banking because it directly and indirectly affects the profitability and efficiency of bank. According to Wangui (2012b), bank are highly levered firms and the nature of their leverage is unique because of bank deposits and part of the economy's payments system. This can be shown that the capital requirement have relation with the bank deposit from the other institutions. Besides, banks are financial intermediaries between two parties in financial transactions.

There are interaction between size is highly significant in the risk equation, which means that more banks are large, more they manage their risk. Thus, their finding is mainly explained by the direct and easy access to major banks in capital markets such as the largest banks are associated to low risk level Bouheni & Rachdi (2015). This can indicate in the journal that there negative relationship and no significant between capitalization and low risks. However, according to Cohen & Scatigna (2014), the banks that had high capital ratios at the start process in the post crisis years tend to grow more than other banks. Thus shown there are positive relationship and significance effect to the risks.