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**EVALUATION OF CAPITAL ADEQUACY RATIO ON MALAYSIAN BANKING
EFFICIENCY**



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UUM
Universiti Utara Malaysia

MASTER OF SCIENCE (BANKING)

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EFFICIENCY**



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Thesis Submitted to

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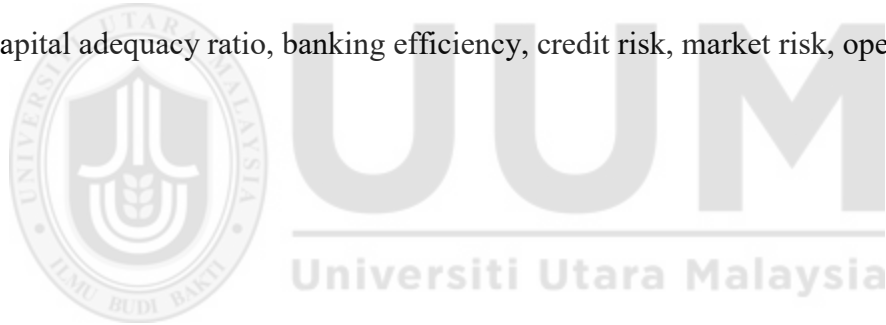
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Abstract

Capital adequacy has been constantly growing in the banking sector in Malaysia and is a key factor in determining the continuity of the commercial and islamic banks in Malaysia. Capital adequacy is a cushion for banking institution for ensure they are survived in financial crisis. However capital adequacy is affected by credit risk, market risk and operational risk. The purpose of this study is to evaluate the capital adequacy ratio on Malaysian banking efficiency from year 2009 to 2016. The variables that would like to test are on between total risk weighted assets for credit risk, total risk weighted assets for market risk and total risk weighted assets for operational risk. A research framework and a hypothesis are developed. The hypothesis of this study is tested using regression analysis. It is to examine the fitness and the strength of the model. In this research, 8 serial data comprised of 10 local banks where 8 of them are commercial banks and 2 of them are Islamic banks. From three of independent variables in this research, only two variables gives an impact towards capital adequacy ratio. In a nutshell, this study offered insights to understanding the evaluation of capital adequacy ratio on Malaysian banking efficiency for mitigate any difficulties during financial crisis.

Keywords: Capital adequacy ratio, banking efficiency, credit risk, market risk, operational risk



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Chapter 1: Introduction

1.1 Background of the Study

Bank is a financial institution that provides financial services to customers. It provides a various services such as accepting deposits, issuing loans and others. Based on Financial Services Act 2013, bank has the same meaning as a “banking business” that was defined in subsection 2(1) of the Central Bank of Malaysia Act 2009 [Act 701]. It simply means as a business of accepting deposits on current account, deposit account, savings account or other similar account, paying or collecting cheques drawn by or paid in by customers and provision of finance in Malaysia. The banking system can be divided into two types that can be known as Commercial Banking and Islamic Banking. The banking institution plays a major role as an intermediary between surplus and deficit. In Malaysia, it is controlled by the central bank, which is Bank Negara Malaysia.

Initially, the Companies' Ordinance 1948 was regulating the commercial banks. Then, it was changed to The Banking Act 1973 and followed with combination of Banking and Financial Institution Act 1989 (BAFIA), the Banking Act 1973 and the Finance Companies Act 1969 under a single legislation. Recently, the commercial banks have started to comply with the new regulation which is Financial Service Act (FSA) 2013.

Thus, each of the banks must follow the rules set up by central bank to ensure the businesses that have been conducted are legal and sound. One of the rules that must be complied is to achieve the minimum requirement for capital in banking institution. Based on the Basel Committee on Bank Supervision (BCBS), Basel is a set of international banking regulations that sets out the minimum capital requirements of financial institutions. It is also a goal of minimizing the credit

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Appendix 1

Commercial Banks in Malaysia		
No.	Name	Ownership
1	Affin Bank Berhad	L
2	Alliance Bank Malaysia Berhad	L
3	AmBank (M) Berhad	L
4	BNP Paribas Malaysia Berhad	F
5	Bangkok Bank Berhad	F
6	Bank of America Malaysia Berhad	F
7	Bank of China (Malaysia) Berhad	F
8	Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad	F
9	CIMB Bank Berhad	L
10	Citibank Berhad	F
11	Deutsche Bank (Malaysia) Berhad	F
12	HSBC Bank Malaysia Berhad	F

13	Hong Leong Bank Berhad	L
14	India International Bank (Malaysia) Berhad	F
15	Industrial and Commercial Bank of China (Malaysia) Berhad	F
16	J.P. Morgan Chase Bank Berhad	F
17	Malayan Banking Berhad	L
18	Mizuho Bank (Malaysia) Berhad	F
19	National Bank of Abu Dhabi Malaysia Berhad	F
20	OCBC Bank (Malaysia) Berhad	F
21	Public Bank Berhad	L
22	RHB Bank Berhad	L
23	Standard Chartered Bank Malaysia Berhad	F
24	Sumitomo Mitsui Banking Corporation Malaysia Berhad	F
25	The Bank of Nova Scotia Berhad	F
26	The Royal Bank of Scotland Berhad	F
27	United Overseas Bank (Malaysia) Bhd.	F

Islamic Banks in Malaysia

No.	Name	Ownership
1	Affin Islamic Bank Berhad	L
2	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	F
3	Alliance Islamic Bank Berhad	L
4	AmBank Islamic Berhad	L
5	Asian Finance Bank Berhad	F
6	Bank Islam Malaysia Berhad	L
7	Bank Muamalat Malaysia Berhad	L
8	CIMB Islamic Bank Berhad	L
9	HSBC Amanah Malaysia Berhad	F
10	Hong Leong Islamic Bank Berhad	L
11	Kuwait Finance House (Malaysia) Berhad	F
12	Maybank Islamic Berhad	L
13	OCBC Al-Amin Bank Berhad	F

14	Public Islamic Bank Berhad	L
15	RHB Islamic Bank Berhad	L
16	Standard Chartered SaadiqBerhad	F

L is local bank

F is foreign bank





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