

**DETERMINANTS OF COMMERCIAL BANK
INTEREST RATE SPREAD IN MALAYSIA**

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**BACHELOR OF BUSINESS ADMINISTRATION
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UNIVERSITI TEKNOLOGI MARA
JOHOR**

MAY 2007



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**Submitted in Partial Fulfillment
of the Requirement for the
Bachelor of Business Administration
(Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT
UTM, JOHOR**

MAY 2007



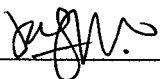
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“DECLARATION OF ORIGINAL WORK”

I, Jasmin Mohamed Ali, (I/C Number: 841230085334)

Hereby, declare that,

- This work has not previously been accepted in substance for any degree, locally or overseas and is not being concurrently submitted for this degree or any other degrees
- This project paper is the result of my independent work and investigation, except where otherwise stated
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: 

Date: 11 MAY 2007

LETTER OF SUBMISSION

May 2007

Muhamad Sukor bin Jaafar
FIN660 Course Tutor
Finance Department
Faculty of Business Management
Universiti Teknologi MARA
85009 Segamat
Johor.

Dear Sir,

SUBMISSION OF PROJECT PAPER

Attached is the project paper titled "THE DETERMINANTS OF COMMERCIAL BANK INTEREST RATE SPREAD IN MALAYSIA" to fulfill the requirement as needed by the Faculty of Business Management, University Teknologi MARA

Thank you

Yours sincerely



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ABSTRACT

The main objective of this paper is to study the determinant of bank interest spread in Malaysia. It uses a set of bank's characteristics which are the microeconomic variables and a set of macroeconomic variables to explain the bank interest spread. Macroeconomic variables included are the inflation rate and economic growth. For microeconomic variables, it consists of ratio of non-interest bearing deposit to total assets, net worth, operating costs, service revenue to total operational revenue, liquidity and leverage. This paper makes use of the annual data of 23 commercial banks in Malaysia which consists of 10 locally owned banks and 13 locally incorporated foreign banks. A period of six years which is from 2000 to 2005 is covered. A two step regression analysis is employed to measure the micro and macroeconomic variables.

In consistent with previous research, it is found that macroeconomic variables are more relevant in explaining the bank's interest rate spread in Malaysia than microeconomic variables. Also, all the variables included are found to be significant in explaining the interest rate spread except for the variable of service revenue to total operational assets. It was also highlighted that operating costs is the main determinants of the interest rate spread.