



**DETERMINANTS OF NET INTEREST MARGIN:
A PANEL STUDY ON MALAYSIA'S COMMERCIAL BANKS**

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ABSTRACT

Net interest margin (NIM) is one of the ratios that reflect on the bank's performance where low NIM indicates that the banks is less efficient while high NIM signifies that the bank is good in managing their operation. However, over the past few years the NIM of Malaysia's commercial banks had recorded a downtrend. Thus, this research paper examines factors that influence NIM in Malaysia's commercial banks using panel data set from 10 local and foreign commercial banks covering the 10-year period. The study engaged with annual time series data from 2006 to 2015. The specific determinants of NIM include size of the bank, return on asset, non-performing loan, bank's liquidity risk and interest rate. This study uses Random Effects Model (REM) in order to investigate the relationship between the independent variables with NIM. The outcome of this study will benefit the organization especially the banks and the government as they can take a prevention steps before the NIM worsen and improve their performances. Based on the model used, the findings show that return on asset and interest rate both have positive relationship with NIM. Whereas, high liquidity risk will reduce the NIM of commercial banks. Unfortunately, non-performing loan and size of the bank are both insignificant. This study suggests that liquidity risk is the most significant factors that influence NIM. Government and the financial institutions need to act faster in order to avoid depressed economy as banking and financial industry is one of the major sources to Malaysia.

Keywords: Net interest margin, panel data regression, Random effects model, Malaysia, commercial banks