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

WAN ROSUHAILA BINTI WAN MUHAMAD RUSLI
2015143157

BACHELOR OF BUSINESS ADMINISTRATION
WITH HONOURS (FINANCE)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA (TERENGGANU)

JANUARY 2018

ACKNOWLEDGEMENT

This project paper could not have been complete without the help of people in Universiti Teknologi MARA (Terengganu) for their sincere guidance that I have received during my research.

First and foremost, I would like to express my deepest gratitude and sincere appreciation to those who helped me throughout the completion of this research, especially to my advisor, Madam Zuraida Mohamad for her great support, encouragement and advice. During the research, I have encountered some difficulties and shortage of knowledge. Fortunately, Madam Zuraida had contributed her valuable time to meet up with me and give me the assistance that I need.

Secondly, I would like to thank our second examiner, PM Dr Azemi Che Hamid for his comments on the project paper before the final submission. Without his kind advice and willingness to explain and make things clearer to my weaknesses as well as highlighting few details that I overlooked, my research paper must be filled with errors.

Next, I also want to thank the project coordinator, Madam A'tiqah Rashidah Abu Samah, for coordinating everything towards the completion of the project paper and keeping me updated with the latest information concerning it.

Last but not least, I would like to acknowledge with gratitude, the moral support and love from my family especially my father, Mr Wan Muhamad Rusli Wan Taib and my mother, Madam Rosiah Yahaya. Without their ongoing support and warm motivation, I will not be able to complete this project paper.

TABLE OF CONTENT

CONTENT	PAGE

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