



**THE FACTORS THAT INFLUENCE INTEREST RATE SPREAD OF  
MICRO FINANCE INSTITUTION IN MALAYSIA**

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**JANUARY 2020**

## ACKNOWLEDGEMENT

First of all, I am highly grateful to Allah S.W.T for His blessing throughout my thesis report preparation. I would like to express my special appreciation and thanks to my advisor, Madam Salwani Affandi for her guidance that enabled me to understand the process of completing this report by providing me with methods and examples. Without her constant supervision this thesis would have not been possible to be completed successfully. I would also like to thank to my second advisor, Madam Noor Emilina Mohd Nasir who has helped me with some ideas to generate creativity in writing this thesis. Both of them have given cooperation by spending some time with me for discussions regarding my thesis report. Secondly, I would like to extend my gratitude to Elektro Serve (M) Sdn Bhd management. I received guidance from them and they allowed me to gain exposure that meet the objective of my practical training. I want also to thank them for giving me the opportunity to build up my self-esteem and knowledge that can help to develop my skill. I believe that this knowledge will be extremely helpful for my future career. In addition, I would like to thank my family, friends and colleagues who have given me endless support and encouragement throughout my practical training making it possible for me to complete this thesis. Finally, thank you very much to everyone who has involved directly or indirectly whiles me was completing this report.

Sincerely,

NAJWA BINTI MOHD ZAKARIA

## **Abstract**

The paper empirically investigates the determinants of interest rate spread in Malaysia banking sector based on panel data analysis and also to determine the most significant factors affecting interest rate spread. The findings show that bank-specific factors play a significant role in the determination of interest rate spreads. These include loan loss provision, return on assets, operating costs and return on equity, this entire variable has positively influence interest rate spreads. On the other hand, return on asset ratio and bank size has a negative effect on the spreads. On average, big banks have higher spreads compared to small banks. This study used a qualitative research which involved collecting data from annual report of all Micro Finance Institutions in Malaysia from year 2008 until 2017. The method used to analyses the data of this research is Ordinary Least Square (OLS) regression because this research only conducted in Malaysia. The collected data were analysed by using Stata version 10 in order to get the end result. The findings indicate that the Panel Pooled (OLS) model as a preferable model after conducting data analysis comparison between Panel Pooled (OLS) and Panel Random Effect. The outcomes of this research study summarized that two independent variables which are loan loss provision and bank size have a significant relationship with interest rate spread. The other three independent variables namely return on asset, return on equity and operating cost show insignificant relationship towards interest rate spread. As a result, the research objective of this study had been achieved.

*Keywords:* Interest rate spread, banking sector, Malaysia, Panel Pooled (OLS), Panel Random Effect, return on asset, return on equity, operating cost, bank size, loan loss provision

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