

Net Interest Margin

Net interest margin is a statistic that is usually calculated for financial institutions and in particular for banks. Net interest margin is the difference in interest income earned and interest paid expressed as a percentage of interest earning assets (usually averaged over a period of time).

Net interest margin is sometimes confused with net interest spread. The two are not exactly the same. The net interest spread is a difference in rates. The net interest margin is a difference in income expressed as a rate.

Net interest margin is similar to gross margin calculated for non-financial institutions in the sense that net interest margin reflects a gross profit and does not deduct any other costs (e.g. overhead, labor costs, advertising). Interest-bearing assets can be viewed as a bank's "inventory." And net interest margin relates the gross profit on this inventory relative to the firm's assets.