

# **Derivative Activities and Thai Banks' Interest Rate and Exchange Rate Exposures**

## **ABSTRACT**

The failure of large financial institutions such as Long Term CAPITAL and Metallgesellschaft AG have been occurring from derivative activities. Hence, our research aims to study the relationship between Thai bank's derivative activities and risk exposure (interest rate and foreign exchange rate exposure). The results are the strongest and consistent confirm that the use of derivatives increase the foreign exchange rate beta for all banks, while interest rate beta has not been found the consistent of the relationship. The significant positive relationship between derivative activities and foreign exchange rate exposure suggest that regulator must continue to encourage supervision to banks' internal control systems and keep closely monitoring derivative activities. Such regulatory actions would help mitigate future banking losses when unfavorable shifts in the risks.