

**SENSITIVITY OF BANKS TOWARDS  
MACROECONOMIC AND EXCHANGE RATE**

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JOHOR**

**MAY 2007**



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**Submitted in Partial Fulfillment  
of the Requirement for the  
Bachelor of Business Administration  
(Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT  
UITM, JOHOR**

**MAY 2007**

DECLARATION OF ORIGINAL WORK



**BACHELOR OF BUSINESS ADMINISTRATION  
(HONS) FINANCE  
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JOHOR**

**“DECLARATION OF ORIGINAL WORK”**

I, Nurul Wahidah Talib , (I/C Number:840506016758)

Hereby, declare that,

- This work has not previously been accepted in substance for any degree, locally or overseas and is not being concurrently submitted for this degree or any other degrees
- This project paper is the result of my independent work and investigation, except where otherwise stated
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: \_\_\_\_\_

Date: 4 MAY 2007

## **LETTER OF SUBMISSION**

4 MAY 2007

Muhamad Sukor bin Jaafar  
FIN660 Course Tutor  
Finance Department  
Faculty of Business Management  
Universiti Teknologi MARA  
85009 Segamat  
Johor.

Dear Sir,

### **SUBMISSION OF PROJECT PAPER**

Attached is the project paper titled "SENSIVITY OF BANKS TOWARDS MACROECONOMIC AND EXCHANGE RATE" to fulfill the requirement as needed by the Faculty of Business Management, University Teknologi MARA

Thank you

Yours sincerely

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2005656094  
Bachelor of Business Administration (Hons) Finance

## **ABSTRACT**

This paper studied bank's sensitiveness to macroeconomic variables and exchange rate in Malaysia. Although some of the past studies of bank performance used usual macroeconomic explanatory variables, this was the first study to examine the impact of the exchange rate and macroeconomic variables on bank interest margins and profitability.

This paper combining a broad cross section of bank balance sheet and income statement information in 5 local banks and 5 foreign banks in Malaysia with time series dimension (for the period 1996-2005). This paper had 3 dependent variables which are ROA (Return on Asset), ROE (Return on Equity) and NIM (Net Interest Margin) and 5 independent variables which were inflation, interest rate, economic growth, unemployment rate and exchange rate.

Since there were several factors that affect the dependent variables, this paper used Multiple Linear Regression as a method for measuring the effects of several factors concurrently.

The main conclusion of this paper was GDP was one of the macroeconomic variables that really affect bank profitability. However, some other independent variables also could contribute to the bank profitability.