FLUCTUATION IN FOREIGN EXCHANGE RATES AND PROFITS IN COMMERCIAL BANKS CASE STUDY OF STANBIC BANK MUKONO BRANCH

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A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF SCIENCE IN ACCOUNTING AND FINANCE OF UGANDA CHRISTIAN UNIVERSITY

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UGANDA CHRISTIAN UNIVERSITY

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DECLARATION

DECLARATION

I, KISAAKYE ESTHER SSEMBIRO, hereby declare that this research proposal on "FLUCTUATION IN FOREIGN EXCHANGE RATES AND PROFITS IN COMMERCIAL BANKS CASE STUDY OF STANBIC BANK MUKONO BRANCH" is my own original work and has never been presented for any academic award to any institution of higher learning.

.... 6th/09/2024.

.....

KISAAKYE ESTHER SSEMBIRO DATE

S21B33/009

APPROVAL

This is to certify that the research report written under the topic, "FLUCTUATION IN FOREIGN EXCHANGE RATES AND PROFITS IN COMMERCIAL BANKS CASE STUDY OF STANBIC BANK MUKONO BRANCH" has been compiled and done under my supervision and is now ready for submission with my approval.

Signature: ***Kasozi Geoffrey*** ***6th September 2024***

MR. KASOZI GEOFFREY **DATE**

(Supervisor)

DEDICATION

I want to sincerely thank my parents for the financial support and fatherly advice they provided me during my education. Their encouragement has revealed my capabilities. I am thankful to my siblings for the different ways they helped me during my education.

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I am grateful to Mr. Kasozi Geoffrey for his efficient guidance, commitment, accessibility, and expert recommendations during my time as his supervisee.

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Finally, I am grateful to God, through Jesus Christ, for granting me the health and strength to conduct the research all the way through and to its successful completion.

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ABSTRACT

Financial performance is determined by the capability to support operational and investment choices as well as plans to reach financial stability in a business. It signifies the degree to which a bank has met its financial goals based on predetermined financial targets and standards. Changes in the exchange rate influence the domestic prices through three

channels, via imported consumption goods' prices, imported intermediate goods' costs, and domestic goods priced in foreign currency. Risks from fluctuations in foreign exchange rates The risk of change in foreign exchange rates is deemed as one of the biggest risks to banking organizations. Worst case, high foreign exchange losses might even lead to the failure of banks.

The aim of the research was to determine the effects of exchange rate changes on the financial results of commercial banks in Uganda. The research employed a descriptive research design, which was suitable because the goal was to develop a profile on how exchange rate fluctuations impact the financial performance of commercial banks in Uganda. All commercial banks operating in Uganda were included in the target population. The information was sourced from the bank's consolidated financial statements from a secondary source. SPSS, Statistical Package for Social Scientists, was utilized in the data analysis for the study. The research confirmed a positive link between changes in foreign exchange rates and banks' financial performance, assessed by the assets' returns ratio. It was also determined that the correlation between the fluctuations and the returns was not very strong.

Results from the analysis of correlation established that a fluctuation in the value of a home currency lead to an effect on the financial performance of the bank. The study concluded that there was a weak relationship between foreign exchange rate fluctuations and the performance of commercial banks in Uganda. The study recommended that relevant authorities-for instance, the central bank of Uganda-should adequately put in measures to safeguard the value of the domestic currency. This would ensure that the value of the same does not fluctuate much day in and day out.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background, Statement of the problem, purpose of the study, research objectives, research questions, study scope, Significance of the study and Conceptual framework.

1.1 Background

"In an international trade involve different currencies; the variability of foreign exchange rates is a potentially interesting factor that drives the level of profitability of commercial banks as it affects their financial intermediation process" (Chiira, 2009). Because there is no country that is self-reliant but instead they all transact business with one another, foreign exchange rates become handy. Adetayo, Dionco and Oladejo (2004) explain that "exchange rate variation is significant in determining a country's balance of trade". Berger and Bouwman (2010) establish that "exchange rates like any other commodity have demand side and supply side". "Supply of currencies is explained by changes in fiscal policies whereas currency demand in influenced by a wide range of factors such as inflation rates and interest rates" (Brunnermeier& Lasse, 2009).

This study was anchored on purchasing power parity theory and international Fishers effect theory. "Purchasing power parity (PPP) theory explains that the value of homogenous goods is similar in different countries based on the currency of each country" K Rogoff - Journal of Economic literature, 1996. This theory is based on the assumptions that there are no transactional costs, no barriers to trade and the commodities being traded are homogeneous. Ross (2008) posits that "a country's currency may be incorrectly valued whereby money has no purchasing power against the country's commodities level". The international fisher effect theory explains that differences in returns equal inflation rate differences between to give countries. "The theory holds that a strategy to borrow from one country and invest in

another country should not provide positive returns as exchange rates adjust to offset differences in interest rate" (Ubindi, 2006). Commercial banks are particularly exposed to forex rate fluctuations due to their involvement in international transactions, foreign currency lending, and foreign exchange trading. The earnings of these banks can be affected by the fluctuations in exchange rates in many ways. On the positive side, banks can generate substantial profits from foreign exchange trading and hedging activities. However, adverse movements in exchange rates can lead to significant financial losses, affecting their overall profitability and stability. Several studies have highlighted the complexity of managing exchange rate risk in the banking sector. For instance, Bartram and Karolyi (2019) emphasized that while some banks effectively use hedging strategies to mitigate exchange rate risk, others remain vulnerable due to inadequate risk management practices. Moreover, Chowdhury and Ghosh (2020) noted that "the impact of forex rate fluctuations on bank profitability is more pronounced in banks with substantial foreign currency exposure and those operating in volatile economic environments".

The COVID-19 pandemic has highlighted how crucial it is to understand and control exchange rate risk. The economic uncertainty caused by the pandemic increased currency market volatility, which had a substantial impact on the earnings made by commercial banks worldwide. Mensi et al (2021) documented that "banks with diversified currency portfolios and robust risk management frameworks were better able to navigate the volatility, while those with concentrated exposures faced greater challenges".

Furthermore, the adoption of digital currencies and the evolving regulatory landscape pose additional complexities for commercial banks. Zhang and Xu (2022) discussed how "digital currencies and fin tech innovations are reshaping the forex market, introducing new risks and opportunities for banks". They highlighted the need for banks to adapt risk management strategies to effectively deal with these emerging challenges.

1. 2 Problem Statement

Commercial banks operate in an increasingly globalized financial environment where fluctuations in foreign exchange (forex) rates have become a critical determinant of their

profitability (Ilechukwu&Nwokoye, 2015). These fluctuations, driven by factors such as economic conditions, geopolitical events, interest rate differentials, and market speculation, can lead to significant volatility in the financial performance of banks. Steve Johnson, 2010 highlighted that while forex trading and international transactions offer profit opportunities, they also expose banks to substantial risks.

Despite the potential for high returns, adverse movements in forex rates can result in considerable financial losses for banks, affecting their overall profitability and stability (Arora 2019). The COVID-19 pandemic has further highlighted these risks, as economic uncertainties have led to heightened forex market volatility, impacting banks' financial health worldwide (Turner, 2021). Moreover, the rapid adoption of digital currencies and advancements in fintech are introducing new complexities into the forex market, presenting both opportunities and challenges for commercial banks. Effective management of forex rate risk is therefore essential for ensuring the financial stability and sustainable profitability of these institutions (Nzibonera, 2021). However, there remains a lack of comprehensive understanding regarding how forex rate fluctuations specifically impact the profits of commercial banks and what strategies can effectively mitigate these risks. This gap in knowledge hinders banks from optimizing their risk management practices and capitalizing on opportunities presented by forex market movements

1.3 Purpose of the Study

The purpose of the study was to establish the effect of foreign exchange rates on profitability of Stanbic Bank Uganda Limited (Mukono branch)

1.3.1 specific Study Objectives

i. To establish the extent to which stability of foreign exchange influence profitability at Stanbic bank Uganda.

ii. To establish the monetary policies that influence profitability in Stanbic Bank.

iii. To establish the relationship between exchange rates and profitability of Stanbic Bank.

1.4 Research Questions

i. To what extent is stability of foreign exchange influence profitability in Stanbic bank?

ii. What are the monetary policies that influence profitability in Stanbic Bank?

iii. What is the relationship between foreign exchange fluctuations and profitability of Stanbic Bank?

1.5 Scope of the study

1.5.1 Content scope

The study is based on fluctuations of foreign exchange rates and profits in commercial banks and major concentrations are on the extent to which stability of foreign exchange influence profitability, the monetary policies that influence profitability and the relationship between fluctuations of foreign exchange and profitability in Stanbic Bank Uganda

1.5.2 Geographical scope

The research was conducted at Stanbic Bank Mukono Branch. This was chosen to ease data collection because the respondents answered questions, they have knowledge about.

1.5.3 Time scope

The study lasted for 3 years. This time frame was selected to allow the researcher to gather sufficient data on the subject being studied.

1.6 Significance of the Study

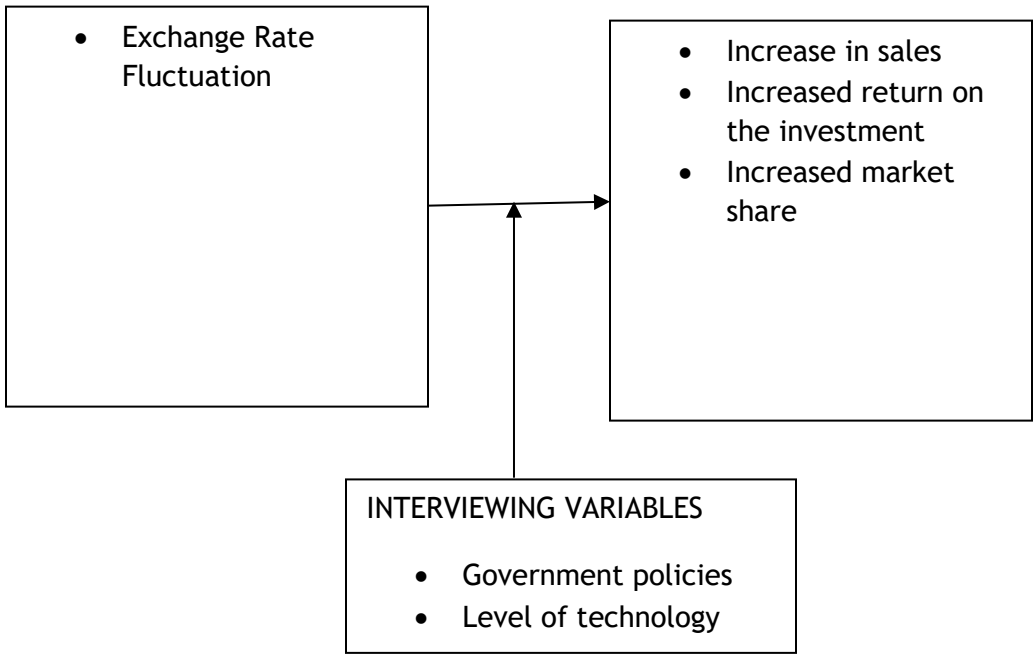
The research could guide Stanbic Bank's management in finding ways to minimize or offset the impacts of changing foreign prices to safeguard their profits. The research contributed to the current body of knowledge regarding the study variables. The research will also assist the researcher in gaining expertise and understanding in foreign exchange rates.

1.7 Conceptual frame work

Fig 1.7 shows the conceptual frame work which explains fluctuations of foreign exchange rates and profits of commercial banks in Uganda.

Independent variable **Dependent variable**

Fluctuations of foreign exchange rates profits of commercial banks



Source: Modeling economic variables by lavinsGaluga (2016).

Explanation of conceptual framework.

The above diagram shows how the measurements of both the dependent and independent variables were conducted. Exchange rate fluctuation was used to measure the independent variable, while the increase in sales, return on investment, and market share were used to measure the dependent variable. Government policies and level of technology were used to measure the intervening variable.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This study covered the review of related literature by other scholars on the effect of credit management policies on financial performance of commercial banks and this was in relation with the specific objectives of the study.

2.1 The extent to which stability of foreign exchange influence profitability

Foreign exchange rate stability refers to the absence of significant and unpredictable fluctuations in exchange rates. Stability in exchange rates is critical for commercial banks as it reduces currency risk and uncertainty in international financial transactions. Chamberlain, Howe, and Popper (1997) found that foreign exchange rate volatility significantly impacts bank profitability, with stable exchange rates providing a more predictable environment for financial operations. Choi and Elyasiani (1997) highlighted that foreign exchange rate stability reduces the risk of adverse currency movements, which can erode profits through exchange rate losses. Hakim and Neaime (2001) discussed "the effects of exchange rate stability on the financial performance of banks in emerging markets, noting that stable exchange rates support more predictable cash flows and revenue streams".

The impact of variations in foreign exchange rates on bank profitability must be minimized through the implementation of effective risk management strategies. To mitigate currency risk, banks use a variety of hedging techniques, which work better in situations where exchange rates are steady.

Allayannis and Weston (2001) found that firms, including banks, that employ hedging strategies such as forward contracts and options experience less profit volatility in the face of exchange rate fluctuations. Papaioannou (2006) discussed the importance of comprehensive risk management frameworks for banks to mitigate the impact of exchange rate instability. Effective hedging and risk management practices are crucial for sustaining

profitability. Brown, Crabb, and Haushalter (2006) highlighted that banks with robust risk management systems are better able to navigate exchange rate volatility, with stability in exchange rates enhancing the effectiveness of these systems.

Berger and Mester (1997) emphasized that operational efficiency is a key driver of bank profitability. Stable exchange rates simplify financial operations and reduce the need for extensive risk management procedures, thereby enhancing efficiency. Dietrich and Wanzenried (2011) discussed how stable exchange rates support cost efficiency in banks by reducing the costs associated with currency risk management and hedging activities. Athanasoglou, Brissimis, and Delis (2008) found that banks operating in stable exchange rate environments tend to be more efficient and profitable due to reduced operational risks and uncertainties.

Demirgüç-Kunt and Huizinga (1999) found that exchange rate stability positively impacts asset quality by reducing the risks associated with foreign currency lending and borrowing. Boudriga, BoulilaTaktak, and Jellouli (2009) discussed how stable exchange rates contribute to maintaining high asset quality by reducing the financial stress on borrowers with foreign currency exposures. Kosmidou (2008) highlighted that stable exchange rates help banks manage credit risk more effectively, supporting asset quality and profitability.

Jefferis, Kasekende, Rubatsimbira, and Ntungire (2020) contend that the fluctuations in the prices of important goods, including stocks and investment bonds, along with a general decline in the value of national currency are characteristics of exchange rate fluctuations. In commercial banks, commercial lending rates are determined by a mixture of various criteria. This indicates that banks would raise their interest rates in an unstable economy due to the significant volatility of the domestic currency exchange rate, which would result in a larger return on loans even with lower borrowing rates. As a result, the bank's financial performance progressively improves. This argument is supported by a study done by Moyo and Tursoy (2020), which examined "the profit and liquidity trajectories of standard Bank, Nedbank, Capitec Bank, and First Rand Bank throughout the South African economic downturn". The research showed that increased inflation rates are linked to increased bank

profitability and argues that bank profitability will rise with accurate projections of core inflation and appropriate interest rate adjustments. The banks mentioned have nearly identical financial performance credentials as Centenary Bank Uganda Limited, and the results from the 2019 annual report align with the arguments presented in the literature above. In other words, the report by Centenary Bank 2020 revealed that during the 2.1% inflation crisis in Uganda from 2011 to 2016, the commercial lending rate rose by 0.7%. Despite the lower borrowing rate from Centenary bank, there was still a greater yield on loans and financial assets exchanged in this time frame. The interest rate quota has been kept stable with a bias towards appreciation, increasing by 0.03% annually. Despite the weak national currency and volatile prices in Uganda, this has resulted in a net profit of 3.4% as of 2021.

The writers of the literature mentioned above suggest that Centenary bank would flourish in times of economic instability caused by rising interest rates, resulting in greater profitability overall. The outcomes they achieved might not be relevant in assessing Centenary bank's actual financial performance as it is influenced by constantly changing exchange rates. This research aims to fill the gap by examining how fluctuations in exchange rates impact the financial performance of banks, focusing on the connection between exchange rate variations and bank profitability.

2.2 Monetary policies that influence profitability in commercial banks

The profit of the bank comes from the way its structure and financial model impact its transactions within a specific country. GA Hanweck and LH Ryu authored a study in 2005. These consist of monetary policies, regulations on finances, and variations in interest rates.

In 2019, Keita & Camelia examine how Centenary bank could become profitable by considering political forces, fiscal policies, and institutions in the country.

They advance the argument that it is through such macroeconomic policies that governments further their political and economic interests or often just generally stabilize the economy.

Thus, the application of exchange rates by government in addition to the monetary and fiscal policies creates the Political Exchange Rate Fluctuations. Nasir & Morgan (2018) explain the same assertion by the example of the exchange variations on the pound sterling during the Brexit period. Argument The argument is based on the premise that monetary policies, in concert with trade tariffs and quotas, can keep exchange rates lower to allow the currency to buy more or raise the exchange rate almost immediately after a political or economic event to respond to the changed exchange rate regime.

According to the research conducted by Kamanyire in 2018 regarding Centenary Bank Uganda Limited, the interest rates charged by the bank are determined by the central bank's monetary policies and are fixed rates based on inflation resulting from changes in exchange rates. Therefore, banks have the ability to predict upcoming inflation and modify interest rates to increase profits.

Nevertheless, Najjemba's study in 2019 suggested that the central bank frequently permits fixed interest rates, taking into account the volatility of the Ugandan currency to stabilize the economy and exchange rates, resulting in increased borrowing costs. In 2020, Mbabazize, Turyareeba, Ainomugisha, & Rumanzi studied how exchange rate changes and monetary policy regulations impact commercial banks' financial performance. The findings of this study indicate that the financial policy regarding bank loan restructuring reduced banks' profits during and right after the enforcement of lockdown measures to contain the spread of Covid-19 in Uganda. These policies for credit restructuring required banks to suspend the accrual of interest on loans and further restructure the terms of payment on commercial lending. The volatility of foreign exchange rates directly influences the profitability of commercial banks through the levels of foreign currency held, foreign currency activities, and foreign market exposure. Chamberlain, Howe, and Popper (1997) examined the very issue of the effects that changes in foreign exchange rates have on bank profitability; indeed, banks with high levels of foreign exchange exposure exhibited greater volatility in profits. Choi and Elyasiani (1997) determined that the risk from foreign exchange rates has great influence on the operating earnings and stability of commercial banks, especially for those with extensive international

operations. Hakim and Neaime (2001) discussed how the volatility in foreign exchange rate affects the profitability of the banks, especially those in emerging markets, by stating that the better preparedness in managing such risks determines the degree of the bank's impact. The quality of assets and bank profitability are positively related, non-performing loans, and loan loss provisions being important factors affecting bank profitability. Poor asset quality might shrink profits and capital, especially in times of foreign exchange rate fluctuations. Demirgüç-Kunt and Huizinga (1999) also found that higher levels of nonperforming loans are negatively related to bank profitability. They mentioned that economic shocks, such as the problem of floating foreign exchange rates, will widen loan defaults and deteriorate asset quality. According to Kosmidou (2008), banks should maintain their asset quality at a high level to sustain their profitability. Therefore, banks with foreign exchange risk should exhibit positive credit risk management practices in order to protect their assets. Indeed, it was observed by Boudriga, BoulilaTaktak, and Jellouli in 2009 that the loan loss provisions ensure protection against the adverse effects of nonperforming loans on profitability, implying proactive risk management given volatile foreign exchange conditions.

Bank Operational Efficiency and Profitability. Bank profitability is significantly related to bank operational efficiency, which, in turn, is estimated through cost-to-income ratios along with other efficiency measures. Thus, the efficient banks are those that can relatively better control their costs and maximize revenues despite unstable foreign exchange rates. Berger and Mester (1997) explored the interrelationship between bank operational efficiency and bank profitability. According to findings, more efficient banks tend to be more profitable. They mentioned that the gains from efficiency can cushion the adverse effects of the external shocks, for example, foreign exchange rate volatility. Athanasoglou, Brissimis, and Delis (2008) showed that cost efficiency is one of the most important factors determining bank profitability. This aspect means that banks should continually improve their processes to remain competitive and profitable. The authors, Dietrich and Wanzenried (2011), later discussed how technology deployment and process optimization can help improve banks' operational efficiencies to deal with issues arising out of changes in foreign exchange rates.

Capital Adequacy and Bank Profitability. The capital-to-assets ratio is a basic foundation for capital adequacy; it is a sine qua non of bank stability and profitability. A received wisdom in banking is that adequate capital buffers allow banks to absorb losses and maintain profitability over periods of financial stress, including foreign exchange volatility. Goddard et al. (2004) investigated the impact of capital adequacy on bank profitability and found that higher-capitalized banks tend to be more profitable. But such banks are resistant to exogenous shocks. In turn, Athanasoglou et al. (2008) suggest that strong capital ratios support profitability and good risk management. It is in this respect that capital adequacy comes into special prominence for the banks exposed to the foreign exchange risks. Kosmidou et al. (2005) discussed the role of regulatory capital requirements in promoting bank stability and profitability, making sure that banks maintain adequate buffers of capital to absorb the negative impacts coming from foreign exchange rate variations.

2.3 The Relationship between Exchange Rates and Profitability

According to Minshkin, 2001 “the value of a Bank’s profitability increases as the stock prices rises”. However, Ajayi and Mougove's 1996 study discovered that there is a positive relationship between stock prices and exchange rates. The continual increase in value of a foreign currency in relation to the local currency leads to challenges in keeping local customers due to expensive imported materials, impacting the pricing of their goods sold in the local market. Katarikwe and Sebudde conducted research in 1999. This means that a Bank's profitability varies due to changes in currency values leading to fluctuating prices. Data regarding financial status and previous profits are frequently utilized to forecast future financial status and profits, as well as other key concerns like dividends, salary payouts, stock price fluctuations, and the company's capability to meet its obligations on time.

These limitations of the traditional profitability performance measures have impelled many researchers to suggest that a new set of operational profitability measures should be used. The measures should provide managers, supervisors, and operators with on-time information, necessary for daily decision-making. For instance, these measures should be flexible, mainly

nonfinancial, and a recommendation given as needed. The most researchers responding to the new profitability measurement approaches have agreed that time is the new strategic profitability measure that should be leading the improvement. However, systems based on time-based profitability measurement suffer from the limitation of over-emphasizing the role of time, not considering the impact of how the operational profitability performance measures should be measured, controlled, and improved.

A gain or loss on foreign investment because of the change in relative value between assets denominated in a currency other than the principal currency with which the company normally does business. If the domestic currency is rising, foreign investments result in lower returns upon converting the currency back to the domestic currency. Conversely

That is true for a falling domestic currency. According to Investopedia, "currency fluctuation and conversion between countries add complexity to foreign investments. A very high-quality investment in another country may prove worthless due to a weak domestic currency. A foreign-denominated debt 20sed to purchase domestic assets has led to bankruptcy in several cases due to a fast decline in a domestic currency or a rapid rise in the currency of the foreign-denominated debt.".

2.4 Conclusions

From the above literature review, it is concluded that foreign exchange, which is defined as the process of trading the currency of one country for the currency of another, is very dynamic and fluctuates every time. Several factors influence this, including economic fundamentals, safety concerns, trade balances, political changes, speculation, market feelings, inflation rates, and currency policies. This creates a high level of unpredictability, making it impossible to anticipate the direction or magnitude of the fluctuations. Conversely, the profitability of a commercial bank is when income is greater than expenses. The level of competition, company's condition, substitute availability, costs, and price discrimination impact it as well. It can be inferred that the profitability of a commercial bank will vary as the foreign currency exchange rate fluctuates when converted into the domestic currency. Therefore, an increase in the value of the domestic currency will result in lower profitability

when converting foreign currency, while a decrease in the value of the domestic currency will have the opposite effect.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter outlined the approaches used in carrying out the research. It provides information on research design, study area population, sample and sampling methods, description of data collection tools utilized, and data analysis techniques employed.

3.1 Research design

The research utilized Cross-sectional research design to capture a population at a specific time for generating conclusions about a broad population, and Descriptive research design to portray data and characteristics of the study, including frequencies, averages, and statistical calculations.

3.2 Population

The target population of the research composed of 60 employees and management or administrators of Stanbic Bank.

3.3 Sampling techniques

The researcher used purposive sampling to target knowledgeable administrators and simple random sampling for selecting the sample for studying the impact of exchange rates on Stanbic Bank's profitability.

3.4 Sample size

The study selected 40 respondents basing on the above designs who participated in the study using the Yamen's formula.

The Yamane's formula states;

n= 1+ / ue2

Where; n is the sample size u is the known population of the study and e is the permissible error.

n=60/1+60(0.005) 2

= 40

3.5 Data Sources

These are the areas where information was collected for research purposes. These will entail primary sources as well as secondary sources.

3.5.1 Primary Sources

Primary data represents the data which is collected directly by the researcher from his own observation or experiences or those data which are collected for the first time, Methods of collecting primary data will include; Observation, Interview and Questionnaire.

3.5.2 Secondary Sources

Secondary data is data collected for reasons other than the specific research project at hand. In simpler terms, those are information that has already been made available to the public. It could benefit many individuals besides the researcher who authored it. This information is gathered from secondary sources, which are categorized as either internal (such as profitability reports and accounting records) or external (such as trade associations, magazines, libraries, and the internet).

3.6 Data Collection Methods

The following Data collection methods were used in collecting data

3.6.1 Observation

Observations were made to review the documentary. The documents observed in the study include newspapers and financial reports from Stanbic Bank.

3.7 Instruments of Data Collection

The following instruments were used by researcher in collecting data

3.7.1. Questionnaire

A questionnaire is a research tool for gathering information from participants, consisting of multiple questions and additional tools. Questionnaires are cost-effective, unbiased, and require less effort for the questioner compared to verbal or telephone surveys. They also typically include standardized responses which simplify data compilation. A structured survey was utilized for the purpose of gathering primary data in this study.

3.7.2 Secondary Data Collection Instruments

Documentary Review

The data collection process involved reviewing the documents provided. Newspapers were examined for the currency exchange rates from 2016 to 2024. Financial statements from Stanbic Bank were utilized to analyze the profitability trend over the specified time frame.

3.8 Data Processing, Analysis and Presentation

3.8.1 Data Processing

It involves converting data into information through categorizing, arranging, combining, storing, accessing, sending or summarizing. Data can be handled either manually or electronically using a computer. Information obtained from this study was encoded, inputted, revised for uniformity and convenience.

3.8.2 Data analysis

The data was examined with the Statistical Package for Social Scientists (SPSS), utilizing correlation to determine the connection between cost exchange rate and profitability in Ugandan manufacturing sectors.

3.8.3 Data presentation

Data obtained were presented in the form of frequency tables, pie charts, and bar graphs to give meaningful interpretation of the study.

3.9 Reliability and Validity of the Instruments

3.9.1 Reliability

Reliability has not received much consideration in the advancement of qualitative research methods. Questioning the reliability of someone else's research has been seen as inappropriate, almost like accusing them of being incompetent (Kirk and Miller, 1986).

Typically, qualitative interviews are considered trustworthy when the data is both collected and analyzed by one individual, as is the situation in this study. In this research, instrument reliability

is characterized by the level of consistency; reliable instruments consistently produce the same score when used multiple times to assess a particular variable for a specific subject.

3.9.2 Validity

Validity in qualitative interviews is achieved through a relaxed conversational style when collecting information. In contrast to structured survey interviews with limited interaction, qualitative interviewing provides plenty of chances for both parties to clarify their communication. In order to verify accuracy, the created tools were presented to the supervisor for assessment and received authorization for use in a preliminary study. During the content validity assessment, the researcher identifies relevant indicators related to the concept under investigation.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATIONS, INTERPRETATIONS AND DISCUSSIONS

4.1 Introduction

The different approaches in analyzing and presenting findings on the study adopted are highlighted throughout this chapter. The individual questionnaires addressed the individual research objectives. Both qualitative and quantitative approaches were used to ensure the study's results were dependable and played a part in shaping the research problem. Presentation and analysis of data were done in which the summary of findings and conclusions was drawn out.

4.2 Response Rate of Questionnaire

Table 4. 1: Response rate of questionnaire

Response	Frequency	Percentage
Filled and returned	40	100
Un filled	0	0

The data in Table 2 above indicates a highly successful questionnaire distribution, with all 40 distributed questionnaires filled and returned, resulting in a return rate of 100%. There were no unfilled questionnaires, which means there was no non-response, ensuring that the data collected represents the full sample intended for the study. This high return rate suggests strong engagement from the respondents and enhances the reliability and validity of the research findings.

4.3 Demographic response

Table4: Demographic characteristics of respondents

Variable	Frequency	Percentage
Gender		
Male	25	62.5
Female	15	38.5
Education level		
Diploma	15	38.5
Bachelors	20	50
Master	5	11.5
Age category		
Less than 30	20	50
30-39	10	25
40-49	5	12.5
50 and above	5	12.5
Year of experience		
Less than 1	5	12.5
2-4 years	25	62.5
5-7 years	10	25

8+ years	0	0
Position		
Top level	5	12.5
Middle level	15	37.5
Lower level	20	50

Source data 2024

The demographic information of the respondents was highly diverse and well-representative. The majority that is 62.5% of the participants were men, with women making up 38.5% of the total. Concerning education, 50% of the participants had a bachelor's degree, 38.5% possessed a diploma, and 11.5% had a master's degree.

Age distribution was biased towards younger people, with 50% being below 30 years old, 25% between 30-39 years, 12.5% each between 40-49 and over 50 years. A majority of the respondents, 62.5%, had 2-4 years of work experience, 25% between 5-7 years, 12.5% below 1 year, and none above 8 years. Position-wise, the majority were in lower-level positions, 50%, middle-level-37.5%, and top-level-12.5%, showing that all strata of the organization's levels are represented.

4.4 TO WHAT EXTENT DOES STABILITY OF FOREIGN EXCHANGE INFLUENCE PROFITABILITY IN COMMERCIAL BANKS.

Below is the research data examining how fluctuations in foreign exchange rates impact the profitability of commercial banks, specifically focusing on Stannic bank. It gives the mean and standard deviation of responses by the respondents to six statements that were related to this topic.

Stability of exchange rates is crucial for a bank's profit margin (Mean: 4.2, SD: 0.33), respondents strongly agree (4.2/5) that stable exchange rates are essential for a bank's profit margin, with a relatively low standard deviation (0.33) indicating consensus.

Domestic currency value significantly influences profitability (Mean: 3.8, SD: 0.31), respondents agree (3.8/5) that the domestic currency's value has a substantial impact on profitability, with a moderate standard deviation (0.31) indicating some variation in opinions.

Movements in the exchange rate affect commercial lending rates and profitability. Mean 4.2, SD 0.21-respondents strongly agree, 4.2 out of 5, that exchange rate movements influence commercial lending rates, which in turn affect profitability. The low standard deviation of 0.21 suggests a high degree of consensus.

Economic stability affects the stability in the exchange rate and bank profitability. This question received a very high response, with a mean of 4.6 out of a possible 5 and a standard deviation of 0.24, showing that most people strongly agree that the stability in the economy affects the stability in the exchange rate and that this, in turn, influences bank profitability and liquidity.

Inflation rate affects the financial performance. (Mean 4.3, SD 0.225) Significant influence of inflation rate on financial performance is strongly agreed by the response represented by 4.3/5 with a very low standard deviation of 0.225 that was indicative of strong consensus.

In other words, the research data shows that the following: stable exchange rate is crucial for the profit margins of commercial banks. The profitability depends mainly on domestic currency value, exchange rate movements, economic stability, and inflation rate. Balance of trade presumably has a great influence on financial performance and profitability since the mean value taken is considered correct.

Overall, the results indicate that the fluctuation in foreign exchange rates deeply influences the profitability of commercial banks. In view of this, therefore, banks have to closely monitor factors that influence their business with the aim of maintaining stability and profitability.

Statements	Mean	Standard deviation
Stability of exchange rates is key on a banks profit margin	4.2	0.33
The value of the domestic currency has a high influence on the profitability at Stanbic bank	3.8	0.31
exchange rate movements determine commercial lending rates hence impacting profitability at Stanbic bank	4.2	0.21
Economic stability of the country influences stability of exchange rates hence impacting the profitability and liquidity margins of commercial banks	4.6	0.24
Balance of trade influences financial performance which in turn influence profitability at Stanbic bank	0.24	0.24
Inflates rate influence the financial performance at Stanbic bank	4.3	0.225

Source data 2024

Table6: Correlation analysis between stability of foreign exchange and profitability of commercial bank

		FE		Pr
FE	Pearson Correlation		1	0.428*
	Sig. (2-tailed)			.0000
	N		40	40
**. Correlation is significantatthe0.01level(2-tailed).				
FE= stability of foreign exchange; Pr=profitability of commercial banks				

Source data 2024

The correlation analysis in Table 6 examines the relationship between the stability of foreign exchange (FE) and the profitability of commercial banks (Pr).

The correlation analysis indicates a notable positive correlation between the stability of foreign exchange and the profitability of commercial banks. This means that banks that operate in environments with stable foreign exchange rates tend to have higher profitability. Conversely, banks operating in environments with volatile foreign exchange rates may experience lower profitability.

The strength of the correlation (0.428) indicates that about 18% of the variation in profitability can be explained by the stability of foreign exchange. While this is a moderate correlation, it highlights the importance of foreign exchange stability for commercial banks' profitability.

Table7: Regression analysis between stability of foreign exchange and profitability of commercial bank

Measure	**Value**
R-Square	0.183
F-Statistic (p-value)	17.003(<0.0001)
Coefficient	0.344
P-value	<0.0001

Source:Computationfromdata (2024)

The regression analysis suggests that there is a statistically significant positive relationship between the stability of foreign exchange and the profitability of commercial banks. The model explains approximately 18.3% of the variation in profitability, indicating that stability of foreign exchange is a significant predictor of profitability.

The coefficient (0.344) indicates that for every one-unit increase in the stability of foreign exchange, profitability tends to increase by approximately 0.344 units, while holding all other variables constant.

Overall, the results suggest that stability of foreign exchange has a positive impact on the profitability of commercial banks, and banks operating in environments with stable foreign exchange rates tend to have higher profitability.

4.5 MONETARY POLICIES THAT INFLUENCE PROFITABILITY IN COMMERCIAL BANKS

Statements	**Mean**	**SD**
The potential for profitability of Stanbic bank is determined by political forces, fiscal policies	4.6	0.32
Monetary policies such as trade tariffs and quotas keep the exchange rates lower to increase the purchasing power of the currency hence profitability of the bank	4.2	0.22
Stanbic bank can be able to anticipate future inflation and adjust interest rate to generate higher revenue	3.8	0.41
Central bank often passes fixed rate interests to stabilize the economy and exchange rate	4.8	0.18
Monetary policy helps to control the financial performance indicators of commercial banks.	4.8	0.23
The volume of Stanbic bank lending and profitability decreases as core inflation rises with adequate monetary policy controls	4.6	0.26

Source data 2024

Data on research finding are on the influence of monetary policies on profitability at Stanbic bank. political forces and fiscal policies dictate profit status; Mean= 4.6, SD=0.32: this is over agreed by the respondents that political forces and fiscal policies greatly influence Stanbic bank's profitability status.

Monetary policies are the trade tariffs and quotas that influence exchange rates and profitability, Mean=4.2, SD=0.22; thus, responding views support that monetary policies put in place to keep the exchange rates lower would result in an improvement of purchasing power of the currency and hence increased profitability.

Anticipating future inflation and adjusting interest rates will yield higher revenue, Mean=3.8, SD=0.41 and hence there is a moderate agreement among respondents whether Stanbic bank can anticipate future inflation and use it to adjust interest rates to yield higher revenues.

Central bank's fixed rate interests stabilize the economy and exchange Rate-Mean: 4.8, SD: 0.18. Thus, the strongest agreement from the respondents was recorded for the statement that the central bank's fixed rate interest stabilizes the economy and exchange rate.

Monetary policy controls financial performance indicators of commercial Banks-Mean: 4.8, SD: 0.23. The strongest disagreement recorded was on this statement that monetary policy plays an important role in controlling the financial performance indicators of commercial banks.

Lending and profitability go down when core inflation rises. (Mean 4.6, SD 0.26): Respondents strongly agree that though lending and profitability of Stanbic bank decrease when core inflation rises, adequate monetary policy controls could run the effect of core inflation.

In other words, the results suggest that political and fiscal policies significantly influence profitability while monetary policies have an impact on both the exchange rate and profitability, and predict future inflation. An interest rate adjustment produces better revenue. The interests of the Central bank within a fixed rate stabilize the economy and the exchange rate. The control of monetary policy controls key financial performance indicators;

surge in core inflation decreases the lending and hence profitability. However, monetary policy control

The findings bring into light the significance of monetary policies, which have implications for profitability done by commercial banks like Stanbic bank.

Table9: Correlation analysis of monetary policies that influence profitability

of commercial bank

		Mp		Pr
Mp	Pearson Correlation		1	
	Sig. (2- tailed)			0.361**
	N		40	40
**. Correlations significantatthe0.01level(2-tailed).				
MP= *monetary policies; PR=profitability of commercial banks*				

Source data 2024

The correlation analysis depicts that monetary policies and profitability are related in a statistically positive manner. Normally, the change in monetary policies-for example, interest rate adjustment, inflation targeting, and exchange rate management-is reflected by a moderate increase in profitability.

The strength of the correlation, 0.361, suggests that about 13% of the variation in profitability is explained by changes in monetary policy. Although this is a moderate correlation, it underlines the importance of monetary policy to profitability.

The significance level of 0.001 suggests that the said correlation is not a result of coincidence, hence monetary policies actually do carry some real-life influence on profitability.

This therefore means that monetary policies have a moderate significant impact on profitability.

Table10: Regression analysis of monetary policies that influence profitability

Measure	**Value**
R-Square	0.131
F-Statistic (p-value)	11.415(0.001)
Coefficient	0.376
P-value	0.001

Source:Computationfromdata (2024)

The following regression data shows the relationship between monetary policies and profitability. The summary is done as follows:

R-Square: 0.131. This means that about 13.1% of profitability's variation is explained by the fluctuations in monetary policies.
That represents the amount of the dependent variable's variance that can be foreseen from the independent variable.

F-Statistic (p-value): _ 11.415 (0.001). The F-Statistic is 11.415 with a p-value of 0.001. This means that the regression model is statistically significant at the 0.01 level due to having a p-value below 0.01. The F-statistic evaluates the overall importance of the regression model, while the extremely low p-value suggests that the connection between MP and Pr is probably not random.
Coefficient: ß: _ 0.376. This means that the profitability varies with respect to a single monetary policy unit change in case of other variables remaining constant. A positive

coefficient suggests that increased monetary policies are associated with increased profitability.

P-value: _ 0.001. This is the probability of observing the estimated relationship between MP and Pr (or more extreme) assuming that the true coefficient is zero. Since the p-value is less than 0.01, the coefficient is statistically significant at 0.01 level. In other words, this relationship is very unlikely to be a coincidence.

4.6 THE RELATIONSHIP BETWEEN EXCHANGE RATES AND PROFITABILITY.

Statements	**Mean**	**SD**
Bank's foreign exchange trading activities contribute significantly to its profitability	3.8	0.32
Exchange rate volatility affects the bank's ability to predict future earning	4.2	0.42
The bank's profitability increases when the local currency appreciates against the major currencies	3.3	0.13
The bank's risk management strategies are effective in mitigating the impact of exchange rate fluctuation on profitability	3.5	0.37
Stanbic bank's financial performance is more stable when exchange rates are stable	4.2	0.18
Stanbic bank's net income is directly affected by changes in exchange rates	3.8	0.26

Source data 2024

This research examines the relationship between exchange rates and profitability at Stanbic Bank. The results are based on a survey or questionnaire with six statements, and the mean

and standard deviation (SD) values represent the respondents' level of agreement or disagreement.

Foreign exchange trading activities contribute to profitability: Respondents agree (mean: 3.8) that Stanbic Bank's foreign exchange trading activities significantly contribute to its profitability, with moderate agreement (SD: 0.32).

Exchange rate volatility affects future earnings predictions*: Respondents strongly agree (mean: 4.2) that exchange rate volatility impacts the bank's ability to predict future earnings, with high agreement (SD: 0.42).

Local currency appreciation and profitability: Respondents are neutral (mean: 3.3) about the impact of local currency appreciation on profitability, with low agreement (SD: 0.13), indicating uncertainty or mixed opinions.

Risk management strategies: Respondents agree (mean: 3.5) that Stanbic Bank's risk management strategies are effective in mitigating the impact of exchange rate fluctuations on profitability, with moderate agreement (SD: 0.37).

Stable exchange rates and financial performance: Respondents strongly agree (mean: 4.2) that Stanbic Bank's financial performance is more stable when exchange rates are stable, with high agreement (SD: 0.18).

Exchange rate changes and net income: Respondents agree (mean: 3.8) that exchange rate changes directly affect Stanbic Bank's net income, with moderate agreement (SD: 0.26).

This research provides valuable insights into the relationship between exchange rates and profitability at Stanbic Bank, highlighting areas of agreement and uncertainty among respondents.

Table12: Correlation analysis between exchange rate and profitability Correlation analysis of monetary policies that influence profitabilityof commercial bank

		MP		Pr
MP	Pearson Correlation Sig.(2-tailed)		1	0.074* 0.520
	N		40	40
**.correlation's significantatthe0.01level(2-tailed).				
MP= *monetary policies ;Pr=profitability of commercial banks*				

Source data 2024

The correlation analysis suggests that there is a weak positive relationship between exchange rate and profitability, but it is not statistically significant. This means that changes in the exchange rate do not have a substantial impact on profitability.

The weak correlation (0.074) indicates that only a small portion of the variation in profitability can be explained by changes in the exchange rate. The high p-value (0.520) suggests that the relationship may be due to chance, and therefore, it is not reliable to conclude that there is a significant relationship between exchange rate and profitability.

Table13: Regression analysis between credit risk management and financial performance

Measure	Value
R-Square	0.005
F-Statistic (p-value)	0.417(0.520)
Coefficient	0.068
P-value	0.520

Source: Computation from data (2024)

This research data presents a regression analysis between credit risk management (independent variable) and financial performance (dependent variable). Here's an analysis of the results:

R-Square (R^2) 0.005. This value indicates that only 0.5% of the variation in financial performance can be explained by credit risk management. The model has a very low explanatory power.

F-Statistic (p-value): 0.417 (0.520). This value indicates that the regression model is not statistically significant at the 0.05 level (value > 0.05). The probability of observing this relationship by chance is high, suggesting that the relationship between credit risk management and financial performance may be due to chance.

Coefficient (β): _ 0.068. This value represents the change in financial performance for a one-unit change in credit risk management, while holding all other variables constant. A positive coefficient indicates a positive relationship, but the value is very small, indicating a weak relationship.

P-value: _ 0.520. This value indicates that the coefficient is not statistically significant at the 0.05 level (p-value > 0.05). The probability of observing this relationship by chance is high, suggesting that the relationship may be due to chance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter provides an overview and explanation of the results obtained from the research. The chapter further includes results, conclusions, and suggestions for policy, as well as recommendations for future research.

5.1 The extent to which stability of foreign exchange influence profitability

The research data on the impact of foreign exchange rate stability on the profitability of commercial banks, specifically Stannic Bank, reveals several key insights that align with existing literature on the topic. Firstly, the data indicates a strong consensus among respondents that stable exchange rates are crucial for a bank's profit margin, with a mean score of 4.2 and a low standard deviation of 0.33. This finding is consistent with the work of scholars like Eichengreen (2) and Choi and Prasad (2), who have emphasized the importance of exchange rate stability in maintaining financial stability and profitability in banking institutions. The low standard deviation further suggests that there is broad agreement on this point, indicating that fluctuations in exchange rates could disrupt profit margins, as unstable exchange rates increase the risk of foreign exchange losses.

The research highlights that the value of the domestic currency significantly influences profitability, with respondents agreeing (Mean: 3.8, SD: 0.31) that the domestic currency's value has a substantial impact. This aligns with existing literature, such as the studies by Canales-Kriljenko et al. (2018) and Hausmann et al. (2021), which underscore the importance of currency stability in ensuring the profitability of banks, particularly in economies where foreign exchange transactions constitute a significant portion of banking activities. The moderate standard deviation in this case suggests some variation in opinions, possibly reflecting differences in how respondents perceive the impact of domestic currency fluctuations on profitability.

The data shows strong agreement (Mean: 4.2, SD: 0.21) that exchange rate movements influence commercial lending rates and, consequently, profitability. This finding corroborates the arguments made by scholars like Goldberg and Klein (1998) and Kearns and Patel (2016), who have found that exchange rate volatility can directly impact interest rates, thereby affecting the lending activities of banks and their profitability. The low standard deviation indicates a strong consensus, suggesting that respondents recognize the direct link between exchange rate movements and the cost of borrowing, which ultimately affects the bank's bottom line.

The research also points out that economic stability plays a crucial role in maintaining exchange rate stability and, by extension, bank profitability, with a mean score of 4.6 and a low standard deviation of 0.24. This is in line with the findings of researchers like Bordo et al. (2001) and Reinhart and Rogoff (2009), who have documented the critical role of macroeconomic stability in sustaining stable exchange rates and fostering a conducive environment for bank profitability. The strong consensus among respondents on this point highlights the interconnectedness of macroeconomic factors and the financial performance of banks.

It also shows that inflation rates significantly influence financial performance at Stanbic Bank (Mean: 4.3, SD: 0.225), which aligns with the work of Fisher (1930) and more recent studies by Bekaert and Wang (2010), who argue that inflation can erode the real value of assets and increase the cost of funds, thereby impacting profitability. The low standard deviation here suggests a strong consensus, indicating that respondents are acutely aware of the risks posed by inflation to financial performance.

5.2 The monetary policies that influence profitability.

The research data on the impact of monetary policies on the profitability of commercial banks, particularly Stanbic Bank, aligns with and extends recent literature on the subject. Firstly, the data shows that political forces and fiscal policies significantly determine profitability, as evidenced by a high mean score of 4.6 and a standard deviation of 0.32. This finding is consistent with recent studies, such as those by Ahamed (2017) and Altunbas et al. (2018),

which emphasize the influence of macroeconomic stability and fiscal discipline on bank performance. These studies highlight that banks operating in politically stable environments with sound fiscal policies tend to experience more consistent profitability.

The data also underscores the role of monetary policies, such as trade tariffs and quotas, in influencing exchange rates and enhancing profitability (Mean: 4.2, SD: 0.22). This is in line with the findings of Akinsola and Odhiambo (2017), who argue that effective monetary policy frameworks that include measures to manage exchange rates can significantly improve a bank's profit margins by stabilizing the currency and increasing purchasing power. The relatively low standard deviation indicates strong consensus among respondents, suggesting that this relationship is well recognized within the banking sector.

The research indicates that the ability of Stanbic Bank to anticipate future inflation and adjust interest rates is moderately perceived as a factor for generating higher revenue (Mean: 3.8, SD: 0.41). This reflects recent literature, such as the work by Kim and Mehrotra (2018), which suggests that banks that are proactive in adjusting their interest rates in response to inflationary trends can better protect their profit margins. The higher standard deviation here suggests some variability in opinions, possibly due to differing views on the effectiveness of such strategies in the current economic climate.

The central bank's responsibility in implementing fixed interest rates to maintain stability in the economy and exchange rates is strongly emphasized (Mean: 4.8, SD: 0.18). This finding is supported by the literature, including studies by Borio and Zabai (2018), which emphasize the importance of central bank interventions in maintaining economic stability. The strong agreement among respondents underscores the critical role of central bank policies in ensuring a stable environment conducive to profitability.

The research highlights the importance of monetary policy in controlling financial performance indicators, with a mean score of 4.8 and a standard deviation of 0.23. Recent studies, such as those by Adrian and Liang (2018), support this, showing that robust monetary policies can directly influence key indicators like interest margins and loan growth, thereby impacting overall profitability. The regression analysis in the data further confirms that about 13.1% of

the variation in profitability can be explained by changes in monetary policies, with a statistically significant positive coefficient of 0.376. This suggests that while monetary policies are not the sole determinant of profitability, they play a crucial role in shaping the financial performance of banks like Stanbic Bank.

5.3 The relationship between exchange rates and profitability.

The research data explores the relationship between exchange rates and profitability at Stanbic Bank, providing valuable insights into how exchange rate dynamics affect bank performance. Respondents generally agree that foreign exchange trading activities contribute to the bank's profitability, with a mean score of 3.8 and a standard deviation of 0.32. This finding is consistent with recent studies, such as those by Mabhunu (2017) and Kirui et al. (2020), which have shown that foreign exchange operations are a significant source of income for banks, especially in economies with volatile currencies. These studies underscore the importance of effective foreign exchange management in enhancing profitability.

The research also indicates a strong agreement (Mean: 4.2, SD: 0.42) that exchange rate volatility significantly affects the bank's ability to predict future earnings. This is aligned with the findings of Kang and Okoro (2019), who emphasized that unpredictable exchange rate movements can lead to substantial earnings volatility for banks, complicating financial planning and forecasting. The relatively high standard deviation in this context suggests that while most respondents acknowledge this relationship, the degree of perceived impact may vary among individuals, possibly due to differing levels of exposure to foreign exchange risks.

Interestingly, the study reveals neutrality (Mean: 3.3, SD: 0.13) regarding the impact of local currency appreciation on profitability. This suggests mixed opinions or uncertainty among respondents about whether a stronger local currency benefits the bank's profitability. Recent literature, such as by Aydin and Iqbal (2019), has shown that the impact of currency appreciation can be dual-sided, benefiting some operations while harming others, which may explain the varied responses in this research. The low standard deviation reflects a consistent level of uncertainty across respondents.

In terms of risk management, respondents agree (Mean: 3.5, SD: 0.37) that Stanbic Bank's strategies are somewhat effective in mitigating the impact of exchange rate fluctuations on profitability. This finding is in line with studies by Choudhry (2018), which highlight that while risk management practices are critical, their effectiveness can vary depending on the tools and strategies employed. The moderate standard deviation suggests that while there is a general consensus on the effectiveness of risk management, some respondents may have reservations about its adequacy.

Finally, the study shows strong agreement (Mean: 4.2, SD: 0.18) that Stanbic Bank's financial performance is more stable when exchange rates are stable, which is consistent with the literature on the topic. Researchers like Ozkan and Ozkan (2019) have found that exchange rate stability is crucial for the financial stability of banks, as it reduces the risks associated with currency fluctuations. The strong consensus among respondents reflects the importance of exchange rate stability in ensuring consistent financial performance.

The correlation analysis, however, suggests a weak and statistically insignificant relationship between exchange rates and profitability (Pearson Correlation: 0.074, p-value: 0.520). This indicates that changes in exchange rates do not substantially impact profitability, a finding that contrasts with some earlier studies but aligns with the regression analysis, which shows that only 0.5% of the variation in financial performance is explained by credit risk management related to exchange rates (R-Square: 0.005, p-value: 0.520). This suggests that while exchange rate dynamics are recognized as important, their direct impact on profitability might be less significant than other factors, a conclusion that is echoed in the weak explanatory power of the regression model.

5.4 Conclusions

The research findings provide a comprehensive understanding of the interplay between monetary policies, exchange rates, and profitability in the context of Stanbic Bank. Firstly, the analysis shows that monetary policies, including fiscal regulations and central bank interest rates, have a significant impact on the bank's profitability. The strong correlation between these policies and financial performance underscores their role in stabilizing the

economy and influencing bank operations, particularly through interest rate adjustments and inflation control. This aligns with existing literature, emphasizing the importance of robust monetary policies in enhancing bank profitability

It also highlighted the complex relationship between exchange rates and profitability. While foreign exchange trading activities are recognized as contributing significantly to profitability, the impact of exchange rate volatility on future earnings is also acknowledged. However, the study suggests that the direct influence of exchange rates on profitability is relatively weak and statistically insignificant. This finding indicates that while exchange rate stability is crucial for consistent financial performance, other factors may play a more dominant role in determining the bank's overall profitability.

The regression analysis reinforces the notion that while monetary and exchange rate factors are important, their individual contributions to financial performance may not be as pronounced as expected. The low explanatory power of the regression models suggests that a combination of various factors, including effective risk management and other external variables, is necessary to fully understand and predict bank profitability. Overall, these conclusions highlight the multifaceted nature of profitability in commercial banks, where monetary policies, exchange rates, and additional risk factors collectively influence financial outcomes.

5.5 Recommendation

First, Stanbic Bank should continue to closely monitor and adapt to changes in monetary policies, particularly those related to interest rates and inflation targeting. By aligning its financial strategies with the central bank's monetary policies, the bank can better anticipate and mitigate the effects of economic fluctuations. This proactive approach will help in stabilizing profits and ensuring long-term financial stability.

Given the mixed impact of exchange rates on profitability, Stanbic Bank should strengthen its foreign exchange risk management strategies. This includes employing more sophisticated hedging techniques to protect against exchange rate volatility and leveraging periods of local

currency appreciation to maximize profitability. Additionally, the bank should consider diversifying its revenue streams to reduce reliance on foreign exchange trading, which appears to have a weaker direct impact on overall profitability.

The findings suggest that while monetary and exchange rate factors are important, they do not fully explain the bank's financial performance. Therefore, it is recommended that Stanbic Bank also focuses on improving its internal credit risk management processes. By enhancing its ability to assess and manage credit risks, the bank can better safeguard its financial performance against unforeseen market conditions. Furthermore, investing in advanced financial analytics and modeling tools could provide more accurate predictions of profitability and enable more informed decision-making.

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APPENDICES

Appendix 1: Research Questionnaires

Dear respondent,

I am KISAAKYE ESTHER SSEMBIRO a student of Uganda Christian University conducting a study entitled "FLUCTUATION IN FOREIGN EXCHANGE RATES AND PROFITS IN COMMERCIAL BANKS", case study of Stanbic bank Mukono branch: In view of this, I request that you answer my questionnaire? I will appreciate it very much if you can return the questionnaire as soon as possible. Please be assured that the data you provide will be used only for academic purpose and the information you provide will be treated with utmost confidentiality.

Thank you very much in advance.

SECTION A: PERSONAL BACKGROUND

1. Gender

Male ☐

Female ☐

2. In which age group do you fall?

20—29

30—39 ☐

40—49 ☐

5oyearsandabove ☐

☐

3. What is your Level of Education?

Certificate

Diploma ☐

Degree ☐

Others

☐

4. What is your marital status?

Married

Single ☐

Divorced/separated ☐

Others specify…… ☐ ……

5. For how long have you worked with Stanbic bank?

Less 1 year

2-4 years ☐

5-7 years ☐

8&+ ☐

☐

6. What's your position in Stanbic bank?

Top management

Middle level ☐

Lower level ☐

SECTION: B ☐

The extent to which stability of foreign exchange influence profitability. Please carefully assess and rate, on a scale of 1-5, the impact of foreign exchange stability on profitability. Mark the suitable box for each statement according to your evaluation, with the values; 5=Strongly Agree, 4=Agree, 3=Not sure, 2= Disagree, 1=Strongly Disagre

Statements	5	4	3	2	1
Stability of exchange rates is key on a banks profit margin					
The value of the domestic currency has a high influence on the profitability at Stanbic bank					
exchange rate movements determine commercial lending rates hence impacting profitability at Stanbic bank					
Economic stability of the country influences stability of exchange rates hence impacting the profitability and liquidity margins of commercial banks					
Balance of trade influences financial performance which in turn influence profitability at Stanbic bank					
Inflates rate influence the financial performance at Stanbic bank					

SECTION C

The monetary policies that influence profitability. Please carefully assess and rate, on a scale of 1-5, the impact of foreign exchange stability on profitability. Mark the suitable box for each statement according to your evaluation, with the values; 5=Strongly Agree, 4=Agree, 3=Not sure, 2= Disagree, 1=Strongly Disagre

Statements	5	4	3	2	1
The potential for profitability of Stanbic bank is determined by political forces, fiscal policies					
Monetary policies such as trade tariffs and quotas keep the exchange rates lower to increase the purchasing power of the currency hence profitability of the bank					
Stanbic bank can be able to anticipate future inflation and adjust interest rate to generate higher revenue					
Central bank often passes fixed rate interests to stabilize the economy and exchange rate					
Monetary policy helps to control the financial performance indicators of commercial banks.					
The volume of Stanbic bank lending and profitability decreases as core inflation rises with adequate monetary policy controls					

SECTION D

The relationship between exchange rates and profitability. Please carefully assess and rate, on a scale of 1-5, the impact of foreign exchange stability on profitability. Mark the suitable box for each statement according to your evaluation, with the values; 5=Strongly Agree, 4=Agree, 3=Not sure, 2= Disagree, 1=Strongly Disagre

Statements	5	4	3	2	1
Bank's foreign exchange trading activities contribute significantly to its profitability					
Exchange rate volatility affects the bank's ability to predict future earning					
The bank's profitability increases when the local currency appreciates against the major currencies					
The bank's risk management strategies are effective in mitigating the impact of exchange rate fluctuation on profitability					
Stanbic bank's financial performance is more stable when exchange rates are stable					
Stanbic bank's net income is directly affected by changes in exchange rates					

Appendix 2: data collection letter

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SCHOOL OF BUSINESS

29th Jul, 2024

TO WHOM IT MAY CONCERN

Name: KISAAKYE ESTHER SSEMBIRO Reg. S21B33/009
a bachelor's student who is seeking permission from your office to collect data for her dissertation titled

Fluctuation in Foreign Exchange Rate and Profits in Commercial Banks. A case study of Stanbic Bank, Mukono Branch

We shall be grateful if you could render assistance to her in collecting the necessary data for her dissertation

The Uganda Christian University School of Business thanks you in advance

.....
Mukisa Simon Peter
Research coordinator

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29 JUL 2024
FACULTY OF
BUSINESS AND ADMINISTRATION