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**FACULTY OF SCIENCE AND EDUCATION**

# EFFECT OF THE INTEREST RATES ON PROFITABILITY OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF FINANCE TRUST BANK PALLISA BRANCH.

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE DEPARTMENT OF ECONOMICS AND ENTREPRENUERSHIP IN PARTIAL FULFILMENT OF THE RQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF SCIENCE AND EDUCATION OF BUSITEMA UNIVERSITY.**

**APRIL, 2022**

# DECLARATION

I Okiria David, declare that this report is my original work and it has never been submitted to any University or similar institution of higher learning for the awarding of a degree or any other academic award.

SIGNATURE: ............................... DATE:...................................

# APPROVAL

I confirm that the work reported in this report was carried out by the candidate under my supervision.

SIGNATURE: ……………………. DATE :………………………………

SUPERVISOR: MR.ADAIDA MASUUD

# DEDICATION

I dedicate this Research report to my parents who supported me through my education career

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| | |
|---|---|
| FTB | Finance Trust Bank (Uganda) |
| BoU | Bank of Uganda |
| CBR | Central Bank Rate |
| GDP | Gross Domestic Product |
| NIM | Net Interest Margin |
| ROA | Return on Assets |
| ROE | Return on Equity |
| SPSS | Statistical Package for Social Science |

## Abstract

The purpose of this study was, to investigate the effect of interest rates on profitability of finance trust bank, Uganda. The study was based on the following three (3) objectives; (i) to determine the effect of lending interest rates on profitability of Finance Trust Bank, Uganda; (ii) to find out the effect of saving interest rates on profitability of finance trust bank, Uganda and (iii) to assess the effect of market interest rates on profitability of the finance trust Bank, Uganda.

The findings revealed that lending interest rates negatively ($\beta$ =- 0.001) and insignificantly (p-value=0.950) affected profitability of finance trust bank, Uganda; saving interest rates negatively ($\beta$ = -0.002) and insignificantly (p-value=0.508) affected profitability of finance trust bank, Uganda; and market interest rates negatively ($\beta$ =-0.003) and insignificantly (p-value=0.979), affected profitability of finance trust bank Uganda. The study concluded that; lending interest rates had significant effect on profitability of finance trust bank; saving interest rates had a significant effect on profitability of finance trust Bank and market interest rates had a significant effect on profitability of finance trust bank. The study recommended that; in regard to lending interest rates, government reviewed and strengthened bank lending rate policies through effective and efficient regulation and supervisory framework; In regard to saving interest rates, bank's management created the conditions for an efficient banking system devoid of information asymmetry to adapt the changing macroeconomic variables of deposit saving interest rates. Banks' management efficiently managed their deposits in order to earn savings from amounts due from other banks and all deposits. Regarded to market interest rates, Bank's management obtained bank borrowings from other banking institutions at less interest rate that increased its profitability. Regarded to the contribution of knowledge, apart from lending interest rates, saving interest rates and market interest rates, other variables included market size, macro-economic conditions and monetary policy contributed the profitability of the bank. The study developed great ideas that the management of the bank should have priorities set to meet its objectives by using some specific interest rates and not all.

# CHAPTER ONE

# INTRODUCTION

## 1.0 Introduction

This chapter presented the background, problem statement, purpose, specific objectives, research questions, hypotheses, scope and significance of the study and definition of the key terms used in study.

## 1.1 BACKGROUND TO THE STUDY

This background was categorized into four perspectives, namely historical, theoretical conceptual, and contextual.

### 1.1.1 HISTORICAL PERSPECTIVE

Banking was an economic activity, which dealt with the intermediation of funds between the surplus units and the, deficit units of an economy and the channeling of Such resources to profitable investments. Banks also facilitated the provision of an efficient payment system. A sound, profitable, efficient and well managed banking system contributes to the stability of the financial system and protects a country from any undesirable crisis (Athanasoglu et al., 2006; Aburime, 2008; and Ramlall, 2009). Alper and Anbar (2011) posit that an efficient banking sector can promote economic growth, while credit insolvencies could result in systematic crisis. In Africa, banks are regarded as dominant financial institution thus, their health condition was crucial to the general health of the economy (Suffian, 2009). Therefore, having had the knowledge of factors influencing commercial banks' profitability was not only important but also essential in stabilizing the economy. The importance of banks' profitability could not be over emphasized. Profitability was considered as a crucial objective to, conduct a business without which money deposit banks were not be in business. With good profit figures, banks were able to enhance the confidence of their stakeholders, maximized shareholders' wealth as well as being able to stay competitive in the financial market. However, to achieve their desired level of profits, banks are confronted with several factors both internal and external. One of such external factor was the interest rate.

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