

**THE IMPACT OF INTEREST RATE CHANGES ON THE FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE OF EQUITY
BANK-MUKONO BRANCH**

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S23B05/106

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF
BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

March, 2026



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DECLARATION

I Nuwahereza Musiime Sharon hereby declare that this dissertation has been produced out of my own effort with the guidance of my supervisor and has never been submitted to any other institution for any award.

Signature.....

Date.....06th / 03 / 2026

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APPROVAL

This dissertation has been supervised and approved by me and is therefore ready for submission to the School of Business in Uganda Christian University.

Signature.....

Date.....

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(Supervisor)

DEDICATION

With special regards, I wish to dedicate my research work to my parents Mr. and Mrs. Musiime who have always been there to support me in my education. May the Almighty God richly bless you and give you all your heart desires.

ACKNOWLEDGEMENT

I would like to thank the Almighty God for the gift of life and guiding me throughout my education; it has not been an easy journey though it was possible. My heartfelt gratitude goes to my supervisor, Mr. Kisenyi Vincent for the tireless efforts and expertise he rendered to me during his supervision.

Additionally, I acknowledge the top management and employees of Equity Bank, Mukono branch for providing me with the necessary information to complete my research.

Finally, special thanks go to my dear family especially my parents Mr. and Mrs. Musiime for their love, moral and financial support during the entire period of my education career.

May God bless you all abundantly.

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ABSTRACT

The study examined the impact of interest rate changes on the financial performance of commercial banks in Uganda: a case of Equity Bank-Mukono Branch. It specifically focused on; examining the relationship between lending rate changes and financial performance, establishing the relationship between deposit rate changes and financial performance, and assessing the relationship between monetary policy rate changes and financial performance of Equity Bank.

The study was carried out using a cross sectional survey research design where both quantitative and qualitative research approaches were also used. The data was collected using questionnaires and interviews and during data collection; both purposive and stratified sampling methods were used. A sample size of 52 respondents who are management and employees of Equity Bank, Mukono branch was also used in the study.

The study findings revealed that interest rate changes significantly and positively affect the financial performance of Equity Bank–Mukono Branch. Lending rate changes influence loan demand and interest income and are positively correlated with financial performance ($r = 0.636^{**}$, $p < 0.05$), while deposit rate changes affect deposit mobilization and liquidity, showing a strong positive relationship ($r = 0.674^{**}$, $p < 0.05$). Monetary policy rate changes also affect pricing, lending capacity, as well as profitability, which has significant positive correlation with financial performance, ($r = 0.605^{**}$, $p < 0.05$), which shows that the management of interest rates can positively impact the performance of banks.

Lastly, the study recommended that Equity Bank, Mukono Branch, should strategically manage changes in lending rates, as well as deposit rates, while improving training for the staff on how changes in interest rates affect the operations of the bank, so that lending, deposit, as well as investment decisions can be positively impacted by central bank monetary policies.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study was about the impact of interest rate changes on the financial performance of commercial banks in Uganda: a case of Equity Bank-Mukono Branch. This chapter presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, significant of the study and conceptual framework.

1.1 Background of the study

Interest rate changes remains one of the most critical macroeconomic variables, with changes affecting the financial performance of commercial banks globally, due to their immediate repercussions on lending, borrowing, and investment decisions (Rosa, 2024). Commercial banks heavily rely on interest rate margins to create profits; the core revenue base comes from the difference between interest income from loans and interest expenses on deposits (Abadi et al., 2023). Due to fluctuation in interest rates, the net interest margin, return on assets, and return on equity of banks change, thereby changing overall financial stability and profitability (Ampudia & Van den Heuvel, 2022). Central banks in most economies adopt interest rate policies to control inflation, accelerate or decelerate economic growth, and stabilize financial markets (Chatziantoniou et al., 2021). However, such changes often make it difficult for commercial banks to balance profitability and liquidity management (Wang, 2025).

Interest rate fluctuations and their impact on financial performance have become one of the most discussed issues among scholars, policymakers, and financial institutions because of its implications on the banking sector's sustainability (Drechsler et al., 2021). Indeed, an upward swing in interest rates increases borrowing costs and dampens the demand for loans, consequently denting banks' revenues, while a fall in interest rates compresses net interest margins and, with it, profitability (Rahagi et al., 2023). Hence, banks need to adapt their risk management and pricing strategies in order to stay profitable in different interest rate conditions (Correa et al., 2022). Moreover, not all banks are affected equally, since the level of the impact is determined by the specific asset-liability structure, market conditions, and regulatory framework faced by each bank

(Fazlollahi & Ebrahimijam, 2022). This then implies that understanding this relationship is important in developing effective financial and monetary policies to enhance commercial bank performance and economic resilience (Bahjat et al., 2022).

Globally, several studies have analyzed how interest rate changes influence banking performance in developed economies such as the United States, the United Kingdom, Germany, and Japan (Eggertsson et al., 2024). In the United States, the prolonged period of low interest rates after the 2008 financial crisis reduced banks' profitability by compressing net interest margins and lowering returns on investment securities (Wang, 2025). In European countries such as Germany and Sweden, when their central bank imposed negative interest rate policies, it greatly affected the traditional banking model. This reduced profitability and altered the risk-taking behavior of these banks (Dineshbhai, 2022). In Asian countries such as India and Indonesia, the increase in interest rates has resulted in higher loan defaults and reduced profitability, while a decrease in rates has squeezed the margins. As a result, this has become a tightrope balance for not only policymakers but also bankers (Puspitasari et al., 2021). These worldwide experiences give an indication that interest rate fluctuations still are one of the central determinants of the financial performance of the banking industry worldwide (Abadi et al., 2023).

In Africa and sub-Saharan Africa, changes in interest rates have far-reaching implications for the stability and performance of banking, especially in the emerging economies of Kenya, Nigeria, and Rwanda, as noted by Oluwayemisi & Fajuyagbe (2022). For instance, in Kenya, fluctuations in the Central Bank Rate have significantly influenced lending rates and bank profitability. High rates have discouraged borrowing and compressed earnings in the country, according to Ondari et al. (2024). On its part, Nigeria has constantly adjusted its monetary policy to stabilize inflation and the exchange rate which results in volatility in bank revenues and credit growth (Oluwayemisi & Fajuyagbe, 2022). Similarly, in Rwanda, commercial banks such as I&M Bank Plc have posted decreased profits because the increasing trend in the lending rate has reduced the uptake of credit and increased non-performing loans, a scenario echoed by Mukasekuru & Munene (2022). The situation indicates that, indeed, interest rate management is still a policy concern that must be pursued if sustainable financial performance is to be achieved in the banking sector, as attested by Otworko (2023).

In Uganda, interest rate changes have continued to influence the financial performance of commercial banks, including Equity Bank Mukono Branch, which competes in a highly competitive and interest-sensitive environment. According to Kasibante (2021), adjustments of the Central Bank Rate by the Bank of Uganda have been directly transmitted onto lending rates, deposit mobilization, and consequently the profitability levels across the banking industry (Okiria, 2022). High interest rates reduce the level of loan uptake, increase the rate of default, and reduce the level of profitability, while low interest rates reduce the level of interest margins, which consequently reduces the level of return on assets (Owomugisha, 2022). This challenge has been addressed through the implementation of innovative digital lending strategies at Equity Bank Uganda, which aim at mitigating the influences of such factors on the level of profitability of the organization (Kyambade et al., 2024). The level of sensitivity of the financial performance of Equity Bank Uganda to the changes in the level of interest rates is significant; therefore, there is always a need to monitor how the operations of the bank in Mukono District are affected by the changes in the level of interest rates (Atukunda et al., 2024).

1.2 Problem statement

Ideally, commercial banks in Uganda should exhibit stable financial performance in terms of high returns on equity and assets, good loan-to-deposit ratios, and sufficient cash reserves for sustainable financial stability (Rosa, 2024). However, in a real-world scenario, the financial performance of commercial banks in Uganda is declining over time (Okiria, 2022). According to the Bank of Uganda's Financial Stability Report (2024), the average returns on equity for commercial banks in Uganda reduced from 21.3% in 2021 to 16.7% in 2023. Similarly, returns on assets for commercial banks in Uganda reduced from 3.2% in 2021 to 2.4% in 2023 (Kasibante, 2021). Furthermore, the loan-to-deposit ratios for commercial banks in Uganda reduced from 83% in 2021 to 76% in 2023 (Okiria, 2022). Additionally, the cash reserve ratios for commercial banks in Uganda, including Equity Bank Uganda Ltd, reduced from 9.2% in 2020 to 7.4% in 2023 (Owomugisha, 2022). If not addressed, this trend has the potential to cause credit contraction and financial vulnerability (Wang, 2025). Despite these measures taken by the Bank of Uganda, such as reviewing monetary policies, risk management strategies, and digital innovations by Equity Bank Uganda, the financial challenges resulting from interest rate changes still exist (Atukunda et al., 2024).

Moreover, though numerous studies have been carried out on the impact of interest rate changes on banking performance, a research gap still exists, especially in the Ugandan context, focusing on how interest rate changes impact the financial performance of commercial banks in Uganda (Oluwayemisi & Fajuyagbe, 2022). Various studies have been carried out on how interest rate changes impact commercial banks' performance in other countries such as Nigeria, India, and Kenya (Dineshbhai, 2022; Ondari et al., 2024). In Uganda, various studies have been carried out on how interest rate changes impact commercial bank profitability, excluding liquidity and asset quality dimensions (Kasibante, 2021; Okiria, 2022). This study, therefore, sought to fill this knowledge gap by focusing on examining the impact of interest rate changes on commercial bank financial performance in Uganda, with a focus on Equity Bank-Mukono Branch.

1.3 Purpose of the Study

The purpose of this study was to examine the impact of interest rate changes on the financial performance of commercial banks in Uganda: a case of Equity Bank-Mukono Branch.

1.4 Objectives of the Study

- i. To examine the relationship between lending rate changes and financial performance of Equity Bank.
- ii. To establish the relationship between deposit rate changes and financial performance of Equity Bank.
- iii. To assess the relationship between monetary policy rate changes and financial performance of Equity Bank.

1.5 Research Questions

- i. What is the relationship between lending rate changes and financial performance of Equity Bank?
- ii. What is the relationship between deposit rate changes and financial performance of Equity Bank?
- iii. What is the relationship between monetary policy rate changes and financial performance of Equity Bank?

1.6 Scope of the Study

1.6.1 Content Scope

The study was specifically limited to; examining the relationship between lending rate changes and financial performance, establishing the relationship between deposit rate changes and financial performance, and assessing the relationship between monetary policy rate changes and financial performance of Equity Bank.

1.6.2 Time scope

The review of reports and documents spanned five years, from 2021 to 2025. This enabled a detailed analysis of recent trends and patterns in the interest rate changes and their consequent effects on the financial performance of commercial banks in Uganda, with special focus on Equity Bank–Mukono Branch.

1.6.3 Geographical scope

The study was carried out at Equity Bank–Mukono Branch, in Mukono Municipality, Mukono District, Uganda. The branch was selected due to the fact that it has seen fluctuations in financial performance as reflected in areas such as return on equity, return on assets, loan-to-deposit ratio, and cash reserve ratio, which have been influenced by changes in interest rates over the past few years (Bank of Uganda Financial Stability Report, 2024).

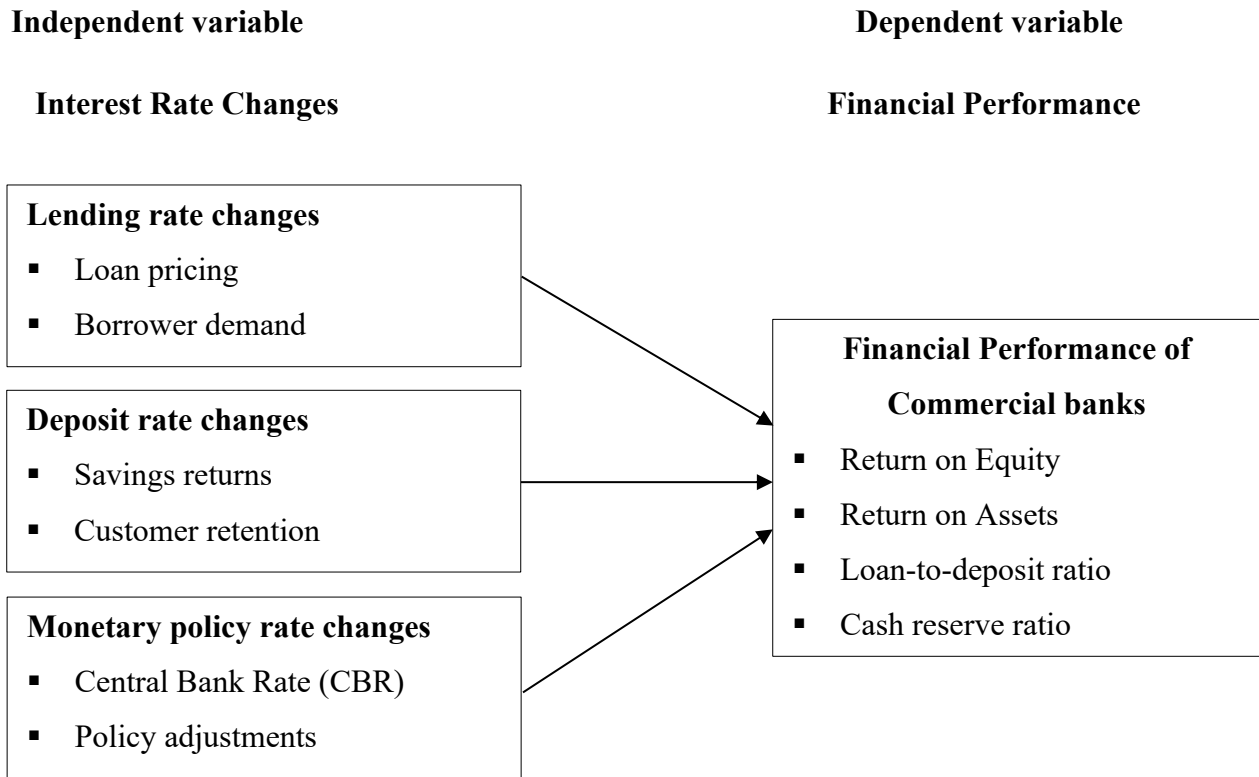
1.7 Justification of the study

The justification for this study was based on the existence of a research gap regarding how changes in interest rates affect the financial performance of commercial banks in Uganda. Although various studies by scholars like Dineshbhai (2022); Ondari et al. (2024) have been conducted on the general relationship between monetary policy and bank performance at a national level, very few studies have focused on specific institutional studies such as Equity Bank-Mukono Branch, where changes in the lending rate, deposit rate, and monetary policy rate have affected the financial institution's profitability, liquidity, and financial stability. This study, therefore, embarked on an empirical quest to provide insights that can guide policymakers, managers of banks, and other

stakeholders in devising ways of enhancing financial performance in light of fluctuating interest rates.

1.8 Conceptual framework

Figure 1: Conceptual Framework



Source: *Adopted from, Oluwayemisi & Fajuyagbe (2022); Otwoko (2023) and modified by the researcher (2025)*

The conceptual framework shows that changes in interest rates-lending rate changes, which involve loan pricing and borrower demand; deposit rate changes, which include savings returns and customer retention; and monetary policy rate changes, which involve Central Bank Rate and policy changes-exert a direct impact on the financial performance of commercial banks, conceptualized as return on equity, return on assets, loan-to-deposit ratio, and cash reserve ratio. Precisely, lending and deposit rate fluctuations affect the profitability and liquidity of banks, while the adjustment in monetary policy rates affects the cost of funds and availability of credit. Hence, changes in interest rates either positively or negatively enhance the overall financial performance

of commercial banks like Equity Bank–Mukono Branch, depending on how well the bank can respond to the change in these rates.

1.9 Significance of the study

Equity Bank management: This study will be helpful to the management of Equity Bank, as it will help them understand how their financial performance is affected by changes in interest rates, so that they can formulate the necessary financial management strategies that can enhance their profitability.

Policymakers: This research will be helpful for the Bank of Uganda, as it will guide them on how to formulate necessary policies that can keep interest rates stable, so that the financial performance of commercial banks is not affected negatively.

Commercial bank managers: This study will offer valuable insight to bank managers on how a bank can reduce the negative impacts of changing interest rates through better asset-liability management, diversification, and prudent lending practices.

Investors and customers: The research will enlighten investors and clients on how changes in interest rates impact bank stability, availability of credit, and thereby returns on investment, making them well-informed in their financial decisions.

Future researchers/academicians: The study will add to the literature on interest rate fluctuations and financial performance, thereby acting as a foundation for further research in the Ugandan banking sector.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides a review the scholarly materials put forward by several personalities on the impact of interest rate changes on the financial performance of commercial banks as well as critically analyzing the deviations in the explanations to find out the research gap in the study variables. Literature was reviewed objectively by starting with definition of a concept followed by reviewing of objectives. Sources like newspaper articles, magazines, encyclopedia and books related to the study were used.

2.1 Conceptual review

2.1.1 Interest rate changes

Changes in interest rates are one of the highly debated topics among scholars, which has various definitions and interpretations. According to Rosa (2024), interest rate changes are changes in the cost of credit and/or the return on deposit, whose regulation is relied on by the central bank as a means of controlling money supply and stabilizing economic activities. In addition, Abadi et al. (2023) further describe changes in interest rates as periodic adjustments to the nominal or real interest rates affecting lending, borrowing, and investment decisions. While some scholars, such as Wang (2025), outline the transmission mechanism of monetary policy through adjustments in interest rates, others, such as Drechsler et al. (2021), cast light on the risks emanating from interest rate volatility to bank liquidity and maturity transformation. All these perspectives emphasize that changes in interest rates are not only important in terms of policy but also have to do with financial markets and how changes in interest rates have a direct effect on banking operations (Ampudia & Van den Heuvel, 2022).

There have been deliberations on the measurement aspects in relation to changes in interest rates in banking studies. Oluwayemisi and Fajuyagbe (2022) have identified changes in interest rates in terms of changes in lending rates, changes in deposit rates, and changes in central bank policy rates, all with different implications for bank profitability. According to Dineshbhai (2022),

Change in rates of lending is significant with regard to loan pricing and demand, while change in rates of deposits is related to savings and retaining customers.

Fazlollahi and Ebrahimijam (2022) posit that changes in monetary policy rates, i.e., changing the rate of interest fixed by the Central Bank, act as an indicator of the banking sector as a whole. On the other hand, Puspitasari et al. (2021) emphasize net interest margin as a mediator of dimensions of interest rate change that measure changes in rates of lending and deposits and their impact on bank profitability. These dimensions are well accepted in the literature as critical dimensions of interest rate change and are considered fundamental measures of interest rate change and its impact on bank profitability (Okiria, 2022).

Empirical studies have also shown both converging and diverging bases on which interest rate changes are measured across contexts. In Nigeria, for example, Oluwayemisi and Fajuyagbe (2022) establish that frequent changes in the rates of lending and deposit significantly influence bank profitability and credit expansion. In India, Dineshbhai (2022) observes that the fluctuations in interest rates affect loan performance and risk exposure, especially in nationalized banks. Similarly, in East Africa, studies such as those by Ondari et al. (2024) in Kenya, and Mukasekuru and Munene (2022) in Rwanda, emphasize changes in lending and policy rates as the significant determinants of financial performance, affecting ROA, ROE, and liquidity ratios. These studies collectively indicate that while the dimensions-lending rates, deposit rates, and policy rates-are consistent, their magnitude and context differ across countries, hence justifying country-specific research like this study on Equity Bank (Okiria, 2022; Kasibante, 2021).

2.1.2 Financial performance of commercial banks

The financial performance of a commercial bank is generally perceived as the bank's ability to earn profits, ensure liquidity, and experience growth continuously over time. According to Bahjat et al. (2022), there are differences of opinions among scholars. While some authors, such as Rahagi et al. (2023), view profitability ratios such as ROA and ROE as performance measures, others, such as Shrestha (2024), emphasize the role of operational efficiency, liquidity ratios, and loan portfolio quality. Kyambade et al. (2024) argue that other dimensions of financial performance include innovation capability, risk management, and adaptability to technology changes, and hence profitability cannot solely be used as an indicator of performance. These debates indicate that

financial performance is multidimensional, reflecting both quantitative financial outcomes and qualitative strategic capabilities.

Scholars have used different dimensions in assessing the financial performance of commercial banks. Atukunda et al. (2024) use ROA, ROE, net interest margin, and liquidity ratios to show how efficiently banks can use their assets and equity to generate returns. Similarly, Drechsler et al. (2021) emphasize the relevance of loan-to-deposit ratios and cash reserve ratios in assessing a bank's ability to settle obligations with depositors while maintaining its liquidity position. Bahjat et al. (2022) further observe that the adoption of risk management frameworks, in particular, compliance with IFRS 9, mediates the association between financial operations and profitability and suggests that performance assessment must include financial metrics along with risk-adjusted indicators of performance. These collectively provide a solid framework for understanding performance in commercial banks.

Empirical studies provide evidence of the practical application of these dimensions in banking contexts. For example, Owomugisha (2022) reports that the performance of Centenary Bank improved significantly when liquidity management and risk mitigation were given prominence along with profitability measures. Kyambade et al. (2024) further reveal that technological innovations and risk management practices adopted by Ugandan commercial banks directly explain ROA, ROE, and efficiency in loan disbursement. Bahjat et al. (2022) illustrate how adherence to international financial reporting standards promotes transparency and accordingly positively impacts bank performance. Therefore, there is consensus that bank financial performance is influenced by multiple dimensions, such as profitability, liquidity, efficiency, and risk management practices. Thus, there is a need for integrating these dimensions into research, such as the current study, into Equity Bank–Mukono Branch.

2.2 Empirical review

2.2.1 Lending rate changes and financial performance of commercial banks

Shrestha (2024) investigated determinants of interest rate spreads in Nepalese commercial banks and noted that lending rates determine profitability, as measured by return on assets and return on equity, through altering net interest income. Correspondingly, a study conducted in Indonesia by Puspitasari et al. (2021) indicated that lending rates were positively related to net interest

margins, thus improving bank profitability. Collectively, both studies indicate that changes in lending rates are an essential tool for banks in managing their profitability in an attempt to sustain a balance between credit demands and costs. Additionally, Rahagi et al. (2023) contended that changes in lending rates affect digital banks' net interest margins. Strategic loan pricing is a critical tool for banks in sustaining their financial stability. Consequently, lending rates are not only tools for pricing but also essential indicators for financial stability and growth for banks.

In Kenya, Otwoko (2023) carried out research to determine the factors that influence interest rates in deposit-taking savings and credit cooperative societies and found that changes in lending rates have a direct effect on profitability in that societies with effective management in handling interest rates have a high return on equity. Ondari (2024) also found out that dynamic changes in lending rates by commercial banks led to improved loan repayment behavior, which in turn led to improved financial outcomes. The research carried out above, therefore, proves that lending rates have an effect on how borrowers react to credit facilities and subsequently have an effect on the financial outcomes of banks. The research also proves that inconsistent changes in lending rates have the effect of reducing credit demand and profit margins in a dynamic environment.

Drechsler et al. (2021) noted that banks which engage in maturity transformation face risks of interest rate risks; therefore, it is necessary to adjust the lending rates to reduce the potential risks and maintain profitability. According to Correa et al. (2022), environmental shocks such as economic downturns or climate risks may necessitate strategic changes to the lending rates with the aim of safeguarding the earnings of banks. The above literature supports the argument that the management of lending rates is part of the strategies that banks use for mitigation of risks, which enables them to remain profitable during economic shocks. As can be deduced, there is an undeniable relationship between financial performance and the ability of the bank to adjust the rates of loans in response to both internal and environmental pressures.

Kasibante (2021), in Uganda, reported that the volatility of lending rates for Equity Bank and other commercial banks led to a negative performance on ROE and ROA for the period between 2018 and 2021. This is indicative of falling profitability associated with unstable loan pricing. Okiria (2022) reported inconsistency in the adjustment of lending rates to have resulted in decreased loan uptake and falling loan-to-deposit ratios in Ugandan banks; this is indicative of

the sensitivity of financial performance indicators to such rate changes. These studies imply that proper management of lending rates is of core relevance to profitability and liquidity sustainability. They also suggest that banks in emerging markets face particular challenges in balancing competitive loan pricing with sustainability in financial performance.

As postulated in the theoretical basis, the study by Mukasekuru and Munene (2022) established that commercial banks in Rwanda, in their attempt to adjust the lending rate in response to the market, have achieved improved performance in terms of net interest income and financial performance. This was further supported by the study by Kyambade et al. (2024), which noted that technological innovations, in combination with flexible policies in the lending rate, have improved the risk management and profitability performance of commercial banks in Uganda. This implies, therefore, that the adjustment of the lending rate, in combination with other tools of strategic management, could be an opportunity to improve financial performance, including ROE, ROA, and liquidity ratios, which provides a significant background to the current study on the performance of Equity Bank-Mukono Branch.

2.2.2 Deposit rate changes and financial performance of commercial bank

Bahjat et al. (2022) also conducted a study on the impact of foreign exchange rates on bank performance. They found that changes in deposit rates have a significant impact on bank liquidity management. When the rate is higher, it can increase savings mobilization. Similarly, Ampudia and Van den Heuvel (2022) also found that changes in deposit rates affect bank costs and lower net interest margins. Both studies suggest that changes in deposit rates are an important determinant for bank performance because of their impacts on both liquidity and profitability measures such as ROA and ROE. Therefore, managing deposit rates is important for maintaining bank performance in different macroeconomic situations.

Eggertsson et al. (2024) investigated negative nominal interest rates' impact on the bank-lending channel and observed that a decline in deposit rates decreases banks' incentives for holding deposits and hence impairs their lending capacity and financial performance. Similar results are obtained by Chatziantoniou et al. (2021), who reported that changes in deposit rates influence the banks' possibility to maintain interest rate spreads and, consequently, profitability and liquidity ratios. These two pieces of research jointly show that unstable or decreasing deposit rates may lead

to constraint in banks' funding base, increased operational risks, and hence deteriorating financial performance, especially in the context of emerging markets. They also indicate that deposit rate management issues clearly interrelate with wider monetary policy and bank operational strategy.

Wang (2025) investigated how low deposit rates impinge on monetary policy transmission in commercial banks and stated that the lower the deposit rate, the more net interest margins are squeezed, which in turn reduces overall profitability. The fact that deposit rate changes have an impact on the net interest margin, itself a mediator of financial performance metrics such as ROE and liquidity ratios, is demonstrated by Rahagi et al. (2023). These studies provide insight into how deposit rate policies influence financial performance through the setting of funding costs and, in turn, lending behavior. They also indicate that managing deposit rates is a key tool for optimizing short-term liquidity and long-term profitability.

Rosa, 2024, traced historical interest rate adjustments and their eventual impact on bank operations. He indicated that fluctuations in deposit rates alter banks' asset-liability composition and influence their ability to absorb shocks, which eventually has an impact on ROA and loan-to-deposit ratios. Owomugisha (2022) reported findings in Uganda that show that banks whose deposit rate strategies were relatively more stable maintained better liquidity and profitability, while banks whose deposit rates were erratic became less profitable and developed rising non-performing loans. Both studies thus indicate that a consistent and strategically managed deposit rate is very crucial for bank financial performance stabilization, since it affects both efficiency operation and credit performance.

Atukunda et al. (2024) researched financial innovations in Ugandan banks and established that deposit rate policies linked to digital banking incentives yielded better deposit mobilization and improved overall financial performance. Similarly, Dineshbhai (2022) found that commercial banks in India that adjusted deposit rates to respond to market and policy changes outperformed others regarding improved net interest margins and higher ROE. Thus, collectively, these studies suggest that in conjunction with other forms of technological and strategic innovations, deposit rate changes can favorably affect key financial performance dimensions, ranging from profitability and liquidity to operational efficiency. This implies the relevance of understanding how the deposit rate policies relate to financial performance and, consequently, the centrality of this relationship to commercial banks such as Equity Bank–Mukono Branch.

2.2.3 Monetary policy rate changes and financial performance of commercial banks

Dineshbhai (2022) investigated the effects of changed monetary policy rates on banking profitability in India and reported that an increase in MPR positively influences the banks' lending and deposit rates, thus influencing net interest margins and return on assets. In this respect, Bahjat et al. (2022) indicated that changes in policy rates impact commercial banks in terms of cost of funds and liquidity management, with further influences on profitability measures such as return on equity and loans-to-deposits ratio. According to the two articles, fluctuations in MPR are a significant and important cause in regard to the macroeconomic determinants of financial performance because these changes affect the strategy of banks with respect to interest rates, funding costs, and lending patterns, hence affecting the efficiency of operations and profits.

Shrestha (2024) carried out a study on Nepalese commercial banks and established that an increase in the MPR rate was associated with an increase in lending rates, which could increase net interest margins but could also reduce loan demand. Further, Fazlollahi and Ebrahimijam (2022) established that changes in policy rates have a significant effect on banks in terms of managing both their assets and liabilities; for instance, an increase in MPR rates enhances interest income but also increases the costs of borrowing for clients, thus creating a trade-off between profitability and credit growth. In the process, these foregoing studies establish how bankers have to continue their balancing act in response to a change in the policy rate, as it has a direct bearing on revenue generation and lending activities.

Rahagi et al. (2023) explored digital banks and established that changes in the monetary policy rate have an indirect influence on financial performance through the variable of net interest margins, which mediate profitability measures such as ROE and ROA. Similarly, Ampudia and Van den Heuvel (2022) indicated that in a low or negative interest rate environment, changes in the policy rate significantly impact bank equity values and overall market performance. Both studies indicate that the sensitivity of banks to changes in the policy rate is an important factor toward maintaining their profitability and that adjustment strategy such as those of lending and deposit rates are important in mitigating the financial impacts of these macroeconomic changes.

Kyambade et al. (2024) explored commercial banks in Uganda and discovered that the monetary policy rate, when fluctuating, significantly interacts with both technological and risk management

innovations to influence financial performance. Atukunda et al. (2024) also found that banks that integrate the responsiveness of policy rates into their financial innovation strategies attain higher ROA and ROE than those which do not (Atukunda et al., 2024). From these findings, the implication is that the effect of a change in the policy rate on financial performance is moderated by internal bank strategies, and thus effective management could counteract the negative impacts of unfavorable rate movements.

Otwoko (2023) focused on analyzing the impacts of changes in deposit-taking savings and credit co-operative societies in Kenya and established that MPR impacts lending behavior and profitability levels in that an increase in policy rate makes borrowing expensive and thus limits credit uptake. In a similar vein, Ondari et al. (2024) established that changes in interest rate risk arising from changes in the policy rate affect commercial banks directly in terms of their financial performance, particularly in terms of net interest margins, liquidity, and ROE. Overall, all these studies underscore the fact that the monetary policy rate is a key determinant of financial performance in banks in that it impacts both income generation and risk management in banks, thus forming a basis for a strategic policy response in ensuring profitability.

2.3 Summary and literature gap

Despite the large volume of research into how the change in interest rates affects the financial performance of commercial banks, several knowledge gaps still existed. Most studies have focused on the impact of lending rate, deposit rate, and monetary policy rate changes on profitability measures like ROA and ROE but fail to consider how the three factors, along with liquidity management, risk mitigation, and technological innovations, combine in their impact. Moreover, empirical evidence from countries such as Nigeria, India, Kenya, and Rwanda suggests that variations in context imply that generalizations cannot be made across countries and thus require country-specific investigations. Few studies also combine qualitative aspects, including operational efficiency, the ability to adapt to changes in technology, and the need for compliance with international standards on financial reporting, with the quantitative financial measures. This therefore means a holistic approach to studying how multiple factors combine to influence the general financial performance of commercial banks within specific institutional contexts is lacking.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter will discuss the research approach that has been employed in this research study. It will explain how this research study has been conducted. It will include the sample size, population, and design, among other things. It will cover the description of variables, sampling, research instruments, data administration and analysis, ethical issues, and research study limitations, among other things.

3.1 Research Design

Research design, according to Bloomfield & Fisher (2019), is the process of structuring the methodology for conducting research. The researcher used the cross-sectional survey research design in collecting data from the representative population at a given time without repeating it. The reason for its use is that it takes a shorter time to complete, according to Spector (2019). It was also used in that it helped the researcher document the data collected at a given time. The participants in the data collection pool included a number of factors, or unique features and demographics. Moreover, by using the cross-sectional research design, the research results helped replace presumptions with factual data on the specific factors under study, according to Patrik & Ugo (2019).

In addition to that, the research utilized mixed method research, which integrates both quantitative and qualitative research approaches. The selected staff from different departments of Equity Bank in Mukono were issued questionnaires to fill out as part of the quantitative research method. The top management of Equity Bank in Mukono, including the branch manager and the credit manager, were interviewed as part of the qualitative research method in order to attain in-depth understanding of the research topic. These individuals were also chosen as key informants because they had significant information regarding the research topic of interest. In order to analyze the impact of the change in the interest rate on the financial performance of commercial banks in Uganda, the quantitative method was utilized.

3.2 Area of the study

This study was carried out at Equity Bank–Mukono Branch, in Mukono Municipality, Mukono District, Uganda. The branch was selected due to the fact that it has seen fluctuations in financial performance as reflected in areas such as return on equity, return on assets, loan-to-deposit ratio, and cash reserve ratio, which have been influenced by changes in interest rates over the past few years (Bank of Uganda Financial Stability Report, 2024).

3.3 Study population

The population, according to Trochim (2006), is the group from which a researcher wishes to draw a sample in order to draw generalizations. The study populace included all employees and senior staff members of Equity Bank-Mukono branch. According to the HRM of Equity Bank records of 2024, there are 60 workers at the headquarters in Mukono and this number was the source of the sample size that helped the researcher to get the required data.

3.4 Sampling procedure and sample size

The Krejcie and Morgan (1970) table was used to decide the sample size, as indicated below;

Table 1: Table for determining sample size of a known population

Table 3.1									
<i>Table for Determining Sample Size of a Known Population</i>									
N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	100000	384

Note: N is Population Size; S is Sample Size *Source: Krejcie & Morgan, 1970*

Source: *Krejcie & Morgan (1970)*

As can be seen from the above table, the sample size consisted of 52 respondents drawn from a total of 60 individuals who work in various departments at Equity Bank, Mukono.

Furthermore, the top management of Equity Bank-Mukono branch specifically the branch manager, the credit manager, and branch operations manager among others totaling to 5 were include in the study as the key informants for qualitative data.

Table 2: Target Population, Size and Selection

Category of Respondents	Population Size	Sample size	Sampling Techniques
Lower-level employees of Equity Bank from different departments	60	52	Stratified sampling
Top management of Equity Bank	5	5	Purposive sampling
Total	65	57	

Source: *Equity Bank-Mukono Branch (2025)*

3.5 Sampling techniques and methods

Both stratified and purposive sampling techniques were used in the investigation. The stratified sampling technique was used to choose the staff members from Equity Bank's various departments. Using stratified sampling, a proportionate sample was chosen from each stratum after the population is divided into discrete groupings, or strata, that have comparable traits. The accuracy and generalizability of the study's conclusions are improved by this strategy, which guarantees that each subgroup is fairly represented in the sample. In this study, the employees from the different departments in Equity Bank were divided into strata based on their respective departmental sizes. From these strata, a proportional number of employees were randomly selected. Stratified sampling was used to ensure that the sample accurately reflects the diversity within each organization's departments, providing an extensive understanding of interest rate changes and the financial performance of commercial banks in Uganda.

On the other hand, for the managing director, the internal auditors and the board of directors, purposive sampling was employed. With selective sampling, which is a non-probability sampling technique, players are chosen according to particular traits or standards that are essential to the

study. In this study, the branch manager, credit manager, and branch operations manager among others were chosen because they hold specialized knowledge and expertise when it comes to the topic under study. These senior management representatives were specifically chosen to offer in-depth analysis and specific data pertinent to the study's goals. Since they are the ones dealing with interest rate changes concerns, this approach was utilized to guarantee that the data gathered is rich, pertinent, and directly applicable to the study's focus on the relationship between interest rate changes on the financial performance of commercial banks.

3.6 Sources of data

Primary source: Primary data are essential for all fields of study since they offer exact information on the consequences of an experiment or observation. Primary data from the field and self-administered questionnaires. The researcher was able to gather information for their study's unique goals with the use of primary data. The researcher used interview guidelines and questionnaires to gather the data on her own.

Secondary source: Information handled, collected, and maybe analyzed by someone other than the researcher is referred to as "secondary data". The most common secondary sources for historical research projects are scholarly publications and articles. The information was collected from previously published sources, including published papers, e-books, publications and journals. Documentary resources are categorized to assist the gathering of data and the interpretation of text (Mubazi 2008).

3.7 Data collection methods

Interviews and a questionnaire survey were used to gather data for the study.

3.7.1 Survey

A survey, according to Amin (2005), is a self-report study that is used to collect data regarding variables of interest. This study used a questionnaire survey to get quantitative information about Equity Bank's interest rate changes and financial performance with the selected employees of Equity Bank, Mukono. The questionnaire consisted of structured items designed to elicit responses regarding the study objectives. This survey method was used since it allows for the efficient collection of large-scale data, enabling the researchers to quantify trends, correlations,

and patterns related to interest rate changes and financial performance of commercial banks (Mchumu, 2011).

3.7.2 Interviews

According to Desncombe (2008), key informants are frequently given open-ended interview questions to provide them a great deal of freedom to discuss the topic. The information obtained from respondents and the available materials was supplemented and triangulated by the interviews (Patton 2001). This was meant to provoke a broad perspective on the topic. Both in-person and cellular phone dialogues were conducted. Both designed and semi-designed queries were included in these. Since they guarantee further information, clarification, and the ability to record the interviewee's facial expressions, interviews were used (Somekh & Lewin, 2015). They also provided the researcher with the chance to go over some of the concerns that have been overlooked in previous instruments but are still thought to be important for the study.

3.8 Data collection instruments

Information was gathered for the study using interview guides and a structured questionnaire.

3.8.1 Questionnaires

Closed-ended questions and a list of possible answers were included in the questionnaires. Respondents were requested to select the response that best expresses their thoughts on the circumstance and the subject under inquiry (Mugenda & Mugenda, 2005). Responses were limited to the items on the questionnaire, which was uniform and inflexible. This assisted to enlist validity and control of the extraneous factors (Sarantakos, 2005). To gather data on the topic, a structured questionnaire with sections based on study factors were produced. The respondents were given it. With response options like (5) strongly agree, (4) agree, (3) not sure, (2) disagree, and (1) strongly disagree, it used a five-point Likert scale. Since it gives responders with a number of options and facilitates tabulation of the collected data for comparison, the Likert format was chosen. With their permission, the questionnaire was utilized to gather information from the 52 chosen employees across various departments of Equity Bank, Mukono branch.

3.8.2 Interview guide

The purpose of the interview topical guide is to compile data. This guide aided to manage consistency. Top managers who are well-informed due to their offices were the ones who are preferred for the interviews since they have the freedom to discuss the topic in-depth and without restrictions. Unstructured questions on every variable in the conceptual framework pertaining to interest rate changes and financial performance of commercial banks were included in the interview guide. According to Ragin (2009), interview guides contain elements that are utilized to direct the interviewing process going forward. This ensured that the interviewees are questioned for additional information, clarification, and to record their facial expressions. The branch manager, credit manager, and branch operations manager of Equity Bank-Mukono branch are the five important informants that the researcher interviewed.

3.9 Data collection procedure

After receiving a letter of recommendation and introduction from Uganda Christian University, in order to conduct interviews and deliver questionnaire guidelines, the researcher approached the different of respondents, and she then asked for permission from the various respondents at Equity Bank, Mukono branch to use as a case study.

3.10 Validity and reliability of the research instruments

3.10.1 Validity

To determine whether the questions secure the desired data, validity was performed. The questions were examined by research experts to determine whether they were able to elicit the desired answer. To decide the validity of the research tool, a Content Validity Index (CVI) was calculated. As can be seen below, the researcher applied the following formula to prove the validity of the research tools.

Content validity Index (CVI) = $\frac{\text{Relevant items by all judges as suitable}}{\text{Total number of items judged.}}$

Total number of items judged.

The CVI was 0.91 that was above the threshold value of 0.70 (Duckett, 2021), thereby suggesting that the questionnaire could be used to collect data reliably.

3.10.2 Reliability

Reliability, based on Mugenda & Mugenda (2003), is a gauge of how consistently a research tool gives data or results following several trials. Cronbach's coefficient alpha was used to evaluate the questionnaire's reliability. Five respondents participated in a pilot study, and the Statistical Package for the Social Sciences (SPSS) was used to calculate the reliability results. The coefficient was 0.93 that exceeded the recommended .70 (Duckett, 2021), thereby indicating that the questionnaire was appropriate for data collection.

3.11 Data Analysis

3.11.1 Analysis of quantitative data

The quantitative data was collected using structured questionnaires and was coded, entered, and analyzed using Statistical Package for Social Sciences (SPSS) version 20. Descriptive statistics, which included frequency distribution, percentage distribution, means, and standard deviations, were carried out for all the variables in the study. The responses to the five-point Likert scale questions were aggregated into fewer categories for ease of interpretation. For instance, "Strongly Agree" and "Agree" were combined into "Agree," while "Strongly Disagree" and "Disagree" were combined into "Disagree." Pearson's correlation coefficient was used to test the strength and direction of relationships between interest rate changes and financial performance of commercial banks in Uganda at 95% and 99% confidence levels. Positive correlation coefficients indicated direct relationships between variables, while negative correlation coefficients indicated inverse relationships between variables. In addition, multiple regression analysis was carried out to establish the predictive power of interest rate changes on financial performance of commercial banks in Uganda using ANOVA statistics, adjusted R² values, beta coefficients, t-values, and their corresponding significance levels (Jopling, 2019).

3.11.2 Analysis of qualitative data

The qualitative data collected from the responses of the top management of Equity Bank, Mukono branch was analyzed using thematic content analysis. The responses were analyzed to reveal the themes, which were the key features of the study, including lending rate change, deposit rate change, and monetary policy rate change, which influence the financial performance

of commercial banks. The reports were presented in a descriptive form to ensure the accurate recording of the responses of the participants, focusing on the interest rate change issues that influence the financial performance of commercial banks. The qualitative data was also used in conjunction with the quantitative data to reveal the points of convergence and divergence, with the aim of obtaining a comprehensive appreciation of the degree to which interest rate change contributes to the financial performance of Equity Bank (Jopling, 2019).

3.12 Ethical Considerations

Ethics cover the guidelines that distinguish between right and wrong behavior. Ethics are very instrumental in distinguishing between appropriate and inappropriate behavior. The following moral ethics were observed;

To protect the participant's privacy, the researcher ensured that all information obtained by the participants was properly stored and used only for the intended purpose of the study. All information obtained by the researcher was used strictly according to the laws and regulations governing privacy. No unauthorized person accessed the information obtained by the researcher (Chervenak & McCullough, 2021).

To ensure that informed consent is obtained, the researcher ensured that each participant of the study was well informed about the purpose of the study and any possible danger associated with it. The participants were required to sign a form stating that they understood and were aware of their participation in the study.

To ensure that the participants' anonymity is protected, the researcher ensured that there was no part of the research report that could reveal the identity of the participants. All information obtained by the participants that could reveal their identity was eliminated or classified such that anyone reading the final report could not identify or locate the participants.

The researcher made sure that any personal data gathered was protected and available only to the research team in order to preserve confidentiality. Responses from participants were not shared with outside parties, and data was only utilized in aggregated or anonymised form for study.

The researcher made sure that all material, concepts, or data from other researchers or publications were appropriately attributed through precise citations and references in order to prevent

plagiarism. To uphold academic integrity, all direct quotes were properly labeled and linked to their original sources.

Lastly, the researcher ensured the integrity of the research findings and the preservation of participants' rights by adhering to institutional norms and upholding the ethical values of fairness and respect throughout the whole research process.

3.13 Limitations and delimitations of the study

Because they were unsure of where the information would be used, some respondents were reluctant to divulge information. This was resolved by acquiring an introductory letter from the university and by virtue of its outstanding reputation as a learning institution in the study area.

The researcher was also limited by the funds needed to support the study, which included paying for printing, convincing respondents, transportation to the institution to collect data, was also a constraint on the researcher. However, the researcher organized financial support from well-wishers, including family, through self-initiatives and methods.

Finally, owing to responder conditions such as travel, illness, hospitalization, or refusal/withdrawal to participate, not all questions were answered or all interviews were done.

CHAPTER FOUR

DATA PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents and discusses the results of analysis that has been done to look at the specific objectives of the study and in relation to the reviewed literature. The study was carried out using questionnaires with employees working in the different departments in Equity Bank, Mukono branch and interviews with the top management of Equity Bank, Mukono branch like the branch manager, the credit manager, and branch operations manager. The findings are presented with the help of tables for purposes of clarity and interpretation.

4.1 Response rate

A total of 52 respondents were meant to be involved in the study using questionnaires and all of them were successfully involved in the study as shown in Table 3 below in relation to the different categories.

Table 3: Response rate

Response Rate	Frequency	Percentage
Response	52	100%
Non Response	00	00%
Total	52	100%

Source: *Primary data*

According to table 3 above a total of 52 (100%) respondents who are; employees working in the different departments in Equity Bank, Mukono branch were expected to be involved in the study and all the respondents gave their response giving a response rate of 100%. The reason for the high response rate was due to the fact that the researcher had enough time to collect the data herself and given that the number of respondents required was relatively small. According to Ahuja (2009), a response rate of 70% is excellent, 60% is good and 50% is adequate for analysis. Thus the response rate of 100% was considered reliable and appropriate for the study.

4.2 Findings on demographic characteristics of respondents

This section presents the general background information about the respondents in relation to their gender, age, highest level of education, department and period spent working in the study context as shown in the table below;

Table 4: Background Information about the respondents

Item	Description	Frequency	Percentage (%)
Gender	Male	34	65.4
	Female	18	34.6
	Total	52	100.0
Age bracket	21-30 years	19	36.6
	31-40 years	23	44.2
	41-50 years	10	19.2
	Total	52	100.0
Level of education	Bachelor's degree	35	67.3
	Master's degree	12	23.1
	Others	5	9.6
	Total	52	100.0
Department	Administration department	5	9.6
	Credit and loans department	25	48.1
	Operations department	9	17.3
	Audit department	6	11.5
	IT department	7	13.5
	Total	52	100.0
Period spent working	Less than 1 year	7	13.5
	1-5 years	16	30.8
	6-10 years	18	34.6
	Above 10 years	11	21.1
	Total	52	100.0

Source: Primary data

According to table 4 above, majority of respondents from the study context were male represented by 65.4%, whereas the female respondents made up 34.6%. This indicates a higher representation of males within the respondent group.

The finding also revealed that most respondents fall within the age bracket of 31-40 years, accounting for 44.2%. This was followed by those that fall in the 21-30 age group, which constituted 36.6%. The least represented age group was 41-50 years, making up 19.2%. This distribution suggests that the workforce is primarily young to middle-aged, with a significant number of respondents under 40 years.

Moreover, the findings established that the highest percentage of respondents is those who have a Bachelor's degree, which makes up 67.3% of the total. This was then followed by those respondents who have a Master's degree, which makes up 23.1%. Lastly, 9.6% stated that they have other forms of education such as Postgraduate diplomas, CIPS, CPA, ACCA, etc. This shows that all the employees in Equity Bank, Mukono branch, understood, interpreted, and responded to the questions in the study with ease since all have attained higher levels of education.

Additionally, the findings established that the highest percentage of respondents is from the credit and loans department, which makes up 48.1%. This was then followed by the operations department, which makes up 17.3%. The information and technology department then followed, making up 13.5%. The audit department then followed, making up 11.5%, while the administration department had the least representation, making up 9.6%.

Lastly, the study established that the majority of the respondents had worked with Equity Bank for 6-10 years, which translates to 34.6% of the total number of respondents. This was then trailed by those who had worked for 1-5 years, which was 30.8%. Those who had worked for more than 10 years in their capacity in Equity Bank were 21.1%, while those who had worked for less than 1 year was the least, 13.5%. This shows a workforce composed of people who have worked for relatively many years in the financial institution.

4.3 Lending rate changes and financial performance of Equity Bank

Table 5 below shows a summary of respondents' responses on how changes in lending rates affect the financial performance of Equity Bank in Mukono branch using a Likert scale where SA = Strongly Agree, A = Agree, NS = Not Sure, D = Disagree, and SD = Strongly Disagree.

Table 5: Lending rate changes and financial performance of Equity Bank

Statements	Extent of agreement & disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
Frequent changes in lending rates affect the number of clients applying for loans at Equity Bank.	28 53.8%	16 30.8%	00	8 15.4%	00
High lending rates discourage customers from borrowing, which impacts our loan portfolio.	26 50.0%	21 40.4%	00	5 9.6%	00
Adjustments in lending rates influence the bank's revenue from interest income.	23 44.2%	21 40.4%	00	8 15.4%	00
Lending rate changes affect my department's performance targets related to loan disbursement.	26 50.0%	16 30.8%	00	10 19.2%	00
Sudden increases in lending rates lead to delays in loan approvals and processing.	28 53.8%	13 25.0%	00	5 9.6%	6 11.3%
Employees are adequately informed about lending rate changes to manage customer expectations effectively.	33 63.5%	13 25.0%	3 5.8%	3 5.8%	00

Source: *Primary data*

From the study in Table 5 above, it is clear that the findings reveal that the respondents agreed that the frequent changes in lending rates have an impact on the number of clients who apply for loans at Equity Bank by 84.6%, while 15.4% disagreed with the same statement. This implies that the frequent changes in lending rates have an impact on the number of clients who apply for loans at

the bank. The implication of this is that the frequent changes in lending rates may reduce the number of clients who apply for loans at the bank, hence impacting the interest income of the bank.

The findings also revealed that the respondents agreed that high lending rates discourage customers from borrowing, impacting the bank's loan portfolio by 90.4%, while 9.6% disagreed with the same statement. This implies that the high lending rates have an impact on the bank's loan portfolio. The implication of this is that the high lending rates may reduce the loan portfolio of the bank, hence impacting the bank's financial performance.

In addition, the findings revealed that 84.6% of the respondents agreed that the bank's revenue from interest income is affected by the changes in lending rates, whereas 15.4% disagreed. This implies that the bank's income stream is affected by the changes in the lending rate, as the bank generates most of its income from interest income in the commercial banking business.

In the same vein, the study established that 80.8% of the respondents agreed that the bank's lending rate changes affect the performance targets of the department in the loan disbursement business, whereas 19.2% disagreed. This implies that the bank's lending rate changes have implications for the departments in the bank, especially in the loan disbursement business. The implication is that the bank's lending rate instability may affect the departments' planning in the loan disbursement business, which may affect the bank's efficiency in the long run.

In addition, the study results revealed that 78.8% of the respondents agreed that a sudden rise in lending rates causes delays in the approval and processing of loans, while 20.9% disagreed. The implication is that a sudden rise in lending rates may cause a decline in the operational efficiency of the bank, hence negatively impacting its financial performance.

Lastly, the study results revealed that 88.5% of the respondents agreed that employees are well informed regarding lending rate changes to effectively handle customer expectations, while 5.8% disagreed, and another 5.8% were not sure. The implication is that employees are well informed regarding lending rate changes, hence a positive attribute in managing customer relationships at Equity Bank.

In conclusion, the study aimed to assess the impact of lending rate changes on customer relationships and operational efficiency in the Kenyan banking industry, with a focus on Equity

Bank. The study results revealed that lending rate changes negatively impact customer relationships and operational efficiency in the Kenyan banking industry, in general, and at Equity Bank, in particular. The study further revealed that employees are well informed regarding lending rate changes, hence a positive attribute in managing customer relationships at Equity Bank.

Overall, the findings revealed that lending rate changes have a significant effect on customer borrowing behavior, internal operations, and revenue generation for Equity Bank-Mukono Branch. The high level of agreement on all statements reveals that lending rate dynamics is a key factor that influences financial performance, emphasizing the importance of stable lending rate policies for enhanced financial performance of banks. The findings of the study on the relationship between lending rate changes and financial performance of Equity Bank, were further determined using Pearson’s correlation as indicated below;

Table 6: Pearson’s correlation lending rate changes and financial performance

Correlations

		Lending rate changes	Financial performance
Lending rate changes	Pearson Correlation	1	.636**
	Sig. (2-tailed)		.000
	N	52	52
Financial performance	Pearson Correlation	.636**	1
	Sig. (2-tailed)	.000	
	N	52	52

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The findings indicated in the table above reveal that there is a significant positive relationship between lending rate changes and financial performance, as revealed by the r-values of 0.636**, where the p-values are significant at 0.05 level (2-tailed) ($r = .636^{**}$, $p < .05$). This reveals that well-managed and strategically controlled lending rate changes are instrumental in improving financial performance, as lending rate changes are important in improving interest income and

overall financial performance, provided that lending rate changes are properly controlled and well-managed.

4.3.1 Lending rate changes and financial performance of Equity Bank

Based on the information obtained from the key informants who are the key members of the organization, including the branch manager, credit manager, branch operations manager, and many more, they were asked to share their views on the relationship between lending rate change and financial performance of Equity Bank, and their responses to this question were as follows;

The key informants generally agreed that there exists a strong and direct relationship between lending rate change and financial performance of Equity Bank. According to the key members of the organization, lending rate change has a significant impact on the financial performance of the organization, and this was supported by the fact that when the lending rate of the bank is increased, there exists a remarkable reduction in the number of loans sought from the bank, and this has a significant effect on the financial performance of the organization. On the other hand, the key members of the organization noted that moderate and well-structured lending rate change has a positive effect on the financial performance of the organization.

In addition, the respondents pointed out that the constant fluctuations in lending rates demand proper management to strike a balance between profitability and credit risk. The respondents pointed out that although the lending rate may be higher, it can also lead to higher risks of loan defaults in the long run if the borrowers face repayment challenges. This may have a negative impact on the financial performance of the bank. Therefore, the key respondents highlighted the significance of aligning the lending rate fluctuations with the repayment capacity of the clients, the market conditions, as well as the risk management of the bank to enhance positive financial performance.

Lastly, the key informants pointed out that changes in lending rates affect operational efficiency and planning in the branch. The key informants indicated that changes in lending rates affect the departmental targets concerning the growth in loans disbursed, revenue generation, and performance management. The key informants pointed out that effective communication concerning lending rate changes allows the employees to handle customer expectations in a satisfactory manner, hence maintaining customer confidence and growth in loans. The key

informants were in agreement that a stable lending rate is important in achieving consistency in performance and keeping the bank competitive in the market. The key informants had this to say,

“.....Any change in our lending rates directly affects how much customers are willing to borrow, and this has a clear impact on our interest income and overall branch performance.....” **Key Informant 1**

“.....We have observed that well-managed lending rate adjustments help us grow the loan portfolio without increasing credit risk, which is key to sustaining strong financial results.....” **Key Informant 2**

4.4 Deposit rate changes and financial performance of Equity Bank

Table 7 below shows a summary of respondents’ responses on the relationship between changes in deposit rates and financial performance using a Likert scale where SA = Strongly Agree, A = Agree, NS = Not Sure, D = Disagree, and SD = Strongly Disagree.

Table 7: Deposit rate changes and financial performance of Equity Bank

Statements	Extent of agreement & disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
Changes in deposit rates affect the number of deposits received by the bank.	13 25.0%	23 44.2%	00	10 19.2%	6 11.5%
Increasing deposit rates improves customer retention and attracts new clients.	28 53.8%	16 30.8%	00	8 15.4%	00
Deposit rate adjustments influence the bank’s liquidity position.	9 17.3%	31 59.6%	00	12 23.1%	00
Fluctuations in deposit rates affect my ability to meet departmental performance targets.	23 44.2%	18 34.6%	00	11 21.2%	00
Employees are regularly trained on how deposit rate changes impact savings and customer relations.	23 44.2%	16 30.8%	00	10 19.2%	3 5.8%

Lower deposit rates discourage customers from keeping large balances, affecting the bank's operations.	26 50.0%	16 30.8%	00	10 19.2%	00
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Source: *Primary data*

According to the study in Table 7 above, the findings revealed that 69.2% of the respondents agreed that the changes in deposit rates affect the number of deposits that the bank receives, while 30.7% of the respondents disagreed with the statement. This implies that the bank can rely on the deposit rate as one of the factors that determine the savings of the customers, which in turn can boost the financial position of the bank.

The study also established that 84.6% of the respondents agreed that the bank can rely on the deposit rate to enhance the retention of the customers as well as attract new customers, while 15.4% of the respondents disagreed with the statement. This implies that the bank can rely on the deposit rate to enhance the retention of the customers as well as attract new customers, which in turn can boost the financial position of the bank.

In addition, the study revealed that 76.9% of the respondents agreed that the changes in the deposit rate affect the bank's liquidity position, while 23.1% of the respondents disagreed with the statement. This implies that there is a significant relationship between the bank's ability to make decisions regarding the deposit rate and its ability to maintain a liquid position, implying that a well-managed deposit rate policy can help the bank strike a balance between its deposits and liquidity positions.

Further, the study revealed that 78.8% of the respondents agreed that the changes in the deposit rate affect their ability to meet the departmental performance targets, while 21.2% of the respondents disagreed with the statement. This implies that there is a significant relationship between the ability to make decisions regarding the deposit rate and its ability to meet performance targets, implying that a well-managed deposit rate policy can help the bank strike a balance between its operations and performance management.

Additionally, the findings established that 75.0% of the respondents agreed that employees are regularly trained on how changes in deposit rates affect savings and customer relations, while 25.0% of the respondents disagreed. This implies that most employees feel adequately trained to

handle customer expectations concerning changes in deposit rates, which implies that training can enhance customer relations and service delivery, thus contributing to improved financial performance.

Finally, the study established that 80.8% of the respondents agreed that lower deposit rates discourage customers from keeping large balances, thus affecting bank operations, while 19.2% of the respondents disagreed with the statement. This implies that low deposit rates can discourage customers from keeping large balances in their accounts, thus implying that unattractive deposit rates can limit the amount of funds available for lending and generating other income.

Overall, the findings indicated that changes in deposit rates have a great impact on the financial performance of Equity Bank, Mukono branch, as shown by high levels of agreement for all statements. This implies that changes in deposit rates affect deposit mobilization, customer retention, liquidity levels, employee performance, and overall bank efficiency, thus showing that managing changes in deposit rates is crucial for enhancing overall financial performance. The findings of the study on the relationship between changes in deposit rates and financial performance of Equity Bank can be determined using Pearson’s correlation as shown below;

Table 8: Pearson’s correlation deposit rate changes and financial performance

Correlations

		Deposit rate changes	Financial performance
Deposit rate changes	Pearson Correlation	1	.674**
	Sig. (2-tailed)		.000
	N	52	52
Financial performance	Pearson Correlation	.674**	1
	Sig. (2-tailed)	.000	
	N	52	52

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

From the results indicated by the table above, it is clear that there is a significant positive relationship between changes in deposit rates and financial performance at Equity Bank. This is

supported by the values of r , which are 0.674** with significant p -values of 0.000 at 0.05 level (2-tailed) since $r = .674^{**}$, $p < .05$. This indicates that appropriate adjustments to deposit rates can enable Equity Bank to effectively attract and retain deposits and thus enhance its financial performance.

4.4.1 Deposit rate changes and financial performance of Equity Bank

From the interviews conducted with the key informants, who are the top management of Equity Bank - Mukono branch, particularly the branch manager, the credit manager, and the branch operations manager among others, on their views on the relationship between changes in deposit rates and the financial performance of Equity Bank, and their responses were as follows;

Key findings from the interview with the key informants on the relationship between changes in deposit rates and the financial performance of Equity Bank were that there is a significant relationship between changes in deposit rates and the financial performance of Equity Bank, particularly in the aspect that changes in deposit rates influence the financial performance of Equity Bank in that higher deposit rates motivate customers to save more with the bank, hence the growth in deposits, while lower deposit rates discourage savings, hence a decline in deposits, leading to a situation where the bank might experience a liquidity crisis, which might negatively impact its financial performance.

Additionally, the respondents noted that changes in deposit rates affect the bank's cost of funds and interest margins. While higher deposit rates can attract and retain customers, they also increase interest expenses, which may reduce net interest income if not properly matched with lending rates. The key informants emphasized that effective balancing of deposit and lending rates is essential to protect profitability while maintaining customer confidence. They further observed that predictable and well-communicated deposit rate adjustments help the bank plan its financial activities more accurately and minimize volatility in financial performance.

Lastly, the key informants highlighted that deposit rate changes influence customer relationships and operational planning at the branch level. Adjustments in deposit rates affect staff performance targets related to deposit mobilization and customer retention. They explained that when employees are well informed about deposit rate changes, they are better positioned to advise customers, manage expectations, and sustain long-term banking relationships. Overall, the

respondents agreed that strategically managed deposit rate changes are crucial for ensuring liquidity stability, maintaining profitability, and supporting sustainable financial performance at Equity Bank. Some of the key informants had this to say,

“.....Deposit rates play a key role in attracting and retaining customer funds, which directly supports our liquidity and ability to grow the business.....” **Key Informant 1**

“.....When deposit rate changes are well aligned with lending rates, the bank is able to maintain healthy margins and stable financial performance.....” **Key Informant 2**

4.5 Monetary policy rate changes and financial performance of Equity Bank

Table 9 summarizes respondents’ responses on the relationship between monetary policy rate changes and financial performance of Equity Bank, Mukono branch by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 9: Monetary policy rate changes and financial performance of Equity Bank

Statements	Extent of agreement & disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
Changes in the central bank’s policy rate significantly influence lending and deposit rates at Equity Bank.	28 53.8%	16 30.8%	00	8 15.4%	00
Monetary policy rate adjustments affect the bank’s overall profitability and financial performance.	26 50.0%	21 40.4%	00	5 9.6%	00
Policy rate changes impact the availability of funds for lending purposes.	23 44.2%	21 40.4%	00	8 15.4%	00
Employees are aware of how changes in monetary policy rates affect daily banking operations.	26 50.0%	16 30.8%	00	10 19.2%	00

Sudden shifts in policy rates require adjustments in departmental strategies and targets.	28 53.8%	13 25.0%	00	5 9.6%	6 11.5%
The bank communicates the implications of monetary policy rate changes effectively to staff.	30 57.7%	12 23.1%	6 11.5%	4 7.7%	00

Source: *Primary data*

As illustrated by the findings in the table, the 84.6% of the respondents agreed that the change in the policy rate of the central bank significantly impacts the lending and deposit rates of the Equity Bank, whereas 15.4% of the respondents disagreed with the statement. This implies that the decisions of the central bank significantly impact the bank’s interest rate, suggesting that the bank’s lending and deposit rates are directly impacted by the change in the policy rate of the central bank.

The findings of the study also revealed that 90.4% of the respondents agreed that the bank’s profitability is impacted by the change in the policy rate of the central bank, whereas 9.6% of the respondents disagreed with the statement. This implies that the bank’s profitability is significantly impacted by the change in the policy rate of the central bank, suggesting that the bank should effectively manage the anticipated impacts of the change in the policy rate of the central bank to enhance profitability.

Moreover, it was found that 84.6% of the respondents agreed that changes in policy rates have an effect on the availability of funds for lending purposes, while 15.4% of the respondents were found to disagree with the given statement. This indicates that there exists a strong linkage between monetary policy and credit supply.

Moreover, it was found that 80.8% of the respondents agreed that employees are aware of how changes in monetary policy rates have an effect on daily banking operations, while 19.2% of the respondents were found to disagree with the given statement. This indicates that employees have a high level of awareness regarding monetary policy dynamics, which would enable them to respond to changes in monetary policy and operations in the banking sector.

In addition, the findings established that 78.8% of the respondents agreed that sudden changes in the bank's policy rates necessitate changes in the strategies of the departments, while 21.1% of the respondents disagreed. This implies that sudden changes in the bank's monetary policies necessitate changes in the strategies of the departments, implying that the departments need to be flexible in order to cope with the changes.

Lastly, the study revealed that 80.8% of the respondents agreed that the bank communicates the implications of the changes in the monetary policy rates. In conclusion, the findings of the study indicated that changes in the monetary policy rates significantly affect the financial performance of Equity Bank, Mukono branch, as seen by the high level of agreement among the respondents on all the statements used for data collection. This, therefore, indicates that central bank policy rates influence interest rates, financial performance, lending capacity, awareness, and strategic alignment, which means that the monitoring of changes in monetary policy rates is essential for improving financial performance. The findings of the study on the relationship between changes in the monetary policy rates and financial performance of Equity Bank, were determined using Pearson's correlation, which was conducted as shown below;

Table 10: Pearson's correlation monetary policy rate changes and financial performance

Correlations

		Monetary policy rate changes	Financial performance
Monetary policy rate changes	Pearson Correlation	1	.605**
	Sig. (2-tailed)		.000
	N	52	52
Financial performance	Pearson Correlation	.605**	1
	Sig. (2-tailed)	.000	
	N	52	52

** . Correlation is significant at the 0.05 level (2-tailed).

Source: Primary data

The findings indicated in table above shows that there is a significant positive relationship between monetary policy rate changes and financial performance of Equity Bank, Mukono branch. This relationship is affirmed by R-values of 0.605** with significant p-values of 0.000 at the level of 0.05 (2-tailed) ($r = .605^{**}, p < .05$). This implies that effective alignment of Equity Bank's lending, deposit, and investment decisions with changes in the central bank policy rate enhances financial stability, profitability, and overall performance of the Mukono branch.

4.5.1 Monetary policy rate changes and financial performance of Equity Bank

From the interviews that were conducted with the key informants, who are the top management of Equity Bank-Mukono branch, specifically the branch manager, the credit manager, the branch operations manager, among others, the respondents were asked to express their views on the relationship that exists between the change in the monetary policy rate and the financial performance of Equity Bank, and the responses were as follows;

The key informants stated that changes in the monetary policy rate of the central bank have a direct and significant impact on the financial performance of Equity Bank. They stated that changes in the monetary policy rate affect the cost of borrowings and interest rates payable to customers. They stated that when the central bank changes its policy rate upwards, the cost of borrowings for customers is affected. When the rate is increased, the amount that customers pay when they borrow is increased. When the rate is reduced, customers are encouraged to borrow, thus enhancing their revenue generation for the bank. The key informants stated that understanding these changes is critical in ensuring effective financial planning and management.

Moreover, the respondents pointed out that changes in monetary policy rates demand that the bank adjust its internal strategies. This is because, according to the respondents, changes in monetary policy rates demand that the bank adjust its interest rate structures and strategies to remain competitive and profitable. The respondents pointed out that it is essential to communicate these changes to both customers and staff to ensure that the bank runs efficiently and that customers trust the bank's financial products. According to the respondents, it is essential that the bank's staff understand changes in monetary policy rates because such an understanding affects decision-making and advisory services, which in turn affects the performance of the bank.

Lastly, the key informants noted that monetary policy rate changes have implications on risk management and strategic planning at the branch level. The key informants noted that changes in the monetary policy rate affect the liquidity, credit risk, and capital adequacy of the bank, which are essential components of sustainable financial performance. The key informants noted that monitoring trends in monetary policy rate changes allows the bank to anticipate market movements and adjust its financial performance appropriately. All the key informants agreed that responding to monetary policy rate changes contributes to financial stability, profitability, and competitiveness of the bank. Some of the key informants have this to say,

“..... Monetary policy rate adjustments shape how we price our loans and attract deposits, which directly affect our financial outcomes.....” **Key Informant 1**

“.....Being responsive to policy rate changes ensure that we maintain liquidity and manage profitability even in a fluctuating economic environment.....” **Key Informant 2**

CHAPTER FIVE

DISCUSSION, SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes all findings reported in chapter four according to questions of the study, draws conclusions, suggests recommendations and also proposes some areas for further study.

5.1 Discussion of findings

5.1.1 Lending rate changes and financial performance of Equity Bank

From the study, it is evident that changes in the lending rate have a significant and positive impact on the financial performance of Equity Bank–Mukono Branch. This study's findings are related to

Oluwayemisi and Fajuyagbe's study (2022) on the impact of changes in the lending rate on the financial performance of deposit money banks in Nigeria, which found that changes in the lending rate have a significant impact on the financial performance of deposit money banks. Dineshbhai's study (2022) found that high rates charged on loans discourage customers from borrowing money, which affects the revenue generated by banks, a situation that this study found when it noted that high rates charged on loans may discourage customers from borrowing money. However, some studies found that changes in interest rates have a minimal impact on the financial performance of banks. Abadi et al. (2023) found that under certain economic conditions, changes in interest rates may have a minimal impact on the financial performance of banks.

The study findings revealed that lending rate adjustments influence internal operations, including departmental performance targets and operational efficiency. The findings relate with the literature by Mukasekuru and Munene (2022), who emphasized that lending rate practices directly affect credit management and departmental efficiency in commercial banks, demonstrating the operational implications of rate adjustments. Similarly, Kasibante (2021) found that interest rate policies in Ugandan banks influence not only loan performance but also staff performance and decision-making processes, which resonates with the findings of this study regarding employees' awareness and responsiveness. However, studies like Wang (2025) highlight that in low interest rate environments, banks may experience limited responsiveness to rate adjustments due to external monetary constraints, suggesting that operational effects may not always be as pronounced as observed in this study.

Study findings indicated that strategic communication on, as well as management of, lending rate changes positively impacts financial performance, including interest income and loan performance. The findings of this study relate to the literature since, as noted by Rosa (2024), "the interest rate signals of central banks influence banks' decisions on lending," which means that strategic management of lending rates positively impacts the banks' profitability. On the other hand, another study by Puspitasari et al. (2021) noted that "informed employees of banks can manage customers' expectations as well as maintain loan growth," which is similar to the findings of this study on the positive impact of employees' awareness on operational efficiency, although the study did not focus on lending rates. Fazlollahi and Ebrahimijam (2022) noted that banks may be over-cautious about lending due to excessive sensitivity to interest rate changes, which may

limit their ability to maximize profits, indicating that there may be instances where lending rate changes may not positively impact financial performance.

5.1.2 Deposit rate changes and financial performance of Equity Bank

The study findings showed that the change in the deposit rate has a significant and positive effect on the financial performance of Equity Bank – Mukono Branch. The study findings relate to the literature in the following way: According to Drechsler et al. (2021), the capacity of banks to mobilize their deposits depends on the competitive and stable interest rate, which improves liquidity and supports their lending activities. Additionally, Ampudia & Van den Heuvel (2022) established that the effective deposit rate policies are essential in maintaining the equity of banks, which aligns with the study's observation on the effect of deposit rate on financial performance. On the other hand, Eggertsson et al. (2024) established that in situations of negative or extremely low interest rates, the effectiveness of the change in the deposit rate on the performance of the bank could be limited.

From the study findings, it is evident that operational performance and staff effectiveness in handling customer relationships are affected by changes in deposit rates. The study findings can be related to literature by Okiria (2022) since it indicates that changes in deposit rates have a direct impact on planning and operational targets by commercial banks operating in Uganda. The literature emphasizes that well-informed staff is critical in order to optimize deposit mobilization. Additionally, Otwoko (2023) indicates that strategic communication on changes in deposit rates improves staff effectiveness in advising customers and establishing trust, which can be related to the study findings that well-informed staff improves operational efficiency. However, Bahjat et al. (2022) indicates that over-emphasis on deposit rate management without considering external market or currency changes may not translate into better financial performance, implying that operational improvements alone may not translate into profitability.

The study results indicate that the management of deposit rate change helps to foster financial stability and sustainability of relationships. The results relate to the study in the literature by Rahagi et al. (2023) since they indicate that optimized net interest margins, which are influenced by the management of deposit rate change, form part of the key determinants of bank profitability in the digital banking environment, just like in this study. Kyambade et al. (2024) indicate that various

technological innovations in the monitoring of deposits and the management of interest rate change also enhance financial performance, just like in this study, where the results indicate that the effectiveness of deposit rate change policies helps to enhance liquidity and revenue generation. However, according to Correa et al. (2022), external shocks like climate change and macroeconomic instability can negatively impact the effectiveness of deposit rate change policies, implying that deposit rate change policies need to be complemented by other risk management practices to enhance financial performance.

5.1.3 Monetary policy rate changes and financial performance of Equity Bank

From the study, it is clear that the changes in the monetary policy rate significantly impact the financial performance of Equity Bank–Mukono Branch. The study findings are in line with the literature, where Shrestha (2024) indicated that changes in the central bank’s policy rate directly affect the lending and deposit rates of commercial banks, hence impacting the financial performance and operational efficiency of the bank. Additionally, Ondari et al. (2024) observed that banks always respond to changes in the monetary policy rate by realigning their internal strategies, hence improving financial stability, a situation that is in line with the study observation on the positive impact of changes in the monetary policy rate on financial performance. Contrary to the study observation, Atukunda et al. (2024) indicated that in some cases, changes in the monetary policy rate may not impact the financial performance of a bank because of the rigid internal banking structure.

The findings of the study also revealed that changes in the monetary policy rate have an impact on the awareness of the staff, strategies of the departments, and internal communication. The findings of the study are related to the literature reviewed by Shrestha (2024), who highlighted that the awareness of the staff is of critical importance for the operational response of the bank. In the same vein, the literature reviewed by Ondari et al. (2024) highlighted that sudden changes in the policy rates of the central bank require urgent changes in the strategies of the departments of the bank, which supports the findings of the study that internal communication is of critical importance for the provision of advisory services. Contrary to the findings of the study, Owomugisha (2022) highlighted that the awareness of the staff of the bank regarding the changes in the monetary policy of the central bank may not necessarily result in better financial performance, particularly for smaller banking institutions.

Lastly, the study findings indicated that the bank's response and adaptation of appropriate changes in the monetary policies improve liquidity management, loan demand, and financial performance. The findings of this study relate with the literature in that Shrestha (2024) and Ondari et al. (2024) argued that the banks that respond promptly to the changes in the monetary policies by adapting appropriate changes in the lending rates, deposit rates, and investment decisions improve the financial stability of the bank. Moreover, Atukunda et al. (2024) argued that the innovative financial strategies can improve the responses of the bank to the changes in the monetary policies, which can enhance the bank's financial performance. However, this can be related with the findings of this study that the bank's response can improve the bank's competitive advantage. In contrast, Mukasekuru and Munene (2022) argued that the changes in the monetary policies can increase the credit risk of the bank if not properly timed or communicated.

The findings of the study revealed that changes in lending rates have a significant positive effect on the financial performance of Equity Bank – Mukono Branch. The descriptive study findings revealed that the majority of the respondents agreed that changes in lending rates often affect loan applications, high lending rates often discourage borrowing, changes in lending rates often affect interest income, departmental performance targets, and operational efficiency, with employees being well-informed about changes in lending rates. This shows that changes in lending rates often affect customers, operations, and revenue generation for the bank. The study findings also revealed that the analysis of data on changes in lending rates and financial performance using Pearson's correlation coefficient revealed that there is a significant positive correlation between changes in lending rates and financial performance, as indicated by the correlation coefficient of 0.636** at 0.05 levels of significance, which shows that changes in lending rates can be used as a strategy for improving interest income for the bank. These findings were also confirmed through key informant interviews, which emphasized that changes in lending rates have a direct impact on loan demand, interest income, credit risk, and operational planning, thus underscoring the need for a stable lending rate policy for sustaining financial performance.

In addition, the findings of the study revealed that the change in deposit rate has a significant positive impact on the financial performance of Equity Bank Mukono Branch. The descriptive results showed that the majority of the respondents agreed that the change in deposit rate impacts the level of deposits, customer retention, liquidity position, departmental performance targets, staff

preparedness, and overall efficiency of the bank, thus the importance of the management of the deposit rate in the bank's financial performance. Moreover, the Pearson correlation test showed that the change in deposit rate has a significant positive impact on the financial performance of the bank ($r = 0.674^{**}$, $p < 0.05$), thus the importance of well-structured deposit rate policies in the bank's ability to attract deposits, maintain adequate liquidity, and conduct profitable business, as revealed by the key informant interviews that the change in deposit rate is essential in the bank's ability to attract deposits, maintain adequate liquidity, protect profitability, and develop strong customer relationships, all of which are important in the bank's financial performance.

Lastly, the study found that changes in the monetary policy rate significantly impact the financial performance of Equity Bank–Mukono Branch. The descriptive study found that a majority of the respondents agreed that changes in the central bank's policy rate impact lending and deposit interest rates, profitability, availability of funds for lending, staff awareness, strategies in different departments, and internal communication, among other factors, which are all important in the operation and financial performance of the bank. The study further found that there is a significant positive correlation between changes in the monetary policy rate and financial performance, as shown in the correlation analysis where $r = 0.605^{**}$, $p < 0.05$, indicating that the bank's financial performance is positively impacted by the effectiveness in responding to changes in the central bank's policy rate, which in turn impacts lending, deposit, and investment decisions, among other factors, and hence improves its financial performance and competitive advantage in the market, according to key informant interviews conducted in the study.

5.3 Conclusion

The study finds out that the change in lending rate has a significant and positive effect on the financial performance of Equity Bank–Mukono Branch. The change in lending rate has a strong effect on the behavior of customers in borrowing, on interest income, and on the efficiency of the business, and this can be achieved by creating awareness among the employees on the change in the lending rate, which will improve the performance of loans, optimize the generation of revenues, and lead to profitability.

The study further concludes that the changes in the deposit rate are instrumental in determining the financial performance of the bank. The changes in the deposit rate impact the amount of

deposits, customer retention, liquidity, and departmental performance, and the well-informed employees are instrumental in effective customer engagement. The positive correlation between changes in the deposit rate and financial performance indicates that a competitive and stable deposit rate policy is instrumental in effective deposit mobilization, liquidity management, profitability, and customer retention.

Lastly, the study concludes that the changes in the monetary policy rate are instrumental in determining the operational and financial performance of the bank. The effectiveness and appropriateness of lending, deposit, and investment decisions in line with the changes in the monetary policy rate are instrumental in financial stability, profitability, and performance. The timely and effective response to changes in the monetary policy rate, along with the awareness among employees, are instrumental in effective loan demand, deposit mobilization, and departmental performance, ultimately leading to a competitive advantage and financial sustainability.

5.4 Recommendations

Based on the results of the study, the following recommendations are provided towards examining the impact of interest rate change on the financial performance of commercial banks in Uganda: a case of Equity Bank-Mukono Branch.

The study recommends the need for Equity Bank-Mukono Branch to strategically manage lending rate change in order to make it responsive to the market, which will in turn optimize financial performance in terms of loans and interest income.

Moreover, the study recommends the need for the bank to strategically manage its deposit rate change in order to make it competitive to its peers, which will in turn optimize financial performance in terms of loans and interest income.

More so, the study recommends the need for continuous staff training and awareness programs on the implications of interest rate changes, enabling employees to effectively manage customer expectations, provide accurate financial advice, and contribute to improved departmental and organizational performance.

In addition, the study recommends the need for timely monitoring and strategic alignment of the bank's lending, deposit, and investment decisions with central bank monetary policy rate changes, in order to enhance financial stability, profitability, and sustainability of operations.

Lastly, the study recommends the need for effective internal communication systems to ensure that all employees are informed of interest rate changes and their operational implications, facilitating effective responses, better management, and customer service.

5.5 Areas for further research

Further research should be carried out to look into the effect of changes in interest rates on the financial performance of other commercial banks in Uganda with the aim of establishing comparable information.

Further research should be carried out to look into the long-term effect of changes in interest rates on customer behavior with the aim of establishing how it affects financial performance.

Further research should be carried out to look into how technology innovations moderate the effect of changes in interest rates on financial performance with the aim of gaining a wider perspective regarding what can be done to improve financial performance in commercial banks in Uganda.

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APPENDICES

Appendix 1: Questionnaire

For selected employees in Equity Bank, Mukono branch

Introduction and Purpose of Study

Dear Respondent,

I am Nuwahereza Musiime Sharon, a student pursuing a Bachelor's Degree in Business Administration at Uganda Christian University. I am working on a study titled *“The impact of interest rate changes on the financial performance of commercial banks in Uganda: a case of Equity Bank-Mukono Branch.”* Your contribution is essential to the type of data needed for this study, which is why you were chosen to take part. Your submitted information will be kept completely secret and used only for academic purposes. Kindly spare some few minutes to respond to the following questions.

Section A: Background Data

Please TICK the numbers representing the most appropriate responses for you in respect of the following items:

1. Gender

a) Male

b) Female

2. Age

a) 21-30 years b) 31-40 years

c) 41-50 years d) Above 50 years

3. Education level

a) Certificate b) Diploma

c) Degree d) Masters

e) Others specify:.....

4. Which department do you belong to?

a) Administration b) Credit

c) Operations d) Audit

e) I.T

5. How long have you spent working with Equity Bank, Mukono branch?

a) Less than 1 year b) 1-5 years

c) 6-10 years d) Above 10 years

Guide for Completing the Questionnaire:

Note: In the following sections, rate your degree of agreement on each statement under each objective using a scale of 5(Strongly Agree), 4(Agree), 3(Not sure), 2(Disagree) and 1(Strongly Disagree). Please answer questions by making a tick (√) on your preferred answer of choice.

Section B: Interest Rate Changes

	Statements	Responses				
s. no	Lending rate changes	5	4	3	2	1
1	Frequent changes in lending rates affect the number of clients applying for loans at Equity Bank.					

2	High lending rates discourage customers from borrowing, which impacts our loan portfolio.					
3	Adjustments in lending rates influence the bank's revenue from interest income.					
4	Lending rate changes affect my department's performance targets related to loan disbursement.					
5	Sudden increases in lending rates lead to delays in loan approvals and processing.					
6	Employees are adequately informed about lending rate changes to manage customer expectations effectively.					
s. no	Deposit rate changes	5	4	3	2	1
1	Changes in deposit rates affect the number of deposits received by the bank.					
2	Increasing deposit rates improves customer retention and attracts new clients.					
3	Deposit rate adjustments influence the bank's liquidity position.					
4	Fluctuations in deposit rates affect my ability to meet departmental performance targets.					
5	Employees are regularly trained on how deposit rate changes impact savings and customer relations.					
6	Lower deposit rates discourage customers from keeping large balances, affecting the bank's operations.					
s. no	Monetary policy rate changes	5	4	3	2	1
1	Changes in the central bank's policy rate significantly influence lending and deposit rates at Equity Bank.					
2	Monetary policy rate adjustments affect the bank's overall profitability and financial performance.					
3	Policy rate changes impact the availability of funds for lending purposes.					

4	Employees are aware of how changes in monetary policy rates affect daily banking operations.					
5	Sudden shifts in policy rates require adjustments in departmental strategies and targets.					
6	The bank communicates the implications of monetary policy rate changes effectively to staff.					

Section C: Financial Performance of Equity Bank

	Statements	Responses				
s. no	Financial performance	5	4	3	2	1
1	The bank's profitability has improved over the last five years.					
2	The bank efficiently manages its assets to generate returns (ROA).					
3	Equity Bank maintains adequate liquidity to meet customer demands and operational needs.					
4	The bank achieves its revenue targets consistently.					
5	Risk management practices in the bank contribute positively to financial performance.					
6	Technological innovations and improved processes have enhanced the bank's overall performance.					

Thank you very much for your cooperation

Appendix 2: Interview Guide

For the top management of Equity Bank, Mukono branch

Introduction

Dear Respondent,

I am Nuwahereza Musiime Sharon, a student pursuing a Bachelor's Degree in Business Administration at Uganda Christian University. I am working on a study titled "*The impact of interest rate changes on the financial performance of commercial banks in Uganda: a case of Equity Bank-Mukono Branch.*" Your contribution is essential to the type of data needed for this study, which is why you were chosen to take part. Your submitted information will be kept completely secret and used only for academic purposes. Kindly spare some few minutes to respond to the following questions.

Section A: Introduction

1. Tell me about yourself.
2. What position do you hold in Equity Bank, Mukono Branch?
3. How long have you worked in this position?

Section B: The relationship between lending rate changes and financial performance

4. How do changes in lending rates influence the bank's loan portfolio and profitability?
5. What strategies does the bank adopt to manage the effects of lending rate fluctuations on financial performance?

Section C: The relationship between deposit rate changes and financial performance

6. In your view, how do adjustments in deposit rates affect customer deposits and the bank's liquidity position?
7. How does the bank respond to deposit rate changes to ensure consistent financial performance?

Section D: The relationship between monetary policy rate changes and financial performance

8. How do changes in the central bank's monetary policy rate impact the bank's overall financial performance?
9. What measures are implemented by the bank to mitigate the effects of monetary policy rate changes on profitability and operations?

Thank you for your cooperation