



**FINANCIAL LITERACY AND PROFITABILITY OF COMMERCIAL BANKS IN
UGANDA, A CASE OF DFCU BANK, PALLISA DISTRICT**

BY

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BU/UP/2021/1265

**A RESEARCH REPORT SUBMITTED TO THE FACULTY OF MANAGEMENT
SCIENCES, DEPARTMENT OF ECONOMICS AND MANAGEMENT IN
PARTIAL FULFILLMENT FOR THE REQUIREMENT OF AWARD
OF A BACHELORS DEGREE IN BUSINESS
ADMINISTRATION OF BUSITEMA
UNIVERSITY**

AUGUST, 2025

DECLARATION

DECLARATION

I WANDERA; REGN NO BU/UP/2021/1265, hereby declare that the contents of this research work are purely my original work and that no other study has been conducted on the topic. To the best of my knowledge, this work has never been submitted before, in any other university or higher institution of learning for any award of either a degree or any other related qualification. In all cases where other people's ideas were quoted, they have been duly acknowledged by complete references.

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APPROVAL

APPROVAL:

This is to certify that this Research Proposal by WANHERA FRANCIS, REGN NO BDAIP/2021/1265 on the topic: "Financial Literacy and Profitability of Commercial Banks in Uganda; a case of DFCU Bank Pallisa Branch" has been under my supervision and is now submitted for examination with my approval as the University supervisor.

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DEDICATION

I dedicate this research work to my beloved late father Mr. Ojambo Were Godfrey who provided me with both financial and non-financial assistance that enabled me accomplish this course and above all the almighty GOD.

ACKNOWLEDGEMENT

I am grateful to the almighty God that he has given me the gift of life, the gift of my beloved parents and friends, who gave me the opportunity to be in school and guided me throughout this study and writing of this report. My thanks go to all Busitema University lecturers without forgetting my special supervisor Mr. Wadambisha Brian who guided me in the right direction from the beginning till the end of this work and he has greatly contributed in making a difference in my performance.

Profound thanks to all the people who have been resourceful throughout this study. It is due to your support and ideas that I have been able to produce this work.

Utmost thanks to the Head of Department, Busitema University, my sincere thanks go to my uncles, sisters, brothers, friends, course mates and lectures especially for their dedicated support throughout this research and the entire three years of the course.

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LIST OF ACRONYMS

NPL	Non-Performing Loans
WB	World Bank
CVI	Content Validity Index
OECD	Organisation for Economic Co-operation and Development
ROA	Return On Asset
FY	Financial Year
UGX	Uganda shillings
UBA	Uganda Bankers Association
IFMS	Integrated Financial Management Systems
PFMA	Public Financial Management Act
PR	Profitability
ROE	Return On Equity
SPSS	Statistical Package for Social Sciences

ABSTRACT

This study aimed at determining the effect of financial literacy on profitability of DFCU Bank in Pallisa District with the study objectives; To establish the effect of financial knowledge on profitability of DFCU bank Pallisa branch, to establish the effect of financial behavior on profitability of DFCU bank Pallisa branch, to examine the impact of financial attitude on profitability of DFCU bank, Pallisa Branch in Uganda. The study utilized the contingency theory as suggested by Fred Edward Fielder (1964). In a similar way, the study applied a cross-sectional research design and quantitative approach. The study had a target population of 35 employees in DFCU Bank and collected data from a sample size of 32 respondents as guided by Krejcie and Morgan (1970). Data was collected using close ended questionnaires. Furthermore, data analysis was done using statistical package for social sciences (SPSS) version 20 from which frequency tables, descriptive statistics, reliability, validity, correlation and regression results were obtained. The study findings showed that 21.5% change in profitability is caused by financial knowledge, 54.0% is due to financial behavior and 62.5% is due to financial attitude. Based on the findings of the study, the researcher therefore concludes that financial knowledge, financial behavior and financial attitude have a positive and significant relationship with profitability. The study also concludes that commercial banks are required to have Customer savings on assets in the organization in order to give the highest rate of return hence this can help improve profitability of commercial banks. The study therefore, recommends that DFCU Bank is advised to have Customer savings on assets in the organization in order to give the highest rate of return hence this can help improve profitability of commercial banks.

CHAPTER ONE: INTRODUCTION

1.0. Introduction

This chapter comprises of the background of the study, statement of the problem, purpose of the study, research questions, research objectives, scope of the study, content scope, geographical scope, time scope, significance of the study, conceptual frame work

1.1 Background of the study

Numerous studies have investigated on the effect of profitability (Lusardi and Mitchell,2019 Kebede and Sultan,2020, Hauwa, 2019, Kumar, 2019). This is due to fact that every company's intention is profit maximization in the reflection of high performance as a return from the employees, but due to failures in coming up with clear strategies to ascertain and maximize their returns in terms of profits, MSEs still encounter low profitability levels, for example,

Globally, according to World Bank annual report (WB,2023) asserts that the growth rate of the bank loans to firms rapidly decreased from 8.5% to 3.7% FY2021/22 and FY 2022/23 respectively with the depreciation of euro 3.6 % thus affecting the banks return on equity(ROE) . Similarly , Maybank annual report,(2022) in Malaysia indicates a decrease in return on equity (ROE) 25.3% FY 2021/2022 compared to 30.1% FY2020/21 , with a constant change in return on asset(ROA) 4.2% FY2021/22 thus lowering the bank's profitability. In China, bank of China annual report (2023), shows a sharp drop in profit before tax RMB2,136.31 billion FY 2022/23 (4.95 %)to compared RMB6,087.97 billion FY 2021/221 (2.05%).

In Africa , according to the Bank of africa annual report,(2022) indicated a similar situation. It shows a decrease in the operating cost ratio from 54.7% in 2021 to 52.4% in 2022, decrease in Return on equity (ROE) at 16.6% in 2022 compared to 18.9% in 2021 with a shortfall in Return on assets (ROA) at 1.2%FY 2021/22 compared to 1.4% FY2020/22. In Nigeria, according to Citi bank Nigeria annual report (2021) shows a constant prime lending rate of commercial banks of 6.25% with a decline of nonperforming loans to gross loans and advances from 4.7% to 4.3% FY2020/21 thus affecting the banks return on equity. Similarly ,according to Absa Bank Botswana Limited annual report (2023) showed a shortfall in profit before tax of P123million (3.2%) in 2023 compared to P234million (3.6%) and profit after tax from P321million in 2022 to P 251

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