

## **ABSTRACT**

This study examined the effects of interest rate changes on the profitability of commercial banks in Narok Town between 2012 and 2016. The study had three objectives namely; the interest rates, bank size and capital adequacy. The population of the study was 9 commercial banks which were selected from the Nairobi stock exchange financial reports that had all the data we wanted in this study. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS (Version 20) and presented through percentages, means, standard deviations and frequencies. The information was displayed by graphs and in prose-form. The study used a descriptive research design to achieve the research objectives. Multiple regression analysis was used to determine the relationship between interest rates changes and commercial banks profitability measured by ROA. The study used the ROA as the dependent variable while interest rates, capital adequacy, bank size as the independent variables. The research found a significant positive relationship between the interest rates and commercial banks with a coefficient of correlation of 0.64. Commercial bank profitability was also found to be positively relationship of interest rates and bank size with a coefficient of correlation of 0.795. From the finding above, the study concluded that interest rates have significant positive effect on profitability of commercial banks in Kenya at 95% confidence level. The relationship between the interest rates and profits was also found to be linear with rise in interest rates resulting to higher profitability. The study also concludes that the interest rates, capital adequacy have significant effect on ROA. Also the size of commercial banks has effect on profitability of commercial banks where the big commercial banks have higher profitability as they enjoy economies of scale. Finally, the study concludes that the model containing the interest rates, capital adequacy and size of commercial bank can explain 79.5% of the changes in commercial banks profitability.