

ABSTRACT

One of the functions of commercial banks is to accept deposits from the customers and safe guard those deposits until needed by the customers and at the same time commercial bank provide loan to customers. When the commercial banks accepts deposits from customers they give the customers interest and when they issue loan from the customers they charge the customers an interest and the difference between the interest charged to customers when receive loan from commercial banks and interest customers receive from their deposit to is called interest rate spread.

The commercial bank increase the interest spread for getting high profit and they shift the burden to customers. In most of developing countries the interest spread is high and this bring burden to customers. The interest spread is influenced by number of factors and this research aim at assessing the effects of interest spread in a commercial bank, a case of People's Bank of Zanzibar.

In order to achieve the goal of this study, annual financial statements of People's Bank of Zanzibar from 2010 to 2014 were used and exp-post interest spread approach in absolute figures, which is the difference between interest income and interest expense, were used. The result shows that interest spread of People's Bank of Zanzibar is attributed strongly by equity ratio, loan loss provision, equity, taxation, management quality, default risk, liquidity risk, bank size, cost ratio, market power.

People's Bank of Zanzibar is owned by Revolutionary Government of Zanzibar and it gets a lot of support in terms of commercial support from the Government of Zanzibar and currently all staffs of the Government of Zanzibar are required to have an account at People's Bank of Zanzibar where they receive their salaries from there and because of this People's Bank of Zanzibar give the loan to government employee and their job contracts together with salary are used as the security for the loan.

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