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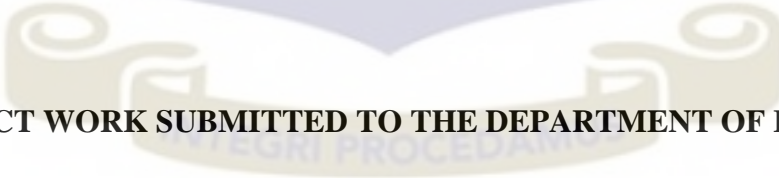
**EVALUATING THE IMPACT OF INTEREST MARGIN ON THE PROFITABILITY OF  
BANKS IN GHANA: A CASE STUDY OF FIDELITY BANK GHANA.**



**BY**

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**A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF FINANCE,  
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IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF A  
MASTER OF BUSINESS ADMINISTRATION, FINANCE.**

**MAY, 2019**

**DEDICATION**

I dedicate this research to God Almighty for His abundant grace and favour. I also dedicate this to my lovely wife Mrs. Akosua Agyeiwaa Asare for her support and inspiration.

**DECLARATION**

I, Enock Asare, hereby declare that this research work is my original work and has not been presented in this University or any other university for any academic award. All references used in the work have been duly acknowledged.

I bear sole responsibility for any shortcomings in this work.

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.....

DATE

**CERTIFICATION**

I hereby certify that this study was supervised in accordance with procedures laid down by the University.

.....  
DR. ELIKPLIMI KOMLA AGBLOYOR  
(SUPERVISOR)

.....  
DATE

## **ACKNOWLEDGEMENT**

My warm appreciation goes to the Lord Almighty whose divine strength and wisdom enabled me to complete this exercise.

To my supervisor, Dr. Elikplimi Komla Agbloyor, I say a big thank you for the support and counsel throughout my research work. I also wish to appreciate Mr. Edmund Ankomah for editing this paper.

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## **ABSTRACT**

The purpose of this current study was to examine the impact of interest margin on the profitability of banks in Ghana with the focus on Fidelity Bank Ghana. Purposive sampling technique was used to select Fidelity Bank for the study. Secondary data (Annual reports of Fidelity Bank Ghana Limited for 2013-2017) was analyzed. Data was analyzed with Pearson Correlation. The findings revealed that positive relationship exist between interest rate margin and bank profitability (ROA and ROE). The study concluded that for banks to make more profit there is the need to raise net interest margin through effective and efficient means of decreasing interest expense and increasing interest income. Also, banks need to put measures in place to ensure they grow their banks by increasing the size and also ensuring they get more customers to deposit with them.

## CHAPTER ONE

### INTRODUCTION

#### 1.0 Background

Interest rate is one of the critical factors that determine the financial performance of banks (Maigua & Mouni, 2016). According to Crowley (2007), interest rate is the “price paid by a borrower on the money they borrow from a particular financial institution or a lender”. In other words, it is a fee that one is expected to pay on a borrowed asset. Interest rate is a major factor in an economy that determines a country’s economic growth (Corb, 2012). It is argued that instabilities in the market interest rates put a lot of pressure on banks performance (Maigua & Mouni, 2016). Generally, the rise of interest rates correspondingly increases banks’ profits. According to Claessens, Coleman and Donnelly (2018), banks make profit whenever there is a rise in interest rate. They further argued that one of the determinants of a performing bank is in terms of its profitability. According to Buffett (2005), profitability is “a company’s ability to earn a reasonable profit margin on the owner’s investment”. The financial performance of a bank is a key determinant of the success or otherwise of its future activities. Some of the most famous ways of measuring profitability comprise Return on Equity, Return on Investment Ratio, and Profit margin on sale (Noman, Chowdhury, Chowdhury, Kabir & Pervin, 2015).

To Almarzoqi and Naceur (2015), the impact of interest margin on the profitability of banks cannot be overemphasized. Therefore, understanding the significant relationship between the two determines how they are able to attract investors. Researchers have identified that high lending rate by banks has the tendency to discourage people from investing which affects savings, hence, hindering economic growth (Scheiber, Silgoner & Stern, 2016). Interest margin is measured with net interest margin (NIM). According to Almarzoqi and Naceur (2015, p. 135), “net interest

margin is a measure of the difference between interest income and interest expenses and is extensively seen as an intermediation efficiency indicator”. Efficient intermediation has been identified as very effective and efficient in the banking sector especially in terms of economic growth (Krasah & Ameyaw, 2010). With this regard, scholars in the field have suggested that banks need to be effective and efficient to avoid high net interest margin (NIM) for them to compete favourably in the competitive business environment (Musah, Anokye & Gakpetor, 2018).

The Ghanaian banking sector plays an important role in the financial growth in terms of mobilizing savings and provision of credit facilities to the different areas of the economy (Boadi, 2015). They further indicated that interest rate determines the profitability of the bank. According to Owusu-Antwi et al. (2017), interest rate contributes about 45% to the profits of the banks in Ghana. However, Kalsoom and Khurshid (2016) were of the view that interest rate risk is the main component of risk confronting Ghanaian banks. Literature has identified that the profitability of a bank is a factor of changes in its interest rates (Boadi, 2015). (Nkegbe & Ustarz, 2015) were of the view that the high interest rate regime is the worry of most private business as they find it difficult borrowing at such high interest rate level for their operations and still compete favourably in the competitive business environment. This serves as a disincentive for investors to borrow from the banks and other net lenders. Conversely, one can also argue that during high interest rates, people are encouraged to save in financial institutions in order to enjoy high returns on their deposits.

Following the recent collapse and consolidation of some banks and also considering the crucial role of the banking sector to the economic growth of Ghana, it has become necessary to investigate the “impact of profit margin on the profitability of banks” in a Ghanaian context.

### **1.1 Statement of the Problem**

According to Ntow-Gyamfi and Laryea (2012), the financial sector plays a critical role in economies around the world and banks continue to be relevant in most developing economies where capital market is still emerging. Munyamboera (2013) was of the view that it is imperative to study the profitability of banks since their profits are crucial to the political, social and economic growth of many developing countries. Ayanda, Christopher and Mudashiru (2013) also indicated that changes in profitability of banks are key contributors to the economic progress which also determines the saving and investment decisions of businesses. This is because when banks experience rise in profit, it in turn expands the cash flow status of firms which gives more flexibility to the financial sources of corporate investment (Altavilla, Boucinha & Peydro, 2018). Some researchers also argue that, the performance and survival of banks is of a greater concern to researchers, shareholders and policy makers.

According to Musah et al. (2018), in Ghana, banks charge higher interest rates on loans regardless of macroeconomic conditions pointing to positive direction, for instance, lower policy rates and decreasing of inflation rates have an influence on interest rates charges by the banks. The unfavourable interest rate becomes a major challenge to access capital and limits economic growth. The consequence of inefficiency in the banking sector has brought about debates on factors that actually hinder the profit margins of banks in the developing countries.

There are studies that examined the determinants of profitability in the banking sector but most of these studies were conducted in other regions such as United States of America, Europe and Asia (Sherif & Amoako, 2014). Few studies have examined this issue in the Ghanaian context (Mensah and Abor, 2014). For instance, Owusu-Antwi (2017) examined “the interest rate spread on bank profitability in Ghana”. Likewise, Boadi (2015) also examined “the profitability

determinants of the Ghanaian banking sector in ongoing wave of consolidation”. Therefore, this present study also seeks to examine “the impact of interest margin on banks profitability in the Ghanaian context”.

## **1.2 The Purpose of the Study**

The purpose of this current study is to “examine the impact of interest margin on the profitability of banks in Ghana with the focus on Fidelity Bank Ghana”.

## **1.3 Research Objectives**

1. To assess the relationship between interest margin and the profitability of the banks in Ghana”.

## **1.4 Research Questions**

1. What is the relationship between interest margin and the profitability of the banks in Ghana?”

## **1.5 Significance of the Study**

This current study will make significant contributions in the following areas; literature, practice and policy. As there are few studies in this area which examines the issue in the Ghanaian context, this study will be one of the few studies in the area to impact on the banking sector in Ghana and beyond. The findings will also aid managers of banks to be abreast with the relationship that exist between interest margin and profitability of banks. This will further help the managers to formulate and implement strategies to help increase the profit margin of their banks. Finally, the findings of this study will help stakeholders of the financial sector such as Bank of Ghana (BoG), Ghana Bankers Association etc. to formulate appropriate policies to

regulate the activities of the banks and ensure the interest margin positively impacts on banks profitability.

### **1.6 Organisation of the Study**

The present study is structured into five (5) chapters. The Chapter presents the “background of the study”. The chapter also presents the “research problem, the purpose of the study, the objectives of the study, the research questions, the significance of the study, and the organisation of the study”. Chapter two presents the systematic “review of both theoretical and empirical previous works from books, scholarly journals” etc. Chapter three discusses the “research design and approach of the study as well as the research setting, population, sampling technique and sample size, data collection instruments, procedure for data collection, method of data analysis and ethical consideration”. Chapter four displays the results and analysis of the study. Finally, chapter five presents the “summary of the findings, conclusions and recommendations of the study”.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The study seeks to examine “the impact of interest margin on the profitability of banks in Ghana” with the focus on Fidelity Bank. In this regard literature will be reviewed on theories of interest rate and profitability. Also, the chapter will present empirical review on determinants of bank performance and interest rate and profitability.

#### 2.2 Theoretical Framework

##### 2.2.1 The Theory of Interest

The theory of interest explains the relationship that exists between inflation and the real nominal interest rates. The Fisher Effect states that an “increase in the growth rate of the money supply will result in an increase in inflation and an increase in the nominal interest rate, which will match the increase in the inflation rate” (Cai, 2018, p.2). “Fisher (1930) first put forward that the relationship between interest rates and inflation is termed as the Fisher Effect. It postulates that the nominal interest rate in any period is equal to the sum of the real interest rate and the expected rate of inflation. Fisher (1930) studied that the nominal interest rate could be decomposed into two components, a real rate plus an expected inflation rate. Fisher indicated that there exists a significant relationship between the inflation and interest rates in a perfect world, with real interest rates being unrelated to the expected rate of inflation and determined entirely by the real factors in an economy, such as the productivity of capital and investor time preference” (Solnik, 2000, p. 435).

“The fisher effect theory has the same conclusions with the International Fischer Effect (IFE). IFE theory suggests that foreign currencies with relatively high interest rates will tend to depreciate because the high nominal interest rates reflect expected rate of inflation” (Madura, 2000, P. 195). “This theory also proposed that changes in the spot exchange rate between two countries will also tend to equate the differences in their nominal interest rates. Fisher’s rate of interest is important because it provides a basis for the idea that monetary policy should be concerned mainly with managing inflation expectations in order to keep real interest rates at a stable level that promotes saving and investment. Fisher (1930) examined the relationship between nominal interest rates and the rate of inflation for the U.S and the U.K. Using annual data over the 1890 to 1927 period for the US, and 1820 to 1924 period for the U.K” (Craigwell, 2000).

Fisher found that inflationary prospects were not instantly noticed in interest rates. For the US, “the highest correlation, 0.86, between long-term interest rates and price changes was obtained when the latter was lagged over 20 years, while for the UK, a correlation coefficient of 0.98 was obtained when price changes were spread over 28 years. High interest rates affect demand for credit, hinder economic growth and consequently hurt the economy” (Solnik, 2000, p. 435). Relating of exchange rates with changes in interest rates and inflation rates, the IFE theory states that “the future spot rate of exchange can be determined from nominal, interest differential”.

## **2.3 Empirical Review**

### **2.2.1 The Ghanaian Banking Sector**

The financial sector plays a crucial role as far as the growth of every nation is concerned. Scholars have pointed to the fact that it will be difficult to achieve economic growth with a slow

development of the financial sector. The Ghanaian economy has been doing well for some time now despite the challenges facing the banking industry (Bawumia, Owusu-Danso & McIntyre, 2008). For instance, they indicated that the banking sector contributes about 70 percent into the banking sector. This clearly indicates that the sector is doing well. This is because failure of the banking sector can have dire consequence on the whole economy. Also, the banking sector profit before tax margin increased drastically from 17% in 2009 to 45.3 in 2013.

### **2.3.2 Determinants of Bank Performance**

Scholars have explained profitability in diverse ways and this is mostly influenced by the researcher and the context of a particular study. According to Vong and Chan (2009), some studies emphasis on how to understand profitability in a specific country other focus on analyzing panel of countries. Hoffman (2011) also stressed that the profitability of banks has been categorized based on “internal and external factors”. The internal factors are the ones that are under the direct control of management and widely depend on the management ability to make quality decisions (Javaid, Anwar, Zaman & Ghafoor, 2011). They mentioned some of the internal determinants as “credit risk, capital adequacy, bank size, efficient management and income source”. Javaid and his colleagues further stressed that internal determinants of bank profitability can be mostly derived from financial statements of a bank. They also explained the “external determinants as the ones which are completely outside the control of management and this normally concern the economic and legal environment in which the bank operates” (Javaid et al, 2011, p.64). These mostly impacts positively on banks operations and its performance. Also, according Claessens, Coleman and Donnelly (2018), determinants of bank’s performance can be broadly classified into macroeconomic and industry specific environment. They also mentioned that these variables are not mostly within management’s control but depicts the legal

environment and economic factors that affects the operations and performances of the financial sector. But to some scholars, it is not always that the size of bank leads to profitability. For instance, Javaid et al. (2011) in their studies conducted in Pakistan found a positive correlation significant between bank size and higher profits. Similarly, Maigua and Mouni (2016) also found no relationship between higher total assets and higher profitability.

According to Ozili (2017), the size of a bank can account for the either economies or diseconomies of scale for the bank. For instance, Kosak and Cok (2008) revealed that the larger banks are usually in better position to exploit economies of scale which in the end results to higher profits. They also mentioned that larger banks also have the capacity to exert their market influence through well branded image to provide the necessary service to their customers which in the end increases their profit margin. Elsas, Hackethal and Holzhauser (2010) also found that larger banks have the ability to involve themselves in different services such as mortgage financing and insurance. To them, the broader network of these larger banks goes a long way to improve the productivity and profitability of these banks. Similarly, Khrawish (2011) also found that the size of a bank positively influences its productivity and profitability. According to them the larger the bank and its assets, the likelihood they will experience higher profits. Also, Flannery (2011) reiterated that the positive relationship between the bank size and the bank profitability accounts for the reason where a lot of the banks are putting in much effort to expand. They also observed that most of the banks are also introducing different products and services to help them increase their profit margin.

Researchers have also identified that risk management of banking institutions affects their profitability. According to Elsas et al. (2010), because banks are sometimes uncertain about their operations, what they normally do is to diversify their products and services they provide

customers. This is done to manage risk which affects the banks operations negatively. Some scholars have established negative relationship between credit risks and profitability. For instance, Vong and Chan (2006) revealed in their findings that credit risk is negatively correlated with banking sector performance. This indicates that for the banks to perform creditably there is the need to take into consideration their loan loss requirements because it has dire consequences on whether they will make higher profit or not. Alexiou and Sofoklis (2009) also found in their findings that there is a direct significant positive relationship between banks credit risk and their profitability. According to them, when bank's credit quality is poor, it affects their profitability. On the other hand, when a bank has a good credit quality, it eventually translates into higher profits. They therefore suggested that, whenever a banking institution experience credit loss, they should increase their provisions to make sure the credit loss is covered to avoid decrease in profitability. In this regard, the banking institutions must make sure that, the financial system is well compensated and must correctly price risk so that the riskier assets can produce a higher income with higher interest which will in the end lead to increase in profits (Kasman, Tunc, Vardar & Okan, 2010).

Another determinant of banking sector profitability is how managers of the banks manage the total cost of the bank. According to Alexiou and Sofoklis (2009), Poor management of the bank's overall cost affects how the bank makes profit. In other words, Poor operation expenditure of a bank significantly affects its productivity and profitability. Oladele, Sulaimon and Akeke, (2012) also found that banks with a huge wage bill mostly need large interest margin to make profit. In relation, Olweny and Siphon (2011) revealed that managing bank's operational expenses in terms of its reduction has the tendency to increase its profitability. Many banks fail to survive due to how the managers of these banks mismanage the costs of the banks (Abel & Le

Roux, 2016). They were of the view that the survival of financial institutions depends on how prudent the cost of the bank is managed. They further identified that most of the banks embark on huge personal expenses which negatively affect the total assets of the banks and hence, profitability. From the above, it seems the scholars agree that the good management of bank's overall cost impact positively on the entire operations of the bank which lead to higher productivity and profitability.

Researchers also identified that capitalization of banks is a determinant of the bank's profitability. According to Haron, Azmi and Nursofiza (2004), were of the view that most at time, customers of banks which are highly capitalized develop confidence in their banks which in a long run attracts more deposits. They also argue that, this increase the profitability of the banks. Similarly, Kipngetich (2011) argued that capitalization of the banks is an indication to the market place that the bank is performing well. They further argued that, a bank which is well-capitalized signifies that the bank is doing well and therefore its customers are perceived to be safe. In this regard, management of the bank will be giving a positive indication to the public that the future of the bank is bright by growing its capital. This engender confidence in the general public and in turn get more customers which also means more deposits and hence profitability. Athanasoglou, Brissimis and Delis (2008) found in their research work that positive significant relationship exists between profitability and capital. They also found that increase in capital serves as a defense mechanism during difficult times. They mentioned that the banks in adverse times are able to finance organisation's assets at more favourable interest rates which leads to rise in profitability. They further advised that banks should not opt for expensive equity financing. Mendes (2001) in his study with the European banks identified that banks that are well-capitalized experience low expected bankruptcy costs with increased of profitability. This is

corroborated by the conclusions of Dietrich and Wanzenried (2009) who also identified that well-capitalized banks experience lower level of bankruptcy and higher level of profitability. The above seems to suggest that for banks to avoid going bankruptcy, they must put measures in place to make sure they are well capitalized. This will ensure their survival in the competitive business environment during adverse effect.

In addition, researchers have identified composition of bank assets as a determinant of bank profitability. The core function of a bank is to issue loans and take deposits (Vong & Chan, 2009). They were of the view that one of the key areas of determining whether a bank is performing is its ability to take deposits from customers and transform these deposits into loans. This according to them increases the banks' ability to generate more income and hence profitability. But scholars seem to have varied results concerning the relationship between composition of assets and profitability. As some of the scholars found positive relationship between the above-mentioned variables, others seem to have negative relationship. For instance, Abreu and Mendes (2000) in their research found a negative correlation between profitability and asset composition. However, Kosak and Cok, (2008) found that asset composition is positively linked to profitability. A bank having in its possession huge loans can be associated with high operation costs (Garcia-Herrero, Gavila & Santabarbara, 2009). They further argued that a higher loan on the side of the banks to asset ratio should have the capacity to surge the profitability of banks.

### **2.3.3 Interest Rate and Banks Profitability**

Javiad et al. (2011) in their research investigated "determinants of bank profitability in Pakistan' net interest and profitability". They found that there is a significant positive relationship between high interest rates, net interest margins and profitability. According to them, this is mostly so in

developing countries where interest rates charged on deposits are expected to be controlled below the market rates. In another study by English (2002) on “the effects of interest rates on bank net interest margins”, he found that in most countries there is no indication that changes experienced in either the short-term or long-term rates influence banks net interest margins. He also reiterated that this is mostly so when the banking institutions have been effective in reducing the exposure of net interest margins to interest rates changes. In a research conducted by Borio, Gambacorta and Hofmann (2015), they found that there is no link between interest rate margins and bank net interest margins (NIM) and profitability (Return on Asset). They further found that net interest margins (NIM) effect is much robust at lower interest rates levels. In their research, Claessens et al. (2018) found that positive significant relationship exists between profitability and higher interest rate. According to them the link between profitability and interest rate is sometimes determined by the level of competition in a particular environment. They added that in an environment where the competition is low in the banking sector, there is the likelihood that a bank will charge high interest rate which can lead to a higher profit. On the other hand, in an environment where the competition is high, there is the likelihood that the banks will charge low interest rate can lead to a low profit.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter entailed the “research design of the study, the population of the study, and the sample technique to be used. It as well includes the sampling techniques that will be employed in the study. It also contains the research instruments that will be used as well as the source of data for the study and how it will be processed and analyzed”.

#### **3.2 Research Design/Approach**

According to Edmonds and Kennedy (2012), “a research design is the actual structure that specifies a) the time frame(s) for collecting data; b) when the intervention will be implemented or not; and c) the number of groups that will be involved in the research study”. A quantitative approach will be employed for the study. A quantitative approach allows the researcher to generalize his or her findings to the general population. Quantitative approach was used to find the relationship that exists between interest margin and profitability of Fidelity Bank.

#### **3.3 The Study Setting**

The study was conducted in “Greater Accra” Region of Ghana. Specifically, the research will target the headquarters and other branches of Fidelity Bank Limited in “Greater Accra” Region. The reason for targeting “Greater Accra” Region is because the researcher is likely to get more secondary information from the headquarters of Fidelity Bank.

The setting of the study is the Ghana financial sector comprising “formal and informal” sector. The formal banking system consist of “Central Bank which is the apex, commercial banks, development banks, merchant banks and ARP Apex Bank being the apex of all rural banks”. Currently, there are twenty-seven banking institutions in Ghana.

### **3.4 Selection of the Case**

Fidelity Bank was selected because it is one of the performing banks in Ghana. The bank has a strong Brand with integrated team from diverse background. It is among one of the 27 licensed commercial banks in Ghana. The bank currently has 75 branches in the country which means that the bank is more effective in its operation.

### **3.5 Sampling Technique**

According to Babbie (2008), “purposive sampling is a type of non-probability sampling in which the units to be observed are selected on the basis of the researcher’s judgment about which ones will be the most useful or representative”. Therefore, purposive sampling technique was used to select the bank (Fidelity Bank).

### **3.6 Sources of Data Collection**

Secondary sources of data were used for this current study to get the desired results. According to Khan and Sattar (2014), “secondary data means collecting data that already exist”. Also, according to Babbie (2008 p.135), “secondary data is the data gathered and processed by one researcher and is reanalyzed by another researcher often for a different purpose”. Examples of secondary data are data collected by scholars and documented in “articles, dissertations, books, brochures, and other publications”. Specifically, Annual reports of Fidelity Bank Ghana Limited for 2013-2017 were used for the study.

### **3.7 Data Collection Procedure**

Data was collected from the official sources of Fidelity Bank (Annual reports of Fidelity Bank Ghana Limited for 2013-2017). This was to ensure that all data and information taken from these sources are valid and reliable.

### **3.8 Data Analysis**

Quantitative approach was adopted for this study. Data was analyzed with Pearson Correlation due to the purpose that the study seeks find relationship between interest margin and profitability Fidelity Bank Ghana. Correlation coefficient which represents relationship between variables and which values ranges from -1 to +1 will be used to determine whether the direction is negative or positive. The variables include “Return on Assets (ROA), Net Interest Margin (NIM) and Size (SIZE)”.

### **3.9 Validity and Reliability**

The data that was adopted for this current study was collected from sources that are authentic. For instance, data was collected from the official website and other relevant documents of the bank (Fidelity Bank). This is because, data and information from these sources is deemed to have been prepared by professionals and experts. Therefore, the researcher trusts the data from these sources because they are valid and reliable. In addition, data from the above-mentioned sources was fully referenced to add to its validity and reliability.

<b>Variable</b>	<b>Definition</b>
ROA	Return on Assets
ROE	Return on Equity
NIM	Net interest Margin

## CHAPTER FOUR

### DATA ANALYSIS

#### 4.1 Introduction

This chapter of the research presents the results and data analysis of Fidelity Bank's performance in relation to interest rate margin. The results are represented in tables and graphs.

The results presented in this chapter are in relation to the research objective and literature reviewed. The objective of this study is to assess the relationship between interest margin and the profitability of the banks in Ghana. Annual reports of Fidelity Bank Ghana Limited for 2013-2017 were used for the study. The results are presented below:

**Table 4.1: Pearson's Correlation Matrix of the Study's Variables (ROA and NIM)**

	1	2
1. ROA	1	
2. NIM	0.665***	1

\*\*\* Significant at 1%, \*\*Significant at 5%, \* significant at 10%

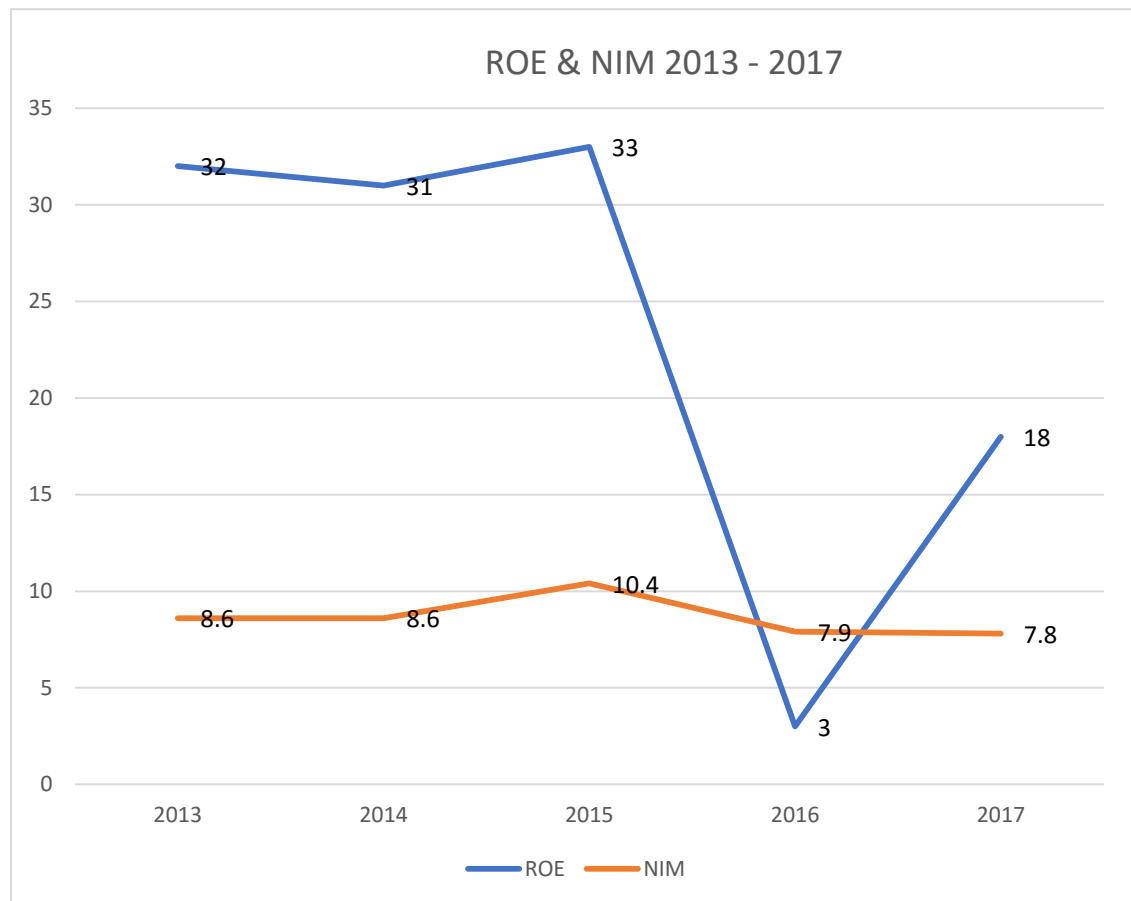
**Table 4.2: Pearson's Correlation Matrix of the Study's Variables (ROE and NIM)**

	1	2
1. ROE	1	
2. NIM	0.660***	1

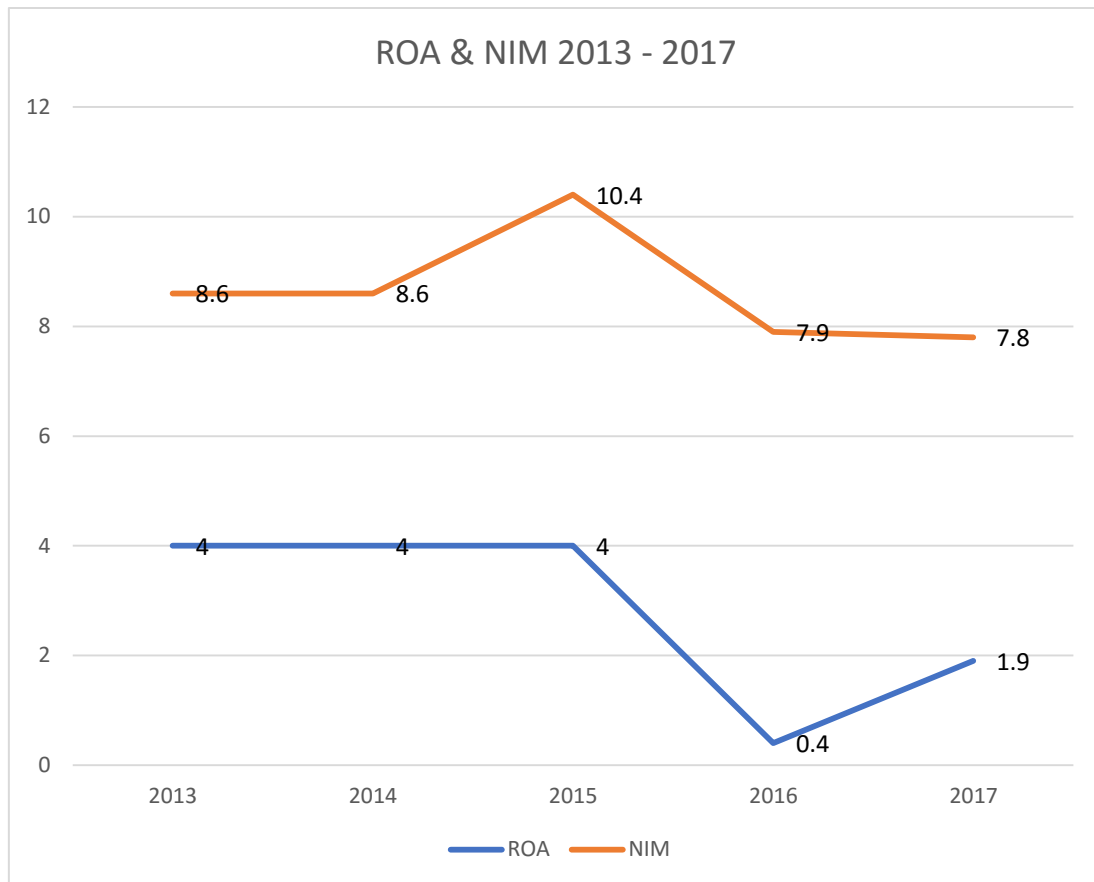
From table 4.1, it is indicated that the correlations coefficient between Return on Equity (ROA) and Net Interest Margin (NIM) is positive and significant ( $r = 0.665$ ,  $p = 0.000$ ). Similarly, table 4.2 indicated that there is a significantly positive correlation between Return on Equity (ROE) and Net Interest Margin (NIM)

( $r = 0.660$ ,  $p = 0.000$ ). Below are figure graphs depicting the relationship between ROE and NIM as well as ROA and NIM.

**Fig. 4.1 Graph Showing the relationship of ROE and NIM**



**Fig. 4.2 Graph Showing the relationship of ROA and NIM**



The Pearson's Correlation of the study variables indicate that positive relationship exists between profitability (ROA and ROE) and interest rate margin in Fidelity Bank. This finding is corroborated by the findings of Javiad, Anwar, Zaman and Ghafoor (2011) who found that that a positive significant relationship exists between higher interest rates, net interest margins and profitability. The positive relationship found is also supported by the research findings of Claessens, Coleman and Donnelly (2018) who also identified positive significant relationship between higher interest rate and profitability.

The results of this study indicate that a positive connection exists between interest rate margin and banks profitability in Ghana. The positive relationship that exists between interest rate margin and banks profitability can be attributed to the high interest rate on lending by the bank. Despite Bank of Ghana reforms to create the necessary environment for the banks to reduce interest rate charges on lending the banks seem to be charging high interest rate. This is in line with many other scholars who found a positive relationship with high interest rate and profitability of banks. High interest rate by banks can also be attributed to high operational cost of the banks (Jobst, & Lin, 2016; Claessens et al., 2018). Therefore, to ensure sustainability in the industry, the banks in turn increase the interest rate on lending. This also suggest that the businessmen most of whom depend on loans from the banks suffers the consequences. Profit and sustainability are very crucial to the operations of the banks because the banks cannot afford to forgo things that affect their profitability.

The interest rate margin of the banks seems to depend on the number of active borrowers who consistently borrow from the banks. In Ghana, a lot of people either are not interested in borrowing or find it difficult to do so. This in the long run can affect the profitability of the banks because the more people borrow from the banks the likelihood of the banks making high profit. The resultant effect is that banks may be forced to charge higher interest rate to enable them remain competitive in the industry. Again, the higher interest rate seems to affect those who could not access larger amount of loans compared to those who have the ability to do so. The former is likely to pay high interest rate as compared to the latter. But the responsibility lies on the banks to find other possible means to increase profit so as to decrease interest rate. This will help attract more people to borrow from them and they will be able to realize the profit that will increase their sustainability in the industry.

### **4.3 Conclusion**

This chapter presents the results of the study. Quantitative approach was adopted for this study. Data was analyzed with Pearson Correlation due to the reason that the study seeks find relationship between interest margin and profitability. Correlation coefficient which represents relationship between variables and which values ranges from -1 to +1 will be used to determine the direction of the relationships whether it is positive or negative. The results of the study found that there is a significant positive correlation between Return on Assets (ROA) and Net Interest Margin (NIM). Similarly, a significant positive relationship was found between Return on Equity (ROE) and Net Interest Margin (NIM).

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of the research findings, conclusions, and recommendations for future research.

#### **5.2 Summary of Findings**

The purpose of the study is to evaluate the impact of interest margin on the profitability of banks in Ghana. Fidelity Bank was specifically chosen as a case study to analyze the trend of its financial performance resulting from its interest rate margin.

A secondary data based on five (5) year audited annual reports of Fidelity Bank were used for the study. Specifically, Pearson's Correlation was used to evaluate the direction of impact of interest rate margin and profitability and determine whether the relationship is positively or negatively significant.

The findings from the correlation analysis indicated that a significant positive relationship exist between interest rate margin and Fidelity Bank's profitability. Analyzing the financial performance of the bank in terms of net interest margin of the bank made in the last five years in relation to ROA and ROE was impressive.

#### **5.3 Conclusion**

The study evaluated the "impact of interest margin on the profitability of banks in Ghana". The study results indicated that interest rate margin is positively related to bank profitability (ROA

and ROE). The results could be interpreted to mean that the demand of loan is high compared to supply which compel banks to lend with higher interest rate. This implies that for banks to make more profit there is the need to raise net interest margin through effective and efficient means of decreasing interest expense and increasing interest income. The results also imply that banks could raise interest margin to reduce operation cost. Furthermore the banks need to put measures in place to ensure they grow their banks by increasing the size and also ensuring they get more customers to deposit with them.

#### **5.4 Recommendation for Practice**

The results of the current study show that bank profitability is driven by certain critical factors. Therefore, the management of banks must ensure optimal policies to increase profitability of the banking sector. This is even more important as the size of bank is associated with profitability. Management of banks must improve liquidity and increase quality of assets. The banks must also work closely with Bank of Ghana to ensure that they abide by the policies of the Central bank to deal with issue of performance.

There is also the need for the banks to reduce the cases of indiscipline and malpractices by adhering to good corporate governance. This is because, malpractices such as record falsification, deliberate mis-classification of loans, imprudent lending practices erodes the confidence the general public have on a bank.

#### **5.5 Recommendations for Policy**

Base one the findings of the above studies, it is recommended Government through Bank of Ghana (BoG) must formulated comprehensive policies that will help make credit facilities available for borrowers. In addition, they must ensure that credit facility is at a cheaper rate

compel the banks to reduce interest rate. The monetary policy by BoG must not lead to higher interest rate or lower interest rate because both ways will have negative effect on the economy. Low interest rate of the banks will also affect the banks' ability to build and attract capital to enhance their ability to deal with shocks to improve market confidence. BoG must continue to monitor the banks to ensure that the banks operate within the confines of the law. This will ensure the banks remain discipline, effective and efficient.

### **5.6 Recommendation for Future Use**

The current study analyzed the trend of one bank, future studies can compare more banks to identify how factors such as NIM and SIZE, determine bank profitability.

This study can be extended to look at other variables such as Ownership (Foreign or Local).

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