



**SUDAN UNIVERSITY OF SCIENCE &
TECHNOLOGY**

COLLEGE OF GRADUATE STUDIES



**Evaluation Of Financial Performances Of Islamic
Banking And Conventional Banking In Nigeria
A Comparative Study**

**تقويم الاداء المالى للمصارف الإسلامية والمصارف
التقليدية فى نيجيريا "دراسة مقارنة"**

*A Research Submitted In Fulfillment Of The Requirement For
The Award Of Master Of Science In Economics*

BY

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Declaration

I, the signing here-under, declare that I'm the sole author of the (M.Sc.) thesis entitled... EVALUATION OF FINANCIAL PERFORMANCES OF ISLAMIC BANKING AND CONVENTIONAL BANKING IN NIGERIA: A COMPARATIVE STUDY.....

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إقرار

..... أنا الموقع أدناه أقر بأنني المؤلف الوحيد لرسالة الماجستير المعنونة

وهي منتج فكري أصيل . وباختياري أعطى حقوق طبع ونشر هذا العمل لكلية الدراسات العليا - جامعة السودان للعلوم والتكنولوجيا، عليه يحق للجامعة نشر هذا العمل للأغراض العلمية .

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DEDICATION

This work is dedicated to the Almighty ALLAH, THE OMnipotent, and THE OMniscience.

Also I specially dedicated to my adorable father AlhajiSalawudeenWasiuAjano, my lovely mother Mrs.FausatWasiu and an ever caring husbandAbaasSulaimanOlamilekan who ensure that this golden career did not suffer, also to my endurable daughters for their patience during this course of study.

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In the name of Allah, The Compassionate, The Merciful, Praise be to Allah, *SubhanahuWata'ala*, Lord of the World and may the peace and blessing be upon the seal of the Prophet and Messenger and his Impeccable Family, his companion and those who follows his guidance till the day of reckoning. I give glory to Almighty Allah for his guidance and blessing on my success in writing and completing this thesis.

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ABSTRACT IN ENGLISH

The aim of this research is to compare the financial performances of first Islamic bank in Nigeria, i.e. JAIZ bank Plc. and conventional banks to give clear picture of Islamic banking to the stakeholder, depositors, bank managers, investors and regulator in order to give the financial position of Islamic and conventional banking in Nigeria.

The study examined and compared the performance of Islamic and conventional banks in Nigeria during 2012 to 2013 by using financial ratios and financial data for the study was examined from the banks' financial statements on bank of Nigeria website. A sample of JAIZ Islamic banks and ACCESS as a Conventional bank were selected to measure and compare their performances. The study found that JAIZ is less profitable, more solvent (less risky), and also less efficient comparing to the conventional bank but more efficient in term of operation Islamic is more promising. However, there was no significant difference in liquidity between the two banks. The reasons are due to the facts that conventional banks in Nigeria have longer history and experience in doing banking business and hold dominating position in the financial sector with its large share in the overall financial assets of Nigeria, as compared to Islamic banks, which in true sense, started and incorporated few years back.

The study conclusively revealed that Islamic banking proved to be more satisfactory in future if all challenges are been taking care of.

ARABIC ABSRACT

المستخلص : -

الهدف من هذه الدراسة هو مقارنة الأداء المالي لأول مصرف إسلامي في نجيريا مع المصارف التقليدية من أجل تزويد المساهمين والمودعين ومديري المصارف والمستثمرين بصورة واضحة عن الصيرفة الإسلامية والموقف المالي للمصارف الإسلامية والتقليدية في نجيريا .

الدراسة اختبرت وقارنت الاداء المالي للمصارف الاسلاميه والتقليدية في نجيريا للفترة 2012-2013م باستخدام النسب المالية .

وقد تم الحصول على بيانات الدراسة من القوائم المالية للمصارف المنشورة على موقع المصرف المركزي النجيري .

توصلت الدراسة الى أن بنك جائز اقل ربحية وأقل مخاطر وأقل كفاءة مقارنة بالمصرف التقليدي (ACCESS) ولكنه أكثر كفاءة من حيث العمليات وذلك لأن المصارف التقليدية في نجيريا ذات تاريخ طويل وتجارب في العمل المصرفي لذا سيطرت على العمل المصرفي ولها مشاركة واسعة في الأصول المالية بالدولة بالمقارنة بالمصارف الإسلامية التي أنشئت حديثاً .

أوصت الدراسة بضرورة إزالة كل التحديات التي تواجه المصارف الإسلامية حتى تكون أكثر كفاية وكفاءة في الأداء والعمل المصرفي .

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LIST OF ABBREVIATIONS AND ACRONYMS

AU	Asset Utilization
BBWA	Bank of British West Africa
BEP	Bill of exchange purchased
BOFID	Banks and Other Financial Institutions Decrees
CAR	Capital Adequacy Ratio
CBN	Central Bank of Africa
CPIDB	Cash & Portfolio Investments to Deposits & Borrowings Ratio
DC	Document of credit
DER	Debt Equity Ratio
DTAR	Debt Total asset Ratio
EM	Equity Multiplier
FIM	Finance against imported merchandise
GCIBFI	General Council for Islamic Banks and Financial Institutions
IDB	International development Bank
LC	Letter of credit
NDIC	Nigeria Deposit Insurance Corporation (NDIC)

IEO	Islamic Economic Order
IER	Income Expenses Ratio
IFSB	Islamic Financial Services Board
IIFM	International Islamic Financial Market
IIRA	International Islamic Rating Agency
LAR	Loan to Asset Ratio
LDR	Loan to Deposit Ratio
MBWAL	Muslim Bank West Africa Limited.
NAV	Net Asset Value
NSE	Nigerian Stock Exchange
OE	Operating Efficiency
PER	Profit Expense Ratio
ROA	Return of Asset
ROE	Return of Equity
SAP	Structural Adjustment Programme

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The aim of this research is to investigate the performances of Islamic banking and conventional banking in Nigeria. This chapter presents the introduction and is divided as below: background of the study, aim of the study, significance of the study, tools used to measure performance, scope and limitations, alongside with literature review of the study, the problem of the study and organization of the chapter.

1.2 Background of the Study

Banks are instruments that facilitate economic development in any country due to their roles in the nation economy. The development of knowledge and economic systems lead to emerging of new kind of bank that offer services different from the earlier existing ones.

Free Interest rate is the core principle of Islamic Banking industries. The main pillar of Islamic finance is prohibition of interest and enhancement of partnership sharing both in dividends and lost, unlike conventional banking where

interest is an integral part of the banking system. Islamic banking avoids interest in all banking transactions with the primary objectives of not only eliminate interest-based transactions but also introduce the concept of “Zakah” (a compulsory portion of accumulated wealth within a year given to the poor by measurement of Nisab-One third) as contribution to the poor, the needy and those in debt.

The first small scale of Islamic banking and finance practically started in the 1960s with the establishment of MitGhamr Savings Association in Egypt (1963) and the Tabung Haji in Malaysia (1963). However, the initiatives for setting up of the first Islamic development bank began at a meeting held in Cairo in 1972, which was later adopted at the first Conference of Finance Ministers of Muslim countries held in Jeddah (1393H/1973). Thus, Islamic Development Bank (IDB) came into being in 1974 but commenced operation in 1975. Subsequently, other banks were established such as the Dubai Islamic Bank (1975), Faisal Islamic Bank of Sudan (1977), Faisal Islamic Bank of Egypt (1978), Islamic Bank of Bahrain (1979) etc. Other supporting international Islamic financial institutions like Islamic Financial Services Board (IFSB), International Islamic Financial Market (IIFM), International Islamic Rating Agency (IIRA), General Council for Islamic Banks and Financial Institutions (GCIBFI) etc., were later established to facilitate the effective and efficient operation of the industry (Ahmed, 2009; & IDB, 2004, 2005).

Therefore, as the industry grows, many financial products in the IBs, Takaful and ICM were initiated and adopted to incorporate Shari'ah compliant aspects. In view of this development, product innovation became inevitable in Islamic financial industry over the last decades, resulting in a wide array of Islamic instruments being introduced into the market. There is no doubt therefore that with a Muslim

population of about 1.6 billion people worldwide and a growth rate of about 15-20 percent annually, the market potential of the industry is indeed very promising and substantial.(Ibrahim& Mustapha 2011).

Islamic banks have grown in number as well as in size worldwide and are being practiced on even more intensive scale. Some countries like Sudan and Iran, have converted their entire banking system to Islamic banking. In other countries where conventional banking is still dominating the Islamic Banking is operating alongside. Today, Islamic banks are operating in more than sixty countries (Aggarwal and Yousaf 2000). Islamic Banking and Finance is growing at between 10%-15% per annum and is boasting global assets in excess of \$1Trillion. A recent survey indicated that there are more than 160 Islamic financial institutions existing worldwide (Dar 2003).

Nigeria is a mixed religious and multi-ethnic country that has come across with conventional banking since 1894 with the establishment of BANK OF BRITISH WEST AFRICA (BBWA) later known as STANDARD BANK and now FIRST BANK OF NIGERIA PLC all were setup according to the British system which are alien to Islamic doctrine of banking and transactions. This is based on profit making and a man-made policy.

Islamic banking generally referred to as interest free banking and has been gaining popularity in Nigeria since the introduction of 'Free Interest Banking' by former Governor of Central bank of Nigeria, Sanusi Lamido in the year 2001. Islamic banking in Nigeria dated back around independence in 1960 in Lagos with MUSLIM BANK WEST AFRICA LIMITED. This was ceased by minister of finance Chief Obafemi Awolowo in 1962. Since then, Islamic bank was unable to

surface until 1991 with the amendment of other financial institution Act Nigeria (CBN) granted license to Habib Bank to deal in interest free banking product as window.

Later in 2003 JAIZ International was incorporated as a public limited company. But it does not gain its popularity until 11 November, 2011, when JAIZ International received a license from the CBN, the national banking regulator, to operate as regional bank as Jaiz Bank PLC by Dr. Sanusi Lamido the governor of CBN. He said: "Islamic banking proposal began from the period of former CBN Governor Charles Soludo, and all the process and procedures for its formation were arranged before my coming as the Governor of the CBN. "I inherited the idea. A committee on the formation of Islamic bank was appointed and this was led by a Deputy Governor of the CBN Mr. Tunde Lemo... the committee was fully satisfied with the proposal and formation. So this is not my idea, I met it on ground." Sanusi said the Banks and Other Financial Institution Act (BOFIA) gives power to the establishment of such financial institutions.

The institution commenced business as Jaiz Bank PLC in offices and branches in Abuja, Kaduna and Kano on 6 January, 2012. The Interest Free banking system in Nigeria is undergoing a transition from conventional model of banking to the new concept of Islamic banking, based on principles of Islamic economics. The prohibition of Riba is based on the arguments of social justice and equality but the incursion of the British colonialists into the Nigeria and its rule that lasted between 1862 and 1960 foisted the western socio-political, legal and economic (including banking) systems on the people of the country. The colonial rule and its various

systems were backed by laws and these laws have been the instrument used by the successive governments to sustain the western ways even after independence.

The study focus on the following financial ratios such as Return on Asset (ROA), Return on Equity (ROE), Loan to Deposit ratio (LDR), Loan to Assets ratio (LAR), Debt to Equity ratio (DER), Asset Utilization (AU), and Income to Expense ratio(IER) to assess banking performances. T-test and F-test are used in determining the significance of the differential performance of the two groups of banks.

1.3. OBJECTIVE OF THE STUDY

The general aim of this study is to examine and to evaluate the performance of the Islamic bank in Nigeria.

Below are other aims to which the researcher intends to examine.

- ✓ To provide some insight about the performance of Islamic banking compared to conventional banking
- ✓ To find out whether Islamic or conventional banks are operating efficiently
- ✓ To examine the relationship between Islamic bank and conventional banks in the country.
- ✓ To examine the financial status of Islamic banking in the midst of conventional banking.
- ✓ To compare the effects and defects of Islamic banking and conventional banking to Nigeria economy.

Finally, the research help in enhancing the theoretical basis and empirical studies that relate to the research title.

1.4. SIGNIFICANCE OF THE STUDY

This research is significant to all stakeholders by providing clear picture of financial position of Islamic banking and conventional banking in Nigeria and to make comparison in order to identify which one has a better position. It also help government in policy making with regards to interest free banking in Nigeria and regulatory bodies which include, (CBN, Nigeria Deposit Insurance Corporation (NDIC) and Serve as a guidelines for the adequate supervision and regulation of interest free banking in Nigeria. Another importance of this research is to motivate the financial Institutions such as conventional banks that intend to operate in the interest free banking window.

Finally, this study aims at encouraging the emergence of more interest free organization so as to create avenue to those that wish to transact business on interest free basis.

1.5. STATEMENT OF RESEARCH PROBLEM.

Nigeria is a mixed country of different religion and tradition which leads to controversies around the establishment of Islamic banking in Nigeria due to the inadequate awareness which has resulted in deficient understanding of what Islamic banking constitute. In general how it makes profit since it prohibits interest.

As this research title is “Evaluating the financial performance of Islamic bank and convention bank in Nigeria”. There have been some problems and limitations in carrying out this research.

One of the problem encounters by the researcher is inadequacy and inconsistency of data. This is because secondary data is taken from Jaiz bank Access bank annual report available on both banks websites.

Another problem facing the researcher is time constraint for meeting the workers in the bank for suitable interviews and customers due to the nature of their job.

1.6. SCOPE OF THE STUDY

The scope of this research is centered in evaluating the performance of Islamic bank and conventional banks in Nigeria. The study evaluates performance of the Islamic bank (JAIZ) and conventional banking (ACCESS). It explains the relationship between Islamic bank and conventional bank in term of profitability, liquidity, risk and solvency and efficiency.

1.7. LIMITATION OF THE STUDY

There are twenty-four banks in total operating as conventional banks in Nigeria that gives the researcher a wide and open range of conventional banks to form a group for the study. But the research is limited to Access bank because there is only one full fledged Islamic bank in Nigeria named Jaiz bank plc.

Time and limited finance are also major limitation that restricted the researcher to the selection of only one conventional bank (ACCESS) and since there is only one Islamic bank (JAIZ) to compare the financial performance.

1.8. REVIEW OF RELIVANT LITERATURE

Throughout the initial readings and collection of the most relevant materials, the researcher found that previous contextual studies concerning performances of Islamic and conventional bank, a number of empirical studies of the profitable business of Islamic banks in different countries. The performance of the Islamic banks has been judged by using different key ratios like profitability ratios, liquidity ratios, risk and solvency ratios. Sarker (1999); Samad and Hassan (1999)].

For example, Iqbal (2001) made trend analysis to depict the overall performance of the Islamic banks as compared to the conventional banks. According to him, Islamic banks in general are fairly stable, profitable and well capitalized. Their profitability ratios compare favorably with international standards in banking.

Alam (2000) undertook a case study to examine the contribution of Islamic Bank Bangladesh Limited (IBBL) towards small and rural sector. The study revealed that IBBL succeeded in attracting both deposits and investment positions since it started its activities. For instance, the deposit figure rose to Taka 10,418 million in March 1995 from Taka 144.20 million as on March 1983, registering an increase of Taka 10,273 million. It was observed from the response of few small-scale industrialists that the remarkable advantages they get from the bank are easy formalities of obtaining loan and quick action in processing loan activities.

Samad and Hassan (1999) evaluated the performance of Islamic bank in Malaysia in terms of its profitability, liquidity, risk and solvency. Financial ratios were applied to measure these performances. A comparison between the Islamic bank and eight other conventional banks was also made. The study revealed that

Islamic bank made significant progress on return on assets and return on equity during 1984-1997. The comparison of Islamic bank and conventional banks revealed that there was no difference in economic participation between them.

Sarker (1999), used “Banking Efficiency Model” to judge the performance of Islamic banking in Bangladesh. He concluded that Islamic banks could operate with certain level of efficiency even within the presence of conventional banking.

Halim, Hamid and Nordin (2001) conducted a study on the Malaysian Islamic Bank in perspective of Islamic banking education. They showed that the shareholder’s funds of the Islamic bank and then interest-free banking fund amounted to RM 1.3 billion, while profit before taxation and zakat amounted to RM 153 million in 1997. Total financing of Islamic bank registered 39.6 percent increase in the second half of 1997.

Adegbemi and Adekola (2013) evaluated the performances of conventional and Islamic banks in United Kingdom for the period of 2007 and 2011 in term of liquidity, profitability, risk and solvency and efficiency. They concluded that Islamic banks seem more cost-effective. The Islamic banks are less liquid in comparison with the conventional banks in terms of the loan to deposit ratio. On the other hand, the conventional banks are less liquid using the cash & portfolio investment to deposit ratio. The greater ratio of loan to asset ratio of the Islamic banks indicates greater illiquidity. The efficiency ratios performances of both bank types were epileptic during the research period. It is crucial for the banks to consistently improve on this score in order to translate their performances to improved profitability.

Gunu and Olabisi (2011) evaluated the performance of consolidated banks by application of non-financial measures based on five item scale. The results indicated

that cost of transaction was the first factor compared to other non-financial indicators. Similarly information technology was the second factor with second highest value of variation explained. However, service delivery, was the third factor. Quality of service was the fourth factor, while Bank offering and loan application were fifth and sixth factors. Customer satisfaction was the last factor. Multiple regressions revealed that cost of transaction was not significant in terms of variation of performance of consolidated banks but the other six factors were significant in the variation of performance of consolidated banks. It is suggested that when consolidated banks emphasis information technology, service delivery, quality of service, bank offering, loan application and customer satisfaction these could improve their financial performance.

The Islamic financial institutions are providing products predominantly based on sharing of profit and loss among the parties of Islamic partnership as opposed to the receipt or payment of interest (Riba), which is not allowed in Islam (Hennie and Zamir, 2008; Zamir and Abbas, 2011).

The clamour for Islamic products becomes greater as Islamic banks are perceived to be less likely to fail than conventional ones (Čihák and Hesse, 2010).

Conventional financial institutions also eager to expand their service offerings have devised new innovative financial products channeled to customers who want to execute financial transactions based on their religious beliefs (Kevin et al., 2009).

All above studies were conducted to analyze the performance of Islamic and conventional banks but do not have same result because of differences in selected time, logical tools conducted in different countries.

This research was conducted using financial ratios to analyze the performance of conventional bank and Islamic bank in Nigeria. The difference in results is not surprising due to the fact that Islamic banking has longer history in these countries as compared to Nigeria where full-fledged Islamic banking have not even started but just as a regional bank few years back. Moreover, conventional banking has a longer history, deeper roots and vast experience.

Therefore, it is analyzed through these studies that Islamic bank are less profitable, no significance difference in liquidity, less risky and have less efficient in asset utilization but more efficient in term of operation.

1.9. RESEARCH METHODOLOGY

The descriptive analytical method is adopted by the researcher to test the proposed theoretical model, the empirical result and to present findings of the data analysis. Sample frame is for 2 years in this study. Based on the topic “evaluating the financial performances of Islamic banking and conventional banking “because of time, geographical, and since conventional banks in Nigeria are twenty-24 and there is only one Islamic bank in Nigeria. Access bank PLC was selected as conventional bank for it is easy for the researcher to get quick information about the institution and Jaiz Bank plc. was selected as Islamic bank since is the only financial bank in Nigeria.

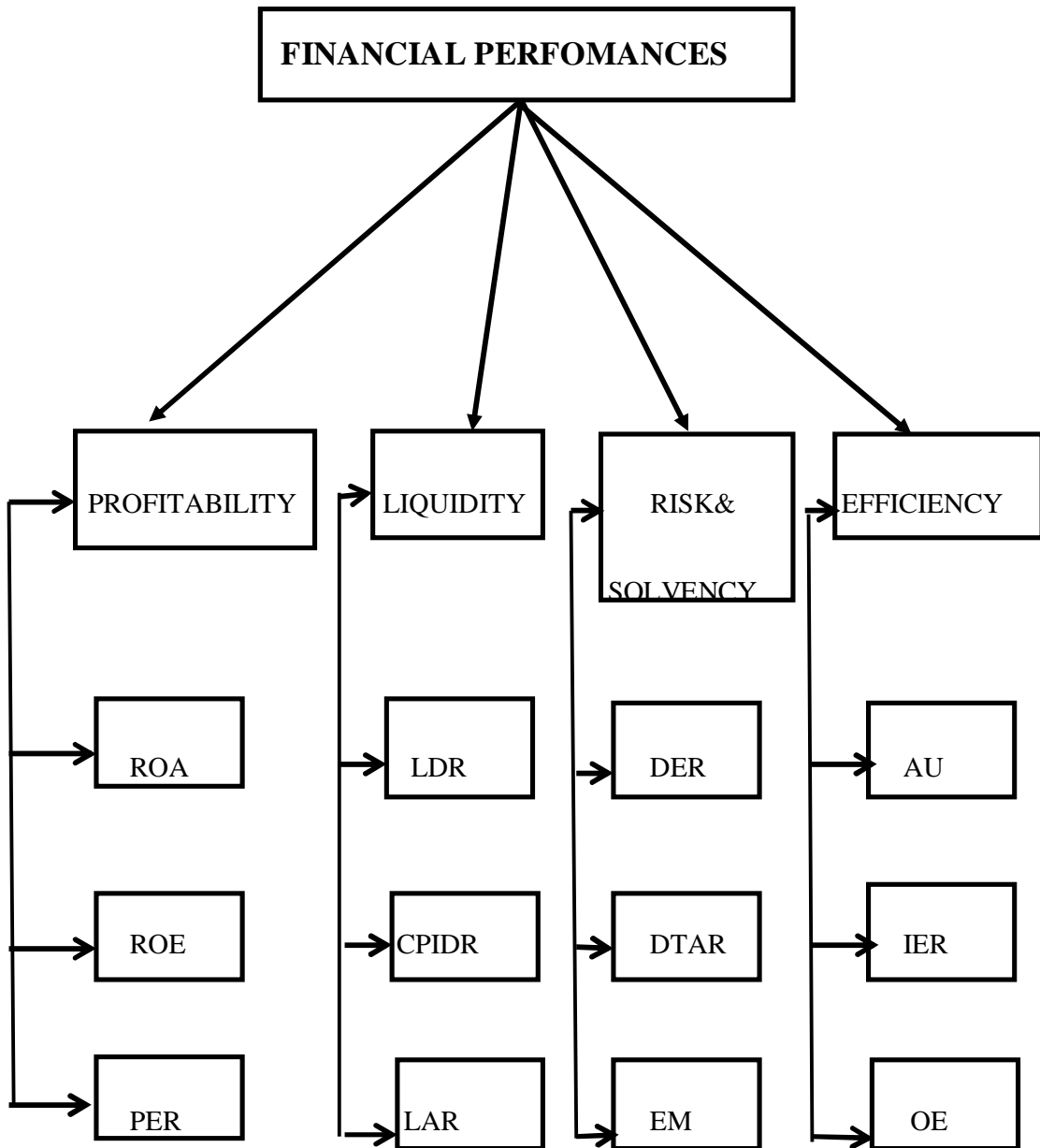
Various indexes have been provided by financial management theories for measuring bank’s performance. Using financial accounting ratios is one of them. To

measure performance, financial ratios have been used quite commonly and extensively in the literature.

In order to see how Islamic bank has performed in comparison with the conventional banks over 2 years, in Nigeria, the study uses financial ratios for the bank's performance. These ratios are broadly categorized into four groups: (a) profitability ratios; (b) liquidity ratios; (c) risk and solvency ratios; and (d) efficiency ratios.

1.9.1. CONCEPTUAL FRAME WORK

FIGURE 1.1



1.9.2 POPULATION SAMPLING

The population sampling of this research is Islamic and conventional banks in Nigeria where the conclusion will not base on Access bank alone but will be generalized on all conventional banks in Nigeria.

1.9.3 SAMPLE

Based on the topic “evaluating the financial performances of Islamic banking and conventional banking “because of time, geographical, and since conventional banks in Nigeria are twenty-24 and there is only one Islamic bank in Nigeria.

Access bank PLC was selected as conventional bank because one of the bank that merged with her (Intercontinental bank Plc) submitted a proposal to operate non - interest banking window before the merging of banks in 2010 while Jaiz Bank Plc was selected as Islamic bank since is the only Islamic bank in Nigeria..

1.9.4 HYPOTHESIS

H₁: Islamic bank are less profitable than conventional banks

H₂: No significant difference in liquidity between the two banks.

H₃: Islamic bank are more solvent (less) than conventional banks

H₄: Islamic bank less efficient than conventional banks

1.9.5 DATA SOURCES

This research is mixed up between both qualitative and quantitative techniques for data collection.

The main data collection instrument for this research work is the Audited financial statements i.e. income statement balance sheet of both Islamic bank and conventional bank for the period of 2012 to 2013 are used for ratios analysis. The ratio will be calculated with help of ratio formulae. Also interviews and observation were conducted.

Secondary data are obtained from available literature books, journals, magazines, papers and internet websites.

1.9.6 DATA ANALYSIS

Data analysis of research work concentrates on historical and analytical descriptive methods. Comparative and comprehensive approach analysis will be used to compare the performances of both banks. Independent sample T-test and F test will be used to determine the significance of mean differences of these ratios between the two banks.

T-test is a statistical examination of two population means. A two-sample t-test examines whether two samples are different and is commonly used when the variances of two normal distributions are unknown and when an experiment uses a small sample size.

An F-test is any statistical test in which the test statistic has an F-distribution under the null hypothesis. It is most often used when comparing statistical models that have been fitted to a data set, in order to identify the model that best fits the population from which the data were sampled. Exact "F-tests" mainly arise when the models have been fitted to the data using least squares.

So the percentage and diagrammatical analysis will be adopted because it allows for simplicity of data and conformity with social sciences research.

1.10 ORGANIZATION OF THE STUDY

Having discussed about the parties interested in performance evaluation of them banks, aim of the study, significance of the study, tools used to measure performance, scope and limitations, alongside with literature review of the study and the problem of the study in chapter one.

Chapter Two described general theories of Islamic banking. It discusses the historical perspective, the characteristic, and explain product of Islamic banking without neglecting the account of Islamic banking and Islamic economic order.

Chapter Three described the general theories of conventional banking with its characteristics, explain it ways of financing and conventional banking account.

Chapter four discussed in details, data and methodology used for the study. i.e. Financial ratios and its indicators such as, profitability, liquidity, risk and solvency, capital adequacy and efficiency.

Chapter Five covers banking sector in Nigeria, looking at the comparison of Islamic banking and conventional banking. The chapter explains their similarity and difference. Also this chapter discusses the role of Islamic banking in Nigeria economy

Chapter Six analysis the empirical results and findings of the study, all ratios are summarized in this chapter.

Chapter Seven constitute conclusion, testing of hypothesis and recommendation of the study.

While the study ends up with references, website & web links, and appendices.

CHAPTER TWO

ISLAMIC BANKING

2.1 INTRODUCTION

This chapter presents the meaning and concept of Islamic banking in section one, historical perspective of Islamic banking in section two, section three discussed Characteristic of Islamic Banking, while section four and five explain the Product of Islamic Banking and highlight of Islamic Bank Accounts respectively and the last section state Islamic Economic Order (IEO).

2.2 ISLAMIC BANKING

Islamic banking is consistent with the principles of sharia and its practical application through the development of Islamic economics. Therefore, a more correct term for 'Islamic banking' is 'Sharia compliant finance'. Islamic banking system is based on the principles of Islamic law (also known Shariah) and guided by Islamic economics. The chief aim of Islamic banking is the prohibition of the collection and payment of interest and the sharing of profit and loss. This is due to the fact that collecting interest is not permitted under Islamic law.

Sharia prohibits acceptance of specific interest or fees for loans of money (known as *riba*, or usury), whether the payment is fixed or floating. Investment in businesses that provide goods or services considered contrary to Islamic principles of Islamic law (Shari'ah) and guided by Islamic economics. According to (Chapra 1996) Islamic economics is referred to that body of knowledge which helps realize human well-being through an allocation and distribution of scarce resources that is in conformity with Islamic teachings without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances.

A key element of Islamic economics is distribution of equitable rewards to the different factors of production. Islamic economic system seeks system of Redistributive justice where concentration of wealth in a few hands is countered and flow of money into the economy is fluent. Islamic banking is, therefore, seen as a lynchpin to achieving the economic and social goals of the Islamic economic system. (Moin 2008).

The criticism of usury in Islam was well established during the life time of Prophet Muhammad (SAW) and reinforced by various verses in the Holy Qur'an dated back to approximately 600AD. The original word for usury in Islam is *riba* which literarily means excess or addition. In Islam, the basic Sharia principle governing ethical Business dealings is referred to as *fiqh-Al-muamalat*. This aims at creating transparent and ethical business transactions. Allah highly condemned *riba* in some verses of Holy Quran and also declared consequences for charging it on any business dealings. Some of the verses are as follow:

“Allah will destroy Riba (Usury) and will give increase for sadaqat (deeds of charity alms etc.) and Allah likes not the disbelievers (sinners)”.

“Those who eat Riba (usury) will not stand (on the day of resurrection) except like the standing of a person eaten by shaitan (satan) leading him to insanity. That is because they say “trading is only like Riba (usury)” whereas Allah has permitted trading and forbidden Riba (usury)”.

“So whoever received an admonition from his Lord and stops eating Riba (usury) shall not be punished for the past his case is for Allah (to judge) but whoever returns to Riba (usury) such are the dwellers of the fire, they will abide therein”. Al-Bakara (2:276- 278),

Also stress further in another chapter,

“O you who believe eat not Riba (usury) doubled and multiplied, but fear Allah that you may be successful”. Al Imram (3:10),

Also

“And they took usury, though they were forbidden; and that they devoured men’s wealth wrongfully; we have prepared for those among them who reject faith a grievous chastisement”. An-nisa’i (4:161).

More so,

“And that which you give in gift to others in order that it may increase your wealth by expecting to get a better one in return from other people property has no increase with Allah; but that which you give in Zakat (Sadaqa –

Charity etc.) seeking Allah's countenance, then those, they shall have manifold increase". Al-rum (30:39).

In the bible God also condemned usury as an evil and was highly condemned in the following verses:

"If you lend money to any of my people who are poor among you shall not behave as money lender to him you shall not charge him interest". Exodus 22:25.

"He who does not put out his money at Usury (interest) nor does he take a bribe against the innocent. He who does these this shall never be moved (prosper)". Psalm 15:125.

"I likewise, and my brethren, and my servants, might exact of them money and corn: I pray you, let us leave off this usury. Restore, I pray you, to them, even this day, their lands, their vineyards, their olive yards and their houses, also the Hundredth part of the money and of the corn, the wine, and the oil, that ye exact of them". Nehemiah 5:10-11.

"you shall not charge interest to your brother interest on money on food or anything that is lent out at interest to a foreigner you may charge interest but to your brother you shall not charge interest that the Lord you God may bless you in all to which you set your hand in hand which you are entering to possess". Deuteronomy 23:19-20

"If one of your brothers becomes poor and falls into poverty among you, then you shall help him like a stranger or a sojourner that he may live with you. Take no usury or interest from him. But fear your God that your brother may

live with you. You shall not lend him your money for Usury nor lend him your food at an interest” Leviticus 25: 35 – 37

“You shall have the same law for the stranger and for one from your own country”. Leviticus (24: 22)

2.3 HISTORICAL PERSPECTIVE OF ISLAMIC BANKING

The first small scale of Islamic banking and finance practically started in the 1960s with the establishment of MitGhamr Savings Association in Egypt (1963) and the Tabung Haji in Malaysia (1963). However, the initiatives for setting up of the first Islamic development bank began at a meeting held in Cairo in 1972, which was later adopted at the first Conference of Finance Ministers of Muslim countries held in Jeddah (1393H/1973).

Thus, Islamic Development Bank (IDB) came into being in 1974 but commenced operation in 1975. Subsequently, other banks were established such as the Dubai Islamic Bank (1975), Faisal Islamic Bank of Sudan (1977), Faisal Islamic Bank of Egypt (1978), Islamic Bank of Bahrain (1979) etc. Other supporting international Islamic financial institutions like Islamic Financial Services Board (IFSB), International Islamic Financial Market (IIFM), International Islamic Rating Agency (IIRA), General Council for Islamic Banks and Financial Institutions (GCIBFI) etc. were later established to facilitate the effective and efficient operation of the industry (Ahmed, 2009; & IDB, 2004, 2005).

Therefore, as the industry grows, many financial products in the IBs, Takaful and ICM were initiated and adopted to incorporate Shari'ah compliant aspects. In view of this development, product innovation became inevitable in Islamic financial industry over the last decades, resulting in a wide array of Islamic instruments being introduced into the market. There is no doubt therefore that with a Muslim population of about 1.6 billion people worldwide and a growth rate of about 15-20 percent annually, the market potential of the industry is indeed very promising and substantial.(Ibrahim& Mustapha 2011).

Islamic banks have grown in number as well as in size worldwide and are being practiced on even more intensive scale. Some countries like Sudan and Iran, have converted their entire banking system to Islamic banking. In other countries where conventional banking is still dominating the Islamic Banking is operating alongside.

Today, Islamic banks are operating in more than sixty countries (Aggarwal and Yousaf 2000). Islamic Banking and Finance is growing at between 10%-15% per annum and is boasting global assets in excess of \$1Trillion. A recent survey indicated that there are more than 160 Islamic financial institutions existing worldwide (Dar 2003).

Presumptive Islamic banking made its debut in Malaysia in 1983. The first Islamic financial institution in Malaysia was the Muslim Pilgrims Savings Corporation set up in 1963 to help people save for performing *hajj* (pilgrimage to Mecca and Medina).

In 1969, this body evolved into the Pilgrims Management and Fund Board or the Tabung Haji as it is now popularly known. The Tabung Haji has been acting as a

finance company that invests the savings of would-be pilgrims in accordance with Shariah, but its role is rather limited, as it is a non-bank financial institution. The success of the Tabung Haji, however, provided the main impetus for establishing Bank Islam Malaysia Berhad (BIMB) which represents a full-fledged Islamic commercial bank in Malaysia.

The Islamic Banking System (now called Islamic Finance House), established in Luxembourg in 1978, represents the first attempt at Islamic banking in the Western world. There is also an Islamic Bank International of Denmark, in Copenhagen, and the Islamic Investment Company has been set up in Melbourne, Australia.(Mohammed 2001).

The biggest change in terms of adoptability of Islamic finance came in 1991 when the accounting Auditing organization for Islamic financial institution (AAOIFI) was established over the world. Later other organization such as Islamic financial services Board (IFSB) in Malaysia came up in 2002. (Aminah, 2013).

Since then Islamic banking has been spreading all over the world at a tremendous pace. Many other interest free bank have been set up in many countries of the world, presently interest free banks has over 300 institution spread in more than 60 countries including United State.

Dated back in 1960s, enormous efforts have being made to ensure the establishment and operation of Islamic banking in Nigeria. But it could not work effectively until 2003 when it started gaining its popularity as JAIZ International Bank. JAIZ Bank was registered to carry out banking operations in line with the Islamic Shari'ah.

Although a lot has been done by various stakeholders to actualize the dream, the bank could not see light of the day until recently when CBN granted Approval in Principle for it to operate as a regional interest-free bank. The bank, which was originally billed to commence operation in September 2011 with offices in Abuja, Kaduna and Kano, with the main objective of being an Islamic investment holding company to set-up non-interest institutions like Islamic bank, Takaful (Islamic Insurance), Pension Fund Administration etc. An international bank, Stanbic IBTC was also granted license to operate a window of Islamic banking around the same time.

More so, Bank PHB which is now keystone bank was also granted license to operate window of Islamic banking.

2.4 CHARACTERISTICS/ATTRIBUTES OF ISLAMIC BANKING

- i. Islamic Banking is non-inflationary
- ii. Islamic Banking is entrepreneur driven
- iii. Islamic ethics transaction and social justice
- iv. Islamic Banking plays a vital role in economy's vision. That is the vision that moves away from debt based partnership to an equity based and stake taking partnership.

v. Islamic Banking believes in the principle of variable return (Profit and loss sharing) and depends on the actual productivity and performance of the projects.

2.5 ISLAMIC BANKING MODE OF FINANCE

1. Mudarabah

This is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The capital investment should normally come from one partners. Both should have some skin in the game (Timur 2004).

The Mudarabah (Profit Sharing) is a contract, with one party providing 100 percent of the capital and the other party providing its specialized knowledge to invest the capital and manage the investment project. Profits generated are shared between the parties according to a pre-agreed ratio. If there is a loss, the first partner "rabb-ul-mal" will lose his capital, and the other party "mudarib" will lose the time and effort invested in the project.(

2. Murâbaḥah

This concept refers to the sale of goods at a price. This includes a profit margin agreed to by both parties. The purchase and selling price, other costs, and the profit margin must be clearly stated at the time of the sale agreement. The bank is compensated for the time value of its money in the form of the profit margin. This is a fixed-income loan for the purchase of a real asset (such as real estate or a vehicle), with a fixed rate of profit determined by the profit margin. The bank is not compensated for the time value of money outside of the contracted term (i.e., the

bank cannot charge additional profit on late payments); however, the asset remains as a mortgage with the bank until the default is settled.(Usmani,Taqi 2015)

3. Musawamah

Is the negotiation of a selling price between two parties without reference by the seller to either costs or asking price? While the seller may or may not have full knowledge of the cost of the item being negotiated, they are under no obligation to reveal these costs as part of the negotiation process. This difference in obligation by the seller is the key distinction between Murabahah and Musawamah with all other rules as described in Murabahah remaining the same. Musawamah is the most common type of trading negotiation seen in Islamic commerce. (bloomsbury 2015)

4. Bai' al inah

Is a financing facility with the underlying buy and sell transactions between the financier and the customer. The financier buys an asset from the customer on spot basis. The price paid by the financier constitutes the disbursement under the facility. Subsequently the asset is sold to the customer on a deferred-payment basis and the price is payable in installments. The second sale serves to create the obligation on the part of the customer under the facility. Bai'

5. Bithamanajil (deferred payment sale)

This refers to the sale of goods on a deferred payment basis at a price, which includes a profit margin agreed to by both parties. Interest payment can be avoided as the customer is paying the sale price which is not the same as interest charged on a loan.

6. Bai' muajjal (credit sale)

It is a financing technique adopted by Islamic banks that takes the form *murabaha muajjal*. It is a contract in which the bank earns a profit margin on the purchase price and allows the buyer to pay the price of the commodity at a future date in a lump sum or in installments. It has to expressly mention cost of the commodity and the margin of profit is mutually agreed. The price fixed for the commodity in such a transaction can be the same as the spot price or higher or lower than the spot price.

7. Wadiah (safekeeping)

In Wadiah, a bank is deemed as a keeper and trustee of funds. A person deposits funds in the bank and the bank guarantees refund of the entire amount of the deposit, or any part of the outstanding amount, when the depositor demands it. The depositor, at the bank's discretion, may be rewarded with *Hibah* (see above) as a form of appreciation for the use of funds by the bank.

8. Bai Salam

Means contract in which advance payment is made for goods to be delivered later on. The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract. It is necessary that the quality of the commodity intended to be purchased is fully specified leaving no ambiguity leading to dispute. The objects of this sale are goods and cannot be gold, silver, or currencies based on these metals. Barring this, Bai Salam covers almost everything that is capable of being definitely described as to quantity, quality, and workmanship.

9. Hibah (gift)

This is a token given voluntarily by a debtor in return for a loan. Hibah usually arises in practice when Islamic banks voluntarily pay their customers a 'gift' on savings account balances, representing a portion of the profit made by using those savings account balances in other activities.

It is important to note that while it appears similar to interest, and may, in effect, have the same outcome, Hibah is a voluntary payment made (or not made) at the bank's discretion, and cannot be 'guaranteed'(akin to Dividends earned by Shares, however it is not time bound but is at the bank's discretion). However, the opportunity of receiving high Hibah will draw in customers' savings, providing the bank with capital necessary to create its profits; if the ventures are profitable, then some of those profits may be gifted back to its customers as Hibah. Hibah is voluntary, and at the sole discretion of the giver, whereas payment of interest is contractual obligation that is made in advance between the parties. (RHB Banking group2006)

10. Ijarah thumma al bai' (hire purchase)

Parties enter into contracts that come into effect serially, to form a complete lease/ buyback transaction. The first contract is an *Ijarah* that outlines the terms for leasing or renting over a fixed period, and the second contract is a *Bai* that triggers a sale or purchase once the term of the *Ijarah* is complete. For example, in a car financing facility, a customer enters into the first contract and leases the car from the owner (bank) at an agreed amount over a specific period. When the lease period expires, the second contract comes into effect, which enables the customer to

purchase the car at an agreed price. The bank generates a profit by determining in advance the cost of the item, its residual value at the end of the term and the time value or profit margin for the money being invested in purchasing the product to be leased for the intended term. The combining of these three figures becomes the basis for the contract between the Bank and the client for the initial lease contract.

11. Ijarah-wal-iqtina

A contract under which an Islamic bank provides equipment, building, or other assets to the client against an agreed rental together with a unilateral undertaking by the bank or the client that at the end of the lease period, the ownership in the asset would be transferred to the lessee. The undertaking or the promise is an integral part of the lease contract to make it conditional. The rentals as well as the purchase price are fixed in such manner that the bank gets back its principal sum along with profit over the period of lease.

12. Ijarah

Means lease, rent or wage. Generally, the Ijarah concept refers to selling the benefit of use or service for a fixed price or wage. Under this concept, the Bank makes available to the customer the use of service of assets / equipment such as plant, office automation, motor vehicle for a fixed period and price.

13. Musharakah (joint venture)

Musharakah is a relationship between two parties or more that contribute capital to a business and divide the net profit and loss pro rata. This is often used in investment projects, letters of credit, and the purchase of real estate or property. In

the case of real estate or property, the banks assess imputed rent and will share it as agreed in advance. All providers of capital are entitled to participate in management, but not necessarily required to do so. The profit is distributed among the partners in pre-agreed ratios, while the loss is borne by each partner strictly in proportion to respective capital contributions. This concept is distinct from fixed-income investing (i.e. issuance of loans). (nomani,et-al 1914)

14. Qardhassan/ Qardulhassan (good loan/benevolent loan)

Qardhassan is a loan extended on a goodwill basis, with the debtor only required to repay the amount borrowed. However, the debtor may, at his or her discretion, pay an extra amount beyond the principal amount of the loan (without promising it) as a token of appreciation to the creditor. In the case that the debtor does not pay an extra amount to the creditor, this transaction is a true interest-free loan. Some Muslims consider this to be the only type of loan that does not violate the prohibition on 'riba, for it alone is a loan that truly does not compensate the creditor for the time value of money. (Tarek 2003)

15. Sukuk (Islamic bonds)

Is the Arabic name for financial certificates that are the Islamic equivalent of bonds. However, fixed-income, interest-bearing bonds are not permissible in Islam. Hence, Sukuk are securities that comply with the Islamic law (Shariah) and its investment principles, which prohibit the charging or paying of interest. Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets. (M.Naveed 2015)

16. Istisna (Manufacturing Finance)

Is a process where payments are made in stages to facilitate step wise progress in the Manufacturing / processing / construction works. Istisna enables any construction company get finance to construct slabs / sections of a building by availing finances in installments for each slab. It also helps manufacturers to avail finance for manufacturing / processing cost for any large order for goods supposed to supply in stages. Istisna helps use of limited funds to develop higher value goods/assets in different stages / contracts.

17. Takaful (Islamic insurance)

Takaful is an alternative form of cover that a Muslim can avail himself against the risk of loss due to misfortunes. Takaful is based on the idea that what is uncertain with respect to an individual may cease to be uncertain with respect to a very large number of similar individuals. Insurance by combining the risks of many people enables each individual to enjoy the advantage provided by the law of large numbers.

18. Wakalah (power of attorney)

This occurs when a person appoints a representative to undertake transactions on his/her behalf, similar to a power of attorney.

2.6 Islamic Bank Accounts

Islamic banks operate the three conventional categories of deposit accounts, viz: current accounts, savings accounts and investment accounts. However, the operational modes for these accounts vary somewhat from those of the conventional

banks. For instance, Bashir 2000 observed that deposits in Islamic banks are treated as shares and accordingly their nominal values are not guaranteed. In the same vein, both shareholders and depositors are residual claimants to Islamic banks' profits.

A. Current Accounts

The current or demand deposit account, as in the case of conventional banks, gives no return to the depositors. It is essentially a safe-keeping al-wadiah or wadiah arrangement between the depositors and the bank, which allows the depositors to withdraw their money at any time and permits the bank to use the depositors' money. As in the case of conventional banks, cheque books are issued to the current account deposit holders.

B. Savings Accounts

Savings account holders are issued with savings books and are also allowed to withdraw their money as and when they please. As the name itself indicates, the primary aim of the savings account depositor is the safe-keeping of his savings. The savings account is operated on an al-wadiah basis, but the bank may at its absolute discretion pay the depositors a positive return gift periodically, depending on its own profitability. Such payment is considered lawful in Islam since it is not a condition for lending by the depositors to the bank, nor is it pre-determined. These payments are on a profit-sharing arrangement, and not an interest payment one, as a matter of Islamic financial principle. Operators of savings accounts are entitled to a share in profits at the end of the year proportionately to the size and duration of the deposits. Though savings deposits are not guaranteed, Islamic banks take care to invest money from savings accounts in relatively risk-free short-term projects.

C. Investment Accounts

Islamic banks accept investment deposits for a fixed or unlimited period of time. The investment account is based on the mudaraba principle. Capital is not guaranteed, neither is there any pre-fixed return. Deposits are term deposits which cannot be withdrawn before maturity. Investors are entitled to a share in profits or losses in a given proportion with the bank at the end of the year proportionately to the size and duration of their deposits Abdul Gafoor, 2007.

Islamic banks feature two types of investment accounts: an investment account where the depositor authorizes the bank to invest the money in any project, and an investment account where the depositor has a say in the choice of project to be financed. A striking feature of Islamic banks is that their investment deposits are mostly short-term, reflecting the depositors' preference for assets in as liquid a form as possible.

2.7. SOME ADVANTAGES OF ISLAMIC BANKING

(i) There is a high level of variety and diversity with different levels of risk in the contracts (partnership contracts and exchange contracts) which can facilitate making contracts in Islamic banking for both savers and entrepreneurs.

(ii) It is possible to establish financial institutions with different modes which can increase the stability of a financial system.

(iii) It is expected that competition between Islamic banks with different models will increase the efficiency of the financial system.

(iv) The financial needs of Muslims are a reality as with any nation and faith. These needs can be provided by Islamic banks in accordance with their belief. This public admission can have an important role in establishing a stable and efficient market.

(v) In profit and loss sharing models, in all facility demands, profitability of the project is considered carefully, so the efficiency of Islamic banks would be expected to be greater than that of conventional banks.

(vi) Islamic banks do not finance projects which are not acceptable to Islamic society which reflects its greater responsibility.

(vii) Because of partnership contracts, the liabilities side of the balance sheet tends to become isochronous with the assets side, so Islamic banks are more resistant to external shocks and delayed repayment loans.

(iix) Profit and loss sharing makes depositors sensitive to the operations of their banks, their transparency and their efficiency. On the other hand, banks try to evaluate the projects which they are asked to finance more carefully. According to Iqbal and Ahmad (2005)

CHAPTER THREE

CONVENTIONAL BANKING

3.1 INTRODUCTION

This chapter discusses the meaning and concept of conventional banking in section one, historical perspective of conventional banking in section two, section three discussed Characteristic of conventional Banking, while section four and five explain the Product of conventional Banking and highlight conventional Bank Accounts respectively.

3.2 CONVENTIONAL BANKING

This means the bank, which is practicing the interest, based principles. The conventional banking is a system which loans are given to people at fixed interest rates and more the time period taken to pay, more becomes the amount to repay. It is a banking system which has grown up to mediate between the groups of people, entrepreneurs and investors. And to survive, the banks clearly need to make a profit.

3.2.1 BANKING

A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank links together customers that have capital deficits and customers with capital surpluses. It is the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit.

Due to their importance in the financial system and influence on national economics, banks are highly regulated in most countries. Most nations have institutionalized a system known as fractional reserve banking. They are generally subject to minimum capital requirements based on an international set of capital standards, known as the Basel Accords.

3.3 HISTORY OF BANKING

The history of banking depends on the history of money—and on grain-money and food cattle-money used from at least 9000 BC, two of the earliest things understood as available to *barter* (Davies), Anatolian obsidian as a raw material for stone-age tools being distributed as early as 12,500 B.C., with organized trade occurring in the 9th millennia.(Cauvin;Chataigner 1998).

In Sardinia one of the four main sites for sourcing the material deposits of obsidian within the Mediterranean, trade of this were replaced in the 3rd millennia by

trade in copper and silver. The society adapted from relating from one fixed material as valued deposits available for trade to another.

The possibility of stable economic relations was much improved with the change from the reliance on hunting and gathering of foods to agricultural practice, during periods dated as beginning sometime after 12,000 BC, at approximately 10,000 years ago in the Fertile Crescent, in northern China about 9,500 years ago, about 5,500 years ago in Mexico and approximately 4,500 in the eastern parts of the contemporary United State.

By the end of the 16th century and during the 17th, the traditional banking functions of accepting deposits, moneylending, money changing, and transferring funds were combined with the issuance of bank debt that served as a substitute for gold and silver coins.

New banking practices promoted commercial and industrial growth by providing a safe and convenient means of payment and a money supply more responsive to commercial needs, as well as by "discounting" business debt. By the end of the 17th century, banking was also becoming important for the funding requirements of the combative European states. This would lead on to government regulations and the first central banks. The success of the new banking techniques and practices in Amsterdam and London helped spread the concepts and ideas elsewhere in Europe.

The first bank to begin the permanent issue of banknotes was the Bank of England in 1695. Initially hand-written and issued on deposit or as a loan, they promised to pay the bearer the value of the note on demand. By 1745, standardized printed notes ranging from £20 to £1,000 were being printed. Fully printed notes

that didn't require the name of the payee and the cashier's signature first appeared in 1855.

The rise of Protestantism freed many European Christians from Rome's dictates against usury. In the 18th century, services offered by banks increased.

Clearing facilities, security investments, cheque and overdraft protections were introduced. Cheques were invented in the 1600s in England and banks settled payments by direct courier to the issuing bank. Around 1770, they began meeting in a central location, and by the 1800s a dedicated space was established, known as a bankers' clearing house. The London clearing house used a method where each bank paid cash to and then was paid cash by an inspector at the end of each day. The first overdraft facility was set up in 1728 by the Royal Bank of Scotland.

A great impetus to country banking came in 1797 when, with England threatened by war, the Bank of England suspended cash payments. A handful of Frenchmen landed in Pembroke shire, causing a panic. Shortly after this incident, Parliament authorized the Bank of England and country bankers to issue notes of low denomination.

3.4 CHARACTERISTIC OF CONVENTIONAL BANKING

- i. Based on the concept of loaning on a fixed rate of interest.
- ii. Check on financial background before lending to ensure repayment.
- iii. The longer the borrower takes to pay; the more he will have to pay.

iv. One type of loans is Adjustable Rate Mortgages (ARM) that allows banks to increase the interest rate during payment.

v. Another type of loan is “sub-prime”, which is a loan given to people who do not meet the prime requirements for a loan.

Banks also resell loans to other parties to acquire more cash to lend. The borrowers will pay back to the new owner of the loan.

3.5 PRODUCT OF CONVENTIONAL BANKING

Banks now a day's using different products for financing, these types difference usually base on based on the time and maturity. Each bank introduces different type of product according to their policy, which is mainly based on customers demand and Banks profitability. As stated earlier that conventional banks charging interest on in different rate form the borrowers.

1. *Lease Financing:*

This type of facility helps the borrowers to acquire equipment and machineries for their businesses on lease. This type of finance is long Term in nature and as such, the repayment is made in installments.

2. *Overdraft (OD):*

This is the most common form of financing Borrower requires temporary accommodation , his bank allows withdrawals on his account in excess of the balance which the borrowing customer has in credit, and an overdraft thus occurs.

This is usually allowed against collateral securities. When against collateral securities, is called “Secured Overdraft.” This is a short term facility which is granted to the borrower to enable him meeting his day to day funding needs; like payment of salaries, utilities and purchases of inventories etc. An agreed limit is sanctioned by the bank and the borrower is allowed to draw that amount through his current account.

3. Revolving Credit:

This type of loan is also short-term in nature and is used to meet short-term funding requirements of the borrowers. This type of loan does not have a fixed number of payments, as in the case of installment loan.

Cash Finance and *Running Finance* are types of revolving loans. Once the loan limit is approved, then the borrower is free to withdraw amounts to the extent of that limit.

The borrower can withdraw and repay the amount as many times as he wishes to; but he has to pay mark-up on the amount which he has actually used.

4. Letter of Credit (LC) or Documentary Credit (DC):

Letter of Credit is a written undertaking by a financial institution in favor of the supplier/seller to pay him the amount of imported/purchased goods, in case the actual importer/buyer fails to pay the liability. It is a facility which enables a customer to import/purchase goods without making advance or immediate payment from his own resources; i.e. the payment is made by the importer only on receipt of documents and actual goods.

5. Term Financing:

Commercial Banks using usually term financing, there are two features of a Term financing which distinguishes it from the other types of financing. The First thing is this type of loan has maturity more than one year of final maturity. The second thing is it is extendible under a formal mutual agreement among borrower and the Bank. This type of loan is availed by the borrower to acquire fixed assets (immovable properties i.e. land and buildings and vehicles for commercial use). The loan carries a predetermined length of time (tenure), with repayments done in installments.

6. Bills of Exchange Purchased (BEP):

A short term facility that is provided to exporters against purchase of export bills on discounted price.

7. Finance against Imported Merchandise (FIM):

This is a short term facility which is granted by banks normally to the importers against the security of Trust Receipt (Letter of Trust). Through signing the Trust Receipt, the borrower undertakes to repay the loan as soon as he sells the goods.

It is noteworthy that the default by the borrower is treated as breach of the trust, and is considered as criminal offense under the law.

8. Demand Finance:

Demand Finance may either be short term or long term; however, its repayment is done normally through installments.

9. Clean/unsecured financing:

Unsecured/clean loans are those where the banks do not demand tangible securities such as land, building, fixed/current assets, tradable inventory etc. as security; whereas, in secured financing, the banks demand any of the security as mentioned above. Secured financing is also called collateralized financing.

3.6 CONVENTIONAL BANKING ACCOUNT

A bank account is a financial account between a bank customer and a financial institution. A bank account can be a deposit account, a credit card, or any other type of account offered by a financial institution. The financial transactions which have occurred within a given period of time on a bank account are reported to the customer on a bank statement and the balance of the account at any point in time is the financial position of the customer with the institution. A fund that a customer has entrusted to a bank and from it the customer can make withdrawals.

3.6.1. TYPES OF ACCOUNT

DEPOSIT ACCOUNT

Checking Account

Current Account

- Debit card allowing payments from your account.
- May give a low interest return.
- Cheque book and overdraft facility.
- Overdraft facility needs to be agreed beforehand otherwise charge can be incurred.

Personal Account

- Wages etc. can be paid in.
- Pay in cash or cheques free of charge.
- Set up direct debits.
- Cash card to withdraw cash – some also offer debit cards.
- No cheque and no overdraft facility – use of only available funds
- Does not usually pay interest.
- However, money deposited may be used in interest bearing

Investments

d) Transaction Deposit

SAVINGS ACCOUNT

- a) Individual Savings Account
- b) Time Deposit/Certificate Deposit
- c) Tax Exempt Special Savings Account
- d) Tax-Free Savings Account
- e) Money Market Account

LOAN ACCOUNT

- a) Joint Account
- b) Low-Cost
- c) Numbered Bank
- d) Negotiable Order of Withdrawal

CHAPTER FOUR

FINANCIAL PERFORMANCE

4.1. Introduction

Based on the topic, “evaluating the financial performances of Islamic banking and conventional banking” there is need to briefly discuss the meaning of conventional bank and Islamic bank.

The conventional banking is practicing the interest based principles. Is a system which loans are given to people at fixed interest rates and more the time period taken to pay, more becomes the amount to repay. It is a banking system which has grown up to mediate between the groups of people, entrepreneurs and investors. And to survive, the banks clearly need to make a profit.

On the other hand, Islamic banking generally referred to interest free banking. Free Interest rate is the core principle of Islamic Banking industries. The main pillar of Islamic finance is prohibition of interest and enhancement of partnership sharing both in dividends and lost, unlike conventional banking where interest is an integral part of the banking system. Nigeria is a mixed religious and multi-ethnic country that has come across with conventional banking since 1894 which were setup

according to the British system which is totally different from Islamic doctrine of banking and transactions. This is based on profit taking and a man-made policy.

To evaluate financial performance of these two banks, some financial ratio and its indicator must be used. This presentation is in two sections. Section one present the performances of the financial ratios and its liquidator such as Profitability, Liquidity, Risk and Solvency and efficiency. The second section focus on detailed discussion about the hypothesis tested using statistical techniques such as Independent sample T-test and F test to determine the significance of mean of these ratios between two banks.

4.2. PROFITABILITY RATIOS

Generally, accounting profits are the difference between revenues and costs. Profitability is considered to be the most difficult attributes of a firm to conceptualize and to measure (Ross, Wester field, and Jaffe 2005). These financial ratios are used to assess the ability of the business to generate earnings in comparison with its all expenses and other relevant costs during a specific time period. More specifically, these ratios indicate firm's profitability after taking account of all expenses and income taxes, the efficiency of operations, firm pricing policies, profitability on assets and to shareholders of the firm (Van Horne 2005).

Profitability ratios are generally considered to be the basic bank financial ratio in order to evaluate how well bank is performing in terms of profit. For the most part, if a profitability ratio is relatively higher as compared to the competitor(s), industry averages, guidelines, or previous years' same ratios, then it is taken as

indicator of better performance of the bank. Study applies these criteria to judge the profitability of the two banks: Return on assets (ROA), Return on Equity (ROE), and Profit Expense Ratio (PER).

4.2.1. Return on assets (ROA)

Return on assets indicates the profitability on the assets of the firm after all expenses and taxes (Van Horne 2005). It is a common measure of managerial performance (Ross, Westerfield, Jaffe 2005). It measures how much the firm is earning after tax for each dollar invested in the assets of the firm. That is, it measures net earnings per unit of a given asset, moreover, how bank can convert its assets into earnings (Samad & Hassan 2000). Generally, a higher ratio means better managerial performance and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets. ROA can be increased by firms either by increasing profit margins or asset turnover but they can't do it simultaneously because of competition and trade-off between turnover and margin. ROA is calculated as under:

$$\text{ROA} = \frac{\text{Net of profit after tax}}{\text{Total assets}}$$

4.2.2. Return on Equity (ROE)

Return on equity indicates the profitability to shareholders of the firm after all expenses and taxes (Van Horne 2005). It measures how much the firm is earning

after tax for each dollar invested in the firm. In other words, ROE is net earnings per dollar equity capital.

(Samad & Hassan 2000). It is also an indicator of measuring managerial efficiency [(Ross 1994), Sabi (1996), Hassan (1999), and Samad (1998). By and large, higher ROE means better managerial performance; however, a higher return on equity may be due to debt (financial leverage) or higher return on assets. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE. This will always be the case as long as the ROA (gross) is greater the interest rate on debt (Ross, Westerfiled, Jaffe 2005). Usually, there is higher ROE for high growth companies.

ROE is calculated as under:

$$\text{ROE} = \frac{\text{Net of profit after tax}}{\text{Shareholders' equity}}$$

4.2.3. Profit to Expenses Ratio (PER)

It measures the operating profitability of the bank with regards to its total operating expenses. In our study, operating profit is defined as earnings before taxes and operating expenses means total non-interest expenses. The ratio measures the amount of operating profit earned for each dollar of operating expense. The ratio indicates to what extent bank is efficient in controlling its operating expenses. A

higher PER means bank is cost efficient and is making higher profits (Samad & Hassan 2000). PER is calculated as under:

$$\text{PER} = \frac{\text{Profit before tax}}{\text{Operating expense}}$$

4.3. LIQUIDITY RATIOS

Liquidity ratios indicate the ability of the firm to meet recurring financial obligations. Liquidity is important for the bank to avoid defaulting on its financial obligations and, thus, to avoid experiencing financial distress (Ross, Westerfield, Jaffe 2005). These ratios measure ability of the firm to meet its short term obligations, maintain cash position, and collect receivables. In general sense, the higher liquidity ratios mean bank has larger margin of safety and ability to cover its short term obligations. Because saving accounts and transaction deposits can be withdrawn at any time, there is high liquidity risk for both the banks and other depository institutions. Banks can get into liquidity problem especially when withdrawals exceed new deposit significantly over a short period of time (Samad & Hassan 2000). Measures of liquidity are: Loan to Deposit Ratio (LDR), Cash & Portfolio Investment to Deposit Ratio (CPID), and Loan to Asset Ratio (LAR).

4.3.1 Loan to Deposit Ratio (LDR)

Loan to deposit is the most important ratio to measure the liquidity condition of the bank. Here, loan means the advances for the conventional banks and financings for the Islamic banks. Because Islamic banks are prohibited to extend

loans and earn interest (Riba) and restricted to follow Islamic Shari'ah Principles while conducting their banking business operations so the only way the Islamic banks can utilize their deposits is to provide financings through different Islamic financial products. Bank with Low LDR is considered to have excessive liquidity, potentially lower profits, and hence less risk as compared to the bank with high LDR.

However, high LDR indicates that a bank has taken more financial stress by making excessive loans and also shows risk that to meet depositors' claims bank may have to sell some loans at loss. LDR is calculated as under:

$$\text{LDR} = \frac{\text{Loan}}{\text{Deposits}}$$

4.3.2. Cash & Portfolio Investment to Deposit Ratio (CPIDR)

Another measure of liquidity of the bank is the cash and portfolio investments to deposit ratio. The higher the ratio the better is the liquidity position of the bank, therefore, the more is the confidence and trust of the depositors in the bank as compared to the bank with lower CPIDR. This ratio serves two purposes.

First, it boosts the trust of the depositors in the bank as the depositors know that bank is not only having enough cash but also made some investments in securities portfolio and supposedly earning some positive returns on those portfolio investments.

Secondly, they feel confident that in need of cash bank may sell these portfolio investments at any time in the secondary market which is readily available for this purpose. CPIDR is calculated as under:

$$\text{CPIDR} = \frac{\text{Cash and portfolio investment}}{\text{Deposits}}$$

4.3.3 Loan to Asset Ratio (LAR)

Loan to assets ratio (LAR) is also another important ratio that measures the liquidity condition of the bank. Whereas LDR is a ratio in which liquidity of the bank is measured in terms of its deposits, LAR measures liquidity of the bank in terms of its total assets. That is, it gauges the percentage of total assets the bank has invested in loans (or financings). The higher is the ratio the less the liquidity is of the bank. Similar to LDR, the bank with low LAR is also considered to be more liquid as compared to the bank with higher LAR. However, high LAR is an indication of potentially higher profitability and hence more risk. LAR is calculated as under:

$$\text{LAR} = \frac{\text{LOAN}}{\text{TOTAL ASSETS}}$$

4.4. RISK AND SOLVENCY RATIOS

This is a class of ratios that measures the risk and solvency of the firm. These ratios are also referred to as gearing, debt or financial leverage ratios. The extent to which a firm relies on debt financing rather equity is related with financial leverage.

These ratios determine the probability that the firm default on its debt contacts. The more the debt a firm has the higher is the chance that firm will become unable to fulfill its contractual obligations. In other words, higher levels of debt can lead to higher probability of bankruptcy and financial distress. Although, debt is an important form of financing that provided significant tax advantage, it may create conflict of interest between the creditors and the shareholders (Ross, Wedsterfield, and Jaffe2005). If the amount of assets is greater than amount of its all types of liabilities, the bank is considered to be solvent.

“Deposits” constitute major liability for any type of bank whether Islamic or conventional.

Borrowed money in either form stands second among total liabilities for almost all banks except all Islamic banks which are prohibited by Islamic Shari’ah from taking or giving any kind of interest-based debts

To gauge risk and solvency of the bank, measures usually used are: Debt-Equity Ratio (DER), Debt to Total Assets Ratio (DTAR), and Equity Multiplier (EM).

4.4.1. Debt-Equity Ratio (DER)

It is one of the tools to measure the extent to which firm uses debt. It measures ability of the bank capital to absorb financial shocks. In case, creditors default in paying back their loans or the asset values decrease bank capital provides shield against those loan losses.

A bank with lower DER is considered better as compared to the bank with higher DER.

DER is calculated as under:

$$\text{DER} = \frac{\text{Total debt}}{\text{Shareholders' equity}}$$

4.4.2. Debt to Total Assets Ratio (DTAR)

It measures the amount of total debt firm used to finance its total assets. It is an indicator of financial strength of the bank. It provides information about the solvency and the ability of the firm to obtain additional financing for potentially attractive investment opportunities. Higher DTAR means bank has financed most of its assets through debt as compared to the equity financing.

Moreover, higher DTAR indicates that bank is involved in more risky business. DTAR is calculated as under:

$$\text{DTAR} = \frac{\text{Total}}{\text{Total assets}}$$

4.4.3. Equity Multiplier (EM)

How many times the total assets are of the shareholders' equity is measure by equity multiplier. In other words, it indicates the amount of assets per dollar of shareholders' equity. Higher value of EM means that bank has used more debt to convert into assets with share capital. Generally, the higher is the EM the greater is the risk for a bank. EM is calculated as under:

$$\text{EM} = \frac{\text{Total asset}}{\text{Shareholder equity}}$$

4.5. EFFICIENCY RATIOS

These ratios measure how effectively and efficiently the firm is managing and controlling its assets. These ratios indicate the overall effectiveness of the firm in utilizing its assets to generate sales, quality of receivables and how successful the

firm is in its collections, the promptness of payment to suppliers by the firm, effectiveness of the inventory management practices, and efficiency of firm in controlling its expenses. Higher value of these ratios is taken as good indicator which means firm is doing well. Ratios used to measure efficiency of the bank are: Asset Utilization (AU), Income to Expense Ratio (IER), and Operating efficiency (OE).

4.5.1 Asset Utilization (AU)

How effectively the bank is utilizing all of its assets is measured by assets utilization ratio.

The bank is presumably said to using its assets effectively in generating total revenues if the AU ratio is high. If the ratio of AU is low, the bank is not using its assets to their capacity and should either increase total revenues or dispose of some of the assets (Ross, Westerfield, and Jaffe 2005). Total revenue of the bank in this study is defined as net spread before provision plus all other income. AU is calculated as under:

$$\text{AU} = \frac{\text{Total revenue}}{\text{Total assets}}$$

4.5.2 Income Expense Ratio (IER)

Income to expense is the ratio that measures amount of income earned per dollar of operating expense. This is the most commonly and widely used ratio in the banking sector to assess the managerial efficiency in generating total income vis-à-vis controlling its operating expenses. High IER is preferred over lower one as this indicates the ability and efficiency of the bank in generating more total income in comparison to its total operating expenses. Total income in the study is defined as net spread earned before provisions plus all other income while the other expenses in the income statement are treated as total operating expense for the study. IER is calculated as under:

$$\text{IER} = \frac{\text{Total income}}{\text{Total operating expenses}}$$

4.5.3 Operating Efficiency (OE)

Unlike IER, which measures the amount of income earned per dollar of operating expense, OE is the ratio that measures the amount of operating expense per dollar of operating revenue. It measures managerial efficiency in generating operating revenues and controlling its operating expenses. In other words, how efficient is the bank in its operations. Lower OE is preferred over higher OE as lower OE indicates that operating expenses are lower than operating revenues.

Operating revenue in this study is defined as net spread earned before provisions plus fee, brokerage, commission, and for ex income.

Other expenses is defined same as we defined in the previous ratio. OE is calculated as under:

$$OE = \frac{\text{Total Operating Expenses}}{\text{Total Operating Revenue}}$$

4.6. DEPLOYMENT RATIOS

Deployment ratios are used to evaluate how well bank is using its resources .Iqabal(200) estimated two deployment ratios to evaluate the performance of Islamic banking and conventional banking in 1990s. This study uses the same deployment ratios to evaluate bank efficiency in resources allocation.

$$1. \frac{\text{Investment}}{\text{Equity and deposit}} = \frac{\text{Total investment}}{\text{Total equity +total deposit}}$$

$$2. \frac{\text{Investment}}{\text{Liabilities}} = \frac{\text{Total investment}}{\text{Total liabilities.}}$$

4.7. CAPITAL ADEQUACY RATIOS (CAR)

This ratios measure a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures.

$$\text{CAR} = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Also known as "Capital to Risk Weighted Assets Ratio (CRAR)."

This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier one capital, which can absorb losses without a bank being required to cease trading, and tier two capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

Capital ratio also known as indicates the healthiness of financial institution to shock withstanding losses. This identifies the already existing banking problems. Adverse trend in this ratio may increase risk exposure and capital adequacy problems. Iqbal (2001) used capital asset Ratio (CAR) as capital adequacy measure. Hassan & Bashir (2003) in addition to CAR used Equity Liability ratio to measure capital adequacy in their study.

i. Equity liability ratio

$$\text{ELR} = \frac{\text{Average equity}}{\text{Average liability}}$$

ii. Capital risk asset ratio

$$\text{CAR} = \frac{\text{Total capital}}{\text{Risk Weighted Assets}}$$

CHAPTER FIVE

BANKING SECTOR IN NIGERIA.

5.1 INTRODUCTION

This chapter presents the structure of Nigeria Banking sector. It also divided into sections. Section one discuss conventional banking and its evolution in Nigeria, Section two discuss Islamic banking in Nigeria and its journey so far. The comparison and similarities of Islamic and Conventional banking are presented in section three and four respectively. The fifth section discussed the role of Islamic banking in Nigeria economy.

5.2 CONVENTIONAL BANKING IN NIGERIA

The journey of banking sector in Nigeria dated back since 1894 with the establishment of BANK OF BRITISH WEST AFRICA (BBWA) all were setup according to the British system which are alien to Islamic doctrine of banking and transactions. This is based on profit making and a man-made policy.

There was no doubt that along the line of history, the Colonial Banks established their presence in Nigeria. They ran commercial affairs, affected financial

activities, and influence trade and commercial transactions throughout West Africa, from Nigeria. Barclays bank entered into financial operation in Nigeria around 1925, through merger between the Colonial Bank, the Anglo-Egyptian Bank and the National Bank of South Africa to create Barclays Bank (Dominion, Colonial and Overseas). In 1948, the British and French Bank for commerce and industry was established (later to become the United Bank for Africa). These banks therefore did not aim at meeting the needs of the African. In 1949, Dr.Nnamdi Azikwe established the bank with an African heritage (the African Continental Bank). He decided to establish the bank all in the name of Pan Africanism because foreign banks discriminated against him and his group of companies. It is a fact that ACB was actually not the first Nigerian Bank to be founded. In 1929, the Industrial and Commercial Bank became the first indigenous bank to be established, but an anemic existence and therefore went into liquidation fifteen month later, specifically in 1930.

Its failure has been attributed to mismanagement, accounting incompetence, embezzlement, even though economic repression of that period also contributed to its failure. In 1931, its remains were replaced by Mercantile Bank most of its directors were also directors in the defunct ICB. A year later, it created branches in Lagos and Aba, but six years later, it also went into voluntary liquidation. In 1947, the Nigerian Farmers and Commercial Bank also came into existence. Worried by the spate of establishment of these indigenous banks, the Government in 1948, appointed Mr. G.D. Paton, an official of the bank of, England to 'enquire generally into the business of banking in Nigeria and make recommendations to the Government on the form and extent of control which should be introduced'.

No banking legislation existed until 1952, at which point Nigeria had three foreign banks (Barclays Bank, and the British and French Bank including BBWA which was later known as Standard bank and now First Bank) and two indigenous banks (the National Bank of Nigeria and the African Continental Bank) with a collective total of forty branches. A 1952 ordinance set standards, required reserve funds, established bank examinations, and provided for assistance to indigenous banks. Yet for decades after 1952, the growth of demand deposits was slowed by the Nigerian propensity to prefer cash and to distrust checks for debt settlements.

Draft legislation for the establishment of Central Bank of Nigeria was presented to the House of Representatives later in March, 1958. It was passed and fully implemented on the 1st of July 1959 establishing the full operation of the Central Bank of Nigeria. Therefore from 1892 to 1952 can be regarded as “free banking era because there was absence of sustainable banking legislation, as anyone could set up a bank, provided it is registered under the Companies’ Ordinance Act¹². Between 1959 and 1989, when deregulation of the finance and banking sector was technically introduced through the creation of Structural Adjustment Programme (SAP) inspired by Bretton Woods’s conference, there was a heavy increase in the establishment and operation of financial Banks. New deposit-taking financial institutions became a norm as a result of financial sector reforms.

There were numerous establishments of community banks, finance and short loan houses. One major advantage of this financial supervision was the creation of People’s and Mortgage Banks, (officially called Primary Mortgage Institutions) which unfortunately presently exists only in name and logo. In 1988, the government established Nigeria Deposit Insurance Corporation (NDIC) with the

responsibility of carrying out some sort of financial reforms and assisting the Central Bank of Nigeria in formulation of policies.

It was charged with the responsibility of ensuring safe and sound banking services and insuring bank deposits through effective supervision. It was the basis of its assistant supervisory role with the Central Bank that the NDIC Act was useful.

At the end of 1988, the banking system consisted of the Central Bank of Nigeria, forty-two commercial banks, and twenty four merchant banks, a substantial increase since 1986. Merchant banks were allowed to open checking accounts for corporations only and could not accept deposits below N50, 000. Commercial and merchant banks together had 1,500 branches in 1988, up from 1,000 in 1984. In 1988 commercial banks had assets of N52.2 billion compared to N12.6 billion for merchant banks in early 1988.

In 1990 the government put N503 million into establishing community banks to encourage community development associations, cooperative societies, farmers' groups, patriotic unions, trade groups, and other local organizations, especially in rural areas. With over \$400 billion looted from the porous banking sector of Africa's oil-rich giant, Nigeria banking sector reform is a key priority for the Central bank and the newly –elected civilian regime, to attract foreign investors. However, several vested institutional and political interests make the reforms a herculean and near impossible let task.

In 2001, banks were allowed to venture into non-banking financial activities as a means of strengthening their revenue basis and, so government thought, to act as an engine for economic growth. The results were disastrous as many banks with a

small capital base – the average was US\$ 10m – with high overheads began to engage in highly speculative activities.

The central bank raised the minimum capital requirement from Naira 2 billion to Naira 25 billion. This reduced the number of Nigerian banks 89 to 25 between 2004 and 2005. US\$ 100 million flowed into the country as investment in the banking sector as banks sought to attract investors on the prospect of the reform leading to lasting changes.

However, that process did not stand the test of time. Weak credit controls, crony lending, poor corporate governance and questionable credit analysis once again exposed the sector to near bankruptcy when the next commodity-price induced boom came to an abrupt end with the financial crisis starting in 2008. Three quarters of the value of Nigerians banks were wiped out up to 2010 and 8 more banks were recapitalized.

Over the past 26 years, Access Bank Plc has transformed from an obscure Nigerian Bank into a world class African financial institution. Today, Access Bank is one of the five largest banks in Nigeria in terms of assets, loans, deposits and branch network; a feat which has been achieved through strong long-term approach to client solutions – providing committed and innovative advice.

Access Bank has built its strength and success in corporate banking and is now taking that expertise and applying it to the personal and business banking platform it acquired from Nigeria's International Commercial bank in 2012. The last two years have been spent integrating the business, investing in the infrastructure and strengthening the product offer.

As part of its continued growth strategy, Access Bank is focused on mainstreaming sustainable business practices into its operations. The Bank strives to deliver sustainable economic growth that is profitable, environmentally responsible and socially relevant.

Access Bank Plc, commonly known as Access Bank, is a Nigerian multinational commercial bank, owned by Access Bank Group. The bank's headquarters is located in Lagos, Nigeria's financial center. Access Bank has in excess of 300 bank branches in Nigeria's major commercial centers. Access Bank is a large financial services provider, with an asset base in excess of US\$12.6 billion (NGN:2.02 trillion), as of February 2012. The shareholders' equity in the bank is valued at approximately US\$2.33 billion (NGN:373.5 billion)

Starting in 2007, Access Bank began an International expansion drive. As of February 2012, it has subsidiaries in the Democratic Republic of the Congo, Ghana, Rwanda, Sierra Leone, The Gambia, United Kingdom, and Zambia. The bank received its license from the Central Bank of Nigeria in 1989, and listed on the Nigerian Stock Exchange in 1998. In 2002 Access Bank was taken over by a core of new management led by AigbojeAig-Imoukhuede and Herbert Wigwe.

In 2005, Access Bank acquired Marina Bank and Capital Bank (the former Commercial Bank (Crédit Lyonnais Nigeria)) by merger. Also in 2007: Access Bank established a subsidiary in Banjul, The Gambia. This bank now has a head office and four branches, and the bank has pledged to open another four branches. 2008: Access Bank acquired 88% of the shares of Omnifinance Bank, which was established in 1996. It also acquired 90% of BanquePrivée du Congo, which South African investors had established in 2002. Access Bank acquired 75% of the shares

of Bancor SA, in Rwanda. Bancor had been established in 1995 and reorganized in 2001.

In September Access Bank opened a subsidiary in Freetown, Sierra Leone, and then in October, the bank opened subsidiaries in Lusaka, Zambia and in London, United Kingdom.

In 2009, Finbank (Burundi) joined the Access Bank network and 2011: Access Bank in talks with the Central Bank of Nigeria to acquire Intercontinental Bank Plc. Further to the approval of the shareholders of both banks, court sanction of the Federal High Court of Nigeria and approval of the Central Bank of Nigeria and the Securities & Exchange Commission, Access Bank Plc (“Access”) and Intercontinental Bank Plc (“Intercontinental Bank”) announce the completion of the recapitalization of Intercontinental Bank and the acquisition of 75% majority interest in Intercontinental Bank by Access Bank Plc. Effective today, Intercontinental Bank (including all its assets, liabilities and undertakings) becomes a subsidiary of Access Bank Plc.

The combined effect of the restoration of Net Asset Value (NAV) to zero by AMCON and N50billion capital injection by Access Bank Plc is that Intercontinental Bank now operates as a well capitalized bank, with shareholders funds of N50billion and Capital Adequacy Ratio (CAR) of 24%, well above the 10% regulatory threshold.

January 2012: Access Bank announced the conclusion of its acquisition of the former Intercontinental Bank, creating an expanded Access Bank, one of the largest four commercial banks in Nigeria with over 5.7 million customers, 309 branches and over 1,600 Automated Teller Machines (ATMs). Access Bank Plc. is the flagship

company of the financial conglomerate known as Access Bank Group. The member companies of the group include the following businesses: The stock of the Group trades on the Nigerian Stock Exchange (NSE), under the symbol: ACCESS.

5.3 ISLAMIC BANKING IN NIGERIA

Islamic banking generally referred to as interest free banking dated back around independence in 1960. Over the years, efforts have been made by several institutions to provide Islamic financial products and services. The first recorded effort to provide Islamic banking services was made by Muslim Bank West Africa Limited in Lagos around 1961. The effort was however short lived as the bank was directed to close down in 1962 by former Minister of Finance, Chief ObafemiAwolowo. (Orisankoko, 2010). The existence of the Muslim Bank has remained a subject of controversy in Nigeria.

However, Orisankoko (2010) cited two court cases contained in Ajayi (1999) in both of which Muslim Bank West Africa was mentioned as defendant to prove that the bank really existed and even operated in Lagos between 1961 and 1962. Literature on Islamic banking in Nigeria was almost completely silent about propagation efforts in the 1970s.

In late 1980s, a number of conferences and seminars were organized by University based Islamic centers and various Islamic groups to create awareness among Nigerians particularly Muslims on the evils of interest/usury and the need for adopting interest-free banking on the one hand, and on the other hand, to make the Government see reason why Muslims should be given the opportunity to conduct

their financial activities in line with the provisions of Shari'ah. The effort yielded positive results. In addition to Reading material in form of textbooks, books of reading, conference proceedings, leaflets and pamphlets arising from the conferences and seminars were made available in both English and some local languages to enlighten people about Islamic banking and its modus operandi and why Muslims in particular and Nigerians in general deserve to have it. Having created enough awareness among the people, different groups started calling on government to officially recognize Islamic banking and facilitate its emergence.

The year 1991 appeared to be a new dawn for Islamic banking effort in Nigeria. The then military administration headed by General Ibrahim Badamasi Babangida (retired) issued the Bank and Other Financial Institutions Decree (as amended). The Decree was seen as the first singular effort by the Government of Nigeria to recognize and facilitate the emergence of Islamic banking in Nigeria. Under the heading 'General and Supplementary', section 39(1) of the Decree provides: "except with the written consent of the Governor, no bank shall, as from the commencement of this Decree, be registered or incorporated with a name which includes the words "Central" "Federal," "Federation," "National", "Nigeria", "Reserve", "State", "Christian", "Islamic", "Moslem", "Qur'anic", "Biblical".

Further, under the heading 'Display of interest rates', section 23(1) provides:

Every bank shall display at its offices its lending and deposit interest rates and shall render to the Bank information on such rates as may be specified, from time to time, by the Bank; provided that the provisions of this subsection shall not apply to profit and loss sharing banks. (Bello)

The fore mentioned sections were seen to have recognized Islamic banking in Nigeria and provided the foundation for the establishment of PLS banks. Orisankoko (2010) documents that based on these provisions, two banks were said to have been licensed in 1992 to carryout banking business using PLS modes but none could commence operation. In the early 2000s, Habib Bank Nigeria Limited created an Islamic banking window for provision of Shariah compliant financial products based on the provisions of these sections. The bank enjoyed a lot of patronage from both Muslims and non-Muslims in Nigeria though the Islamic banking window was short-lived. Around the same period, few microfinance banks especially in the North and South-West parts of the country had tried to blend some of their products to look like Shari'ah-compliant but without much success.

Islamic banking in which business potentials for a non-interest bank in Nigeria is enormous as such as institution as long been awaited by a population of over 78 million Nigerians representing over 46% of the country's population of about 170 million started gaining its popularity in Nigeria since the introduction of 'Free Interest Banking 'in April 2003, JAIZ International Bank, now JAIZ Bank was registered to carry out banking operations in line with the Islamic Shari'ah.

Although a lot has been done by various stakeholders to actualize the dream, the bank could not see light of the day until recently when CBN granted Approval in Principle (AiP) for it to operate as a regional interest-free bank. The bank, which was originally billed to commence operation in September 2011 with offices in Abuja, Kaduna and Kano, with the main objective of being an Islamic investment holding company to set-up non-interest institutions like Islamic bank, Takaful (Islamic Insurance), Pension Fund Administration etc.

An international bank, Stanbic IBTC was also granted license to operate a window of Islamic banking around the same time (Dogarawa, 2011).

However, it could not meet the capital requirement of N25 billion, furthermore a team led by CBN deputy governor went to Malaysia to study the operation of interest free banks in Malaysia. This study led to the establishment of Islamic finance working group comprising of Nigeria deposit insurance corporation NDIC, National Insurance Commission NAICOM pension Commission PENCOM and security and exchange Commission SEC in 2008, the central Bank of Nigeria (CBN) after meeting this requirement became a member of Islamic Service Board ISB.

Albeit, Islamic Finance News (2011) noted that Jaiz Bank International is expected to commence full operations by August, 2011. As a matter of fact, the promulgation of the Banks and Other Financial Institutions Decrees (BOFID) 24 and 25 of 1991 which replaced the Banking Act of 1969 actually signaled a new dawn for banking operation in Nigeria because of the landmark provisions made for the establishment of non-Interest banking in the country. It is also interesting to state that the recent attempt by the Central Bank of Nigeria (CBN) at enacting new provisions for the proper establishment and operation of Islamic banking in the country is indeed a welcome development as clearly stated in its released Circular Reference No. FPR/DIR/CIR/GEN/01/010 (CBN, 2011).

Currently, Jaiz bank is the only full-fledged non-interest (Islamic) bank in Nigeria and had since expanded with branches network to 17 with additional 10 schedules for opening before the end of 2015. It has also applied to the regulatory body for a national operating license which will enable it to operate in all parts of the

federation. The banks ultimate objectives are to expand beyond the shores of Nigeria in line with its vision.

Consequently, it is increasing its current share capital base from #11.7 billion (USD\$75 MILLION) to #15 billion (USD\$78million) this upgrade will enable the bank operate in all 36 states of federation including the federal capital territory, thus, positioning is to compete effectively in one of the most thriving sectors of the Nigerian economy. The plan to be additional 16 locations in 2015 and to reach 100 by 2017.

5.4 COMPARISON OF ISLAMIC BANKING AND CONVENTIONAL BANKING

Islamic bank is an intermediary and trustee of money of other people but the difference is that it shares profit and loss with its customers. This difference that introduces the element of mutuality in Islamic banking makes its depositors as customers with some ownership of right in it (Dar and Presley 2000).

The conventional banking is a banking system in which loans are given to people at fixed interest rates and more the time period taken to pay, more becomes the amount to repay!!The stream covers the structures, functions, processes, products and services. (Answer corporation 2014).

Table 5.1

	ISLAMIC BANKING	CONVENTIONAL BANKING
1	<p>Islamic banking is based on interest-free principle and principle of Profit-and-Loss (PLS) sharing in performing their businesses as intermediaries (Arif 1988).</p> <p>It key in repayment capability of the customer to pay back.</p>	<p>Based on the concept of loaning on a fixed rate of interest and check on financial background before lending to ensure repayment.(Abdullah 2009)</p>
2	<p>Mode of operating is Islamic sharia principle</p>	<p>Mode of operating is man-made principle</p>
3	<p>It promotes risk sharing in performing business.</p>	<p>Investors is assured of predetermined rate of interest</p>
4	<p>Aim at maximizing profit but subject to sharia</p>	<p>Aim at maximizing profit without and restriction.</p>
5	<p>It deal with zakat</p>	<p>It does not deal with zakat</p>
6	<p>Participation in partnership is fundamental function.it gives room to know very well.</p>	<p>Lending money and getting it back with compound interest</p>

7	. No provision for additional charges in case of defaulter.	It can charge additional money in case of defaulter
8	Ultimate aim to ensure equity i.e. gives importance to public interest.	Own interest become prominent.no effort to ensure growth with equity
9	To borrow money from money market is not easy because it is strictly on Islamic Sharia	Borrowing from money market is easier
10	Since it shares profit and loss, it pays greater attention to developing project appraisal and evaluation.	Since income from advance is fixed, it gives little importance to developing expertise in project
11	Relation to client is partner, investors, trader, buyer and seller.	Status relation to client is creditor and debtors.
12	Guarantee deposit for deposit account, based on the principle of Al-wadiah except mudarah.	Guarantee all its deposit

Note: Islamic banks are similar to those of non-Islamic banks in that both offer similar (financial) services and play a vital role in the economic development of their societies.

5.5 SIMILARITY OF CONVENTIONAL AND ISLAMIC BANKING

A. Islamic financial institutions (Banks) are operating in the same society where conventional banks are operating and perform all those functions which are expected from financial institutions. All these financial institutions are operating in the world to run the economic activities and bring benefits to the people in the world.

B. Both commercial institutions licensed to offer deposit investment schemes to customers. Deposits are collected from savers on both type of institutions for rewards irrespectively a bank is under Islamic or conventional system.

C. Both are providing financial services to productive channel with rewards and invest with its customers in different economic activities.

D. Both have same temporary source of finance for liquidity management purpose.

E. Both offer these services for safe keeping and convenience in payment. They are not offering return or profit. The face value of the deposit is guaranteed by the bank.

F. They are both offering this service, where by investors committed for a certain period of time. These accounts are usually not checkable and early withdrawal may be denied by bank, but usually allowed as per industry practice.

G. They both offer similar forms of retail services like checking accounts, money transfer trade finance services, lockers, on line services, debit cards and Atm services.

5.6 THE ROLE OF ISLAMIC BANKING IN NIGERIA ECONOMY

Before we can talk on the role of Islamic banking in Nigeria, we must look into Nigeria economy, Nigeria economic structure and the economic growth

5.6.1 NIGERIA ECONOMY AND ECONOMIC GROWTH.

Economic growth, which is defined as an increase in Gross National Product (GNP) or increase in Gross Domestic Product (GDP), has been the main purpose of most economic studies and models from Adam Smith (the father of Classical Economics)

Economic growth is an essential condition for economic development; investment is an important factor for economic growth. Thus a financial system, especially banking, which provides credit to investors, plays an important role in financing economic development. As there are two main groups in every society, those who have surplus money but are not able to or do not want to invest and produce, and those who are able to operate as producers, and even originators, but do not have enough money to invest, the main responsibility of banks is to collect surplus money from savers and depositors (mobilization), and allocate it to producers and creators. Economic growth has clear benefits for banks and the wider economy.

Nigeria is a middle income, mixed economy and emerging market, with expanding financial, service, communications and technology and entertainment sectors. It is ranked 26th in the world in terms of GDP (nominal: 30th in 2013 before

rebasings, 40th in 2005, and 52nd in 2000). Nigeria Economy is largely Oil based because our former military rulers and the democratic rulers failed to diversify the economy way from its overdependence on the capital-intensive oil sector which provides 95% of foreign exchange and 80% of budgetary revenues. In 2010 Nigeria GDP rose strongly because of increased oil exports and high global crude prices.

The nation's appetite for borrowing to finance critical development projects has been growing in recent times with both the domestic and foreign indebtedness rising by \$13.91bn in the last two years, EVEREST AMAEFULE writes "The country currently owes local and international creditors a total of \$50.91bn (about N7.93tn), the Debt Management Office has said.

Statistics obtained from the DMO website showed that as of June 30, 2013, the nation's external debt stood at \$6.92bn (about N1.08tn), while the domestic debt component stood at N6.85tn (\$43.99bn).

By June 2011, the total debt of the country stood at \$37bn. This means that, the debt stock had risen by \$13.91bn. This shows a growth rate of 37.59 per cent. While unfolding the details of the nation's Middle Term Debt Management Strategy, which was approved by the Federal Executive Council, Nwankwo said there was an urgent need to rebalance the structure of the nation's debt because the interest rate payable on domestic debt was too high. He said the ratio of the Federal Government's domestic debt stood at 88, while the ratio of the foreign debt stood at 12.

According to International Monetary Fund (IMF) projections, Nigeria is the second fastest growing economy in the world and will outperform other African economies in the near future. Presently Nigeria is the largest economy in Africa

(based on rebased figures announced in April 2014). It is also on track to become one of the 20 largest economies in the world by 2020. Its re-emergent, though currently underperforming, manufacturing sector is the third-largest on the continent, and produces a large proportion of goods and services for the West African region. Nigeria recently changed its economic analysis to account for rapidly growing contributors to its GDP, such as telecommunications, banking, and its film industry. As a result of this statistical revision, Nigeria has added 89% to its GDP, making it the largest African economy.

The total monetary value of all finished goods and services produced in Nigeria in the second quarter of 2015 recorded a 2.57 percent growth; the latest edition of the data on Quarterly Gross Domestic Product estimates of the Nigerian Bureau of Statistics has shown. The report showed that the country's GDP in real terms, which grew by 2.35 percent on year-on-year basis, was lower by about 1.61 percent points from the figure recorded in the preceding quarter. The figure was equally lower by about 4.19 percent points from the growth recorded in the corresponding quarter of 2014.

During the quarter, the report said aggregate GDP stood at about N22.86 trillion (in nominal terms) at basic prices. When compared to the value of N21.74 trillion in the corresponding period of 2014, the NBS said nominal GDP was higher by about 5.17 percent, while nominal GDP growth was also higher relative to growth recorded in first quarter of 2015 by 0.85 percent points.

During the period under review, the report said crude oil production, which is the mainstay of the country's economy, stood at an average 2.05 million barrels per day (mbpd), reflecting about 5.9 percent decline from about 2.18 million bpd

production in the first quarter of 2015. Oil production was equally lower relative to the corresponding quarter in 2014 by about 7.3 percent when output was recorded at 2.21 million bpd.

Consequently, the NBS said real growth of the country's oil sector slowed by 6.79 percent (year-on-year) in the second quarter of 2015, representing a decline by about 5.14 percent relative to the growth recorded in the corresponding period of 2014. The NBS said growth was, however, relatively better by 1.35 percent points relative to growth in the first quarter of 2015.

On a quarterly basis, the report noted that growth also slowed by 3.82 percent points, with the oil sector's share of the economy accounting for about 9.8 percent total real GDP, down from the shares recorded in the corresponding period of 2014.

The report said the growth in the non-oil sector, which grew by 3.46 percent in real terms, was largely driven by the activities of Trade, Crop Production, Construction and Telecommunications. The growth in the non-oil sector was about 2.13 percent points lower than the figure in the first quarter, and 3.26 percent points lower from the corresponding quarter in 2014.

In real terms, the non-oil sector contributed 90.20 percent to the nation's overall GDP, marginally higher than both the 89.55 percent share recorded in the first quarter of 2015, and 89.24 percent recorded in the corresponding period of 2014.

The new regime faces some daunting domestic, regional and global challenges, including sectarian divides, a Boko Haram insurgency and currently

weaker oil prices. GDP growth has been strong and above the average for Sub-Saharan Africa as a whole; over a ten-year period to end-2014 Nigerian annual growth averaged +6.4%. However, even such high rates of growth do not represent the economy's actual potential; for example, oil output and revenues are reduced significantly because of industrial disputes and actions of criminal gangs that siphon off considerable crude flows through official pipelines. Moreover, ongoing disputes between federal and state authorities relating to oil revenue-sharing agreements continue to provide uncertainties and have a negative effect on foreign investment plans in the country's oil sector.

The oil and gas sector represents around 33% of GDP and remains a pivotal force for economic development of the country. It provides around 80% of government revenues and accounts for over 90% of export earnings. However, recent governments adopted an overall policy of economic diversification away from oil and gas and actively promoted investment in non-hydrocarbon sectors, including mining, agriculture, financial services and manufacturing. Benchmark oil prices at mid-June 2015 (USD65/barrel) were down -43% y/y and are unlikely to recover to >USD100/b (as in 2011-14) in the forecast period. As a result, Nigeria's current account surplus (+4.6% of GDP in 2012) will turn to a deficit in 2015 and in 2016.

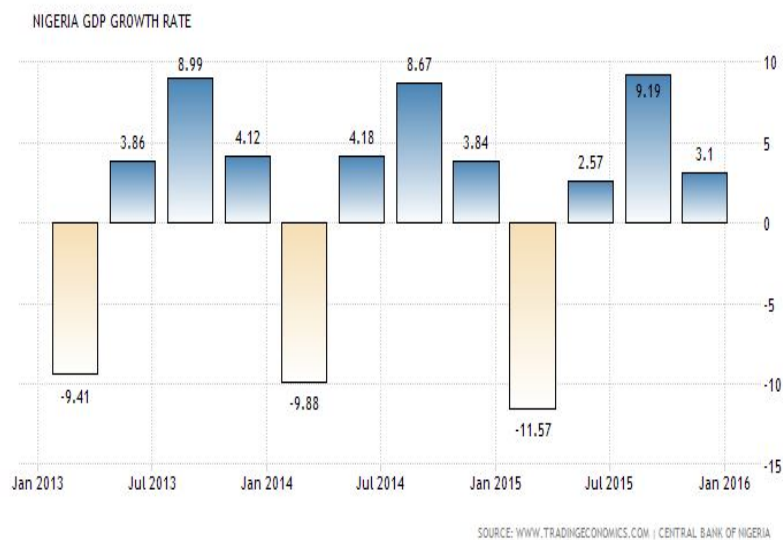
Consequently, Pressures associated with external debt repayments have diminished substantially, following debt forgiveness and rescheduling under Paris and London Clubs in 2006 and 2007. Savings from previously-arranged external debt scheduling are being redirected towards improvements in healthcare, housing, education, agriculture, power and water infrastructure. However, while external debt repayments are now comfortable, debt ratios are again increasing.

Nigeria last year inadvertently stormed past South Africa to become Africa's largest economy after its GDP was rebased to take into account the ballooning service sector, including its telecoms and Nollywood film industries. It turns out that the oil and gas sector only accounts for about 16 per cent of GDP.

As Capital Economics points out, while growth is slowing it is the non-oil sector that has been driving growth. While this is good news for a more diversified economy, consumers could have a tough time ahead in the short term. Renaissance Capital says that any austerity policies introduced by the Buhari administration could include an increase on import tariffs and VAT, which would weigh on consumers.

However, its food and healthcare analyst Robyn Collins is optimistic that a longer-term clampdown on graft "could support meaningful growth in the Nigerian middle class for the first time"

Figure 5.1



The country may have been identified as one of the economies with great potential. But if the terrorist group is not controlled, there is every possibility of further outflows, making the economy and fiscal health even more vulnerable, especially if oil prices do not recover.

In 2015, the economy is expected to grow by 5.54 percent, again supported by growth outside the oil sector. This is also to be sustained by structural reforms by the Federal Ministry of Finance with initiatives such as the creation of the Nigerian Mortgage Refinance Company to support the Building and Construction Sector; Policies to support the Agricultural Transformational Agenda, such as the a N50 billion Farm Mechanization Support Fund set up by the Central Bank to establish 1,200 agricultural equipment hiring enterprises. All these and more are policies aimed to counter the cyclical effects. Non-public investment decisions, which may be put on hold during the first quarter of the year as a result of the upcoming elections, are likely to be firmed up by the second quarter, will provide further support for growth. And a reprioritization of capital expenditure by the FMF is likely to provide support for growth to reach 5.78 percent in 2016 and 5.80 in 2017.

However, consistent economic growth has proven evasive, even for developed countries. Economic growth can be achieved through a combination of using resources ‘extensively’ and ‘intensively’, though the only way to ensure sustainable economic growth is to realize productivity gains.

According to the American economic development council (1984), “Economic development is the process of creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and services”.

5.6.2 MEASURE OF ECONOMIC GROWTH

Economic Measures:

- Inflation
- Unemployment
- Growth (GDP)
- Balance of Payments
- Exchange Rate
- Non-Economic Measures:
 - Quality of Life
 - Environment
 - Health
 - Education Economic development

5.7 ROLES OF BANKING IN ECONOMIC DEVELOPMENT

- Granting Loan. A loan is granted for a specific time period, it could be short time or longtime. Loans are generally granted against the security of certain assets. A loan may be repaid either lump sum or in installments.

- Granting Advances: An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time.
- Issuing letters of credit, traveler's cheques, circular notes drafts and pay orders;
- Undertaking safe custody of valuables, important documents, and securities by providing safe deposit vaults or lockers;
- Providing customers with facilities of foreign exchange.
- Standing guarantee on behalf of its customers, for making payments for purchase of goods, machinery, vehicles etc.
- Collecting and supplying business information;
- Providing reports on the credit worthiness of customers.
- Accepting Deposits.

5.8 THE ROLE OF ISLAMIC BANKING IN NIGERIA ECONOMY

As discuss earlier that economic growth is an essential condition for economic development and financial system, Nigeria is one of the world's biggest oil exporters, but it is also one of the world's poorest countries, with the majority of the population living on less than \$1 per day.

Since banking plays an important role in financing economic development and since there is an interest rate, 'riba', in conventional banks, which is prohibited

in Islam makes Nigeria economy to be ill in all its economic measure. After the \$4.6bn payment, Nigeria still will owe about \$5bn to other lenders, including the World Bank and the private sector.

Okonjo-Iweala, the minister of finance had reasoned that the Federal Government could do with more foreign sources than borrowing from the domestic market. Although she had championed the exit of the country from the Paris Club of Creditors during her first tenure as Minister of Finance, she is now insisting that the nation's ballooning domestic debt is not healthy for the economy.

Islamic banking which also plays the same role as conventional banking but eliminates interest in its practice then emerges as the solution that lies in a shift to equity-based financing, which is the primary characteristic of Islamic Finance.

Therefore, Islamic banking serves as a positive impact on economic growth.

Shariah law is protective of property rights and contract law, providing a solid basis on which banks can form, regardless of a country's underlying legal system. Islamic banks abide by both the law of the land and Islamic law, rendering a country's law less powerful than in the case of conventional banks in determining their financial development.

Although the strictness of Shariah law is apparent, its power may be diluted in practice, especially if a bank is merely repackaging products without following the letter of the law (Imam et. al 2010).

The concept of the Islamic economic system as described in all its aspects focuses on the worship of the creator, which includes man's duty to develop life on

earth, thus securing a decent standard of living for the individual. Islam stresses that man is the principle agent for developing life on earth and hence the development of man is a required condition for the development of society. (El-Ghazali, 1994)

The large number of economic ills, including poverty, social and economic injustice, inequalities of income and wealth, economic instability and inflation of monetary assets are all in conflict with the value system of Islam.

It is the responsibility of the money and banking system to contribute to the achievement of socio-economic development and hence eliminate such economic ills.

Some economists even believe that because of the elimination of interest (riba), working according to Profit and Loss Sharing (PLS) and its similarity to universal banks, Islamic banking has a more important role than conventional banking systems in this regard. There are several empirical works regarding the role of Islamic banking in economic development.

For instance: Ahmed (2005) showed that there are operational problems related to the use of equity-based instruments to finance different financial growth factors, in particular working capital and argued that debt contracts and leasing contracts cannot be used to finance working capital and also that there are no operational models for using murabahah and mosharakah to finance working capital. He assert that in order to solve the problem of financing different growth factors it is necessary to work on developing operational models of corporate finance in general and workable equity-based instruments and institutions in particular.

Islam encourages the earning of profit as profit symbolizes successful business dealing and creation of new wealth. Interest on the other hand is a cost that

is in place regardless of the outcome of business operations. If business losses are experienced, there may not be real wealth creation. Social justice requires that lenders and borrowers share both profit and loss in an equitable manner and that the method of accumulating and distributing wealth in the economy is fair and represents true productivity (Iqbal, 1997). To achieve these goals, there are several modes of finance used in Islamic banking, which is discussed below.

❖ ***DISTRIBUTION OF RISK BETWEEN ENTREPRENEURS AND DEPOSITOR:***

Islamic banks are less risky than conventional banks as both investors and entrepreneurs share any risks that are involved in the business. There will be greater transparency in their transactions with clients –depositors as well as fund-seekers– due to compliance with the avoidance of gharar (ambiguity) resulting in clear contracts for every transaction. Since Islamic banking links financial intermediaries’ returns directly to the actual revenue of the borrower, Siddiqi (1999) argues that funds are allocated towards projects that are more innovative and expected to produce better results.

Siddiqi asserts that the risk-sharing aspect of Islamic finance incentivizes banks and private lenders to be more prudent with their funds and, consequently, allocate liquidity more optimally than conventional banks. Since lenders would have a personal stake in the success of the project, any risk they undertook would reflect a true belief in the success of the borrowers’ endeavors, unlike conventional lending in which risk can be bought and sold for profit primarily through credit default swaps. Siddiqi’s argument is questionable, however, since Islamic banks may also exercise

more caution in their investments, stimulating less innovation than conventional banks due to the increased burden of risk.

Furthermore, entrepreneurs have less incentive to work hard to achieve success since they are bearing such a limited financial risk. It is unclear which of these hypotheses dominates empirically.

❖ ***STABILITY:***

The Islamic profit sharing concept helps to foster economic development by encouraging equal income distribution and which results in greater benefits for social justice and long term growth. It is well known in traditional finance literature that interest based debt finance is an important source of economic instability when compared with equity finance.

(Hasan and Dridi 2010) argue that this characteristic of Islamic banking should increase stability, thereby stimulating growth. Shariah-compliant products align entrepreneurs' payment obligations with revenue accrual, leading to a reduction of instability in financial markets. Islamic law prohibits the exchange of money for money or money for debt, which frequently degenerates into games of chance, creating instability through speculation (Siddiqi 1999).

Siddiqi (1999) reasons that exchange rate fluctuations—indicative of volatile financial markets—are harmful to the growth of developing countries and, accordingly, the prohibition of interest can play an integral role in solving contemporary financial problems.

Hasan and Dridi (2010) assert that stability became an apparent characteristic of Islamic banking during the recession, as Islamic banks experienced far less of an

adverse economic impact than their conventional bank counterparts. However, it is important to note that they have also been less profitable in the recovery.

❖ ***EFFICIENT USE OF MONEY:***

The profit-loss sharing scheme improves capital allocation efficiency as a return on capital depends on productivity and the allocation of funds is based on the success of the project. In an economy based on interest, there is a price for money which leads to some traders using bartering which is inefficient. In an economy based on interest, there is a price for money which leads to some traders using bartering which is inefficient.

There is a strong school of economists who argue that interest based finance is sub-optimal on purely economic grounds. Despite the fact that the rate of interest operates in conventional economies as a price, monetary economists insist that a zero nominal interest rate is a necessary condition for optimal allocation of resources. The reason is simple. After switching from metallic to fiat money adding one marginal unit of real balances costs the community no real resources. Therefore imposing a positive price on use of money would lead traders to economize on the use of money, in their efforts to minimize transaction costs. They would therefore use some real resources instead of money. (Iqbal and Ahmad, 2005: 2)

In Islamic banking —while the time value of money is maintained, there is no need to handle the complicated question of how to bring the rate of interest down to zero in order to reach the optimal allocation of resources. In other words, Islamic finance is a short-cut to the efficiency in the financial sector (Al-Jarhi, taken from Iqbal and Ahmad, 2005).

❖ THE IMPORTANCE OF THE QUALITY OF A BUSINESS PLAN IS GREATER THAN THE CREDIT RATING OF BORROWERS:

The profit sharing scheme encourages investment because investment depositors receive a share in the banks' profits. This increase in investors will implicitly result in the increase in employment. Instead of being lenders, Islamic banks will provide financing by coming in as traders (murabaha), lessors (Ijara) or partners (mudaraba; musharaka). As conventional banks receive a fixed amount as interest and there is no ownership relationship between the bank and the client, banks are not concerned with business plans. What is important for them is the credit rating of the borrowers which guarantees the return of the initial loan plus interest. In contrast, in Islamic banks, because of the existence of profit and loss sharing and because of the changeable profit, the quality of a business plan and the ability of borrowers (entrepreneurs) is more important than the credit rating of the borrowers

❖ CONTROL OF EXCESSIVE CREDIT CREATION:

The Islamic financial system is more stable than the conventional banking system due to the elimination of debt financing. It also reduces inflation in the economy as the supply of money is not permitted to go above the supply of goods. In Islamic finance, there is a close relationship between money and the production of goods and services which are connected to each other. So it is not easy for banks to create money excessively. Al-Jarhi (2005: 20) states that:

All Islamic modes of finance involve money on the one hand and/or services on the other. Monetary flows through Islamic financial modes would have to be tied directly to commodity flows. In other words, Islamic finance removes the dichotomy

between financial and real activities. Obvious, this leaves little room for excessive credit expansion, as the financed provided by financial institutions to business units is automatically earmarked for specific use.

❖ ***DECREASE OF MORAL HAZARD AND ADVERSE SELECTION:***

Islamic banks will stay away from financing prohibited activities i.e. Harmful goods and activities are not permissible e.g. alcohol, gambling, pork, pornography, arms etc. Also wasteful use and extravagances undesirable Usage which harms public interest or the environment is to be avoided. Since Islamic banks operate as universal banks they are likely to be more efficient in monitoring and surveillance, thereby reducing the risk of adverse selection and moral hazard (Al-Jarhi, 2005:20, cited in, Calomiris, 2000). As there are many finance applicants and banks do not have enough information to select the best, they are usually faced with adverse selection. The more information there is the less the adverse selection. It is obvious that because Islamic banks act according to the profit and loss sharing principle, they are likely to be more able to avoid adverse selection compared to conventional banks through more effective monitoring.

Since the Islamic banking system often acts according to profit and loss sharing, the motivation for moral hazard is stronger than for conventional banks. On the other hand, because of the existence of monitoring in Islamic banks the probability of moral hazard decreases. However, empirical works show that in bank systems such as Islamic banks and universal banks which use debt, equity finance and profit and loss sharing simultaneously, they are more likely to avoid moral hazard and adverse selection. According to Dewenter and Hess (1998):

Finally, Islamic banks have a large potential for Shariah financial products to play a role in growth in the future. Infrastructure development is known to influence economic development.

Al Rajhi (1999) argues that there are many opportunities for Islamic bank to finance development projects in both the private and public sector in cooperation with global economic organizations such as the World Bank, IMF, IFC, and the Islamic Development Bank.

CHAPTER SIX

DATA ANALYSIS, FINDINGS AND DISCUSSION

6.1 INTRODUCTION

This chapter concentrates on analytical and descriptive methods. Comparative and comprehensive approach analysis will be used to compare the performances of both banks.

Based on the topic, “evaluating the financial performances of Islamic banking and conventional banking” there is need to briefly discuss the meaning of conventional bank and Islamic bank.

The conventional banking is practicing the interest based principles. Is a system which loans are given to people at fixed interest rates and more the time period taken to pay, more becomes the amount to repay. It is a banking system which has grown up to mediate between the groups of people, entrepreneurs and investors. And to survive, the banks clearly need to make a profit.

On the other hand, Islamic banking generally referred to interest free banking. Free Interest rate is the core principle of Islamic Banking industries. The main pillar of Islamic finance is prohibition of interest and enhancement of partnership sharing both in dividends and lost, unlike conventional banking where interest is an integral part of the banking system. Nigeria is a mixed religious and multi-ethnic country that

has come across with conventional banking since 1894 which were setup according to the British system which is totally different from Islamic doctrine of banking and transactions. This is based on profit taking and a man-made policy.

To evaluate financial performance of these two banks, some financial ratio and its indicator must be used. This presentation is in two sections. Section one present the performances of the financial ratios and its liquidator such as Profitability, Liquidity, Risk and Solvency and efficiency on a table and using statistical techniques such as Independent sample T-test and F test to determine the significance of mean of these ratios between two banks. The second section focus on detailed discussion about the hypothesis tested in relevant to the tables.

6.2 PROFITABILITY RATIOS

6.2.1 Return on Assets (ROA)

<i>ROA</i>	$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$	X	$\frac{100}{1}$		
ACCESS BANK					
2012	$\frac{35,815,611.00}{1,515,754,463.00}$	X	$\frac{100}{1}$	=	2.36
2013	$\frac{26,211,844.00}{1,704,094,012.00}$	X	$\frac{100}{1}$	=	1.54
JAIZ BANK					
2012	$\frac{(728,617.00)}{14,114,813.00}$	X	$\frac{100}{1}$	=	(5.16)
2013	$\frac{(742,795.00)}{33,915,651.00}$	X	$\frac{100}{1}$	=	(2.19)

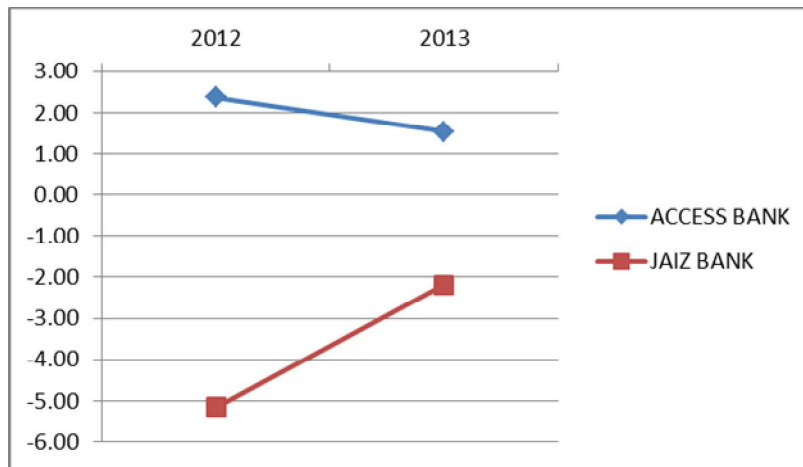
Return on Assets (ROA)

Table: 6.1

	2012	2013	Mean	S.D
ACCESS BANK	2.36%	1.54%	1.95%	0.0001
JAIZ BANK	-5.16%	-2.19%	-3.68%	0.0002

Source: Authors' computation

Figure 6.1



Source: Authors' computation

The result indicates several important points of comparison of ROA between Islamic bank and conventional banks. First, ROA of conventional bank has been greater than Islamic over time. Second, ROA decreased drastically to 1.54% from 2.36%.

Finally, on average, ROA of conventional banks (1.95%) is higher than average ROA of Islamic bank (-3.68%); however, statistically there is difference between the two means at 5% significance level.

6.2.2 Return on Equity (ROE)

<i>ROE</i>	$\frac{\text{Net Profit After Tax}}{\text{Shareholders' Equity}}$	X	$\frac{100}{1}$	=	
ACCESS BANK					
2012	$\frac{35,815,611.00}{237,624,211.00}$	X	$\frac{100}{1}$	=	15.07
2013	$\frac{26,211,844.00}{245,181,997.00}$	X	$\frac{100}{1}$	=	10.69
JAIZ BANK					
2012	$\frac{(728,617.00)}{10,101,866.00}$	X	$\frac{100}{1}$	=	(7.21)
2013	$\frac{(742,795.00)}{10,965,994.00}$	X	$\frac{100}{1}$	=	(6.77)

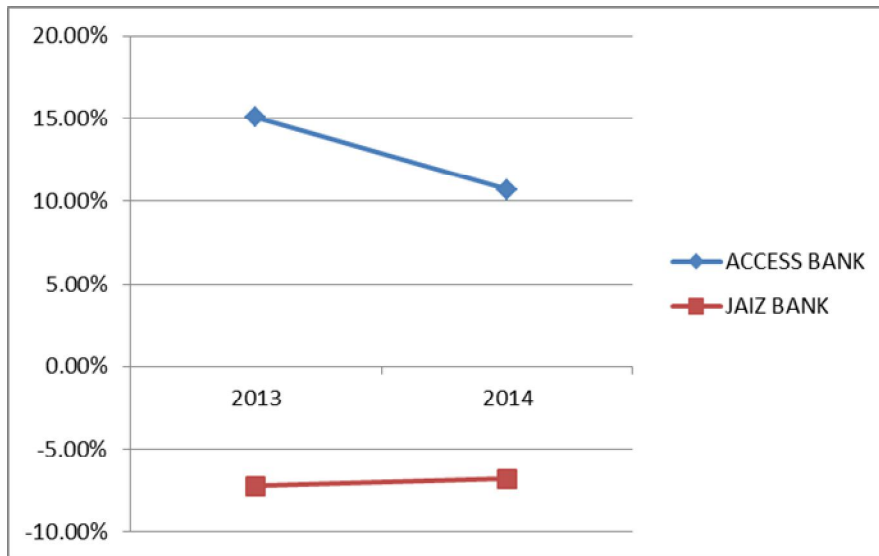
Return on Equity (ROE)

Table: 6.2

	2012	2013	Mean	S.D
ACCESS BANK	15.07%	10.69%	12.88%	0.0003
JAIZ BANK	-7.21%	-6.77%	-6.99%	0.0000

Source: Authors' computation

Figure 6.2



Source: Authors' computation

The result shows that conventional banks ROE is consistently higher than Islamic bank ROE during 2012-2013. In year 2012, the difference was huge which decreased considerably during 2013. The difference is 15.07% in 2012, which has plummeted to 10.69% in 2013. This momentous decrease in difference of two ROEs is essentially due to overall increasing trend in ROE of Islamic bank and decreasing trend in ROE of conventional banks. This gives us an important insight. ROE of Islamic bank followed conventional banks ROE in terms of increase and decrease

during 2012-2013. Nevertheless, ROE of Islamic bank has improved; ROE of Islamic bank is lagging behind the conventional banks as yet. An average ROE of the Islamic bank is -6.99%, whereas the average ROE of conventional banks for the same periods is 12.88%. The difference of the two means is strongly significant

6.2.3. Profit to Expenses Ratio (PER)

<i>PER</i>	$\frac{\text{Net Profit After Tax}}{\text{Operating Expensis}}$	X	$\frac{100}{1}$	=	
ACCESS BANK					
2012	$\frac{35,815,611.00}{59,424,878.00}$	X	$\frac{100}{1}$	=	60.27
2013	$\frac{26,211,844.00}{61,025,846.00}$	X	$\frac{100}{1}$	=	42.95
JAIZ BANK					
2012	$\frac{(728,617.00)}{1,198,118.00}$	X	$\frac{100}{1}$	=	(60.81)
2013	$\frac{(742,795.00)}{2,311,723.00}$	X	$\frac{100}{1}$	=	(32.13)

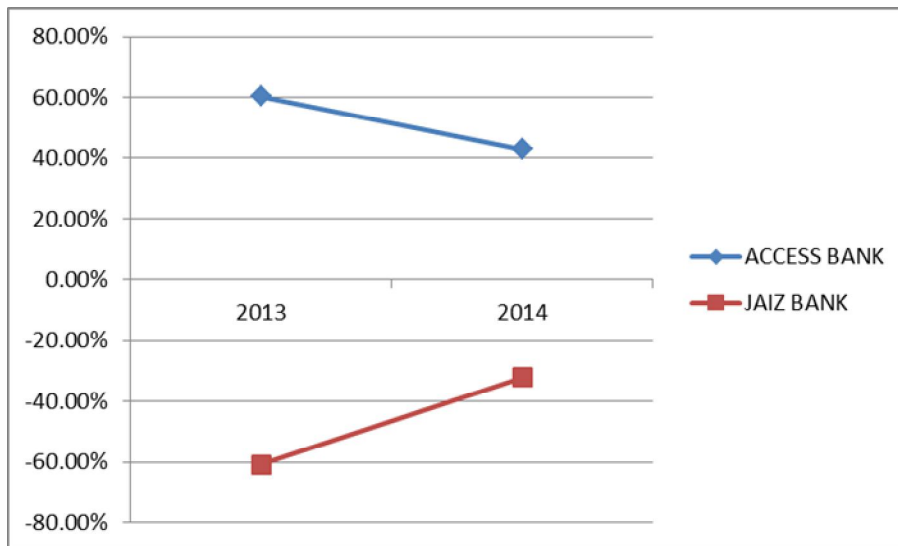
Profit to Expenses Ratio (PER)

Table: 6.3

	2012	2013	Mean	S.D
ACCESS BANK	60.27%	42.95%	51.61%	0.0012
JAIZ BANK	-60.81%	-32.13%	-46.47%	0.0020

Source: Authors' computation

Figure: 6. 3



Source: Authors' computation

Another measure of profitability, PER, is supporting the conventional banks to be more profitable in terms of expenses as compared to the Islamic bank over the time period of 2012-2013. The analysis of PER of Islamic bank and conventional banks indicates that conventional banks have generated consistently higher profits for every one naira of expense spent during 2012-2013 but with decreasing trend as compared to Islamic bank during the same time period. After the decrease in 2012-

2013, Mean PER of the Islamic bank is -46.47% which is less than conventional banks mean PER of 51.61%. This difference in the two means is statically different at 5% significance level.

6.3. LIQUIDITY RATIOS

6.3.1. Loan to Deposit Ratio (LDR)

<i>LDR</i>	$\frac{\text{Loan}}{\text{Deposits}}$	X	$\frac{100}{1}$		
ACCESS BANK					
2012	$\frac{554,592,199.00}{1,093,979,220.00}$	X	$\frac{100}{1}$	=	50.69
2013	$\frac{735,300,741.00}{1,217,176,793.00}$	X	$\frac{100}{1}$	=	60.41
JAIZ BANK					
2012	$\frac{1,101,377.00}{2,492,553.00}$	X	$\frac{100}{1}$	=	44.19
2013	$\frac{5,126,457.00}{8,788,859.00}$	X	$\frac{100}{1}$	=	58.33

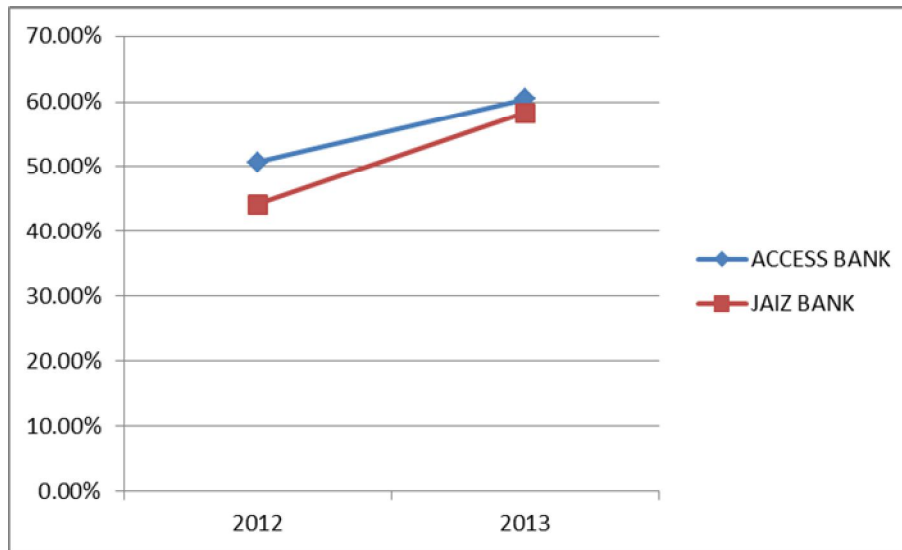
Loan to Deposit Ratio (LDR)

Table: 6.4

	2012	2013	Mean	S.D
ACCESS BANK	50.69%	60.41%	55.55%	0.0007
JAIZ BANK	44.19%	58.33%	51.26%	0.0010

Source: Authors' computation

Figure 6.4



Source: Authors' computation

Low loan to deposit ratio for Islamic bank compared with conventional banks during 2012-2013 indicates that Islamic bank has been comparatively more liquid. However, in 2013, Islamic bank LDR (58.33%) increased but still below conventional bank (60.41%) turning Islamic bank into comparatively better liquidity position. LDR of Islamic bank increased from 44.19% in 2012 to 58.35% in 2013. This overall rising trend in LDR of Islamic bank indicates the tendency of

comparatively more decrease in deposits than loans (financings) and further emphasizes improved liquidity position of Islamic bank. Compared with Islamic bank, LDR of conventional bank has been reasonably low and floating between approximately 44.19% and 58.33%. Although Mean LDR of Islamic bank 51.26% is lower than Mean LDR of conventional banks 55.55% but statistically there is no difference between the two means at 5% level of significance.

6.3.2. Cash & Portfolio Investments to Deposits & Borrowings Ratio (CPIDBR)

<i>CPIDBR</i>	<u>Cash & Prtfolio Investment</u>		X	<u>100</u>	
	Deposits			1	
ACCESS BANK					
2012	<u>286,042,967.00</u>	X	<u>100</u>	=	26.15
	1,093,979,220.00		1		
2013	<u>397,330,559.00</u>	X	<u>100</u>	=	32.64
	1,217,176,793.00		1		
JAIZ BANK					
2012	<u>2,866,914.00</u>	X	<u>100</u>	=	115.02
	2,492,553.00		1		
2013	<u>16,263,622.00</u>	X	<u>100</u>	=	185.05
	8,788,859.00		1		

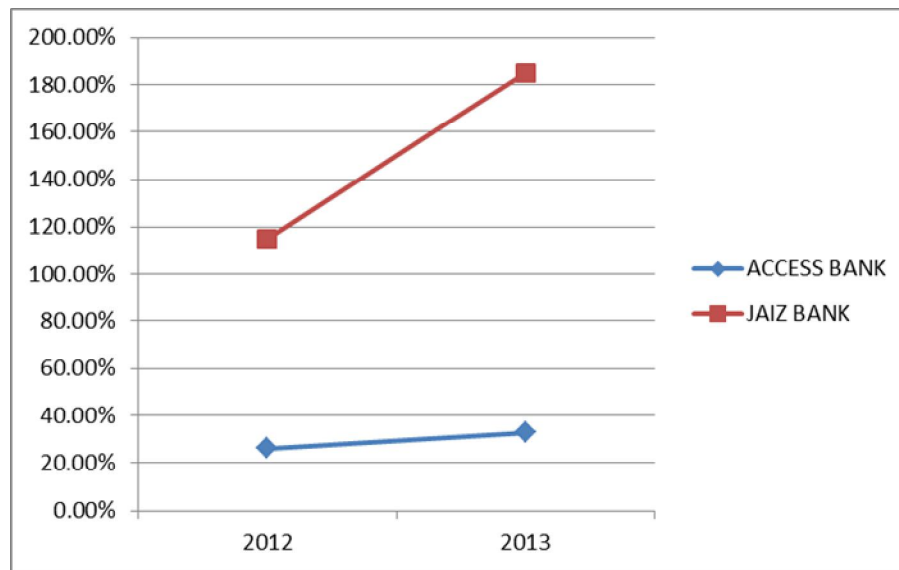
Cash & Portfolio Investments to Deposits & Borrowings Ratio (CPIDB)

Table: 6.5

	2012	2013	Mean	S.D
ACCESS BANK	26.15%	32.64%	29.40%	0.0005
JAIZ BANK	115.02%	185.50%	150.26%	0.0050

Source: Authors' computation

Figure 6.5



Source: Authors' computation

Increase in ratio of cash & portfolio investment to deposits & borrowings of both Islamic bank and conventional bank during 2012 and 2013 from 115.02% to 185.05% and 26.15% to 32.64% respectively. However, the most important thing to note is that the ratio of Islamic bank is very higher than that conventional bank. Higher CPIDBR of conventional bank supports that conventional bank are less liquid

as compared to Islamic bank. Table5 shows that mean CPIDBR of Islamic bank (150.04%) is higher and statistically different from mean CPIDBR of conventional banks (29.40%) at 5% significance level.

6.3.3. Loan to Asset Ratio (LAR)

$LAR =$	$\frac{\text{Loan}}{\text{Total Assets}}$	X	$\frac{100}{1}$		
ACCESS BANK					
2012	$\frac{554,592,199.00}{1,515,754,463.00}$	X	$\frac{100}{1}$	=	36.59
2013	$\frac{735,300,741.00}{1,704,094,012.00}$	X	$\frac{100}{1}$	=	43.15
JAIZ BANK					
2012	$\frac{1,101,377.00}{14,114,813.00}$	X	$\frac{100}{1}$	=	7.80
2013	$\frac{5,126,457.00}{33,915,651.00}$	X	$\frac{100}{1}$	=	15.12

Loan to Asset Ratio (LAR)

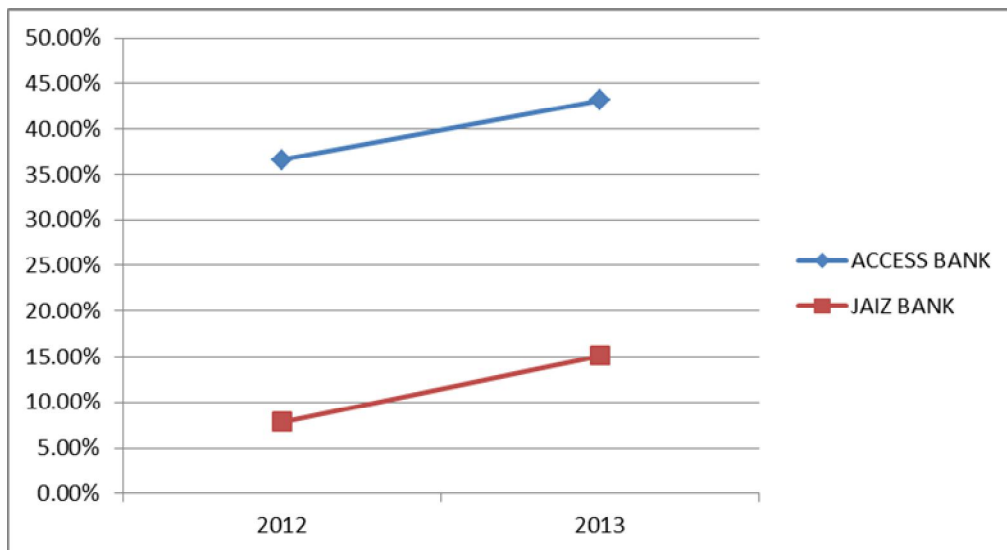
Loan to Asset Ratio (LAR)

Table: 6.6

	2012	2013	Mean	S.D
ACCESS BANK	36.59%	43.15%	39.87%	0.0005
JAIZ BANK	7.80%	15.12%	11.46%	0.0005

Source: Authors' computation

Figure: 6.6



Source: Authors' computation

Loan to deposit ratio shows that liquidity position of Islamic bank is getting better, loan to asset ratio shows somewhat different results. Table 6.6 shows that LAR of both Islamic bank and conventional banks is on increasing trend but the LAR of conventional banks is very higher than that of Islamic bank. This increasing trend of conventional banks LAR is palpable evidence of more financial stress which Islamic bank is making excessive loans and holding less liquid assets.

Overall result indicates that Islamic bank is as liquid as the conventional bank but conventional bank is more liquid than Islamic bank. Table-6.6 shows that the average LAR of conventional bank is very high than that of Islamic bank; however, the difference is statistically significant at 5% significance level

6.4. RISK AND SOLVENCY RATIOS

6.4.1 Debt to Equity Ratio (DER)

<i>DER</i>	$\frac{\text{Total Debt}}{\text{Shareholders' Equity}}$	X	$\frac{100}{1}$	=	
ACCESS BANK					
2012	$\frac{1,278,130,252.00}{1,515,754,463.00}$	X	$\frac{100}{1}$	=	84.32
2013	$\frac{1,458,912,015.00}{1,704,094,012.00}$	X	$\frac{100}{1}$	=	85.61
JAIZ BANK					
2012	$\frac{3,216,413.00}{10,101,866.00}$	X	$\frac{100}{1}$	=	31.84
2013	$\frac{9,816,659.00}{10,965,994.00}$	X	$\frac{100}{1}$	=	89.52

RISK AND SOLVENCY RATIOS

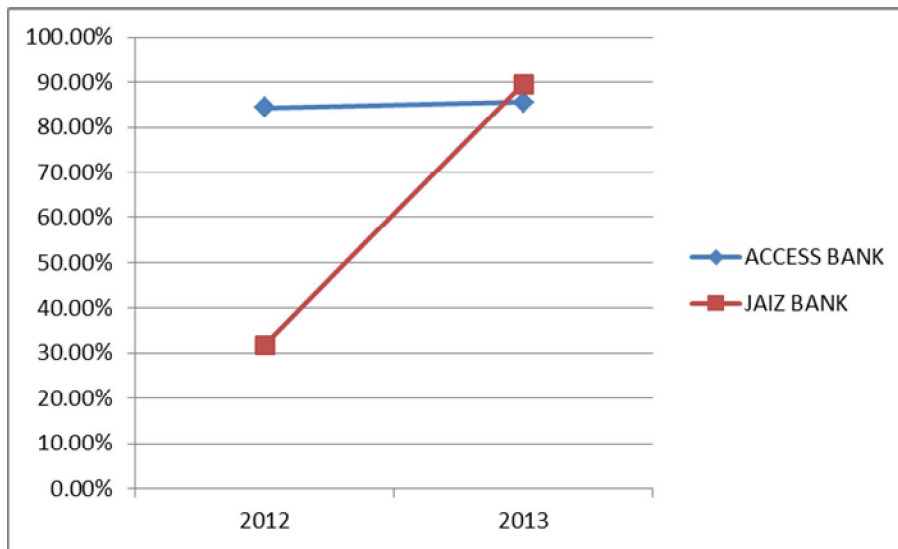
Debt to Equity Ratio (DER)

Table: 6.7

	2012	2013	Mean	S.D
ACCESS BANK	84.32%	85.61%	84.97%	0.0001
JAIZ BANK	31.84%	89.52%	60.68%	0.0041

Source: Authors' computation

Figure 6.7



Source: Authors' computation

Debt to equity ratio of Islamic bank increased to 89.52% times in 2013 from 31.84% times in 2012. Noticeably, increase in DER of conventional banks is less than increase in DER of Islamic bank. These results demonstrate that conventional bank is more risky as compared to Islamic bank. Increasing trend in DER for Islamic bank indicates that deposits base of Islamic bank is increasing more than its equity

base. Higher DER during 2012-2013 in table 6.7 points out the conventional bank to be more risky than Islamic bank. Average DER of Islamic bank is 60.68% times as compared to 84.97% of the conventional bank. This difference in means is statistically different at 5% level of significance

6.4.2. Debt to Total Assets Ratio (DTAR)

$$DTAR = \frac{\text{Total Debt}}{\text{Total Assets}} \times \frac{100}{1}$$

ACCESS BANK

$$\begin{array}{l} \blacksquare \\ \blacksquare \end{array} \begin{array}{l} 2012 \\ 2013 \end{array} \begin{array}{l} \frac{1,278,130,252.00}{1,515,754,463.00} \\ \frac{1,458,912,015.00}{1,704,094,012.00} \end{array} \begin{array}{l} X \\ X \end{array} \begin{array}{l} \frac{100}{1} \\ \frac{100}{1} \end{array} = \begin{array}{l} 84.32 \\ 85.61 \end{array}$$

JAIZ BANK

$$\begin{array}{l} \blacksquare \\ \blacksquare \end{array} \begin{array}{l} 2012 \\ 2013 \end{array} \begin{array}{l} \frac{3,216,413.00}{14,114,813.00} \\ \frac{9,816,659.00}{33,915,651.00} \end{array} \begin{array}{l} X \\ X \end{array} \begin{array}{l} \frac{100}{1} \\ \frac{100}{1} \end{array} = \begin{array}{l} 22.79 \\ 28.94 \end{array}$$

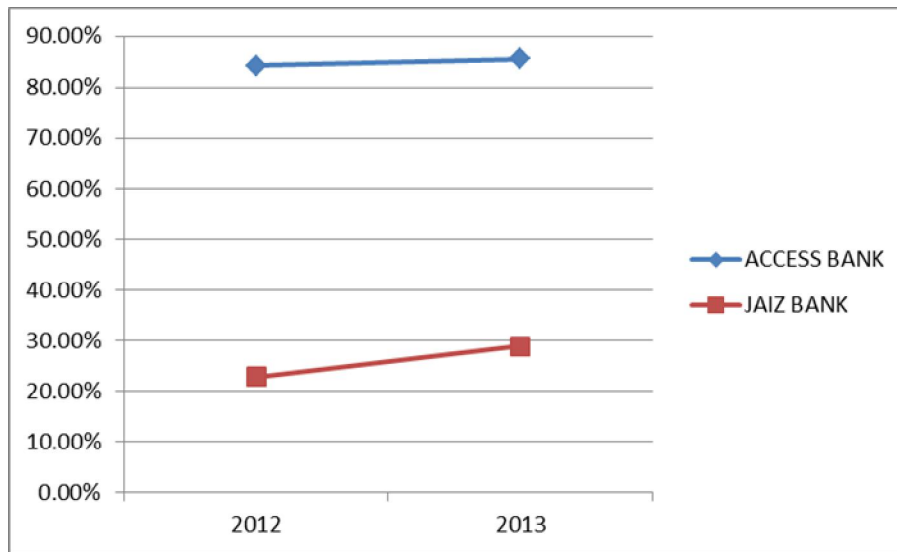
Debt to Total Assets Ratio (DTAR)

Table: 6.8

	2012	2013	Mean	S.D
ACCESS BANK	84.32%	85.61%	84.97%	0.0001
JAIZ BANK	22.79%	28.94%	25.87%	0.0004

Source: Authors' computation

Figure 6.8



Source: Authors' computation

The results show that DTAR of the conventional banks is consistently higher than Islamic bank making once again conventional bank to be more risky and less solvent than Islamic bank. However, Islamic bank DTAR has increased considerably during 2012-2013. It was 22.79% in 2012 which climbed to 28.94% in 2013 but still very far from conventional bank DTAR of 85.61%. Though, DTAR of conventional

bank was high but it stayed pretty stable and fell in range of 85.61% to 84.32% over two years. The comparison of means of DTAR for risk measure for both Islamic bank and conventional banks in Table 8 reveals that the average DTAR of Islamic bank is 25.87% whereas the average DTAR of conventional bank is 84.97%. The difference of the two means is statistically different as 5% significance level.

6.4.3 Equity Multiplier (EM)

<i>EM</i>	=	$\frac{\text{Total Assets}}{\text{Total Shareholders Equity}}$	X	$\frac{100}{1}$	
ACCESS BANK					
2012		$\frac{1,515,754,463.00}{237,624,211.00}$	X	$\frac{100}{1}$	= 6.38
2013		$\frac{1,704,094,012.00}{245,181,997.00}$	X	$\frac{100}{1}$	= 6.95
JAIZ BANK					
2012		$\frac{14,114,813.00}{10,101,866.00}$	X	$\frac{100}{1}$	= 1.40
2013		$\frac{33,915,651.00}{10,965,994.00}$	X	$\frac{100}{1}$	= 3.09

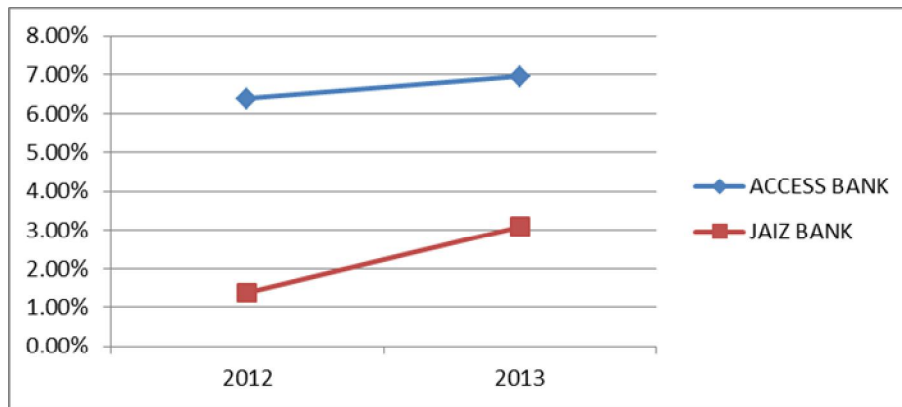
Equity Multiplier (EM)

Table: 6.9

	2012	2013	Mean	S.D
ACCESS BANK	6.38%	6.95%	6.67%	0.0000
JAIZ BANK	1.40%	3.09%	2.25%	0.0001

Source: Authors' computation

Figure 6.9



Source: Authors' computation

The analysis of another measure of risk, equity multiplier, further proves conventional bank to be more risky and less solvent as compared to Islamic bank. The results are consistent with our results found in DER and DTAR for both of banks. EM of Islamic bank increased to 3.09 times in 2013 from 1.40 times in 2012. Not surprisingly, conventional banks EM is exhibiting similar behavior as of DER which further verifies that relative to debt, equity base is increasing more in conventional bank. Increase from 6.38 times in 2012 to 6.95 times in 2013 respectively. Table-9 shows mean values for two sets of banks. The difference between the two means is statistically significant at 5% significance level.

6.5. EFFICIENCY RATIOS

6.5.1. Asset Utilization (AU)

$$AU = \frac{\text{Total Revenue}}{\text{Total Assets}} \times \frac{100}{1}$$

ACCESS BANK

2012	$\frac{148,277,802.00}{1,515,754,463.00}$	X	$\frac{100}{1}$	=	0.10
2013	$\frac{127,710,965.00}{1,704,094,012.00}$	X	$\frac{100}{1}$	=	0.07

JAIZ BANK

2012	$\frac{79,560.00}{14,114,813.00}$	X	$\frac{100}{1}$	=	0.01
2013	$\frac{1,051,702.00}{33,915,651.00}$	X	$\frac{100}{1}$	=	0.03

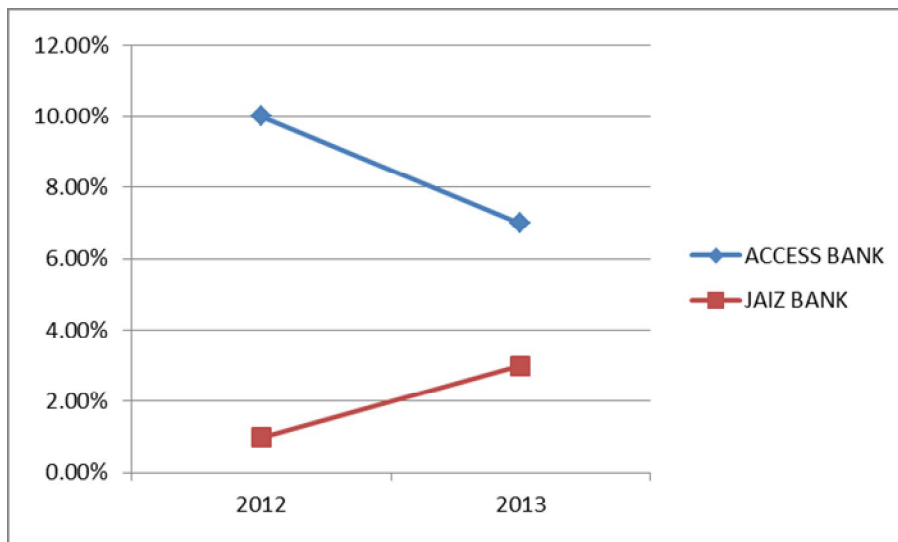
Asset Utilization (AU)

Table: 6.10

	2012	2013	Mean	S.D
ACCESS BANK	10.00%	7.00%	8.50%	0.0002
JAIZ BANK	1.00%	3.00%	2.00%	0.0001

Source: Authors' computation

Figure 6.10



Source: Authors' computation

The behavior of the two lines in table 10 reveals some useful information about AU of both banks. AU of conventional bank showed a downward trend from 10% in 2012 to 7% in 2013. On the contrary, AU ratio of Islamic bank not only mapped the trend in the same direction and increased from 1% in 2012 to 3% in

2013. Apparently, this result indicates that Islamic bank is doing relatively better in terms of trend than conventional bank.

However, AU ratio of conventional bank is consistently higher during 2012-2013 than Islamic bank and an average of AU ratio of conventional banks (8.5%) is higher and, at 5% significance level, statistically different from average AU ratio of Islamic bank (2%). This proves that conventional banks are comparatively more efficient in utilization of the assets in generating total income (revenue) than that of Islamic bank.

6.5.2. Income to expense Ratio (IER)

<i>IER</i> =	$\frac{\text{Total Income}}{\text{Total Operating Expenses}}$	X	$\frac{100}{1}$	
ACCESS BANK				
2012	$\frac{148,277,802.00}{59,424,878.00}$	X	$\frac{100}{1}$	= 2.50
2013	$\frac{127,710,965.00}{61,025,846.00}$	X	$\frac{100}{1}$	= 2.09
JAIZ BANK				
2012	$\frac{79,560.00}{1,198,118.00}$	X	$\frac{100}{1}$	= 0.07
2013	$\frac{1,051,702.00}{2,311,723.00}$	X	$\frac{100}{1}$	= 0.45

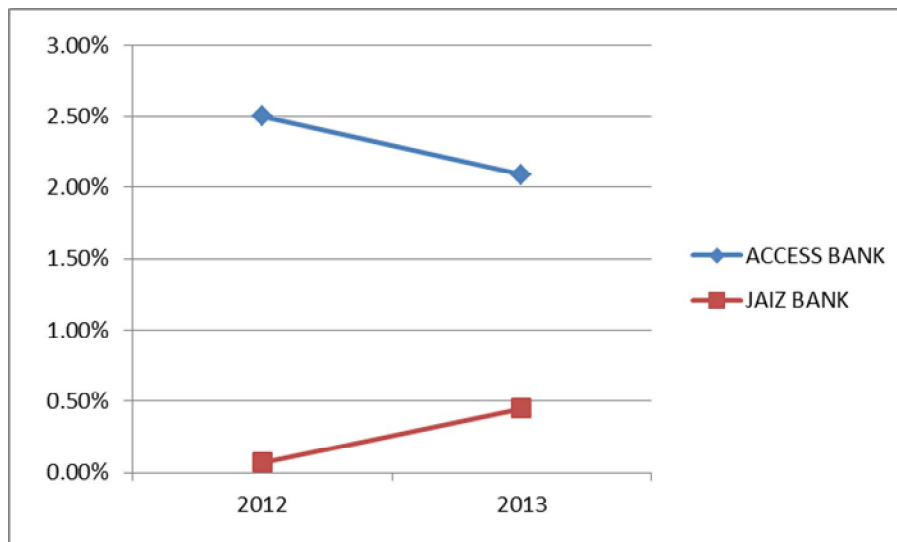
Income to expense Ratio (IER)

Table: 6.11

	2012	2013	Mean	S.D
ACCESS BANK	2.50%	2.09%	2.30%	0.00003
JAIZ BANK	0.07%	0.45%	0.26%	0.00003

Source: Authors' computation

Figure: 6.11



Source: Authors' computation

This exhibits the behavior of income to expense ratio for both conventional bank and Islamic bank. The results show that IER of conventional banks is higher than that of Islamic bank during the 2-year period, which proves once more that conventional bank are more efficient in managing their expenses. Compared with Islamic bank, conventional bank are generating more income for every 1 rupee of expense spent.

However, the results also show that in 2012 this ratio is decreasing for conventional bank while it is on the increasing trend for Islamic bank. Mean IER of Islamic bank is 0.26 times which less than mean IER is of 2.3 times for conventional bank shows that both means are strongly different from each other at 1% significance level

6.5.3. Operating Efficiency (OE)

$OE =$	$\frac{\text{Total Operating Expenses}}{\text{Total Operating Revenue}}$	X	$\frac{100}{1}$		
ACCESS BANK					
2012	$\frac{59,424,878.00}{148,277,802.00}$	X	$\frac{100}{1}$	=	0.40
2013	$\frac{61,025,846.00}{127,710,965.00}$	X	$\frac{100}{1}$	=	0.48
JAIZ BANK					
2012	$\frac{1,198,118.00}{79,560.00}$	X	$\frac{100}{1}$	=	15.06
2013	$\frac{2,311,723.00}{1,051,702.00}$	X	$\frac{100}{1}$	=	2.20

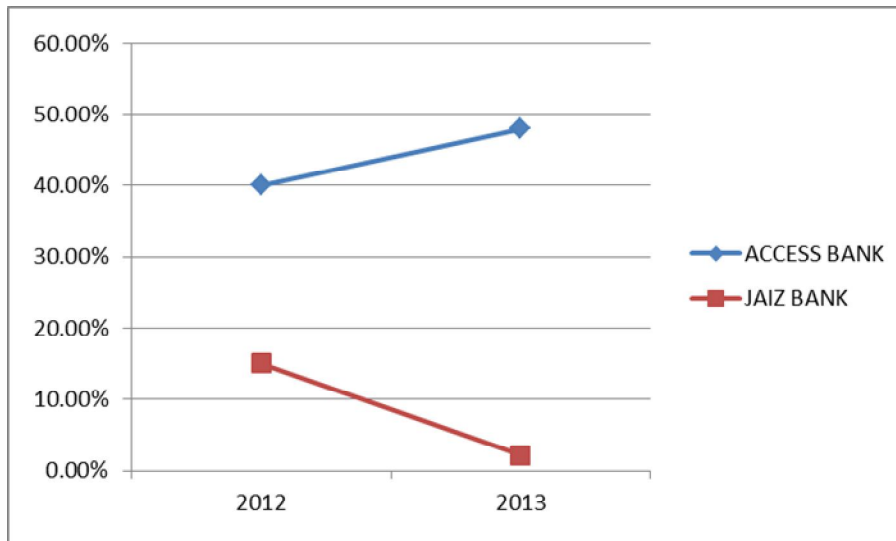
Operating Efficiency (OE)

Table: 6.12

	2012	2013	Mean	S.D
ACCESS BANK	40.00%	48.00%	44.00%	0.00057
JAIZ BANK	15.06%	2.20%	8.63%	0.00091

Source: Authors' computation

Figure: 6.12



Source: Authors' computation

As another measure of efficiency, OE ratio, measured by dividing operating expenses by operating revenues, further strengthens our previous two results that conventional banks are also more efficient than Islamic bank in managing their operating expenses and generating more operating revenues. Difference in performance was huge in 2012 and 2013 which, however, reduced drastically resulting into convergence of OE for both banks in 2012 and 2013. In 2012 the difference in ratios of two sets of banks was 44%, which reduces to 8.63% in 2013.

Learning by doing has drastically decreased this difference over 2 years which evidently supports our results of previous two efficiency measures and our argument that Islamic bank is improving considerably in managing its operations.

An overall analysis of all efficiency measures reveals that Islamic bank is less efficient in asset utilization, income generation and managing its expenses. However, the results also show the Islamic bank is improving overtime considerably in these efficiency measures.

6.6 Comparison of Jaiz Bank (Islamic Bank) with Access Bank (Conventional Bank) Financial Ratio

TABLE: 6.13

Performance Measure	Islamic Bank		Conventional Bank		T-Test	F-Test
	Mean	S.D	Mean	S.D		
Profitability						
ROA	-3.68	0.0002	1.95	0.0001	0.033751	0.342989
ROE	-6.99	0.0000	12.88	0.0003	0.006024	0.127478
PER	-46.47	0.0020	51.61	0.0012	0.013978	0.691733
Liquidity						
LDR	51.26	0.0010	55.55	0.0007	0.333321	0.766780
CPIDBR	150.04	0.0050	29.40	0.0005	0.038038	0.116914
LAR	11.46	0.0005	39.87	0.0005	0.014323	0.930353
Risk & Solvency						
DER	60.68	0.0041	84.97	0.0001	0.244246	0.028471
DTAR	25.87	0.0004	84.97	0.0001	0.001407	0.263253
LAR	2.25	0.0001	6.67	0.0000	0.019189	0.414181
Efficiency						
AU	2.00	0.0002	8.50	0.0001	0.034525	0.748668
IER	0.26	0.00003	2.50	0.00003	0.009174	0.951672
OE	8.63	0.00091	44.00	0.00057	0.021455	0.708557

Source: Authors' computation

**** Difference in means: Significant at 5%

*** Difference in means: Significant at 1%

** Difference in means: Significant at 2.5%

* Difference in means: Significant at 5%

CHAPTER SEVEN

SUMMARY, CONCLUSION AND RECOMMENDATION

7.1 CONCLUSION

This research work was diligently carried out to establish the effectiveness of accounting financial ratio in the ideal measurement and assessment of the Islamic and Conventional Bank and overall performances. The four main findings of the research are discussed in this section in the context of the specificities of Islamic finance.

Examination of the empirical analysis makes it possible for us to shed some light on our findings and draw some conclusions. Thus the result is different in almost all countries because of the fact that Islamic banking has long history in some countries in comparison with Nigeria where Islamic bank started few years and has not been fully operating. While on the other side the conventional banking has a very long history, great learning experience from the process of financial banking.

Islamic banks (Jaiz bank PLC) have lower profit margin ratios than Conventional (Access bank), which shows that Islamic bank are less profitable in Nigeria for the in 2012 to 2013.

Low loan to deposit ratio for Islamic bank compared with conventional bank during 2012-2013 indicates that Islamic bank has been comparatively more liquid.

Higher CPIDBR of conventional bank supports that conventional banks are less liquid as compared to Islamic bank.

Overall result indicates that Islamic bank is as liquid as the conventional bank but conventional bank is more liquid than Islamic bank.

In Solvency ratios the Islamic bank performed well only in debt to asset ratio, while conventional bank is in a good position in case of leverage and debt to equity ratio. Both conventional and Islamic bank have good performance for profitability ratio in Nigeria for the year 2012 to 2013.

An overall analysis of all efficiency measures reveals that Islamic bank is less efficient in asset utilization, income generation and managing its expenses. Learning by doing a drastically decreased this difference over 2 years which evidently supports our results of previous two efficiency measures and our argument that Islamic bank is improving considerably in managing its operations. However, the results also show the Islamic bank is improving overtime considerably in these efficiency measures.

7.2. SUMMARY OF THE RESEARCH IN TERMS OF HYPOTHESIS

The financial ratio of the bank was undertedly, calculated and analyzed extensively for the period under review (2012–2013) based on such analysis. The

analysis was essentially based on trend analysis. The following can be observe on each of the following ratio.

1. Profitabilityratio

- i. Analysis of profitability measures indicates that Islamic banks are less profitable and are significantly different from Conventional bank Table 6.1 shows that the mean of ROA of conventional bank is higher than ROA of Islamic bank and statistically there is deferent between the two means at 5% significant level.
- ii. Net Profits of Islamic bank are found to decrease more rapidly than its equity base causing ROE to decrease in table 6.2, Same reasoning stands true for the reason of conventional banks' PER in table 6.3 which is found increasing during 2012-2013, however our analysis of Islamic bank PER less than that of conventional banks shows that even though PER performance convergence did occur, the Ratio is still lagging behind that of conventional banks. Analysis of efficiency measures further strengthens our finding, the ratio which shows good performance evaluation.

Thus overall result shows that Islamic bank is less profitable than conventional bank in Nigeria for the year 2012 to 2013.

2. Liquidity ratio:

- i. Low loan to deposit ratio for Islamic bank compared with conventional bank during 2012-2013 indicates that Islamic bank has been comparatively more liquid. Although table 6.4 shows that the mean LDR of Islamic bank 51.26% is lower than mean LDR of conventional bank but statistically there is no difference between the two mean at 5% level of significance.

This overall rising trend in **LDR** of Islamic bank indicates the tendency of comparatively more decrease in deposits than loans (financings) and further emphasizes improved liquidity position of Islamic bank.

- ii.** After increase in cash and portfolio investment to deposit and borrowings (**CPIDB**) of both Islamic bank and conventional bank during 2012 and 2013. However, the most important thing to note is that the ratio of Islamic bank is very higher than that conventional bank. Higher CPIDBR of conventional banks supports that conventional banks are less liquid as compared to Islamic bank. Table-6.5 shows that mean CPIDBR of Islamic bank is higher and statistically different from mean CPIDBR of conventional banks.
- iii.** Whereas (**LAR**) loan to deposit ratio shows that liquidity position of Islamic bank is getting better, loan to asset ratio shows somewhat different results. Figure 6.6 shows that LAR of both Islamic bank and conventional banks is on increasing trend whereas but the LAR of conventional banks is very higher than that if Islamic bank. This increasing trend of conventional banks LAR is palpable evidence of more financial stress which Islamic bank is taking by making excessive loans and holding less liquid assets. Overall result indicates that Islamic bank is as liquid as the conventional banks but conventional bank is more liquid than Islamic bank. Table-6.6 shows that the average LAR of conventional banks is very high than that of Islamic bank.

Thus overall result shows that Islamic banks performed better as compared to conventional banks in current and cash ratio, while conventional banks have better performance in term of loan to asset ratio and there is no significant difference in term of loan deposit ratio.

3. **Risk and Solvency ratio :**

- i. Noticeably, increase in DER of conventional banks is less than increase in DER of Islamic bank. These results demonstrate that conventional banks are more risky as compared to Islamic bank. “Deposits” constitute major liability for any type of banks whether Islamic or conventional. Borrowed money stands second among total liabilities for almost all conventional banks except all Islamic banks which are prohibited by Islamic Shari’ah from taking or giving interest-based debts. Increasing trend in DER for Islamic bank indicates that deposits base of Islamic bank is increasing more than its equity base. Higher DER during 2012-2013 in figure 6.7 points out the conventional banks to be more risky than Islamic bank.
- ii. The results show that DTAR of the conventional banks is consistently higher than Islamic bank making once again conventional bank to be more risky and less solvent than Islamic bank. However, Islamic bank DTAR has increased considerably during 2012-2013. The comparison of means of DTAR for risk measure for both Islamic bank and conventional banks in Table-6.8 reveals that the average DTAR of Islamic bank is lesser than the average DTAR of conventional bank.

- iii. The analysis of another measure of risk, equity multiplier, further proves conventional banks to be more risky and less solvent as compared to Islamic bank.

The results are consistent with our results found in DER and DTAR for both of bank. Not surprisingly, conventional bank EM is exhibiting similar behavior as of DER which further verifies that relative to debt, equity base is increasing more in conventional bank.

4. **Efficiency Ratio:**

- i. The behavior of the two lines in figure-6.10 reveals some useful information about AU of both banks. AU of conventional banks showed a downward trend. On the contrary, AU ratio of Islamic bank not only mapped the trend in the same direction and increased. Apparently, this result indicates that Islamic bank is doing relatively better in terms of trend than conventional banks.

However, AU ratio of conventional banks is consistently higher during 2012-2013 than Islamic bank and an average of AU ratio of conventional bank is higher. This proves that conventional banks are comparatively more efficient in utilization of the assets in generating total income (revenue) than that of Islamic bank. (see Table-6.10)

- ii. Figure-6.11 exhibits the behavior of income to expense ratio for both conventional bank and Islamic bank. The results show that IER of conventional bank is higher than that of Islamic bank during the 2-year period, which proves once more that conventional banks are

more efficient in managing their expenses. Compared with Islamic bank, conventional banks are generating more income for every 1 rupee of expense spent.

- iii. However, the results also show that in 2012 this ratio is decreasing for conventional banks while it is on the increasing trend for Islamic bank. Further analysis of financial statement reveals that the decreasing trend is due to increase in expenses and decrease in income of some banks in the group of 5 conventional banks, and for Islamic bank IER to increase since 2012 is due to increase in income which is more than increase in expenses, causing the IER to rise.
- iv. As another measure of efficiency, OE ratio, measured by dividing operating expenses by operating revenues, further strengthens our previous two results that conventional bank are also more efficient than Islamic bank in managing their operating expenses and generating more operating revenues. Difference in performance was huge in 2012 and 2013 which, however, reduced drastically resulting into convergence of OER for both banks in 2012 and 2013. (see table 6.12) Learning by doing has drastically decreased this difference over 2 years which evidently supports our results of previous two efficiency measures and our argument that Islamic bank is improving considerably in managing its operations.

An overall analysis of all efficiency measures reveals that Islamic bank is less efficient in asset utilization, income generation and managing its expenses. However,

the results also show the Islamic bank is improving overtime considerably in these efficiency measures.

Conclusively, from the overall research Islamic bank are as liquid as Conventional bank, less risky, also Islamic bank is less efficient comparing to the conventional bank but operationally efficient than Conventional bank.

7.3 RECOMMENDATIONS

This is the first research attempt to compare between performance of conventional bank and Islamic bank in Nigeria and it has provided significant evidence of the effect of the bank type and the economy state on the overall performance of the bank. Having studied the efficiency, effectiveness and imperative nature of ratio analysis, in measurement of performance of Islamic Bank and Conventional Bank, the following recommendation are given:

- ❖ There should be an awareness creation through social media to educate the masses on Islamic banking so as to be equally or even better in performance than conventional banking in the foreseeable future.

- ❖ Since Islamic banking are in the introductory phase in Nigeria. There is a strong need to conduct Performance evaluation studies from time to time so that corrective actions may be taken accordingly.

❖ Islamic bank should introduce new product innovation which strengthens the Shari'a differentiation such cash work based programme, offering wealth management solution, developing incentives base product to sustain the industry in the long run.

❖ Recruitment should be based on qualification rather than loyalty to the system.

❖ For future studies, as the time passes, when there will be more Islamic banks to study and longer time period, Sample size should be increased for the same study. More banks should be taken as a sample to generalize the result of study on the whole industry.

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Appendix A

Appendix A1: Introductory letter

Sudan University of Science & Technology College of Graduate Studies Registrar's Office	 <p>بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ جامعة السودان للعلوم والتكنولوجيا كلية الدراسات العليا مكتب المسجل</p>
Date : 28/9/2014	
To The Manager, Jaiz Bank P.L.C, Abuja branch, Nigeria.	
Dear sir/ma,	
<u>EVALUATING THE FINANCIAL PERFORMANCES OF ISLAMIC BANK AND CONVENTIONAL BANKS IN NIGERIA: A COMPARATIVE STUDY</u>	
Wasiu Aminat Abidemi is a student in the department of Economics College of post graduate studies, Sudan University Of Science And Technology, Sudan. She is currently carrying out her research project to complete her master's degree in the university on the above topic.	
The research is based on the following:	
i. The financial summary of the bank for the period of 2012 -2014 ii. 2012-2014 profitability calculation iii. Indicators of efficiency in operation.	
All vital information will be keep secret and of good conduct.	
 /Dr. Abbas Musa Yagoub Musa Registrar	
cgs @ sustech البريد الإلكتروني ٨٣ 769363 فاكس/ ٤٠٧ ص.ب.ب edu.	

Sudan University of Science & Technology

College of Graduate Studies

Registrar's Office



جامعة السودان للعلوم والتكنولوجيا

كلية الدراسات العليا

مكتب المسجل

Date : 28/9/2014

To The Manager,
Access Bank PLC,
Abuja Branch,
Nigeria.
Dear sir/ma,

**EVALUATING THE FINANCIAL PERFORMANCES OF ISLAMIC
BANK AND CONVENTIONAL BANKS IN NIGERIA: A
COMPARATIVE STUDY**

Wasiu Aminat Abidemi is a student in the department of Economics College of post graduate studies, Sudan University Of Science And Technology, Sudan. She is currently carrying out her research project to complete her master's degree in the university on the above topic.

The research is based on the following:

- i. The financial summary of the bank for the period of 2012 -2014
- ii. 2012-2014 profitability calculation
- iii. Indicators of efficiency in operation.

All vital information will be keep secret and of good conduct.


/Dr. Abbas Musa Yagoub Musa
Registrar

cgs @ sustech

البريد الإلكتروني

فاكس/ 769363 ٨٣

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edu.

Appendix A2: Conference Certificates



AFRICA PEACE RESEARCH AND EDUCATION ASSOCIATION (AFPREA)

Certificate of Participation

This is to certify that

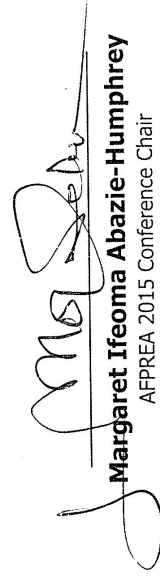
Aminat Dasu

Has participated and presented a paper at the

1st AFPREA Regional Conference

13 – 15, April 2015 – ECOWAS Parliament, Building Abuja - Nigeria


Dr. Olufemi Oluniji
AFPREA Chairman


Margaret Ifeoma Abazie-Humphrey
AFPREA 2015 Conference Chair

Margaret Ifeoma Abazie-Humphrey (Mrs.),
Head of the AFPREA-IPRA 2015 Local Organizing Committee
Office of the Special Adviser to the President on Niger Delta,
No. 10 Kunene Close, Off Bobo Street, Maitama, Abuja, Nigeria
Email: afpreaglobal2015@gmail.com; miahjws5@outlook.com;
Tel: +234(0) 7058323952, 9099779790



AFRICA PEACE RESEARCH AND EDUCATION ASSOCIATION

January 19, 2015

AMINAT A. WASIU
UNIVERSITY OF SCIENCE AND TECHNOLOGY,
SUDAN-KHARTOUM
SUDAN.

OFFICIAL INVITATION/OFFER LETTER

To Whom It May Concern

This letter is to confirm that the Africa Peace Research and Education Association (AFPREA) which is the Africa regional wing of the International Peace Research Association (IPRA) has invited MRS AMINAT A. WASIU with Conference Entrance Code: **2015C008** to present his paper titled '**ISLAMIC BANKING: AN AVENUE TO A PEACEFUL ENVIRONMENT FOR SOCIAL AND ECONOMIC GROWTH**' at the AFPREA Abuja conference. The Conference will be held at the ECOWAS Parliament, Abuja, Nigeria on 13-15 April, 2015. The theme of the Conference is '*The Quest for Peace and Security in Africa: Socio-cultural, economic, political and legal considerations*'. Further details can be found at the Conference websites at: <http://www.afprea.org>.

MRS AMINAT A. WASIU will be making an important academic contribution to this event and its practical outcomes as well as learning from other scholars around the world. We are confident that this conference will greatly contribute to advancing peace research.

The cost of the Conference Registration is USD\$100 and participant is responsible for his funding.

If I can be of any further assistance, please contact me.

Sincerely,

Margaret Ifeoma Abazie-Humphrey,
Conference Chair, Organizing Committee
AFPREA/IPRA 2015 – Abuja.

Appendix A3: Publication as Master Candidate...



جامعة السودان للعلوم والتكنولوجيا
SUDAN UNIVERSITY OF SCIENCE & TECHNOLOGY
عمادة البحث العلمي
DEANSHIP OF SCIENTIFIC RESEARCH



Date: 11/02/2016

Author (s):

- 1. WASTU AMINAT ABIDEMI**
- 2. IBRAHIM FOU DALMOULA**

Title of the paper:

**PERFORMANCE OF ISLMIC AND CONVENTIONAL
BANKS IN NIGERIA : A COMPARATIVE STUDY**

Dear Sir

It gives me pleasure to inform you that the above mentioned paper has been accepted for publication in the *Journal of Science and Technology in Economic Sciences*.

The paper will be published according to priority of flow. We appreciate your contribution to the Journal.


Dr. Khalid Hassan Ismail Elbeely
Editor-in-Chief



*The Paper will appear in

WWW.SUSTech.edu



Appendix A4: Seminar Notice

بسم الله الرحمن الرحيم
جامعة السودان للعلوم والتكنولوجيا
كلية الدراسات التجارية - قسم الاقتصاد التطبيقي
(الندوة الأولى)

إعلان سمنار

بمعنوان:

**Evaluating the Financial Preformance of
Islamic Banking and Conventional
Banking in Nigeria: A Comparative Study**

لنيل درجة الماجستير

**Prepared: Wasiu Aminat Abidemi
Supervised by: Dr. Ibrahim Foudal Moula**

الزمان: السبت الموافق 2014/7/12م - الساعة: الثامنة والنصف صباحاً
المكان: قاعة السمنارات علوم حاسوب

Appendix B:

Figures and Tables

LIQUIDITY RATIO

Return on Assets (ROA)

	2012	2013	Mean	S.D
ACCESS BANK	2.36%	1.54%	1.95%	0.0001
JAIZ BANK	-5.16%	-2.19%	-3.68%	0.0002

Source: Authors' computation

Return on Equity (ROE)

	2012	2013	Mean	S.D
ACCESS BANK	15.07%	10.69%	12.88%	0.0003
JAIZ BANK	-7.21%	-6.77%	-6.99%	0.0000

Source: Authors' computation

Profit to Expenses Ratio (PER)

	2012	2013	Mean	S.D
ACCESS BANK	60.27%	42.95%	51.61%	0.0012
JAIZ BANK	-60.81%	-32.13%	-46.47%	0.0020

Source: Authors' computation

LIQUIDITY RATIOS

Loan to Deposit Ratio (LDR)

	2012	2013	Mean	S.D
ACCESS BANK	50.69%	60.41%	55.55%	0.0007
JAIZ BANK	44.19%	58.33%	51.26%	0.0010

Source: Authors' computation

Cash & Portfolio Investments to Deposits & Borrowings Ratio (CPIDB)

	2012	2013	Mean	S.D
ACCESS BANK	26.15%	32.64%	29.40%	0.0005
JAIZ BANK	115.02%	185.50%	150.26%	0.0050

Source: Authors' computation

Loan to Asset Ratio (LAR)

	2012	2013	Mean	S.D
ACCESS BANK	36.59%	43.15%	39.87%	0.0005
JAIZ BANK	7.80%	15.12%	11.46%	0.0005

Source: Authors' computation

RISK AND SOLVENCY RATIO

Debt to Equity Ratio (DER)

	2012	2013	Mean	S.D
ACCESS BANK	84.32%	85.61%	84.97%	0.0001
JAIZ BANK	31.84%	89.52%	60.68%	0.0041

Source: Authors' computation

Debt to Total Assets Ratio (DTAR)

	2012	2013	Mean	S.D
ACCESS BANK	84.32%	85.61%	84.97%	0.0001
JAIZ BANK	22.79%	28.94%	25.87%	0.0004

Source: Authors' computation

Equity Multiplier (EM)

	2012	2013	Mean	S.D
ACCESS BANK	6.38%	6.95%	6.67%	0.0000
JAIZ BANK	1.40%	3.09%	2.25%	0.0001

Source: Authors' computation

EFFICIENCY RATIOS

Asset Utilization (AU)

	2012	2013	Mean	S.D
ACCESS BANK	10.00%	7.00%	8.50%	0.0002
JAIZ BANK	1.00%	3.00%	2.00%	0.0001

Source: Authors' computation

Income to expense Ratio (IER)

	2012	2013	Mean	S.D
ACCESS BANK	2.50%	2.09%	2.30%	0.00003
JAIZ BANK	0.07%	0.45%	0.26%	0.00003

Source: Authors' computation

Operating Efficiency (OE)

	2012	2013	Mean	S.D
ACCESS BANK	40.00%	48.00%	44.00%	0.00057
JAIZ BANK	15.06%	2.20%	8.63%	0.00091

Source: Authors' computation

**SIGNIFICANT MEAN OF THE PERFORMANCE OF ISLAMIC
BANK AND CONVENTIONAL BANK**

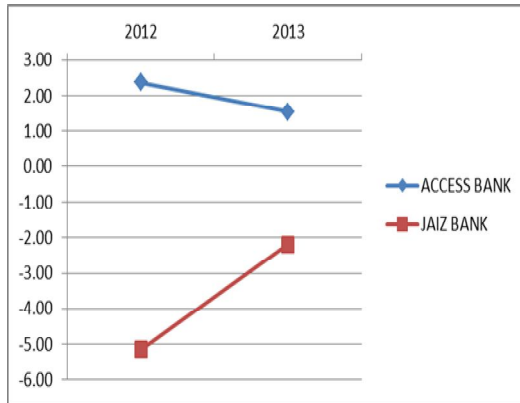
Performance Measure	Islamic Bank		Conventional Bank		T-Test	F-Test
	Mean	S.D	Mean	S.D		
Profitability						
ROA	-3.68	0.0002	1.95	0.0001	0.033751	0.342989
ROE	-6.99	0.0000	12.88	0.0003	0.006024	0.127478
PER	-46.47	0.0020	51.61	0.0012	0.013978	0.691733
Liquidity						
LDR	51.26	0.0010	55.55	0.0007	0.333321	0.766780
CPIDBR	150.04	0.0050	29.40	0.0005	0.038038	0.116914
LAR	11.46	0.0005	39.87	0.0005	0.014323	0.930353
Risk & Solvency						
DER	60.68	0.0041	84.97	0.0001	0.244246	0.028471
DTAR	25.87	0.0004	84.97	0.0001	0.001407	0.263253
LAR	2.25	0.0001	6.67	0.0000	0.019189	0.414181
Efficiency						
AU	2.00	0.0002	8.50	0.0001	0.034525	0.748668
IER	0.26	0.00003	2.50	0.00003	0.009174	0.951672
OE	8.63	0.00091	44.00	0.00057	0.021455	0.708557

Source: Authors' computation

FIGURES

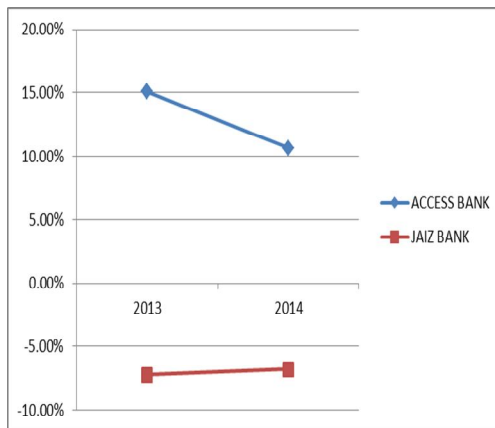
LIQUIDITY RATIO

Return of asset



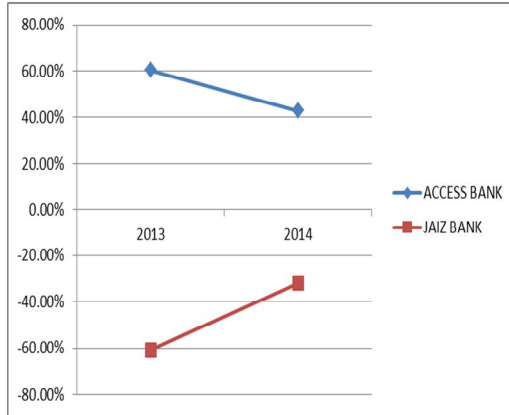
Source: Authors' computation

Return on Equity (ROE)



Source: Authors' computation

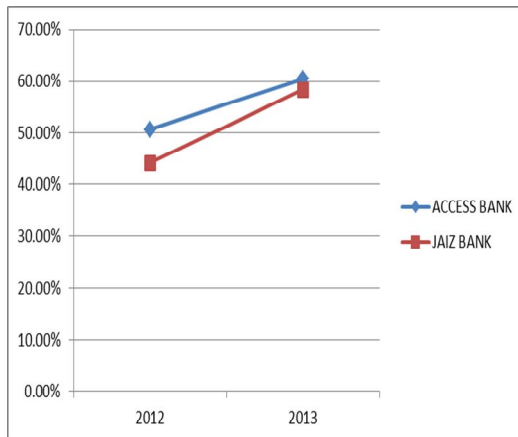
PROFIT OF EXPENSE RATIO



Source: Authors' computation

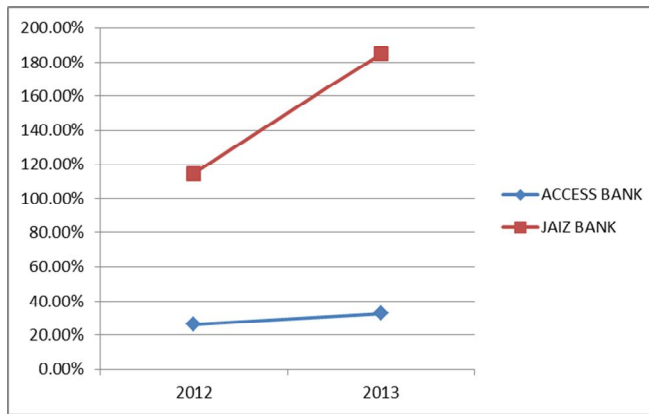
LIQUIDITY RATIO

Loan to Deposit Ratio (LDR)



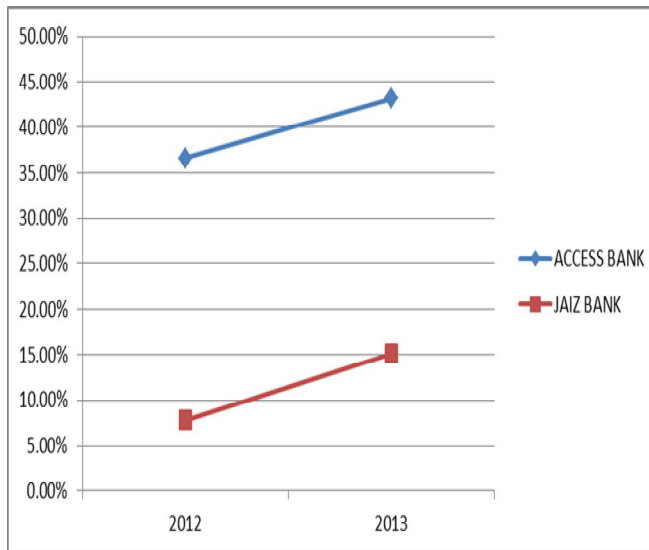
Source: Authors' computation

Cash & Portfolio Investments to Deposits & Borrowings Ratio (CPIDBR)



Source: Authors' computation

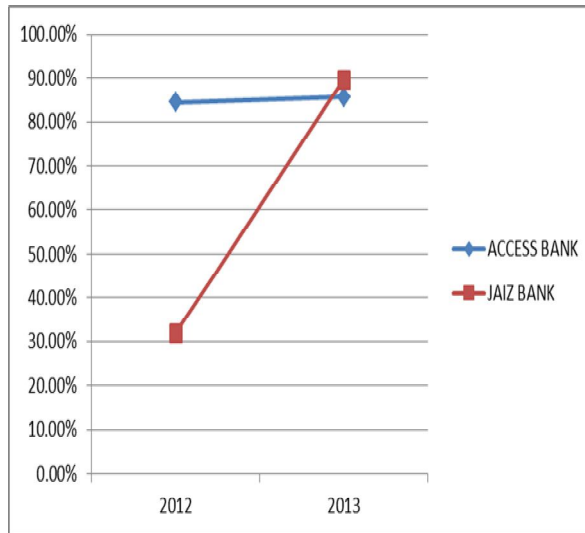
Loan to Asset Ratio (LAR)



Source: Authors' computation

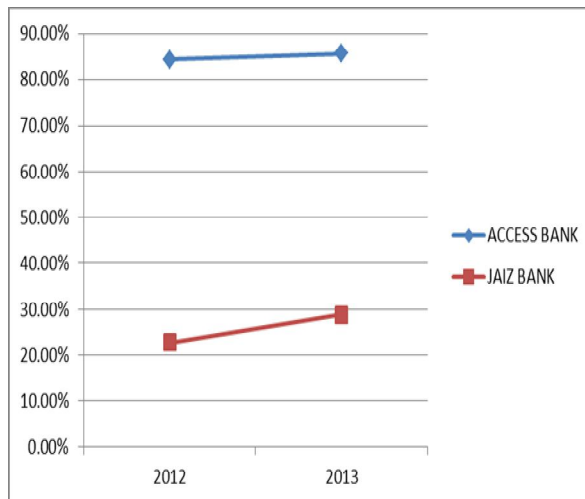
RISK AND SOLVENCY RATIOS

Debt to Equity Ratio (DER)



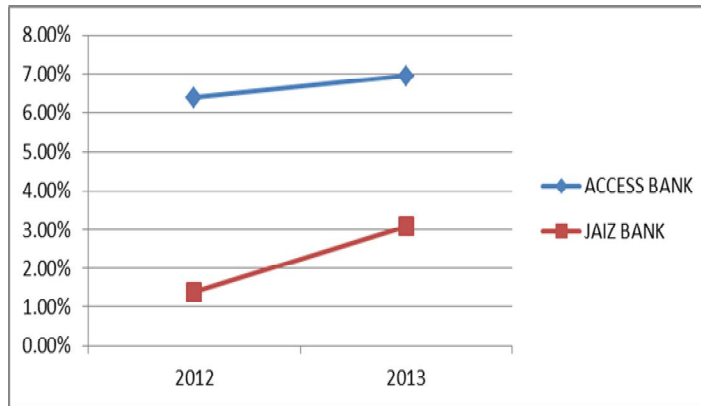
Source: Authors' computation

Debt to Total Assets Ratio (DTAR)



Source: Authors' computation

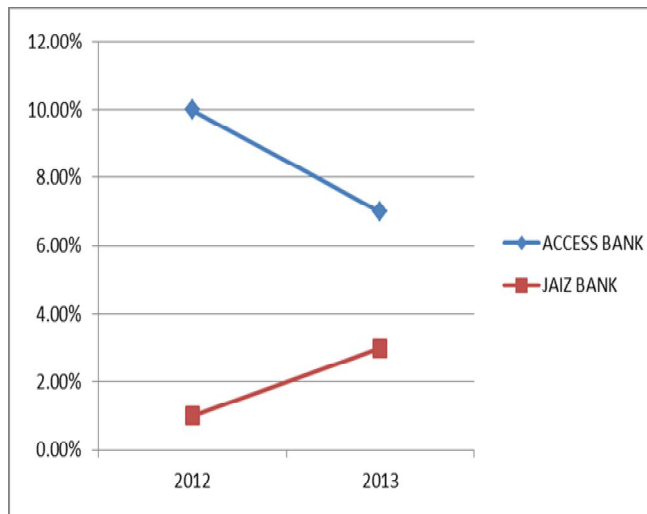
Equity Multiplier (EM)



Source: Authors' computation

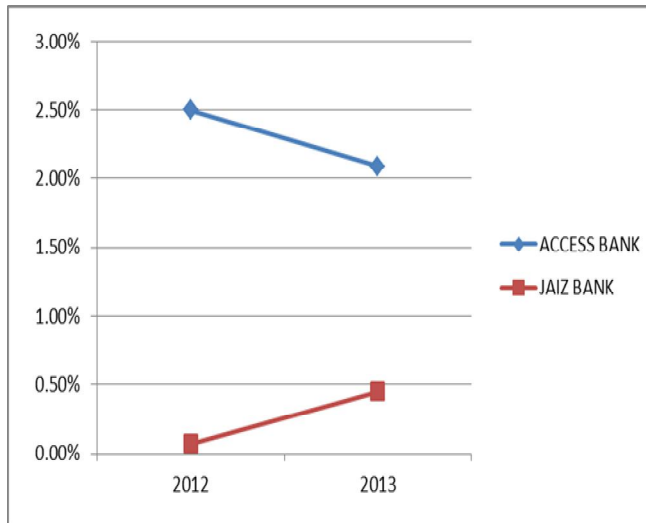
EFFICIENCY RATIOS

Asset Utilization (AU)



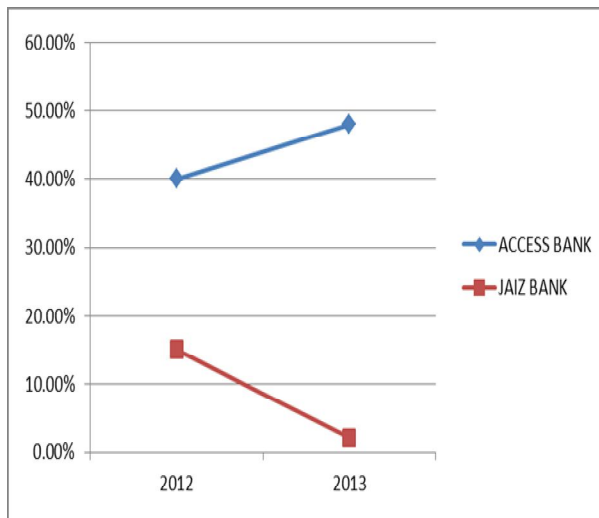
Source: Authors' computation

Income to expense Ratio (IER)



Source: Authors' computation

Operating Efficiency (OE)



Source: Authors' computation