



PERFORMANCE OF ISLAMIC AND CONVENTIONAL BANKS IN NIGERIA; A COMPARATIVE STUDY

wasiu aminat abidemi and *ibrahim foudalmoula*

Faculty of Business Studies, Sudan University of Science and Technology

المستخلص :

الهدف من هذه الدراسة هو مقارنة الأداء المالي لأول مصرف إسلامي في نيجيريا (مصرف جايز) مع المصارف التقليدية من أجل تزويد المساهمين والمودعين ومديري المصارف والمستثمرين بصورة واضحة عن الصيرفة الإسلامية والموقف المالي للمصارف الإسلامية والتقليدية في نيجيريا . الدراسة اختبرت وقرنت الاداء المالي للمصارف الإسلامية والتقليدية في نيجيريا للفترة 2012م - 2013م بإستخدام النسب المالية . وقد تم الحصول على بيانات الدراسة من القوائم المالية للمصارف المنشورة على موقع المصرف المركزي النيجيري . توصلت الدراسة الى أن بنك جايز اقل ربحية وأقل مخاطر وأقل كفاءة مقارنة بالمصرف التقليدي (أكسس) ولكنه أكثر كفاءة من حيث العمليات وذلك لأن المصارف التقليدية في نيجيريا 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 .

ABSTRACT:

The aim of this research is to compare the financial performances of the first Islamic bank in Nigeria, i.e. JAIZ bank Plc, and conventional banks to provide the stakeholder, depositors, bank managers, and investors with a clear picture about Islamic Finance; as well as the financial position of both Islamic and conventional banks in Nigeria. The study examined and compared the performance of Islamic and conventional banks in Nigeria during the period of 2012-2013 by using financial ratios, which had been collected from the banks' financial statements on bank of Nigeria website. The study found that JAIZ bank is less profitable, more solvent (less risky), and less efficient compared to the conventional bank (ACCESS); but more efficient in terms of its operations. 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 their 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.

KEYWORDS: Financial ratio, Islamic Banking, Conventional Banking.

INTRODUCTION:

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 banks that offer services different from the earlier existing ones.

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.

Islamic banking in Nigeria dated back around 1960 in Lagos with MUSLIM BANK WEST AFRICA LIMITED. This was ceased by minister of finance Chief ObafemiAwolowo in 1962. Since then, Islamic bank was unable to surface until 1991 during the amendment of other financial institution by (CBN).Also CBN granted license to Habib bank to deal in interest free banking product as window. Later in 2003 an Islamic bank was established named JAIZ International, it 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. The institution commenced business as Jaiz Bank on 6 January, 2012.

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 researchers intends to examine.

- i. To provide some insight about the performance of Islamic banking compared to conventional banking
- ii. To find out whether Islamic or conventional banks are operating efficiently
- iii. To examine the relationship between Islamic banks and conventional banks in the country.
- iv. To examine the financial status of Islamic banking in the midst of conventional banking.
- v. 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.

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.

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 “Performance of Islamic and Conventional banks 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.

SCOPE AND LIMITATION 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.

The following are the limitation encountered by the researcher:

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.

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.

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.

Adegbemi and Adekola (2013) evaluated the performance 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.

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 and conducted in different countries. 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 more profitable, more liquid, cost effective, and less risky and have better quality of loan portfolio but they lose at ground of operation efficiency.

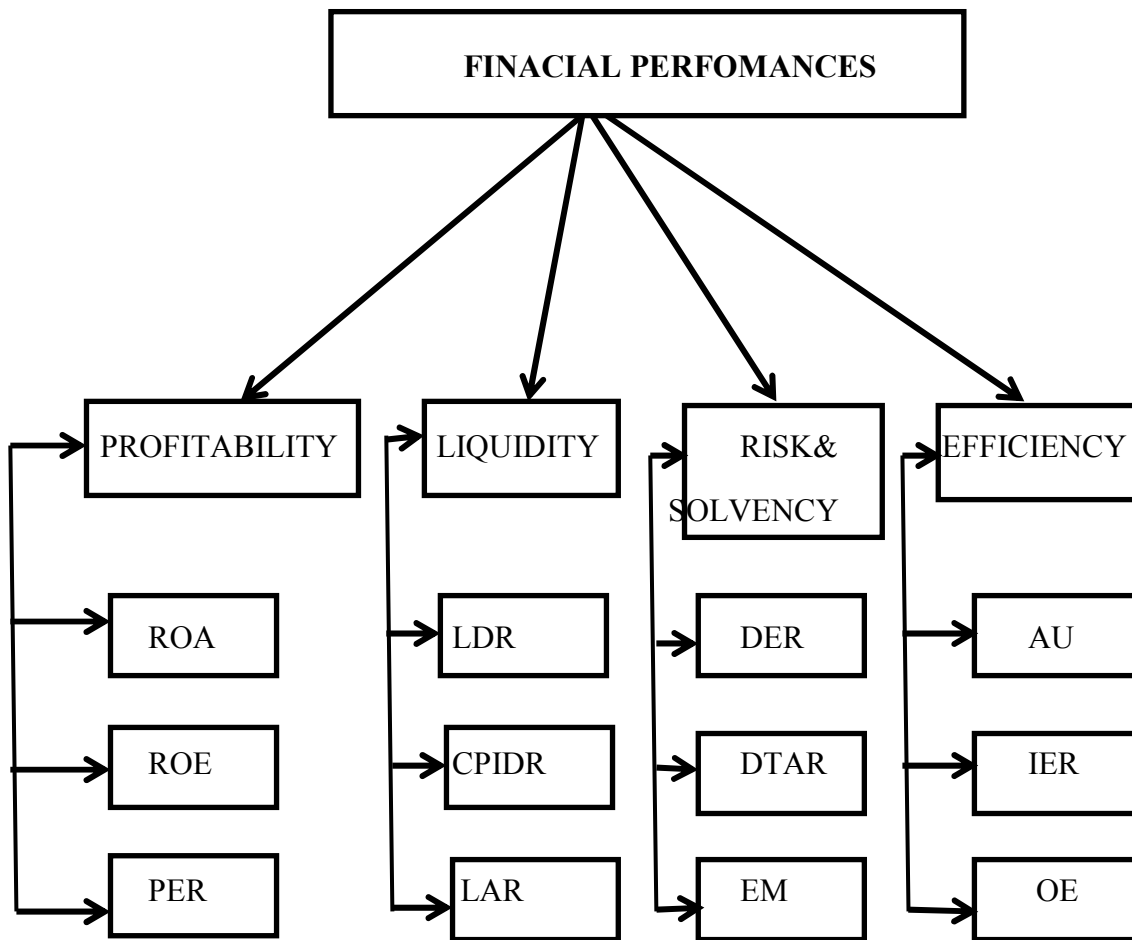
RESEARCH METHODOLOGY:

The descriptive analytical method is adopted by the researchers 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 researchers 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.

CONCEPTUAL FRAME WORK

**THEORETICAL FRAME WORK:**

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.

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.

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). The 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.

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: (a) Return on assets (ROA). $ROA = \text{net of profit after tax} / \text{total assets}$, (b) Return on Equity (ROE). $ROE = \text{net of profit after tax} / \text{shareholders' equity}$. (c) Profit to Expenses Ratio (PER). $PER = \text{profit before tax} / \text{operating expense}$

LIQUIDITY RATIOS:

Liquidity ratios indicate the ability of the firm to meet recurring financial obligations.

Liquidity is important for the firm to avoid defaulting on its financial obligations and, thus, to avoid experiencing financial distress (Ross, Westerfield, Jaffe 2005). 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: (a) Loan to Deposit Ratio (LDR). $LDR = \text{loan} / \text{deposits}$. (b) Cash & Portfolio Investment to Deposit Ratio (CPIDR). $CPIDR = \text{Cash and portfolio investment} / \text{deposits}$. (c) Loan to Asset Ratio (LAR). $LAR = \text{loan} / \text{total assets}$.

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. 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.

To gauge risk and solvency of the bank, measures usually used are: (a) Debt-Equity Ratio (DER). $DER = \text{total debt} / \text{shareholders' equity}$. (b) Debt to Total Assets Ratio (DTAR). $DTAR = \text{Total} / \text{total assets}$. (c) Equity Multiplier (EM). $EM = \text{total asset} / \text{shareholder equity}$

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: (a) Asset Utilization (AU). $AU = \text{total revenue} / \text{total assets}$. (b) Income Expense

Ratio (IER) Income to expense is the ratio that measures amount of income earned per dollar of operating expense. $IER = \text{total income} / \text{total operating expenses}$

Operating Efficiency (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.

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

HYPOTHESIS:

H₁: Islamic bank are less profitable than conventional banks

H₂: No significant difference in liquidity between the Islamic and conventional banks.

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

H₄: Islamic bank less efficient than conventional banks

DATA SOURCES:

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 formular. Also interview and observations were conducted. Secondary data are obtained from available literature books, journals, magazines, papers and internet websites.

DATA ANALYSIS:

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

DATA FINDINGS, ANALYSIS AND DISCUSSION:

This analyses and discusses the empirical result obtained from the financial ratios, in order to make comparison more reliable between the two banks.

PROFITABILITY RATIOS

Table(1): 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

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 (-1.49%); however, statistically there is difference between the two means at 5% significance level.

Table(2): 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

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 22.28% in 2012, which has plummeted to 17.46% 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 .

Table(3): 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

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.

LIQUIDITY RATIOS:

Table(4): 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

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% and 58%. 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.

Tabl(5): 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

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.

Table(6): 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

Loan to deposit ratio shows that liquidity position of Islamic bank is getting better, loan to asset ratio shows somewhat different results. Table 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 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

RISK AND SOLVENCY RATIOS

Table(7): 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 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 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.

Table(8): 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

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% to 84% 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.

Table(9): 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

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.

EFFICIENCY RATIOS:

Table(10): 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

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.

Table(11): 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

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

Table(12): 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

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 reduced 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.

TABLE(13): Comparison of Jaiz Bank (Islamic Bank) with Access Bank (Conventional Bank) Financial Ratio

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%

CONCLUSION:

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 bank (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.

Conclusively, from the overall research Islamic bank are more liquid, less risky, less efficient comparing to the conventional bank but more efficient in term of operation and operationally efficient than Conventional bank.

RECOMMENDATIONS

❖ 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 as cash work based programme, offering wealth management solution, developing incentives base product to sustain the industry in the long run.

❖ To acquire gradually and hiring the skillful employees, not just anyone is full of courage by the Islamic values but in proper training and experience in finance and banking.

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