

## An Analysis of the Financial Performance of Non-Interest Banking in Nigeria: A Case Study of Jaiz Bank Nigeria Plc

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### ABSTRACT

This study examines the financial performance of non-interest banking in Nigeria, with emphasis on Jaiz Bank Plc from 2014 to 2023. Specifically, the study evaluates how the Jaiz's bank financial performance, as determined by Return on Assets (ROA), is associated with the Capital Adequacy Ratio (CAR), Deposit Ratio (DPR), and Bank Size (BSZ). This study employed a quantitative approach by utilizing secondary data from the Jaiz bank's annual reports. In order to ascertain the associations between factors in the study, Pearson correlation analysis using Statistical Package for the Social Science (SPSS 27) have employed. The findings of the study revealed that there is strong negative correlation between CAR and ROA, which indicate that greater levels of capital adequacy may limit profitability by limiting participation in higher-yielding but riskier investment. On the other hand, DPR exhibits a positive correlation with ROA, which suggested that effective deposit utilization has a positive association with the financial performance. Furthermore, BSZ exhibits a strong positive correlation with ROA, suggesting that larger bank size is associated with higher financial performance, potentially due economies of scale and enhanced risk management. Finally, the study recommended that Non-interest Banks in Nigeria should enhances its deposit mobilization and utilization strategies and pursue geographical and digital expansion to further improve financial performance. And, non-interest banks in Nigeria should adopt a balanced capital structure that ensures both financial stability and profitability, as excessive capital adequacy may limit its ability to engage in profitable Shariah-compliant investments.

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## 1. Introduction

Every financial choice pertaining to a company, especially one that concerns its financial situation, must take into account the firm's performance [66]. Therefore, models that assist in analyzing and forecasting the performance of the enterprises are always of interest to owners, banks, possible investors, managers, other financial institutions, business partners, creditors, workers, and the government. A large number of corporate organizations prioritize maximizing profits, creating wealth, and achieving other significant secondary goals [26]. The future of the company is driven by its financial performance. Strong financial performance is indicative of management's efficacy and efficiency in allocating corporate funds, which benefits a company (Ashari Krismiaji, 2019). Typically, the profitability evaluation gets wrapped up using Return on assets (ROA = Net income / Total Asset) which serves as the most ultimate measure of a firm economic success. A company's profitability in relation to its total assets is established by its return on assets (ROA). It conveys insight into how well management uses its resources to turn a profit. Return on assets was established by Bambang, Elen and Andi (2012) as a performance metric. It demonstrates to the investor the manner in which a business generates revenue from its assets.

Additionally, a greater ROA indicates better managerial effectiveness. According to Musah et al. [54], ROA is an indication of the operating efficiency of the firm. Hence analyzing the Jaiz bank return on Asset (ROA) ranging from 2014-2023 as reported in its annual reports were as follows: 0.29%, 1.51%, 0.51%, 1.02%, 0.83%, 1.26%, 1.31%, 1.56%, 1.75%, and 1.91% from 2014 to 2023 respectively. This means the minimum and maximum ROA of Jaiz bank from these ten (10) years are 0.29% to 1.91% respectively. However, when compared to the Nigerian banking sector's ROA benchmark, with a minimum of 1.90%, a maximum of 3.18%, and an average of 2.14%, it is clear that Jaiz Bank's performance, despite some improvements, remains below the sector average, highlighting a potential financial performance issue. Additionally, in 2016 the Jaiz Bank's current ratio stood at 1.05 while from 2017 to 2023 the Jaiz bank's current ratio remained consistently below one (1), with these indicating persistent liquidity challenges because once a company's current ratio is below 2:1 it may indicate potential liquidity issues, meaning the company could end up lacking enough short-term assets to meet its short-term obligations. However, a current ratio greater than 1:1 still suggests that the company can meet its obligations, though with a smaller margin of safety. Moreover, a current ratio of 2:1 is generally considered a healthy liquidity position, as it indicates that the company should have twice the resources needed to cover its short-term debts. This can provide a cushion against unexpected expenses or downturns. The current ratios of Jaiz bank from 2017 to 2023 were as follows: 0.50, 0.41, 0.48, 0.46, 0.42, 0.53, and 0.51 respectively.

With its headquarters located in Abuja and more than 26,000 shareholders located throughout the country's six regions, Jaiz Bank Plc was Nigeria's first fully operating non-interest bank. Following its permission to operate as a non-interest bank from the Central Bank of Nigeria (CBN) on November 11, 2011, Jaiz Bank opened three branches in the states of Kaduna, Abuja, and Kano in 2012 (Kammer et al., 2015). As of December 31, 2022, the Bank's balance sheet was over N379 billion, up from N12 billion in 2012. As of December 31, 2022, financing and investment assets had increased from approximately N30 billion in 2012 to N249 billion (The Sun newspaper, 2023). At the moment, the bank has forty-four (44) branches spread over twenty (20) states (Kammer et al., 2015). Currently, the bank operates in twenty (20) states with forty-four (44) branches across the states.

However, the main focus of this study is to provide a comprehensive review and analysis of the financial performance of non-interest banking in Nigeria, by using Capital Adequacy Ratio, Deposit Ratio and Bank Size of Jaiz Bank Nigeria to serve as proxies of non-interest banking. The Capital Adequacy Ratio will be comprised of Sharia-compliant equities that are available in the Jaiz Bank

financial statement ranging from 2013 to 2023, such as mudaraba term deposit, wadiah Yad Dhamnah (unrestricted investment account) and other permissible Sharia equities, to be divided by the total Sharia-compliant assets such as sukuk investment, investment in ijarah assets, istisna assets, musharaka, interbank murabaha, property, plant and equipment, intangible and other Sharia-compliant assets. Then the Deposit Ratio will constitute the Sharia-compliant income/deposit such as Wadiah saving account, income from Islamic financing contracts such as murabaha profit (corporate, retail and trade finance), ijarah finance lease profit, ijarah home finance, istisna profit, salam profit and interbank murabaha income, and all other Sharia-compliant revenue that are available in the Jaiz Bank annual report for the period stated, to be divided by total Sharia-compliant assets as stated above in the capital adequacy variable. Then finally the bank size variable, which comprises the natural log of total Sharia-compliant assets for Jaiz Bank for the ten (10) years stated above in the capital adequacy ratio variable.

All these three (3) variables are going to be used in order to assess, examine and evaluate the effect and impact of capital adequacy, deposit ratio and bank size on the financial performance which is heavily represented by the return on assets (ROA) of the non-interest bank in Nigeria, and finally their relationship with the return on assets. The present study fills the gap by evaluating Jaiz Bank's performance using CAR, DPR, BS, and ROA, aligning with previous research by Srairi (2010), Rosly & Abu Bakar (2003), and Nuruddeen & Usman (2015).

Finally, these financial performance concerns are closely linked to key bank-specific factors such as Capital Adequacy Ratio (CAR) [1] [36] [57] [60], Deposit Ratio (DPR) [14] [52], and Bank Size (BSZ) [30] [63] [64]. Capital Adequacy Ratio is essential in determining the bank's financial strength and ability to absorb losses [51] [53], Deposit Ratio reflects the bank's efficiency in utilizing customer deposits, which directly impacts liquidity and profitability [74]. Lastly, Bank Size influences financial stability, with larger banks often benefiting from economies of scale, which may enhance profitability [64]. Given these developments, a detailed analysis of Jaiz Bank's financial performance concerning these three factors is necessary to provide insights and recommendations for addressing financial sustainability in Nigeria's non-interest banking sector.

### *1.1 Objective of the Study*

The main objective of this study is to examine the relationship between selected bank specific factors and financial performance of Non interest banking in Nigeria. Case study of Jaiz Bank Plc. Other specific objectives include as follows:

1. To Examine the relationship between capital adequacy and financial performance of Non interest bank in Nigeria
2. To assess the association between deposit ratio and financial performance of Non interest bank in Nigeria
3. 3.To analyze the relationship between bank size and financial performance of Non interest bank in Nigeria

### *1.2 Theoretical Framework*

This study is grounded in the Maqasid al-Shariah framework, which provides the ethical and operational foundation for Islamic banking. The framework originates from classical Islamic jurisprudence, notably articulated by Al-Ghazali (d.1111) [15] and later systematized by Al-Shatibi (d.1388) [16], who emphasized that Islamic law aims to preserve five essential objectives: faith, life, intellect, progeny, and wealth (Al-Shatibi, Al-Muwafaqat) [16]. In modern Islamic finance, scholars

such as Chapra [24] and Dusuki & Abdullah [28] [29] have applied Maqasid principles to banking, stressing wealth preservation (Hifz al-Mal), justice (Adl), social welfare (Maslahah), trust (Amanah), and balanced growth (Tawazun) [24] [27] [28]. These principles guide how Islamic banks manage capital, deposits, and expansion, potentially relating to their financial performance as measured by Return on Assets (ROA) [39].

**Key Variable Relationships under Maqasid al-Shariah:**

**1. Capital Adequacy Ratio (CAR) and Return on Asset (ROA)**

- **Principle:** Hifz al-Mal (wealth preservation) and Adl (justice), as emphasized by Chapra [24] and Ibn Ashur (2006).
- **Rationale and Empirical linkage:** Higher Capital adequacy ratio (CAR) may reflect a commitment to risk-sharing and depositor protection, possibly correlating with ROA. The relationship could be positive (stability enhancing profitability) or negative (excessive capital reducing returns).

**2. Deposit Ratio (DPR) and Return on Asset (ROA)**

- **Principle:** Amanah (trust) and Maslahah (social welfare), grounded in Al-Ghazali's concept of public interest [15] and Ayub's (2007) analysis of Islamic deposit systems.
- **Rationale and Empirical Practical linkage:** Higher Deposit ratio (DPR) signals community trust and stable, low-cost funding from Shariah-compliant contracts (e.g., Mudarabah/Wadiah), likely correlating positively with ROA.

**3. Bank Size (BSZ) and Return on Asset (ROA)**

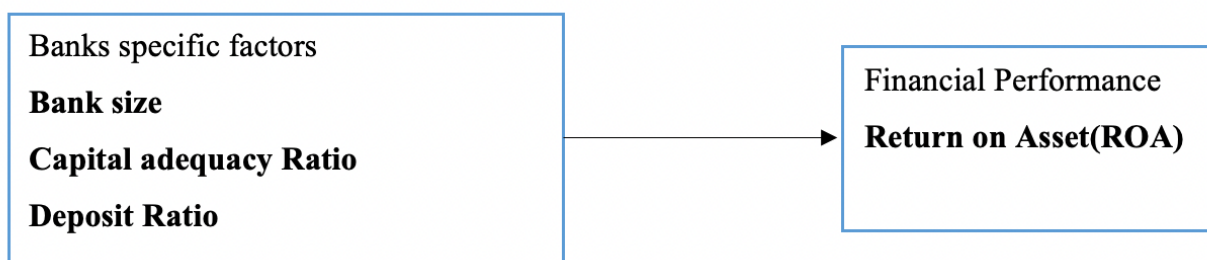
- **Principle:** Tawazun (balance) and Maslahah (social welfare), as discussed by Dusuki & Abdullah [28] [29] in the context of Islamic bank growth.
- **Rationale and Empirical linkage:** Larger bank size may improve efficiency and outreach (positive correlation), but unchecked growth could weaken governance and profitability (negative correlation).

**Research/Conceptual Framework**

The conceptual framework for this study assumes that bank-specific factors, such as Bank Size [30] [63] [64], Capital Adequacy Ratio [1] [36] [57] [60], and Deposit Ratio [14] [52], have a direct relationship with the financial performance of Jaiz Bank in Nigeria [44] [68].

**Independent variables**

**Dependent variable**



**Fig. 1.** Conceptual Framework

**Source:** Developed by the researcher (2024) based on the work of Akintan et al. [7] (and also [8])

## **2. Review of Related Literature**

### *2.1 Definition of Non interest banking/ Islamic banking*

The conventional banking system has an ethical substitute in non-interest banking. A non-interest bank (NIB) operates on the concepts of commerce and collaboration, guided by Shariah [48]. Consequently, NIB can deal with its clients as a dealer, lessor, agency, or partner. Islamic banking, frequently referred to as non-interest banking, is merely a financial method predicated on the Islamic Sharia law that prohibits the collecting of interest. Thus, a banking practice founded on Islamic principles of non-interest could easily be defined as non-interest banking. As to Odongo ([59], Islamic banking pertains to a financial system or activity that aligns with the fundamental principles of Shari'ah, which is the Islamic law, and its pragmatic implementation through the growth of Islamic economics [61]. The universal attraction of moral and ethical ideals in all interactions is demonstrated by these principles [61]. Shari'ah forbids engaging in commerce or other activities that supply goods or services seen to be in opposition to its precepts, as well as paying or taking interest charges (riba) for the loan and accepting of money [61].

### *2.2 Capital Adequacy*

The idea of capital adequacy first surfaced in the middle of the 1970s as a result of banks expanding their lending without also raising their capital [1]. This has compelled authorities to establish a number of control protocols and implement fresh changes in an effort to prevent insolvency within the banking industry [1]. The funds listed on the balance sheet that are attributable to the owners are known as bank capital [57], [60].

### *2.3 Empirical Review with regard to Capital adequacy and financial performance of Islamic Bank*

Jimoh et al. [44] evaluated the performance of Jaiz Bank over a nine-year period, from 2012 to 2020. The study utilized data from the bank's annual reports and conducted a financial ratio analysis based on the CAMEL framework. The findings revealed that the bank performed moderately well in areas such as capital adequacy, asset quality, earnings quality, and liquidity, though some inefficiencies in management were noted. The study concluded that the bank is well-positioned to handle any unforeseen financial crises. It was recommended that the bank's management improve its efficiency in financial intermediation to strengthen its resilience against future uncertainties [44].

Abdullahi & Yusuf [2][3] made an attempt to identify the factors that influence Malaysian Islamic banks' financial success. They gather secondary data from the country's 12 selected Islamic banks' financial reports over a six-year period, from 2010 to 2015.

Al-Damir [11] made an effort to identify the variables influencing the profitability of Islamic banks in the Gulf Cooperation Council (GCC), which is made up of Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates (UAE). The study evaluated how bank features, both internal and external, affected the profitability of Islamic banks in the Gulf Cooperation Council (GCC).

Khan et al. [46] investigate how certain internal bank features affect Pakistani Islamic banks' profitability. Research revealed that ROE is impacted by capital adequacy ratio, operating efficiency and leverage ratio. Additionally, ROE is impacted by size of banks, asset management ratio, leverage (gearing) ratio, and operational efficiency. However, capital adequacy had the most impact [2][3].

Noman [56] studied the factors that influence banks' profitability, using return on assets (ROA) as a stand-in for profitability, which was measured in relation to seven independent variables: GDP, asset quality, bank size, operating efficiency, liquidity, and capital adequacy.

## 2.4 Bank Size

A further significant aspect that determines capital adequacy is bank size. Larger banks have a greater opportunity than smaller banks to take advantage of economies of scale in transactions, which will primarily lead to a greater level of profit, according to Soyemi et al. [67].

## 2.5 Empirical Review/evidences on Bank size and financial performance of Islamic Bank

Jimoh et al. [44] evaluated the performance of Jaiz Bank over a nine-year period, from 2012 to 2020. The study utilized data from the bank's annual reports and conducted a financial ratio analysis based on the CAMEL framework. It was recommended that the bank's management improve its efficiency in financial intermediation to strengthen its resilience against future uncertainties [44].

Akintan et al. [7][8] gauged the financial performance of JAIZ Bank PLC within the Nigerian banking sector, focusing on profitability, liquidity, and leverage. The analysis used data from the bank's annual financial statements over a five-year period (2012-2016) and employed the Gray Comparative Index to assess the results. Additionally, the study advised the bank to raise public awareness about its products and services and urged the government to support Islamic banking by licensing more Islamic banks and establishing takaful (Islamic insurance companies) to safeguard Islamic financial assets [7][8].

Based on risk-return and signaling theories, Sahari and Ubaidillah [65] executed a further analysis on Malaysian Islamic banks, using both internal and external characteristics across a five-year period from 2011 to 2015. In the course of the research, bank size, credit risk, liquidity, GDP and capital adequacy were considered independent factors, whereas ROA and ROE were considered dependent variables.

Asadullah [18] undertakes an additional endeavor by gathering secondary data from a subset of five Islamic banks that were operational in Pakistan during a ten-year period (2006 to 2015). The study picked ROA as the dependent variable and used panel regression with STATA assistance for the analysis.

In the work of Abdullahi and Yusuf [2][3], who used ROE and ROA as proxies for financial performance, the independent variables were divided into two categories: external factors, which included inflation rate and GDP, and internal factors, which included market share as an industry-specific factor and deposits, bank size and financing. They concluded that while market share and bank size have a favorable influence on profitability, deposits, inflation and GDP have a negative impact. Financing and investment share, inflation and GDP on the other hand, have a negligible effect on it [2][3].

Ijaz, Akmal, and Gillani [41] look at how certain internal bank features affect Pakistani Islamic banks' profitability. For the years 2006–2013, performance measurements such as return on equity (ROE) and return on asset (ROA) were scaled against secondary data on the bank's size, capital adequacy ratios, operational efficiency, asset management, and gearing ratio as independent variables.

## 2.6 Deposit ratio

In Islamic banking, the deposit ratio refers to the proportion of deposits that are considered shariah-compliant relative to the total deposits held by the bank. This concept is integral to Islamic financial institutions as it ensures that the bank's operations and investment adhere to Islamic law, which inspires risk-sharing and ethical investing while outlawing interest [2][3].

## *2.7 Empirical Review/evidences in respect to Deposit ratio and financial performance of Islamic Bank*

Aslam, Inamullah, and Ismail (2016) used ROA and ROE as proxies for financial performance and categorized the independent variables into three categories: market share, which is industry-specific; bank size, deposits, and financing; GDP and inflation rate. It was determined that market share and bank size have a positive influence on profitability, while deposits, inflation and GDP have a negative impact. Financing and investment share, GDP, and inflation, on the other hand, have no discernible effect on profitability [2][3].

Another attempt is made by Asadullah [18], who gathers secondary data from a sample of five Islamic banks that were in operation in Pakistan for ten years, from 2006 to 2015. The study picked ROA as the dependent variable and used panel regression with STATA assistance for the analysis. The independent variables were liquidity, inflation, GDP, and bank size. The analysis's findings indicate that there is a substantial correlation between liquidity, bank size and performance; however, the correlation was found to be negative for bank size and positive for liquidity. However, there is little correlation between the external elements of inflation, GDP and the bank's profitability [2][3].

## *2.8 Research gaps*

The reviewed literature reveals several gaps. First, no empirical studies were found that specifically focus on the analysis of the financial performance of non-interest banking in Nigeria. Additionally, earlier research, such as that done by Haddad, El Ammari, and Bouri [37] and Al-Ahdal and Hashim [10], used quantitative methodologies based solely on correlational research designs, and many were not conducted in Nigeria. Thirdly, this study adopts new and unique variables, such as ROA, bank size, deposit ratio and capital adequacy which differ from variables used in previous studies. Additionally, while previous scholars often relied on primary data, this study focuses on secondary data from Jaiz Bank Nigeria's financial statements, addressing a methodological gap. Finally, most prior studies were conducted before 2018, whereas this study fills a time gap by providing up-to-date information. Hence the current study specifically will fill a time gap by revealing up-to-date information on the analysis of the financial performance of non-interest banking in Nigeria.

## **3. Methodology**

This study employs a quantitative approach based on Ex- Post factor research design. Secondary data were extracted from the annual financial reports of Jaiz Bank for the years 2014 to 2023. The variables examined include Return on Asset (ROA) as the dependent variable, and Capital Adequacy Ratio (CAR), Deposit Ratio (DPR) and Bank Size (BSZ) as the Proxies of independent variables. The study relies solely on Pearson correlation coefficient analysis to assess the strength and direction of relationships among the variables. The statistical tool of correlation analysis are employed in conducting this study by using SPSS 27 as tool of analysis. However the sample size of the study is Jaiz Bank Plc, which is the only Non Interest bank listed on the Nigerian Exchange Group as at 31st December, 2023 among the other four non-interest bank in Nigeria. Effort was made to see that adequate sample size was drawn, considering that Jaiz bank runs its operations based on Islamic banking principles mean while Purposive sampling technique is adopted were Jaiz bank is selected purposely because it is the only non- interest bank in Nigeria that have been listed by Nigerian stock exchange up to December 2023.

#### 4. Finding and Discussion

The Pearson correlation analysis produced the following results:

**Table 1**

Pearson correlation Table

Variables	ROA	CAR	DPR	BSZ
ROA	1.000	-.736	.624	.792
CAR	-.736	1.000	-.701	-.926
DPR	.624	-.701	1.000	.612
BSZ	.792	-.926	.612	1.000

**Source: Generated by the Researcher using SPSS 27**

##### *4.1 The Pearson Correlation result based on Objective One: To examine the relationship between capital adequacy and financial performance of Non-interest bank in Nigeria*

The above table shows that there is strong negative correlation between Return on asset (ROA) and Capital adequacy (CAR) with coefficients value of (-0.736). This implies that Jaiz bank maintains higher capital adequacy which would lead to lower profitability, where holding excess capital relative to risk-weighted assets restricts Jaiz bank's ability to generate high returns. This might occur due to higher capital requirements limiting the bank's capacity to engage in more profitable, albeit riskier, activities. It indicates that Jaiz Bank might be more conservative in its lending practices, which may prioritize stability over profitability. Studies on Islamic banking have shown that a high CAR is often associated with lower returns, as Shariah-compliant banks prioritize asset-backed transactions over high-risk investments [6].

##### *4.2 The Pearson Correlation result based on Objective Two: To assess the association between deposit ratio and financial performance of non-interest bank in Nigeria*

Table 1 reveals that there is positive correlation between Return on Asset (ROA) and Deposit Ratio (DPR) with coefficients value of 0.624. This indicates that higher deposit ratios are associated with better financial performance of Jaiz bank. This finding aligns with the general banking theory where bank higher deposits increase the bank's lending capacity, leading to higher profitability. Alshammari et al. [14] stated that deposit payout ratio policies play a crucial role in financial performance, as they can enhance investor confidence and attract more deposits.

##### *4.3 The Pearson Correlation result based on Objective Three: To analyze the relationship between bank size and financial performance of Non-interest bank in Nigeria*

Table 1 shows the result of Pearson correlation between Return on asset (ROA) and bank size (BSZ), which indicates that there is positive correlation between bank size and return on asset (ROA) with correlation coefficients of 0.792. This means bank would benefit from economies of scale, reducing operational costs and increasing efficiency [42]. Chapra [23] in his study found out that bank size contributes to improved risk management and access to global financial markets, facilitating financial stability [23].

## 5. Conclusion and Recommendation

The study concludes that bank-specific factors like Capital Adequacy Ratio (CAR), Deposit Ratio (DPR), and Bank Size (BSZ) significantly influence the financial performance of Jaiz Bank Nigeria Plc. Based on the findings of the specific three (3) objectives that were available in this study, the following conclusion and recommendation are made as follows:

1. The Pearson correlation analysis in respect to objective number one (1), which reveals that there is strong negative relationship between Return on Assets (ROA) and Capital Adequacy Ratio (CAR) ( $\beta = -0.736$ ). This implies that an increase in capital adequacy at Non-interest banks in Nigeria has a relationship with the reduction in profitability. Hence it is now recommended that Non-interest banks in Nigeria should adopt a balanced capital structure that ensures both financial stability and profitability, as excessive capital adequacy may limit its ability to engage in profitable Shariah-compliant investments.
2. Consistent with objective two (2), the study used Pearson correlation analysis, and the findings indicate a positive correlation between Return on Assets (ROA) and Deposit Ratio (DPR) ( $\beta = 0.624$ ). This suggests that an increase in the deposit ratio has a positive association with the Non-interest Banks' financial performance in Nigeria by enhancing its lending capacity. So it is now recommended that the Non-interest Banks in Nigeria should enhance their deposit mobilization and utilization strategies to further improve financial performance, through expanding their customer base by introducing innovative non-interest banking products tailored to various economic segments, including corporate clients, SMEs, and rural communities. Also, the bank should focus on deploying mobilized deposits into profitable, low-risk, and Shariah-compliant investments, such as Murabaha (cost-plus financing), Ijarah (leasing), and Istisna (project financing), to ensure optimal returns.
3. In conclusion, based on objective three (3), the Pearson correlation analysis indicates a strong positive correlation between bank size (BSZ) and Return on Assets (ROA) ( $\beta = 0.792$ ). This indicates that an increase in bank size significantly has a higher favorable relationship with financial performance. However, it is now recommended that Non-interest Banks in Nigeria should prioritize geographical expansion into underserved regions, particularly in Northern Nigeria and rural areas, to enhance financial inclusion and attract a broader customer base, by extending their branch network to rural areas where the bank can tap into new markets, providing essential financial services to communities with limited access to banking.

Finally, future research may consider comparing performance across multiple Islamic banks in Nigeria and employing regression models to assess causality. Then there are other limitations faced by the researchers such as short study period, single bank analysis, and reliance on secondary data.

### Conflict of interests

The author(s) declare that they have no conflict of interest.

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