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Performance Of Conventional Banking And Islamic Banking In The Gambia: A Comparative Study Using Financial Ratio Analysis

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ABSTRACT - The main focus of this study is to compare the financial performance of the Islamic banking system and the conventional banking system operating in The Gambia during the period 2008 to 2017, focusing specifically on Arab Gambian Islamic Bank Limited (AGIB) and Trust Bank Gambia Ltd. In comparing the financial performance of these two banks, the study used financial ratios based on the capital adequacy, asset quality, management, earnings and liquidity (CAMEL) framework. Overall, the results of the study are mixed. For example while the study finds that Trust Bank Gambia Ltd. was more profitable than Agib Bank Ltd in terms of ROA and ROE, however, in terms of Earnings Per Share and Dividend Per Share, Agib Bank Ltd dominated Trust Bank. It was also shown that Agib Bank Ltd was more liquid because it had more of its assets covered by equity compared to Trust Bank Gambia Ltd.. On the other hand, Trust Bank Gambia Ltd. was more liquid than Agib Bank Ltd during 2014 to 2017. Finally, the study showed that Agib Bank Ltd dominated Trust Bank Gambia Ltd. in terms of the quality of its Non Performing Loans (NPLs).The latter finding suggests that the management team in Agib Bank Ltd was more effective than that of Trust Bank Gambia Ltd. in terms of the management of their assets, including loans.

Keywords – AGIB, Islamic Banking, NPL.

I. INTRODUCTION

The banking industry in general comprises of two main type of banking systems. One is interest-free banking system called Islamic Banking System, which is based on the profit and loss sharing principle between two parties, which is termed the risk diversification principle. This system of banking focuses on equity rather than debt financing. The other type of banking system is an interest-based banking system called Conventional Banking System.

While the principles on which Islamic banking is operated is called '*Sharia'* (guidelines obtained from the Quran and Teachings of the Prophet; *Mohammad S.A.W*); the principles of conventional banking are mainly guided by customers' ability to pay within a given period. In other words, the conventional banking system is based on man-made guidelines.

The foundation of Islamic banking is based on the Islamic faith and must stay within the limits of Islamic Law or the *Shariah* in all of its actions and deeds. The original meaning of the Arabic word *Shariah* is 'the way to the source of life' and is now used to refer to a legal system in keeping with the code of behavior called for by the Holly Qur'an (*Koran*) and preaching's of Prophet Mohammad (PBUH).

The governing principles of Islamic banking are:

- The absence of interest-based (*riba*) transactions;
- The avoidance of economic activities involving oppression (*zulm*)
- The avoidance of economic activities involving speculation (*gharar*);
- The introduction of an Islamic tax, *zakat*;
- The discouragement of the production of goods and services which contradict the Islamic value (*haram*)

On the other hand, conventional banking is essentially based on the debtor-creditor relationships between the depositors and the bank on one hand, and between the borrowers and the bank on the other. Interest is considered to be the price of credit, reflecting the opportunity cost of money.

These two banking systems create competition among themselves to satisfy their customers. Despite their differences in terms of the principles guiding their approach

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to banking operations, they also share some common characteristics. For example, they both serve as places for safe keeping of money, financiers/lenders to their customers and to the government, etc.

Table 1.4 further highlights the key differences between Conventional Banks and Islamic Banks.

1.4 Key Differences between Islamic banks and conventional banks

Conventional Banks	Islamic Banks
1. The functions and operating modes of conventional banks are based on fully man- made principles.	1. The functions and operating modes of Islamic banks are based on the principles of Islamic *Shariah.*
2. The investor is assured of a redetermined rate of interest.	2. In contrast, it promotes risk sharing between provider of capital (investor) and the user of funds (entrepreneur).
3. It aims at maximizing profit without any restriction.	3. It also aims at maximizing profit but subject to *Shariah* restrictions.
4. It does not deal with *Zakat.*	4. In the modern Islamic banking system, it has become one of the service-oriented functions of the Islamic banks to be a *Zakat* Collection Centre and they also pay out their *Zakat.*
5. Lending money and getting it back with compounding interest is the fundamental function of the conventional banks.	5. Participation in partnership business is the fundamental function of the Islamic banks. So, we have to understand our customer's business very well.
6. It can charge additional money (penalty and compounded interest) in case of defaulters.	6. The Islamic banks have no provision to charge any extra money from the defaulters. Only small amount of compensation and these proceeds is given to charity. Rebates are given for early settlement at the Bank's discretion.
7. Very often it results in the bank's own interest becoming prominent. It makes no effort to ensure growth with equity.	7. It gives due importance to the public interest. Its ultimate aim is to ensure growth with equity.
8. For interest-based commercial banks, borrowing from the money market is relatively easier.	8. For the Islamic banks, it must be based on a Shariah approved underlying transaction.
9. Since income from the advances is fixed, it gives little importance to developing expertise in project appraisal and evaluations.	9. Since it shares profit and loss, the Islamic banks pay greater attention to developing project appraisal and evaluations.
10. The conventional banks give greater emphasis on credit-worthiness of the clients.	10. The Islamic banks, on the other hand, give greater emphasis on the viability of the projects.
11. The status of a conventional bank, in relation to its clients, is that of creditor and debtors.	11. The status of Islamic bank in relation to its clients is that of partners, investors and trader, buyer and seller.
12. A conventional bank has to guarantee all its deposits.	12. Islamic bank can only guarantee deposits for deposit account, which is based on the principle of *al-wadiah,* thus the depositors are guaranteed repayment of their funds, however if the account is based on the *mudarabah* concept, client have to share in a loss position.

Source: Abd Rahman (2007)

The main objective of the study is to comparatively analyse conventional banking and Islamic banking in The Gambia in terms of their financial performance. The research is based on two banks, namely Trust Bank Gambia Ltd Limited and Agib Bank LtdBank Limited. The study will also compare the financial performance of these two banks vis-à-vis the banking industry performance for the period 2008-2017.

In order to archive this broad objective, the following specific objectives were formulated:

- Determine which banking system (Islamic banking or conventional banking) is more profitable using Return on Equity (ROE), Return on Asset (ROA), Earnings Per Share EPS), and Dividend Per share (DPS) as performance measures.
- Determine which banking system is more liquid using Total Equity to Total Assets (TETA), Total Loan to Total Assets (LTA), and Deposits to Total Assets (DTA) ratios.
- Measure management's effectiveness with the help of Non-Performing Loan (NPL) analysis.

The rest of the paper proceeds as follows. Chapter One (1) introduces the study and provides an overview of both Islamic banking and conventional banking systems. Chapter Two (2) reviews the previous studies on the performance assessment of Islamic banking and conventional banking. In Chapter Three (3), the methodology of the research is discussed in detail.. Chapter Four (4) presents the findings of the study. Finally, Chapter (5) concludes the study and provides key recommendations based on the findings of the study.

II. REVIEW OF THE RELEVANT LITERATURE

A bank's performance is measured in different ways and many studies have been done in measuring the performance of these financial institutions by using different methods. The commonly used methods had been predominantly reliant on using quantitative performance determinants such as profitability, liquidity, efficiency, solvency, and growth analyses.

Qian and Velayutham (2017) conducted a study to determine whether different banking arrangements based on different philosophies lead to different outcomes. They focused on revenue distribution between the two types of banking systems with the help of secondary data from the annual reports of 10 banks with both conventional and Islamic banking windows for five years. They used financial ratios such as profit return to depositors' ratio, net profit ratio, risk ratio and so on, to analyze the data,. The independent sample test was used to analyse these ratios.

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The findings of the study by Qian and Velayutham (2017) indicated that depositors get higher returns from Islamic banking than from conventional banking. In contrast, conventional banks appear to have a higher taxation cost, operating cost and net profit margin. In the area of profitability and risk performance, conventional banks perform better, while Islamic banks were more liquid (ibid).

Faizulayev (2011) also made a comparative study between Islamic banks and conventional banks in several countries. By utilizing regression analysis to evaluate the impact of profitability determinants, he concluded that conventional banks are different from Islamic banks in terms of capital adequacy, asset quality, earning quality, liquidity quality. On the other hand,Islamic banks are less liquid than conventional ones (Faizulayev, 2011).

This is so because Islamic banks are dealing mostly in long term investments. Furthermore, Faizulayev (ibid) as cited in Al-Gazzar, 2014, p.23) further indicated that the moderating effect of bank type had a significant impact on bank performance.

According to Asari and Rehman (2000), the performance of the first Islamic banks in Pakistan i.e. Meezan Bank was compared with five conventional banks. The study evaluated the performance in terms of profitability, liquidity risk and efficiency for the period 2003 – 2007. Twelve financial ratios such as ROA, ROE, Loan to Deposits ratio, Loan to Asset ratio, Debt to Equity ratio, Asset utilization, and Income to Expense were used as variables to assess banking performance. The study found that the Meezan Bank is less profitable, more solvent (less risky) and also less efficient compared to the five conventional banks. However, there was a significant difference in liquidity between the two the two type of banks (as cited in Ramlan and Adnan, 2016: page 2*).*

Joof (2017) conducted a study to assess and compare the performance of the Islamic banking and conventional banking in the Gambia from 2006 to 2016, using Arab Gambian Islamic Bank (Agib Bank LtdBank Ltd) and Trust Bank Gambia Ltd Gambia Ltd. The results showed that the conventional banking system (Trust Bank Gambia Ltd Gambia Ltd.) performs better than the Islamic Banking system (Agib Bank LtdBank) in terms of profitability during the period 2006 to 2015. However, this situation changed in 2016, when Agib Bank LtdBank Ltd outperformed Trust Bank Gambia Ltd Gambia Ltd in terms of ROA. In terms of liquidity in general Agib Bank LtdBank Ltd was found to be more liquid than Trust Bank Gambia Ltd Gambia Ltd. *(Joof, 2017*)

Bashir (2000) also examined the performance of Islamic banks in the Middle-Eastern region between 1993 and 1998. In that study, Bashir (ibid) used non-interest margin (NIM), Before Tax Profit (BTP), ROA and ROE to measure profitability.The results show that Islamic banks' profitability is positively related to equity and loans.

The results from Bashir (ibid, as cited in Ramlan and Adnan 2015: *page 2*) further indicate that favourable macroeconomic conditions positively impact profitability.

In another study, Kader and Asarpota (2007) applied financial ratio analysis to assess the performance of the Malaysian Islamic banks and United Arab Emirates Islamic banks. Findings of the study indicate the superiority of conventional banks over Islamic ones in terms of profitability, credit risk management as well as solvency.

A study by Samad (1999) also evaluated the relative efficiency position of the Islamic banks during 1992-1996, and compared it with the conventional banks in Malaysia. His finding was that Bank Islam Malaysia enjoyed relatively higher managerial efficiency than the conventional banks.

This research is intended to build on these previous studies by assessing and comparing the performance of conventional banking and Islamic banking in the Gambia – an area that has attracted little research attention.

After having read through the literature concerning the topic of Islamic banks and their conventional counterparts in terms of performance, it was discovered that there was inadequate research done in the Gambia concerning the topic. The only research available was one conducted by Joof (2017). Her research concentrated on assessing Profitability and Liquidity for Agib Bank LtdBank and Trust Bank Gambia Ltd with the help of the following ratios: Return on Assets (ROA), Return on Equity (ROE), Deposit to Total Assets (DTA), Loan to Total Assets (LTA), and Total Equity to Total Assets (TETA). The periods covered by the research conducted by Joof (ibid) were from 2006 to 2016.

This current research will attempt to build on the research of Joof (2017) with more recent data that were not captured by Joof (ibid). In addition to the five ratios used by Joof (ibid) in comparing Agib Bank LtdBank and Trust Bank Gambia Ltd Gambia Ltd., this study will add four additional ratios namely: Capital Adequacy Ratios (CAR), Earnings Per Share (EPS), Dividend Per Share (DPS), and Non-performing Loans Ratios (NPL) in comparing the financial performance of Islamic banking system (Agib Bank Ltd) and Conventional banking system (Trust Bank Gambia Ltd).

Unlike other studies, this study will include performance data of the banking industry as a basis for comparing Agib Bank Ltd and Trust Bank Gambia Ltd on the one hand, and the industry and Agib Bank Ltd and Trust Bank Gambia Ltd on the other. The period covered by this study will now be from 2008 to 2017.

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III. METHODOLOGY AND DATA

The study aims to evaluate the differences in the financial performance of the Islamic banking and conventional banking systems operating in The Gambia covering the period 2008 to 2017, focusing specifically on Arab Gambian Islamic Bank Limited (AGIB) and Trust Bank Gambia Ltd Gambia Ltd.

3.1 Data Description, Sources And Research Design

This study primarily used the secondary data collection method. The secondary data was collected from the annual reports of Agib Bank Ltd and Trust Bank Gambia Ltd as well as from the industry consolidates gathered from the Central Bank of the Gambia. The ratios that will be used to analyze the data include Return on Assets (ROA), Return on Equity (ROE), Total Equity to Total Assets (TETA), Loans to Total Asset (LTA), Deposits to Total Assets (DTA), Earnings Per Share (EPS) Dividend Per Share (DPS), Non-Performing Loans (NPL), and Capital Adequacy Ratio (CAR).

The sample size for this study includes one conventional bank (Trust Bank Gambia Ltd Ltd), one Islamic bank (Agib Bank LtdBank Ltd), and the entire banking industry performances as collated by the Central Bank of The Gambia. Both Agib Bank LtdBank and Trust Bank Gambia Ltd are Gambian banks. The study will cover a ten (10) year-period, i.e. from 2008 to 2017.

The comparison of the two banks and the industry is preferred because this may yield more robust findings regarding differences, if any, in the financial performance between Islamic banking and conventional banking.

3.2 Data Analysis Technique

Financial measures expressed in terms of various ratios have greater advantage than volume measures. The greatest advantage is that ratio analysis compensates the disparities created by differences in bank size with regards to assets, deposits and loans. Both Islamic banks and conventional banks are placed on equal footing under ratio measures irrespective of the bank's size. Therefore, this research will use ratio analysis to compare the performances of Agib Bank Ltd and Trust Bank Gambia Ltd vis-à-vis the banking industry. The ratios will include DPS, TETA, LTA, DTA, ROE, ROA, NPL, and CAR. Various other researchers used ratio analyses for the evaluation of bank performances (see Adam, 2014). Therefore, this study will adopt a similar approach to compare the performance of the Islamic banking system and the conventional banking system in the Gambia.

The secondary data derived from the two banks' financial statements will be transformed into percentages and ratios so that comparison can be made between the different forms of banking systems. In addition, the study will also use aggregate (or total) banking industry ratios in other to make comparison between individual bank ratios and industry ratios easier.

IV. RESULTS AND ANALYSIS

A major objective of this paper is to compare the financial performance of the Islamic banking and conventional banking systems operating in The Gambia covering the period 2008 to 2017, focusing specifically on Arab Gambian Islamic Bank Limited (AGIB) and Trust Bank Gambia Ltd Gambia Ltd. To achieve this objective, the paper will compare the key performance indicators of the two selected banks as well as the banking industry as a whole, using profitability, liquidity, and solvency ratios. In terms of the profitability ratios, ROA, ROE, EPS, and DPS will be used. On the other hand, the liquidity ratios such as TETA, LTA, and DTA as well as solvency ratios, including NPL and CAR will be computed for both banks as well as for the whole banking industry.

4.1 Profitability Ratios

Profitability ratios compare income statement accounts and classes to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets. These ratios basically show how well companies can achieve profits from their operations.

Investors and creditors can use profitability ratios to judge a company's return on investment based on its relative level of resources and assets. In other words, profitability ratios can be used to judge whether companies are making enough operational profit from their assets. In this sense, profitability ratios relate to efficiency ratios because they show how well companies are using their assets to generate profits. Profitability is also important to the concept of solvency and going concern.

4.1.1 Return on Asset (ROA)

The ROA and ROE measure the performance of companies in terms of profitability. ROA for the banks shows how profitable the bank is in relation to its assets. This gives an idea of how management are efficient at using assets to generate profit on gearing; it also tells us what portion of profit is generated from investments on assets. It is important to bear in mind that, the higher the ROA the better.

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Table 1 ROA: Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry 2008-2017

Bank	Agib Bank LtdBank Limited	Trust Bank Gambia Ltd Limited	Banking Industry
Year	ROA (%)	ROA (%)	ROA (%)
2008	1.10%	3.60%	0.00%
2009	-4.60%	2.21%	-3.00%
2010	0.20%	2.05%	-1.00%
2011	-6.90%	2.70%	0.00%
2012	1.30%	2.52%	0.00%
2013	0.20%	3%	2.00%
2014	1.38%	3%	11.00%
2015	1.41%	3%	2.14%
2016	3.46%	2%	2.00%
2017	1.58%	2%	1.60%

Source: Research Data, 2019.

Note: ROA = Return on assets, which is an indicator of how profitable a company is relative to its total assets.

Analysis for ROA:

Table 1 presents the ROA for Agib Bank Ltd and Trust Bank Gambia Ltd as well as that of the banking industry as a whole for the period 2008-2017. This information is further presented graphically in Figure 1.

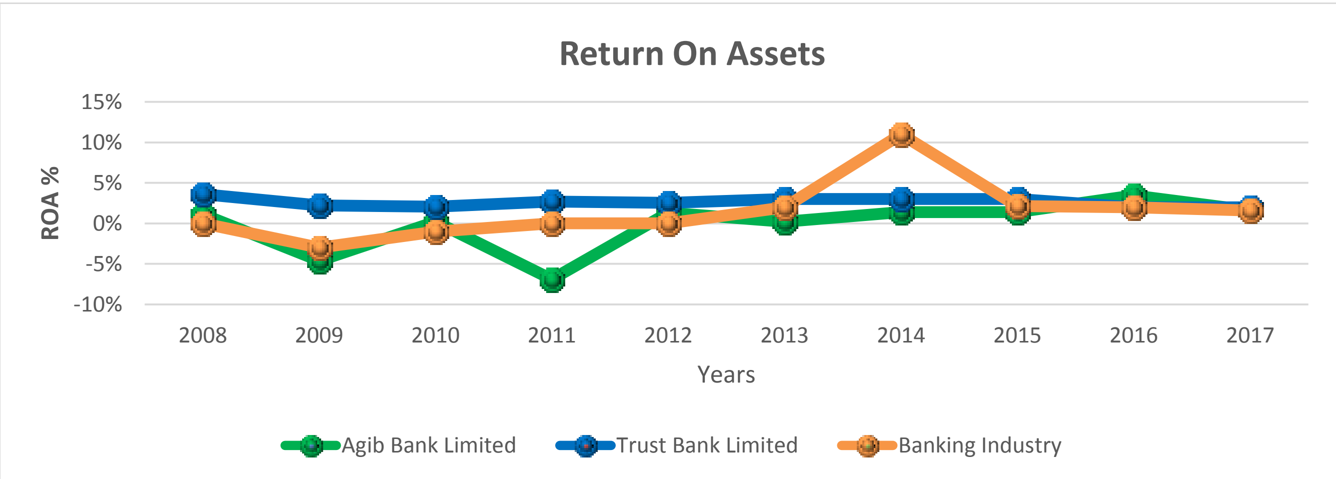
It can be seen from Table 1 that the Gambian banking industry recorded its highest ROA in the year 2014 with a ratio of 11% and a lowest ratio of -3% was recorded in 2009 (Table 1). Trust Bank Gambia Ltd representing conventional banks displayed more strength over both Agib Bank Ltd and the industry for the most part, except for the year 2014, where the industry registered its highest ROA of 11%, and the year 2016 when Agib Bank Ltd registered ROA of 3.46%. The highest ROA for Trust Bank Gambia Ltd was recorded in 2008 with a ratio of 3.6% and the Bank's lowest ratio of 2% in 2016 and 2017.

Unlike Agib, it can be seen that the change in ROA for Trust Bank Gambia Ltd has not varied widely during the period covered in this study, i.e. 2008 to 2017. Trust Bank Gambia Ltd had not registered any negative ROA within the 10-year period covered by this study. This indicates that the management of Trust Bank Gambia Ltd was more efficient in utilizing their resources.

According to Table 1, the banking industry performance in 2014 was unprecedented in terms of the ROA, when they registered an ROA of 11%. During the same period Trust Bank Gambia Ltd and Agib Bank Ltd recorded 3% and 1.38% respectively. However, the unprecedented gain registered by the banking industry was not sustained as the industry ROA

fell to 2.14% in 2015 (Table 1).

Figure 1ROA - Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry, 2008-2017



Source: Drawn from Research Data, 2019.

On the other hand, Agib Bank Ltd, recorded its highest ROA of 3.46% in 2016, which declined to 1.58% in 2017. Agib Bank's lowest ROA ratio of -6.9% was recorded in 2011 from 0.2% in 2010. This could be mainly due to write-offs and loan provisions the Bank undertook due to non-performing loans in the same year.

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4.1.2 Return on Equity (ROE)

The ROE shows how much earnings are received from the shareholders investments. The higher the ROE the better.. Reporting higher ROE means that an organization is efficient in generating profits on new investments by investors.

Table 2 ROE: Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry, 2008-2017

	Agib Bank Ltd	Trust Bank Gambia Ltd	Banking Industry
Year\Ratio	ROE	ROE	ROE
2008	-9.00%	37.00%	1.00%
2009	-85.00%	23.00%	-25.00%
2010	1.00%	24.01%	-3.00%
2011	-39.30%	34.28%	0.00%
2012	5.50%	31.23%	2.00%
2013	0.60%	29.00%	14.00%
2014	5.23%	35.00%	76.00%
2015	6.24%	22.00%	13.84%
2016	15.04%	15.00%	12.00%
2017	8.79%	17.00%	11.00%

Source: Research Data, 2019.

Note: ROE = measure of financial performance calculated by dividing net income by shareholders' equity.

Analysis for ROE

Table 1 and Table 2 show the ROA and the ROE for Agib Bank Ltd and Trust Bank Gambia Ltd. along with the industry summary as a whole, for the period 2008 to 2017. This information is further presented graphically in Figure 2.

The results shown in both Table 1 and Table 2 clearly indicate that conventional banking in the Gambia (Trust Bank Gambia Ltd.) is dominating Islamic banking in terms of both ROA and ROE.

The performance of the Gambian banking industry was at its worst in 2009 in terms of ROE, when it recorded an ROE of -25% (Table 2). Correspondingly, the ROE of Agib Bank Ltd was -85%. With all these weak performances of both Agib Bank Ltd and the banking industry in terms of ROE, Trust Bank Gambia Ltd thrived with an ROE ratio of 23% during the same period. It can however be observed from Table 2 that despite this impressive performance, the ROE for Trust Bank Gambia Ltd has been falling from 35% in 2014 to 17% in 2017.

In contrast, there was a mixed picture for Agib Bank Ltd in terms of the Bank's ROE during the period covered in this study The Bank's highest recorded ROE was 15% in 2016. As can be seen from Table 2, the ROE of AgibBank Ltd in 2016, i.e. 15.04% could not be sustained as the Bank's ROE fell to 8.79% in 2017.

In terms of the banking industry performance, it can be seen from Table 2 that its ROE was better than those recorded by both Agib Bank Ltd and Trust Bank Gambia Ltd. However, from 2015 to 2017, the industry ROE declined from 13% to 11% (Table 2). These general declines in industry ROEs were consistent with the overall declines in the ROEs of Trust Bank Gambia Ltd and Agib Bank Ltd, and further suggest that these weak ROEs were in line with the general weak performance of the Gambian economy, which in 2014 contracted by 0.2%.

These findings are further consistent with those of Masruki et. al *(2007)*, which showed that Islamic banks are less profitable than conventional banks. It is also consistent with the results of the study by Subayyal and Aziz (2016), who showed that conventional banks have better returns than Islamic banks. This is because Islamic banks have more liquid assets, which they fail to invest in order to receive more returns from their investments.

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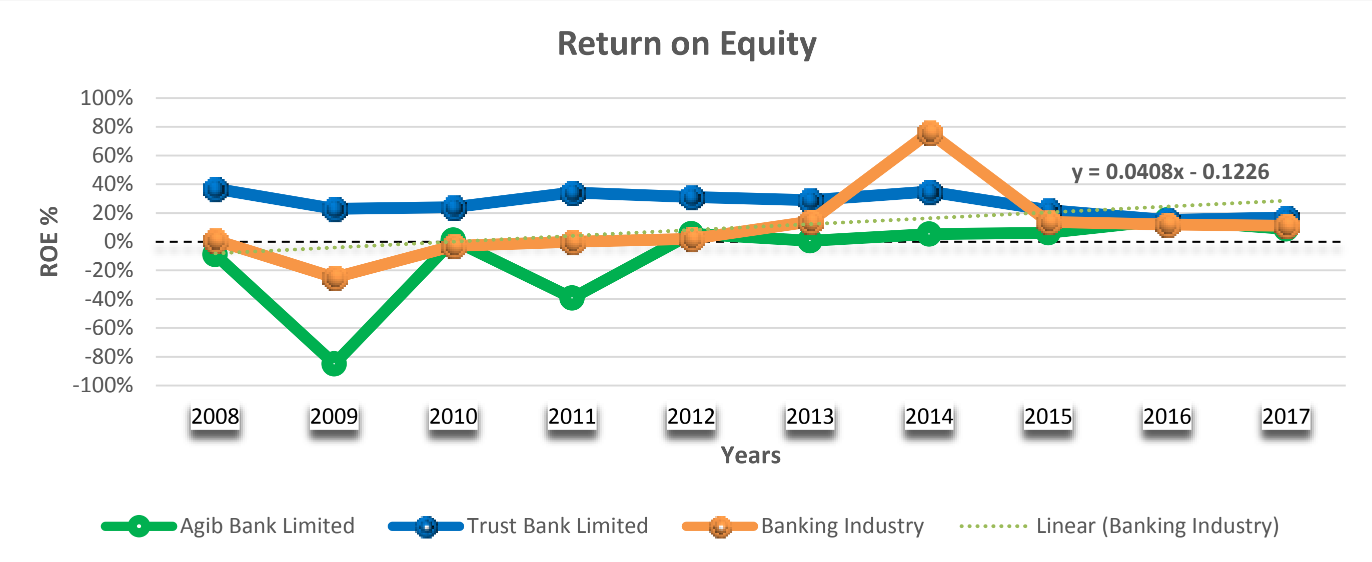
Figure 2 ROE - Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry, 2008-2017



Source: Drawn from Research Data, 2019.

The key conclusion we can draw from this analysis on the performance of Agib Bank Ltd. and Trust Bank Gambia Ltd in terms of the ROE is that the conventional banking system in the Gambia had performed better than the Islamic banking system during the period covered by this study.

4.1.3 Earnings Per Share (EPS)

EPS is the portion of a company's profit allocated to each share of common stock. It serves as an indicator of a company's profitability.

Table 3: EPS - Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry; 2008-2017

	Agib Bank Ltd	Trust Bank Gambia Ltd
Year\Ratio	EPS (Butut)	EPS (Butut)
2008	0	166
2009	0	108
2010	0	35
2011	(23)	55
2012	4.50	55
2013	5	63
2014	50	81
2015	60	76
2016	187	54
2017	114	42

Source: Drawn from Research Data, 2019.

Note: EPS = Earnings per share (EPS), which is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.
It is imperative to note that using EPS as a performance indicator is very crucial in measuring a bank's profitability.

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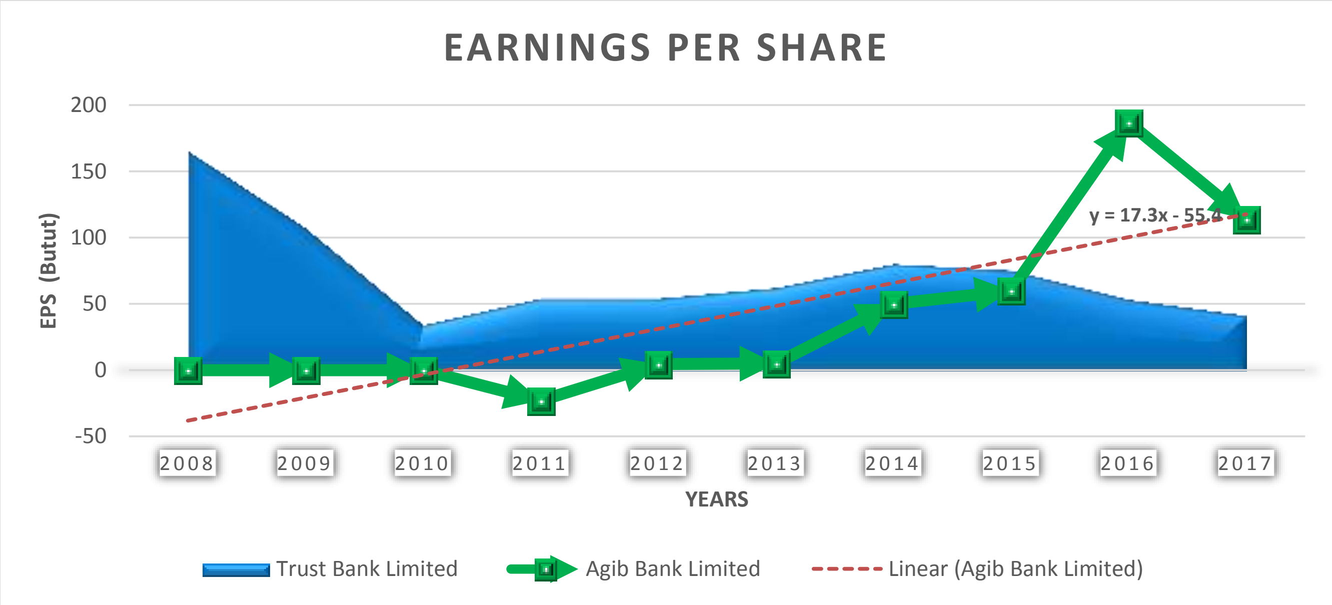
Figure 3 EPS - Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry; 2008-2017



Source: Drawn from Research Data, 2019.

Analysis

Table 3 show the EPS for Agib Bank Ltd and Trust Bank Gambia Ltd. along with the industry summary as a whole, for the period 2008 to 2017.

It is evident from Table 3 that from 2008 to 2010, Agib Bank Ltd. reported zero EPS. However, during the same period, Trust Bank Gambia Ltd reported its highest EPS of 166 772 Bututs in 2008, 108 Bututs in 2009, and 35 Bututs in 2010 (Table 3).

In 2011, Agib Bank Ltd reported a negative EPS of 23 Bututs, while Trust Bank Gambia Ltd reported 55 Bututs per share. These are reported in Table 3 and illustrated graphically in Figure 3.

4.1.4 Dividend Per Share (DPS)

Dividend is the distribution of reward from a portion of a company's earnings and is paid to a class of its shareholders. Dividends are decided and managed by the company’s board of directors, though they must be approved by the shareholders through their voting rights at the annual general meeting. Dividends can be issued as cash payments, as shares of stock, or other property, though cash dividends are the most common. Along with companies, various mutual funds and exchange traded funds (ETF) also pay dividends (Chen, 2019).

Table 4 DPS - Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry; 2008-2017

Bank	Agib Bank LtdBank Limited	Trust Bank Gambia Ltd Limited
Year\Ratio	DPS (Butut)	DPS (Butut)
2008	0	130
2009	0	90
2010	0	30
2011	0	40
2012	0	40
2013	0	50
2014	0	60
2015	40	60
2016	98	40
2017	78	30

Source: Drawn from Research Data, 2019.

Note: DPS = Dividend per share, which the total dividend a company pays out over a 12-month period, divided by the total number of outstanding shares. DPS can indicate how profitable a company is over a fiscal period and it can tell an investor about the company's past financial health and its current financial stability.

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Analysis

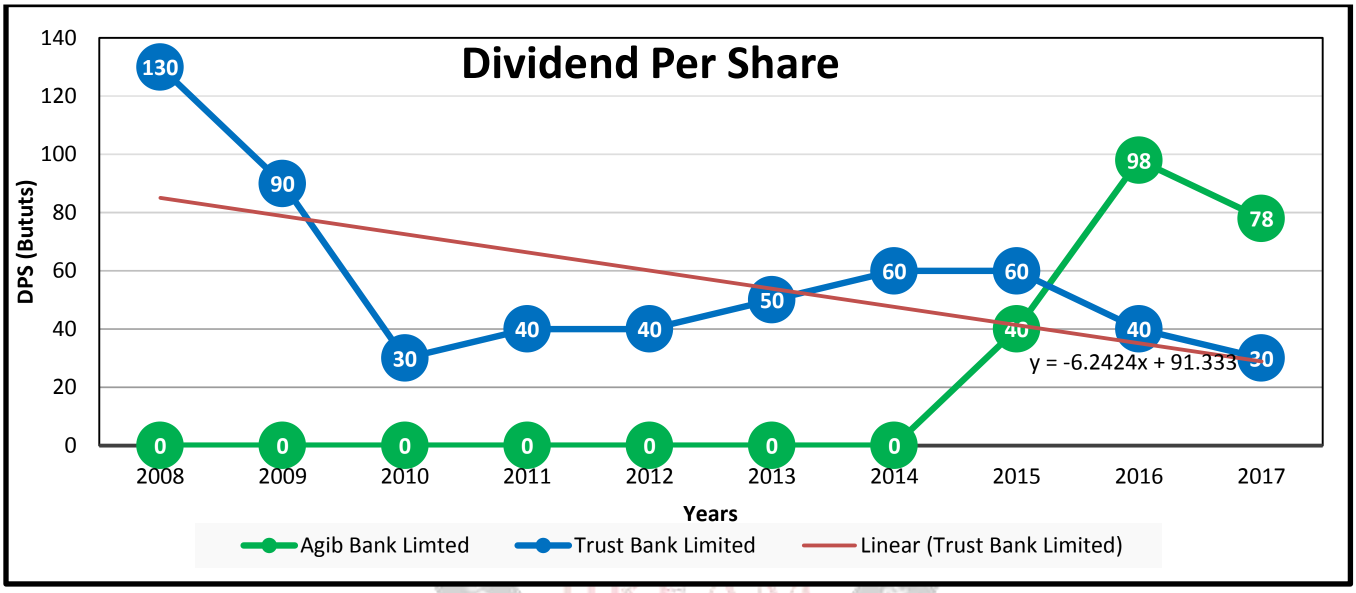
Table 4 show the DPS for Agib Bank Ltd and Trust Bank Gambia Ltd. along with the industry summary as a whole, for the period 2008 to 2017. This information is further presented graphically in Figure 4.

The results shown in both Table 1 and Table 2 clearly indicate that conventional banking in the Gambia (Trust Bank Gambia Ltd.) is dominating Islamic banking (Agib Bank Ltd) in terms of their DPS.

Agib Bank Ltd did not pay dividends from 2008 to 2014. However, the Bank began to pay dividends of 40 Bututs, 98 Bututs and 78 Bututs during the period 2015 to 2017 respectively (Table 4).

On the other hand, Trust Bank Gambia Ltd paid 130 Bututs per share to their shareholders in 2008 (Figure 3). From then on however, there were major declines in the DPS for Trust Bank Gambia Ltd from 130 Bututs in 2008 to 90 Bututs in 2009, which represented a reduction of 40 Bututs. In 2010, the Bank's DPS further declined to 30 Bututs. From 2010 to 2017, the Bank's DPS fluctuated from a peak of 60 Bututs per share in 2014 and 2015 to 30 Bututs per share in 2010 and 2017 (Table 4).

Figure 4 Dividend Per Share: Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry; 2008-2017



Source: Drawn from Research Data, 2019.

4.2 Liquidity Ratios

Table 5 show the Total Equity-To-Total Asset (TETA); Loan-To-Assets Ratio (LTA); and Deposits-To-Total-Assets (DTA) for Agib Bank Ltd and Trust Bank Gambia Ltd. along with the industry summary as a whole, for the period 2008 to 2017. This information is further presented graphically in Figure 5.

Table 5 Total Equity to Total Asset, Total Loan Total Asset, Deposit to Total Asset, for Agib Bank Ltd; Trust Bank Gambia Ltd & Banking Industry 2008-2017.

Bank	Agib Bank Limited			Trust Bank Limited			Banking Industry		
Year\Ratio	TETA	LTA	DTA	TETA	LTA	DTA	TETA	LTA	DTA
2008	15.10%	21.80%	55.50%	9.80%	38.90%	79.60%	11.43%	26.00%	63.67%
2009	5.40%	22.50%	51.90%	9.60%	37.50%	84.30%	10.88%	27.52%	66.03%
2010	22.40%	25.40%	55.80%	8.50%	28.10%	85.00%	14.46%	27.66%	63.38%
2011	17.50%	18.60%	67.20%	7.90%	39.80%	85.30%	14.07%	27.19%	66.56%
2012	23.90%	18.20%	64.70%	8.10%	22.80%	85.10%	14.61%	24.73%	63.57%
2013	27.90%	20.30%	57.90%	8.80%	22.40%	88.30%	12.87%	23.57%	63.75%
2014	26.30%	25.20%	68.10%	9.80%	21.70%	88.00%	13.93%	18.32%	59.76%
2015	28.90%	24.00%	64.90%	14.30%	20.50%	84.20%	15.32%	16.04%	56.54%
2016	26.20%	24.80%	69.50%	13.60%	15.80%	84.90%	14.56%	12.75%	56.83%
2017	19.31%	25.60%	63.94%	12.91%	15.30%	86.90%	13.79%	10.28%	59.32%

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Source: Drawn from Research Data, 2019.

Note: TETA = Total Equity to Total Asset

LTA = Total Loan Total Asse

DTA = Deposit to Total Asset

4.2.1 Total Equity-To-Total Asset (TETA)

The shareholder equity ratio shows how much of a company's assets are funded by equity. A lower ratio result suggests that a company has used more debt to finance its assets. It also shows how much shareholders would receive in the event of a company-wide liquidation.

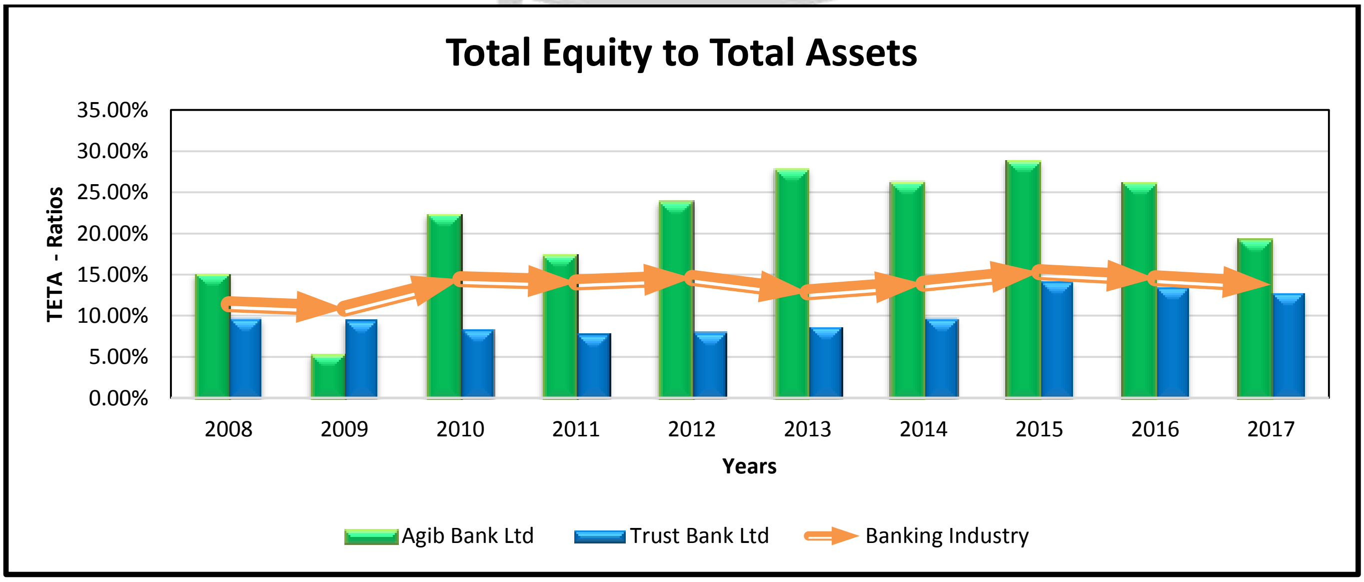
The Formula for the Shareholder Equity Ratio is;

$$Shareholder\ equity\ ratio = \frac{Total\ shareholder\ equity}{Total\ assets}$$

The ratio, expressed as a percentage, is calculated as shown above by dividing total shareholders' equity by total assets of the firm, and it represents the amount of assets on which shareholders have a residual claim..

Analysis

Figure 5 TETA - Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry, 2008-2017



Source: Research Data, 2019.

The shareholder equity ratio shows how much of a company's assets are funded by shareholder equity. The closer a firm's shareholder equity ratio result is to 100%, the more of its assets are financed with equity instead of taking on debt or other forms of liabilities.

Looking closely at Figure 5 it can be concluded that Agib's TETA is higher than that of Trust Bank Gambia Ltd in almost all the years covered by this study, except in 2009 when Agib Bank Ltd recorded its lowest TETA ratio of 5.4%, and Trust Bank Gambia Ltd recorded a ratio of 9.6%. With a higher TETA ratio means that a larger percentage of the assets of Agib Bank were financed by equity.

Hence, it is concluded that as far as TETA is concerned, Agib Bank Ltd had more of its assets covered by equity compared to that of Trust Bank Gambia Ltd, who in contrast had relatively less of its assets being financed by equity..

4.2.2 The Loan-To-Assets Ratio (LTA)

The LTA is another industry-specific metric that can help investors obtain a complete picture of a bank's operations. Banks that have relatively higher loan-to-assets ratios derive more of their income from loans rather than equity, while banks with lower LTA ratios derive a relatively larger portion of their total incomes from more-diversified, non-interest-earning sources, such as

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asset management or trading. Banks with lower LTA ratios may fare better when interest rates are low or credit is tight. They may also fare better during economic downturns.

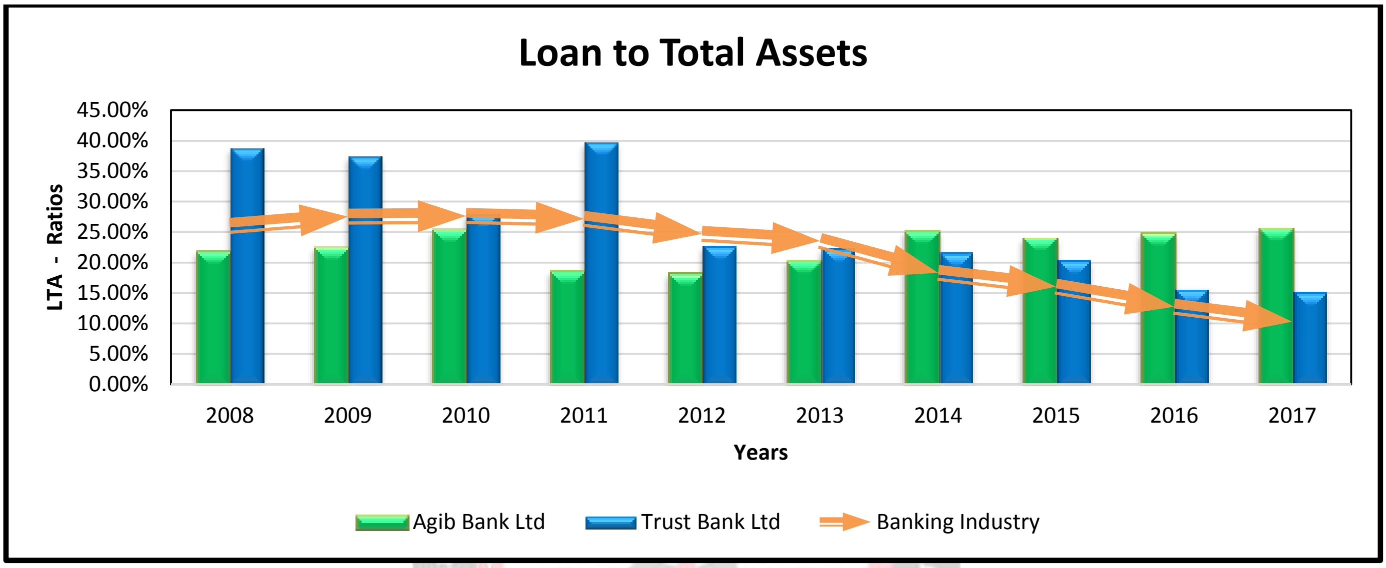
The Formula for Total Loan to Total Assets = Total Assets / (Short-term Loan + Long-term Loan).

Creditors use this ratio to see how much debt a company already has and whether the company has the ability to repay its existing debt, which will determine whether additional loans will be extended to the firm. The higher the ratio, the higher the degree of leverage (DOL) and, consequently the bigger the financial risk.

Analysis

Like all other ratios, the trend of the LTA ratio should also be evaluated over time. This will help us to assess whether a company's financial risk profile is improving or deteriorating. For example, an increasing trend indicates that a business is unwilling or unable to pay down its debt, which could indicate a potential default at some point in the future.

Figure 6 LTA - Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry, 2008-2017



Source: Drawn from Research Data, 2019.

From 2008 to 2013, Agib Bank Ltd recorded a lower LTA when compared to that of Trust Bank Gambia Ltd, but from 2014 to 2017 Trust Bank Gambia Ltd recorded lower LTA. This shows that from 2008 to 2013, the assets of Agib Bank Ltd were financed more by equity than debt. While on the other hand the assets of Trust Bank Gambia Ltd were finance more by debt than equity.

From 2014 to 2017, the LTA for Trust Bank Gambia Ltd was lower when compared to that of Agib Bank Ltd. The banking industry had also performed badly in terms of the LTA, particularly during 2009 to 2013. However, it can be seen that there is a favourable trend in the LTA for the banking industry during the period 2012 to 2017. This favourable trend reached its lowest LTA ratio of 10.28% in 2017. Since we said the lower the ratio the better, we therefore conclude that the industry is performing well in terms of its LTA.

Trust Bank Gambia Ltd is also performing much better than Agib Bank LtdBank in this regard. This can be viewed from Figure 6.

4.2.3 Total Deposits-To-Total-Assets

This ratio shows how much of a bank's assets were financed by customer deposits and not equity or debt financing. All commercial banks (Islamic banks and conventional banks) take deposits from their clientele. The primary role of these deposits is not supposed to be financing the bank's assets. Yet, this activity is highly practised by most banks in the Gambia.

Analysis

Figure 7 shows that DTA was higher in Trust Bank Gambia Ltd than in Agib Bank Ltd throughout the period covered by this research, i.e. 2008 to 2017. This indicates that more of the assets Trust Bank Gambia Ltd were funded by deposits rather than by equity and debt finance, compared to that of Agib Bank Ltd. It needs to be noted that too much of deposit finance is not a good sign to potential investors because this increased asset-liability mismatch contributes to increases in the level of risk for Agib Bank Ltd in terms of interest rate risk and liquidity risk.

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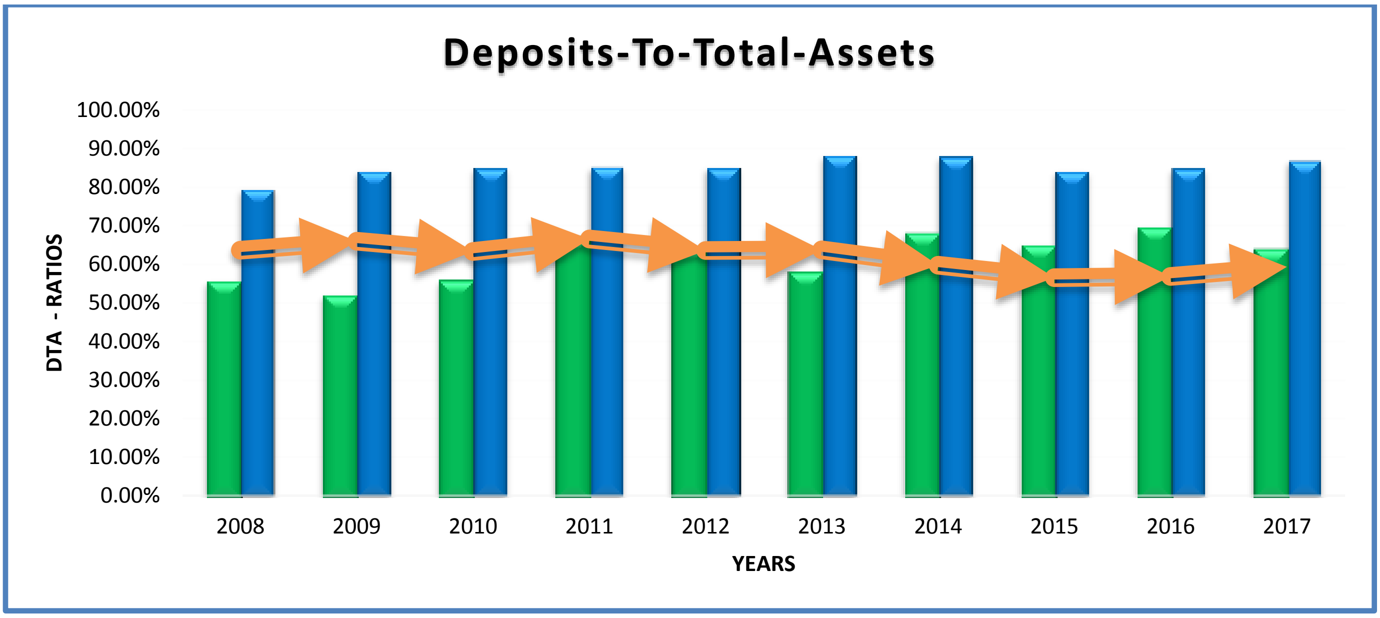
Figure 7 DTA: Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry 2008-2017



Source: Research Data, 2019.

Looking closely at the DTA in Figure 7, it can be seen that both Agib Bank Ltd and Trust Bank Gambia Ltd. have used more than 50% of depositors' funds towards financing their assets. A good reason why this happens especially for banks is due to loans that went bad and later recovered through taking over assets pledged as collateral from borrowers. Agib Bank Ltd ultimately had lower DTA ratios than Trust Bank Gambia Ltd during the period covered by this study. The banking industry indicates that Gambian banks (the industry) use larger part of their depositors' funds to finance their assets, although there was a sharp decline of DTA for the industry during 2012 – 2015. This declining trend in DTA was reversed during 2016 and 2017 (Figure 7).

4.2.4 Non-Performing Loans (NPL)

Non-Performing Loan is the sum of borrowed money upon which the debtor has not made the scheduled payments for a specified period. Although the exact elements of non-performance status vary, depending on the specific loan terms. "no payment" is usually defined as zero payments of either principal or interest. The specified period also varies, depending on the industry and the type of loan. Generally, however, the period can be either 90 days or 180 days.

Table 6 NPL: Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry 2008-2017

	Agib Bank Ltd	Trust Bank Gambia Ltd	Banking Industry
Year	NPL (%)	NPL (%)	NPL (%)
2008	2	15	14.00
2009	13	16	12.00
2010	4	11	15.00
2011	13.9	9.57	13.00
2012	4.1	6.81	13.00
2013	9.5	1	20.40
2014	7.96	2	7.00
2015	6.97	4	6.49
2016	1.07	4	9.00
2017	1.25	0.4	7.20

Source: Research Data, 2019.

Note: NPL = Non Performing Loans are loans in which the borrower is in default due to the fact that they have not made the scheduled payments for a specified period.

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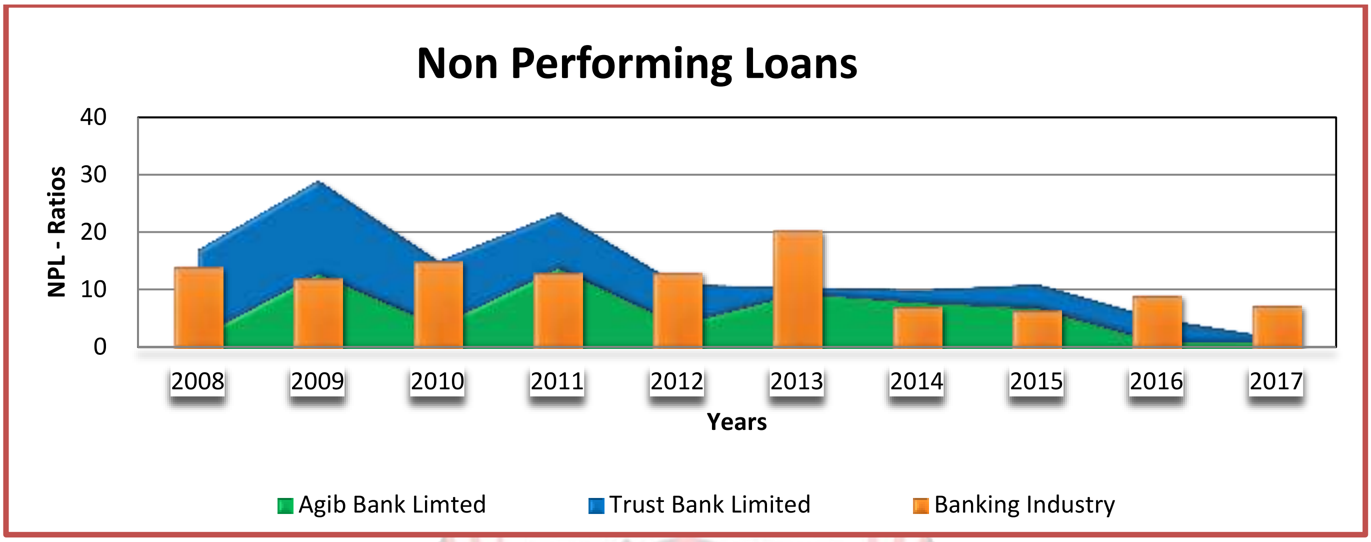
In banking, commercial loans are considered nonperforming if the debtor has made zero payments of interest or principal within 90 days, or when the loan is 90 days past due. For a consumer loan, 180 days past due classifies it as NPL. It is generally costly for banks with high NPLs as they must make provisions for such loans.

Analysis

Table 6 show the NPLs for Agib Bank Ltd and Trust Bank Gambia Ltd. along with the industry summary as a whole, for the period 2008 to 2017. This information is further presented graphically in Figure 8.

As commercial banks are required to maintain the lowest non-performing loans in order to protect its shareholders and depositors' wealth, it can be seen that for the most part,

Figure 8 NPL - Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry; 2008-2017



Source: Research Data, 2019.

of the period covered by this study, the worst registered NPL within the whole industry was 2013 when the ratio rose to a peak of 20%. Overall, the highest NPL for Trust Bank Gambia Ltd's was recorded in 2009 with a ratio of 16% and Agib Bank Ltd recorded its highest NPL ratio of 15% in 2010. Generally speaking, the Islamic bank maintained a lower NPL ratio within the period covered by this study, with an average of 6.4%. On the other hand, Trust Bank Gambia Ltd had an average NPL of 7%, whereas the industry average was 11%. (Figure 7).

Looking closely at these trends, it can clearly be seen that both of these banking systems are learning to become more efficient in maintaining healthy loans (credit portfolios). This progress was achieved due to tighter credit covenants initiated by the Central Bank of The Gambia (CBG), in which the CBG asked all banks to obtain collateral before approving loans.

4.2.5 Capital Adequacy Ratios (CAR)

The CAR is used to measure a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. Capital adequacy ratio also known as capital-to-risk weighted assets ratio (CRAR), and is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier-1 capital, which can absorb losses without a bank being required to cease trading, and tier-2 capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors. CAR is calculated by dividing a bank's capital by its risk-weighted assets.

Table 7 CAR: Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry 2008-2017:

Bank	Agib Bank Limited	Trust Bank Limited	Banking Industry
Year\Ratio	Capital Adequacy (%)	Capital Adequacy (%)	Capital Adequacy (%)
2008	12.3	14.6	20.0
2009	5.2	15.4	19.0
2010	21.8	14.0	26.0
2011	17.0	17.0	27.0
2012	23.1	18.3	29.0
2013	20.9	20.0	27.8
2014	18.1	21.0	30.0
2015	17.3	26.0	33.12
2016	21.0	30.0	38.0
2017	15.4	26.0	33.6

Source: Drawn from Research Data, 2019.

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Source: Research data, 2019.

Note: Capital Adequacy (%) = measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures.

The reason why minimum CAR is critical is that, it helps to ensure that banks have enough cushion to absorb a reasonable amount of losses before they become insolvent and consequently lose depositors' funds. The CAR guarantees the efficiency and stability of a nation's financial system by lowering the risk of banks becoming insolvent. Generally, a bank with a high CAR is considered safe and likely to meet its financial obligations.

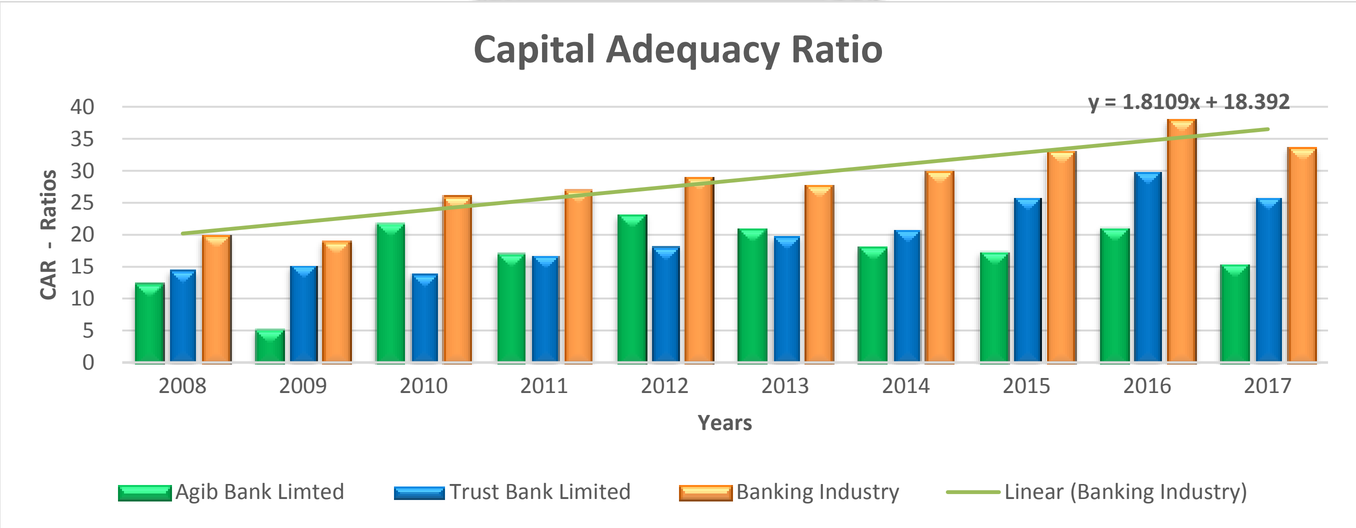
Analysis

Table 7 show the CARs for Agib Bank Ltd and Trust Bank Gambia Ltd. along with the industry summary as a whole, for the period 2008 to 2017. This information is further presented graphically in Figure 9.

According to most standards around the world which includes those in The Gambia, the minimum CAR is 8%. The lowest reported CAR for the banking industry in the Gambia was 19% in 2009, while Agib Bank Ltd recorded its lowest CAR of 5.2% which happened to be the lowest CAR during the periods covered in this study. The year with the highest CAR was 2016 for both Trust Bank Gambia Ltd and the industry, recording 30% and 38% respectively. Agib Bank LtdBank recorded their highest CAR of 23.1% in 2012 (Figure 9).

Based on these findings, it can be concluded that the Gambian banking industry is highly capitalized.

Figure 9 CAR - Agib Bank Ltd and Trust Bank Gambia Ltd and Banking Industry; 2008-2017



Source: Research Data, 2019.

V. CONCLUSION AND RECOMMENDATIONS

Islamic and conventional banking differ because the former is explicitly concerned with spiritual values and social justice, whereas conventional banking is based on the maximization of individual utility, welfare and choice, as expressed for example in the shareholder value model, which implies that the ultimate measure of a company's success is the extent to which it enriches shareholders (Rappaport, 1986).

This research was conducted to compare the financial performance of Islamic banks and conventional banks in The Gambia from 2008 to 2017, focusing specifically on Trust Bank Gambia Ltd Ltd and Agib Bank Ltd. The findings were mixed, with Trust Bank Gambia Ltd performing better than Agib Bank Ltd in 2015 in terms of ROE, ROA and EPS. On the other hand, Agib Bank Ltd performed better in 2016 in terms of both ROE and ROA. Moreover, Agib Bank Ltd also dominated Trust Bank Gambia Ltd in terms of EPS in both 2016 and 2017.

The ROE for the banking industry in the Gambia in 2014 was unprecedented because the industry recorded an ROE of 76%. This is impressive because in 2013 the industry registered an ROE of 14% and 13.84% in 2015. A similar trend was seen in terms of ROA in 2014 when the industry recorded its highest ROA of 11%. These ratios (ROA and ROE) had been found to be positively correlated under these circumstances because the increase in one led to the increase of the other. This assertion was also proven from a study conducted by Ramlan and Adnan (2016) who found that a positive and statistically significant relationship exists between ROA and ROE.

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However, in terms of liquidity, Agib Bank Ltd proved to be more liquid than Trust Bank Gambia Ltd in terms of both TETA and DTA. On the other hand, Trust Bank Gambia Ltd dominated Agib Bank Ltd in terms of LTA during the period 2014 to 2017.

The study also found that the solvency ratio (Capital Adequacy Ratio) of Trust Bank Gambia Ltd was higher than that of Agib Bank Ltd. It was also found that the CAR for both Agib Bank Ltdand Trust Bank Gambia Ltd had improved during the period 2008 to 2017. The strong industry CAR showed that the banking sector in the Gambia is highly capitalised with an overall average ratio of 28.35%, which is well above the 8% *Basel* III minimum capital adequacy ratio that banks must maintain. The CAR of the banking industry in the Gambia was highest in 2016 at 38% and lowest in 2009 at 19%.

In terms of the quality of its loan portfolio, Agib Bank Ltd had an average NPL of 6.38%, whereas Trust Bank Gambia Ltd had an average NPL of 6.98% and the banking industry as a whole had an average NPL of 11.71%.

In determining which banking system (Islamic Banking or conventional banking) in The Gambia is more profitable by means of ROE, ROA, EPS, and DPS as performance measures, the study concluded as follows: that the Trust Bank Gambia Ltd was more profitable than Agib Bank Ltd in terms of ROA and ROE; that Agib Bank Ltd only dominated Trust Bank Gambia Ltd in terms of EPS and DPS during 2015 to 2017. It was in 2014 that Agib Bank Ltd started to pay dividends., This achievement was really unprecedented since this was one year after Agib Bank Ltd was sold off by FinBank of Nigeria to the Gambian businessman Mr. Muhamed Jah.

Trust Bank Gambia Ltd dominated Agib Bank Ltd in terms of EPS and DPS from 2008 to 2014. Thus, Trust Bank Gambia Ltd performed better than Agib Bank Ltd in terms of profitability.

In terms of liquidity, it was shown that Agib Bank Ltd was more liquid because it had more of its assets covered by equity (TETA) compared to Trust Bank Gambia Ltd during the periods covered by this study, i.e. 2008 to 2017. On the other hand, Trust Bank Gambia Ltd was more liquid than Agib Bank Ltd in terms of LTA during 2014 to 2017. In terms of DTA, Agib Bank Ltd dominated Trust Bank Gambia Ltd during the period covered by this study as the former was more liquid.

As to which management team in Agib Bank Ltd and Trust Bank Gambia Ltd have been more effective in utilizing the resources at their disposal, the study found that Agib Bank Ltd dominated Trust Bank Gambia Ltd in terms of NPL, but the NPLs of Trust Bank Gambia Ltd in 2017 revealed that the quality of the bank's loan portfolio declined sharply from 4% in 2016 to 0.4% in 2017. These findings suggest that the management team in Agib Bank Ltd were more effective than that of Trust Bank Gambia Ltd in utilizing their resources.

5.1 Recommendations

This study recommends the following to assist both Trust Bank Gambia Ltd and the Agib Bank Ltd realize operational effectiveness and efficiency:

Agib Bank Ltd needs to improve their returns on investment in order for them to attract potential investors. Agib Bank Ltd needs to understand that although Islamic banking is not all about profits, nevertheless shareholders need to be compensated for their investments in the form of dividends. As a result, it is recommended that Agib Bank Ltd needs to consider paying dividends to its shareholders.

Trust Bank Gambia Ltd should initiate an Islamic Window to solve some of its liquidity challenges and thus increase their chances of success. While Agib Bank Ltd should seek out more investors in order to further strengthen the bank's capacity and capabilities to excel. Agib Bank Ltd could tap into the trading opportunities available to them as the Bank has been licenced to trade

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