T.C.

ISTANBUL OKAN UNIVERSITY

INSTITUTE OF SOCIAL SCIENCES

PERFORMANCE ANALYSIS OF COMMERCIAL AND ISLAMIC BANKS IN AFRICAN COUNTRIES AND TURKEY

Mame Anna DIOUF

THESIS

FOR THE DEGREE OF

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ADVISOR

Prof. Dr. Oktay TAŞ

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SOSYAL BİLİMLER ENSTİTÜSÜ

AFRICA ÜLKELERİ VE TÜRKİYE'DEKİ TİCARİ VE KATILIM BANKLARININ PERFORMANS ANALİZİ

Mame Anna DIOUF

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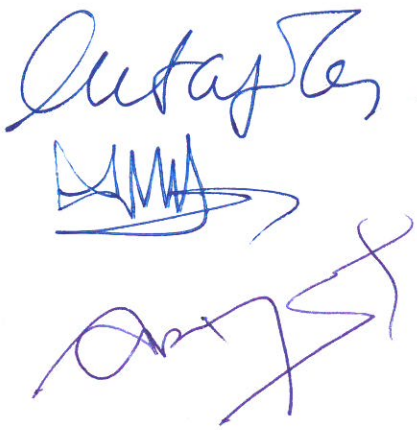

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AFRICA ÜLKELERİ VE TÜRKİYE‘DEKİ TİCARİ VE KATILIM BANKLARININ PERFORMANS ANALİZİ

Bu tez çalışması esas olarak iki bölümden oluşmaktadır: teorik bir bölüm ve ampirik bir bölümdür.

Teorik bölümünde, tez konumuz olan CAMEL yöntemi aracılığıyla ticari ve katılım bankaların performans analizi ile ilgili literatür taramasını yapılmıştır. Genel olarak katılım bankacılık üzerinde durduktan sonra, Afrika ülkelerindeki, özellikle Senegal, Nijerya ve Güney Afrika'daki katılım bankacılık yaklaşımları gözden geçirerek, ticari bankalar ve katılım bankalar arasındaki temel farklılıklarını belirlemeye çalışılmıştır. Daha sonra, 2008 - 2012 finansal krizinden sonra Afrika ülkelerinde bankacılık sisteminin durumuna, özellikle Senegal, Nijerya, Güney Afrika ve Türkiye'de baktık. Bunun ardından bu tezde kullanılan performans analizi yöntemi olarak CAMEL yöntemini açıkladık.

Ampirik bölümünde, 2008 - 2012 finansal krizinden sonrasının çerçevesinde, CAMEL yöntemi ile, Afrika ülkelerindeki (Senegal, Nijerya ve Güney Afrika) ve Türkiye'deki 2012 - 2014 yılları arasında, en iyi dört ticari banka ve katılım bankanın performans analizine geçtik.

Ayrıca, Afrika ülkeleri ve Türkiye’deki finansal krizden sonra, ticari ve katılım bankanın finansal performansın farklılıkları meydana getirilmek amacıyla Afrika ülkelerinin ticari ve katılım bankalarının finansal performans analizini Türklerinkilerle karşılaştırdık. Afrika ülkelerinde ve Türkiye'de bankacılık sisteminin krizden hemen sonra toparlandı mı? CAMEL yöntemine göre hangi bankalar tarafından daha iyi performans gösterilmiştir.

Anahtar Kelimeler: Katılım banka, 2008 - 2012 kriziden sonra, CAMEL, Africa, Türkiye

Tarih: 06/06/2018

ABSTRACT

PERFORMANCE ANALYSIS OF COMMERCIAL AND ISLAMIC BANKS IN AFRICAN COUNTRIES AND TURKEY

This thesis research is formed essentially of two parts: a theorical part and an empirical part.

In the theorical part, we started with a the literature review concerning our topic which is the performance analysis of commercial and Islamic banks with the use of CAMEL ranking method, then we focused on the study of the Islamic banking in general, the approach of Islamic banking in African countries particularly in Senegal, Nigeria and South Africa, we continued with the review of the main differences between commercial banks and Islamic banks, we had a look at the situation of the banking system in African countries precisely in Senegal, Nigeria, South Africa and Turkey after the 2008 - 2012 financial crisis. Afterwards, we explained the CAMEL method as the performance analysis' method used in this thesis.

In the empirical part, with the CAMEL ranking method, we proceeded to the financial performance's analysis of the four best commercial banks following a ranking and the Islamic banks in African countries (Senegal, Nigeria and South Africa) as well as in Turkey between the years 2012 - 2014 that just coped with the framework of the after 2008 - 2012 financial crisis.

Furthermore, we compared the financial performance's analysis of African countries commercial and Islamic banks with those of the Turkish's ones for seeing the financial performance's difference of the commercial and Islamic banks after the financial crisis in African countries and Turkey; whether the banking system in African countries and Turkey recovered too just after the crisis and which banks had performed better based on the CAMEL ranking method.

Keywords: Islamic banking, after 2008-2012 crisis, CAMEL, Africa, Turkey
Date: 06/06/2018

ABBREVIATIONS

MGISB : Mit-Ghamr Islamic Savings Bank

PBUH : Peace Be Upon Him

U.S. : United States

UFIRS : Uniform Financial Institutions Rating System

BSE : Bucharest Stock Exchange

CAR : Capital Adequacy Ratio

ROA : Return On Assets

ROE : Return On Equity

NPL : Non-Performing Loans

NSB : Nasser Social Bank

IDB : Islamic Development Bank

DIB : Dubai Islamic Bank

AAOIFI : Accounting and Auditing Organization for Islamic Financial Institutions

IFSB : Islamic Financial Services Board

FDIC : Federal Deposit Insurance Corporation

WAEMU: West African Economic and Monetary Union

CBWAS : Central Bank of West African States

CD : Cash to Deposit

SGBS : Société Générale de Banques au Sénégal

CBAO : Compagnie Bancaire de l'Afrique Occidentale

BICIS : Banque Internationale pour le Commerce et l'Industrie du Sénégal

BIS : Banque Islamique du Senegal

T.A. : Total Assets

T.I. : Total Investment

TEB : Türk Ekonomi Bankası

GTB : Guaranty Trust Bank

FBN : First Bank Nigeria

FX : Foreign Exchange

AML : Anti-Money Laundering

PEPs : Politically Exposed Persons

FCA : Financial Conduct Authority

TC : Türkiye Cumhuriyeti

DMI : Dar Al-Maal Al-Islami Trust

OIC : Organization of Islamic Conference

BCEAO : Banque Centrale des Etats de l'Afrique de l'Ouest

TAH : Tamweel Africa Holding

ICD : Islamic Corporation for the Development of Private Sector

BIN : Banque Islamique du Niger

BIM : Banque Islamique de Mauritanie

BIG : Banque Islamique de Guinée

CBN : Central Bank Nigeria

NEPAD : Nouveau partenariat pour le développement de l'Afrique

IILM : International Islamic Liquidity Management Corporation

CRR : Cash Reserve Requirement

BRSA : Banking Regulation and Supervision Agency

SMEs : Small and Medium-Sized Enterprises

CODESRIA: Council for the Development of Social Science Research in Africa

KIBOR : Karachi Inter Bank Offer Rate

LIBOR : London Interbank Offer Rate

IBOR : Islamic Inter Bank Offer Rate

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1. INTRODUCTION

The Banking sector is growing very fast but banks generally do not grow at the same time. They have different performance level. Their performance can be affected by externals facts (country financial problems, economical risks, political decisions, geographical locations) or/and internals causes differing from the type of system used within the bank, the products offered and their management, the operation's efficiency, the capital available, the risks incurred and the size of the bank.

In this sense, there are several tools used in order to evaluate the banks' performance. CAMEL method, which is a quantitative method, is one of those methods, and takes into consideration five important dimensions of the banks: the Capital, the Asset, the Management, the Earning and the Liquidity.

Thus, with the use of the CAMEL method as our model we will analyse and compare the performance of commercial banks and Islamic banks, which are two different types of banks, between 2012 and 2014 that copes with the period of the after 2008 – 2012 financial crisis, in African countries notably in Senegal which has a developing banking system, in Nigeria and in South Africa which had in 2014 the highly developed banking institution according to the magazine Global Finance, and in Turkey.

Before the analyzing, in our prior parts, we will firstly explain the Islamic banking system in general; then discuss about the Islamic banking' trend in African countries mainly in Senegal, Nigeria, South Africa and Turkey. Later on, we will elucidate the situation of the banking system in those African countries and Turkey after the 2008 – 2012 financial crisis. Moreover, we will clarify the use of the CAMEL method in our thesis and utilize it for the performance analysis of the four best commercial banks in African countries (Senegal, Nigeria, South Africa) and Turkey and Islamic banks as well.

With their different performance, banks have the same essence that is, to perform better and have an effective and an efficient gain and expansion. Although they have the same aim, both commercial banks and Islamic banks are competitive to each other and to which degree are they ready to recover after a financial crisis and what about the Islamic banking tendencies nowadays in African countries and Turkey.

2. THE ISLAMIC BANKING SYSTEM

2.1. LITERATURE REVIEW

The times we live in, financial intermediaries belong to one of the most important institutions for a country's ongoing economy. Financial intermediaries imply the banking sector, which has an essential role in the financial system and contribute to the economy' growing since banks are junctions between money's savers and borrowers. Thereby, the banks should work in the midst of a transparent and efficient system, and monitor their financial performance in order to reduce failure's risks that can cause a financial crisis which may lead to an economic crisis.

Generally, banks used to assess their financial performance by utilizing a combination of financial ratios' analysis. Although there are several methods of performance's measurement, CAMEL rating, is a worldwide performance evaluation method, use by most of the banks whatever the type (commercial or Islamic), and central banks as well[1].

Initially, CAMEL rating system was developed in the United States (U.S.) by the federal regulators. Then, on 13th November 1979, it was adopted by the Federal Financial Institution Examination Council as the Uniform Financial Institutions Rating System (UFIRS); and in October 1987, the National Credit Union Administration adopted it too[2]. In 1988, the Basel Committee on Banking Supervision of the Bank of International Settlements (BIS) suggested the CAMELS framework for measuring financial institutions' performance. The CAMELS acronym refers to six component factors that are Capital adequacy, Asset quality, Management efficiency, Earning

[1] Malihe Rostami (2015), *CAMELS' Analysis in Banking Indutry*, Global Journal of Engineering Science and Research Management, p.10.

[2] William F. Caton (1997), Federal Deposit Insurance Corporation , *Uniform Financial Institutions Rating System Report,* Federal Register / Vol. 62, No. 3.

ability, Liquidity and Sensitivity which is the sixth component added in 1997 and was relying on the market risk[3].

Each of the CAMEL rating component factors is rated over a scale of 1 (best) to 5 (worst) and the score given reflects the judgment of the related component factor's condition within the bank[4].

"CAMEL rating method becomes a concise and indispensable tool for examiners and regulators" as stated by Richard S. Barr (1999, P.30). In this sense, Lovely Ganeriwal and Unnati Modi realised a project on "CAMEL framework as a tool of performance evaluation for banking institutions"; the data were enrolled from the annual reports of four Indian banks (two privates and two public) for the year 2008–09; then a ratio for each component factors was computed and interpreted. The project's results revealed the performance of banks for each of the CAMEL rating's parameter and banks' ranking. Also, the results proved that with its component factors, CAMEL was more and more a widely acceptable model and a chosen method of evaluation used to assess banks' performance[5].

Moreover, Swati Goyal (2011) conducted a research with the purpose of relating "the need for modern performance evaluation for Indian banks". The result found was that CAMEL rating was adequate for assessing bank's performance as it shows the banks' profitability, soundness and the best performing banks[6].

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[3] Malihe Rostami (2015), *CAMELS' Analysis in Banking Indutry*, Global Journal of Engineering Science and Research Management, p.11.

[4] CA. Ruchi Gupta (2014), *An Analysis of Indian Public Sector Banks Using Camel Approach,* Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 16, Issue 1. Ver. IV (Jan. 2014), p.94.

[5] Lovely Ganeriwal and Unnati Modi, *CAMEL framework as a tool of performance evaluation for banking institutions*, Som- Lalit Institute Of Managemnt Studies (SLIMS) Ahmedabad – 380 009.

[6] Swati Goyal (2011), *Camel Model A Tool to Measure the Performance of Banks,* Journal of Management, p.25.

CAMEL rating also helps to ensure the healthy conditions and steadiness of banks based on their financial reports. In the study of Khaled A. Zedan, Ghassan Daas (2017), the performance of Palestinian banks for the year 2014 by utilizing CAMEL rating as a model was analyzed. The researches were based on a sample of five Palestinian commercial banks and the data used were prepared from the financial annual reports of the year 2015. CAR was used to assess the Capital adequacy component's position, NPLs to total loans was applied for the Assets quality component, non expense ratio demonstrated the Management quality component, ROA and ROE helped to analyze Earnings component and total loans to total deposits ratio was used for the Liquidity component. The results showed that the largest the bank was the best performance it performed. The largest bank which was steadier was at the top of the ranking whereas the smallest bank which was less steady was at the bottom of the ranking[7].

Furthermore, CAMEL rating is useful for locating financial problems. Balteş Nicolae (2014) conducted a study regarding to the financial stability of commercial banks listed on Bucharest Stock Exchange (BSE) of CAMELS rating outlook. A sample of four credit institutions operating on the Romanian banking market and listed on BSE was selected; the data was based on the annual reports of the years 2011, 2012 and 2013. The study led to know that "CAMELS rating system was suitable and likely to identify early shocks"[8]. That is; the CAMEL rating as a method of evaluation served to assess Romanian banks' performance when banks' operations downshifted due to the 2008 financial crisis.

Besides, CAMEL rating does not have a limited usage; that is it can be used to assess the performance of different financial intermediaries, and therefore performance' difference could be noticed. CA. Ruchi Gupta (2014) analyzed Indian public sector

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[7] Khaled A. Zedan, Ghassan Daas (2017), *Palestinian Banks Analysis Using CAMEL Model,* International Journal of Economics and Financial Issues, 2017, 7(1), 351-357, p.356.

[8] Balteş Nicolae (2014), *Study regarding the financial stability of commercial banks listed on Bucharest Stock Exchange of CAMELS rating outlook,* Journal of International Studies, Vol. 7, No 3, 2014, pp. 133-143, p.141.

banks for a period of five years from 2009 to 2013 by using CAMEL rating approach. All the 26 Public Sector Banks in India were taken; but the S sensitivity component factor was not considered while analyzing due to the lack of information related to the market risk. The results showed that the financial performance in the Indian public sector banks was different form one bank to another; also banks with the lowest ranking had to improve their performance to attain normal standards[9].

Another research was accomplished by Mohammad Kamrul Ahsan (2016) in Islamic banks' field. Mohammad Kamrul Ahsan selected three domestic Islamic banks randomly among eight Islamic banks in Bangladesh and measured their performance from 2007 to 2014 based on CAMEL rating analysis which he considered nowadays the latest tool for performance evaluation. The findings indicated a strong performance on their composite rating for all the three banks; they were sound in all of the five parameters of CAMEL rating[10].

To sum up, CAMELs rating is a well discussed performance evaluation method. Many researchers, scholars and academicians made studies about its usefulness, its efficiency, its adequacy. By going on our literature review we can observe that CAMEL rating method is a globally acceptable and trustful tool of performance measurement for banks. With the use of the financial reports as data, banks financial position can be measured and ranked based on the CAMEL framework.

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[9] CA. Ruchi Gupta (2014) *An Analysis of Indian Public Sector Banks Using Camel Approach,* Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 16, Issue 1. Ver. IV (Jan. 2014), p.102.

[10] Mohammad Kamrul Ahsan (2016), *Measuring Financial Performance Based on CAMEL: A Study on Selected Islamic Banks in Bangladesh,* ISSN 2304-2613 (Print); ISSN 2305-8730 (Online); Prefix 10.18034 Asian Business Review Volume 6 Number 1/2016 (Issue 13), p.54.

2.2. ISLAMIC BANKING IN GENERAL

2.2.1. The History of the Islamic Banking

The Islamic banking is a banking system based on the *Shariah* laws that is the Islamic law which is derived from the Islam religion's tenets whose are coming from the combination of the *Quran* (Muslim's referring Book), the *Sunnah* (actions based on the Prophet Muhammad (PBUH)'s learning) and the *Hadith* (sayings reported from the Prophet Muhammad (PBUH)'s teachings). Most of the time, Islamic banks are seen as interest-free basis institutions; that is the interest concept is considered as *Riba*, in the Islamic banking, which is *Haram* and goes against the *Shariah* laws.

The Islamic banking had passed through different stages throughout the history before it reaches its continuing successful growth that we observe nowadays with annual growth rate of more than 16%. The Islamic banking industry is expanding; it entailed in 2015 more than 500 banking and financial entities operating in over 90 countries Muslim as non-Muslim jurisdictions[11].

Indeed, the first initiative to establish an Islamic banking was in 1958 in the West of Pakistan by a group of landowners. The idea was to create a financial institution without interest's payment. The richer landowners were giving their money as deposits; and a small amount was paid for covering the operation fees. Then, the funds were lent to poorer landowners as credit for agriculture purposes. Unfortunately, soon after, the institution could not continue to operate due to a shortage of capital; so it went into liquidation[12].

Parallelly, another attempt for an Islamic banking's establishment took place in Egypt. Actually, it is considered as the first bank without interest in Islamic society.

[11] Muhammad Aqib Ali (2015), *The Roots & Development of Islamic Banking in the World & in Pakistan*, South East Asia Journal of Contemporary Business, Economics and Law, Vol. 7, Issue 1 (Aug.), p.59.

[12] *Historical Development of Islamic Banking and Financial Institution,* p.72.

Hence, with the establishment of Mit-Ghamr Islamic Savings Bank (MGISB) on 25th July 1963 in the Egyptian town of Mit-Ghamr, the Islamic Banking system took birth. It was built up by the economist Ahmad El-Naggar.

MGISB was an institution based on the model of German savings banks applied to a peasant Islamic environment. Ahmad El-Naggar was the manager of the bank. He had the support of the local farmers and he hired the bank's staffs among the Egyptian inhabitance who had past experiences on banking's operations with the conventional institutions and who were willing to work within the framework of the *shariah* laws. His purpose was, in concordance with the *Shariah* laws, to collect the savings from the majority of the Egyptians and to provide them *halal* returns. MGISB played essential roles as: "to be the intermediary between the supply and the demand of the population, to act as an educational centre for economic efficiency, saving education and banking habit, and to set a dynamic factor in mobilizing the idle capital for investment, thus, reducing hoarding and the problems of capital formation" as stated by Ahmad El-Naggar[13]. Also, MGISB contributed to the economy's development of the region of Mit-Ghamr and grew at a fast rate with an increasing number of depositors and operating branches till it was affected by some political factors, which was the government's opposition to private initiatives, and caused its failure in 1968[14].

Nevertheless MGISB was closed; most of the populations were along with the concept of an interest-free bank in concordance with the laws. In this sense, many Islamic banks arose by taking examples from MGISB as it was the first Islamic financial intermediary that was providing banking services based on Islamic principles and was very successful. The first of those banks that stood out from the crowd was named Nasser Social Bank (NSB) and it was established in 1971 by Presidential Decree 66. The bank was not subject to the rules applied to commercial banks. The capital of

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[13] Abdelkader Chachi (2005), *Origin and Development of Commercial and Islamic Banking Operations*, J.KAU: Islamic Econ., Vol. 18, No. 2, pp. 3-25 (2005 A.D/1426 A.H), p.16.

[14] Jassim Mahadik, *Global Trends in Islamic Banking*, Al Maali, p.5.

the bank was coming from the funds allocated by the government outwards of the general budget[15].

Besides that, in 1974 the ministers of finance of the Islamic countries had a meeting and discussed about the Islamic Development Bank (IDB)[16] that was established in 1975 in the city of Jeddah, Saudi Arabia. It was an inter-governmental Islamic bank with 22 Islamic countries as members. It was considered as the first international Islamic bank and it aimed to promote the economy growing of the member countries and contribute to their social improving based on the principles of the shariah laws[17]. At the same year, Dubai Islamic Bank (DIB) was created by five principal founders who were Saeed Lootah, Nasser Lootah, Sultan Lootah, Mohammed Lootah, and Abdallah Saeed. DIB bank was considered as the first private Islamic bank and it led to the establishment of many other Islamic banks in the Gulf region and the Middle East part[18]. So on so forth, Kuwait Finance House and the Faisal Islamic Bank of Egypt and Sudan were created in 1977; and Jordan Islamic Bank and the Islamic Finance House of Luxembourg, which was the first initiatives of Islamic bank's establishment in Europe, were set up in 1978[19].

Then, Islamic banks progressively spread in West of Asia, Africa, South and South-East of Asia and Western countries.

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[15] Ahmad Alharbi (2015), *Development of the Islamic Banking System*, Journal of Islamic Banking and Finance June 2015, Vol. 3, No. 1, pp. 12-25 ISSN 2374-2666 (Print) 2374-2658 (Online), p.14.

[16] Ahmad Alharbi (2015), *Development of the Islamic Banking System*, Journal of Islamic Banking and Finance June 2015, Vol. 3, No. 1, pp. 12-25 ISSN 2374-2666 (Print) 2374-2658 (Online), p.14.

[17] *Historical Development of Islamic Banking and Financial Institution,* p.73.

[18]Ahmad Alharbi (2015), *Development of the Islamic Banking System*, Journal of Islamic Banking and Finance June 2015, Vol. 3, No. 1, pp. 12-25 ISSN 2374-2666 (Print) 2374-2658 (Online), p.15.

[19] *Historical Development of Islamic Banking and Financial Institution,* p.74.

During those periods, many commercial banks opened Islamic windows and started to offered Islamic financial services and many other commercial banks have converted into Islamic banks.

With the creation of Islamic banks, there were naturally needs for coherent organisations to assist the banks and regulate their operations. Hence, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established on 27th March 1991 in Bahrain. It included 200 members form 40 different countries. The aim of the body was to perform the auditing, accounting, ethic, governance and *shariah* laws standards for Islamic institutions notably banks. Later on, the Islamic Financial Services Board (IFSB) was created in 2002. It issued the standards and recommending in compliance with *shariah* principles for the Islamic Financial institutions like banks to adopt them in their system in order to ensure the stability and soundness in their operations[20].

The Islamic banking industry grew, extended and nowadays is present all around the world in Muslim as well as non- Muslim societies. Most of the countries try to adapt the Islamic banking into their financial institutions industry. In those words, there are three type of banking system: conventional banking system, full-fledged Islamic banking system which consists of banks that offer Islamic products and services in accordance with the shariah principles, and Islamic banking windows system which refers to conventional banks that offer Islamic products and services while using their existing branches, staffs and operations.

2.2.2. Basic principles of the Islamic Banking

Islam, as all the monotheistic religions, has sets of divine norms which regard to human behaviours and economic behaviours as well. In Islam's religion, there are clear prescriptions based on the Islamic legal codes about how business should be done.

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[20] Ahmad Alharbi (2015), *Development of the Islamic Banking System*, Journal of Islamic Banking and Finance June 2015, Vol. 3, No. 1, pp. 12-25 ISSN 2374-2666 (Print) 2374-2658 (Online), p.16.

Individuals, financial institutions have their right to get return for utilizing their capital in a business transaction, or a service; but the main points are how the business is conducted and the return can be acquired.

In this regard, the Islamic banking system is based on some important principles which are extracted from the Islamic *shariah* laws. Islamic banks operate within those principles that can be compared as regulations and the fundaments of how the Islamic banking's system functions.

The basic principles of the Islamic banking system can be hailed from the prohibition of *riba* (interest-free), *gharar* (uncertainty), *maysir* (gambling), the investment's banning in *haram* activities, also the concept of risk sharing, business risk and liability, moral and social values, *zakat* (almsgiving).

2.2.2.1. The Prohibition of R*iba* (interest-free)

Riba comes from the Arabic derivative word "*raba-wa*" meaning to increase, to exceed; and nowadays, in the banking system it refers to the charging of interest on loans or deposits[21].

According to the *Quran* terminology, once a debt occurs, any payment above this initial debt is looked as interest and is considered as *Riba* which is forbidden in Islam religion[22].

Besides, by the virtue of the *sunnah*, Prophet Muhammad (PBUH) had said and practiced his "exchanges as gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt, measure for measure and hand to hand"[23]. That is, any surplus should not be allocated to any of the party in order to not face an injustice.

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[21] Md Akther Uddin (2015), *Principles of Islamic Finance: Prohibition of Riba, Gharar and Maysir*, Munich Personal RePEc Archive, MPRA Paper No. 67711, posted 9. November 2015 09:32 UTC, p.3.

[22] Monzer Kahf, *Islamic Finance: Business as Usual,* p3.

[23] Md Akther Uddin (2015), *Principles of Islamic Finance: Prohibition of Riba, Gharar and Maysir*, Munich Personal RePEc Archive, MPRA Paper No. 67711, posted 9. November 2015 09:32 UTC, p.3.

In this sense, in compliance with the *shariah* laws, the money charge to the principal amount is stated as *riba* and is not allowed whether it is an interest paid on a granted loan or an accepted deposit. Therefore, in the Islamic banking system, the principle of *riba*'s prohibition is taken into consideration and money is accounted as a commodity of exchange. Furthermore, interest gains or payments are avoided; instead Islamic banks finance facilities for their debtors and share they earn with their depositors.

2.2.2.2. The Prohibition of *Gharar* (uncertainty)

Gharar is an Arabic word that means literally risk, uncertainty or hazard.

In the religion of Islam, *gharar* is considered as any transaction which is uncertain and risky due to information's missing about the proper deal. Both parties should have right and clear knowledge over the business before any action is undertaken in order to have a control on the business; and consequently in the nearest future, to avoid disagreements between the parties and equal shares of profit or loss[24].

Therefore, according to the shariah laws, it is not allowed to take part of ambiguous, doubtful and excessive risky business transactions; in this wise, Islamic banks are subject to the principle of *gharar*'s prohibition and should operate fairly. Besides, their operations should be matter of real transactions, identifiable assets and transparent contracts which are not based on uncertain events and where all related conditions are disclosed.

2.2.2.3. The Prohibition of *Maysir* (gambling)

Maysir originates from the Arabic the word *al-yasar* which means literally easy.

In the Islam's religion, *maysir* has a broad meaning; it implies more than a game of chance and it infers all kinds of gambling which involve the easy acquisition of wealth haphazardly. Generally, this acquisition benefits one party and harms another party.

[24] Md Akther Uddin (2015), *Principles of Islamic Finance: Prohibition of Riba, Gharar and Maysir*, Munich Personal RePEc Archive, MPRA Paper No. 67711, posted 9. November 2015 09:32 UTC, p.4.

Hence, *maysir* is prohibited in Islam; that is, gambling is not legal and naturally goes against the *shariah* laws.

Within the banking framework, the term gambling could be associated to speculation and derivatives and it is related to all business activities where a recipient gains money by chance through a particular transaction and obtains all benefits regarding to a counterparty, that is, whether or not it deprives another person's rights[25].

This prohibition of gambling aims to provide a level of protection of benefits and interests of all parties involved in the market. Therefore, in the Islamic banking system, money is not a commodity to be traded; and all form of speculations, derivatives are not part of their operations as they are prohibited and are not enclosed in the *maysir*'s prohibition principle.

2.2.2.4. The Investment's Banning in *Haram* Activities

The investment's banning in *haram* activities principle is concerned with the ethical standards.

According to the Islam's religion, Muslims should deal in *halal* activities instead of investing in *haram* activities and businesses which are harmful to the environment and mankind. It is the duty for every Muslims to take a good look at the business that they will be concerned with before bearing any decision.

Thus, in accordance to the *shariah* laws, Islamic banks should consider investing in *halal* activities; their services and products provided must not belong to *haram* industries such us alcohol drinks, pork, drugs, tobacco, gambling. The Islamic banks are not allowed to deal within those industries which might help to promote their expansion. In addition, their investors' portfolio and customers should not derived from

[25] Muhammad Iman Sastra Mihajat (2016), *Contemporary Practice of Riba, Gharar and Maysir in Islamic Banking and Finance*, International Journal of Islamic Management and Business, Vol. 2, No. 2, August 2016, p.11.

industries whose are considered as *haram* or their activities, services, products are hurtful to the society [26].

In all facets of their operations, Islamic banks have to consider the principle of investment's banning in *haram* activities in order to be in consistent with the *shariah* laws.

2.2.2.5. The Concept of Risk Sharing

Risk occurs when there are at least two possible outcomes after a closing deal. In general, the outcomes are in favour of the risk holder or not.

There are different types of risk that financial institutions, including Islamic banks, can face; the most common types of risk are: credit risk, liquidity risk, market risk, reputational risk, operational risk, and legal risk[27].

We talk about risk sharing, when two parties agree upon a contract or investment and accept to share the risk of the business incurred even if the outcome might be a loss or a gain. That is, the resulting costs and benefits are distributed between the two contractors. In this way, in a case of a gain, the two parties can benefit from the profit; otherwise, in a case of a loss, the impact of the damage could be reduced due to the risk sharing[28].

The *shariah* promotes the risk sharing concept. Thereby in the Islamic banking system, the risk sharing principle is followed up; and the investor and the investee should share the risks and profits generated from an asset, a project, or a venture.

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[26] Savalan, I.I, (2012), *The Principles of Islamic Finance, Its Challenges and Policy Suggestions for Azerbaijan, MSc Thesis*, Eastern Mediterranean Univ., Inst. of Graduate Studies and Research, Gazimağusa, North Cyprus, 15-16.

[27] Yussuf Adam Al-Badani (2014), *The Concept of Risk Sharing in Islamic Financial Institution,* Al Hijaz International Refereed Journal for Islamic & Arabic Studies. Issue: 9, Muharram 1436H, p.403.

[28] Yussuf Adam Al-Badani (2014), *The Concept of Risk Sharing in Islamic Financial Institution,* Al Hijaz International Refereed Journal for Islamic & Arabic Studies. Issue: 9, Muharram 1436H, p.382.

Islamic banks share with their customers, the risk, their eventual profits representing by the return on capital and possible losses if any relying on the capital involved. Hence, the risk involved could be divided between the parties concerned and be decreased; but also, there will be fairness, equality, and satisfaction regarding to the relationship between the Islamic banks and their customers. The risk sharing's principle is related to all exchange and partnership contracts[29].

2.2.2.6. The Concept of Business Risk and Liability

This concept is related to the fact that any return cannot be received before bearing any responsibility, taking the risk to be part of a business, and admitting the risk whatever the outcome would be in the future.

The principle of business risk and liability can be hailed from the say "profit comes with liability" which is one of the sayings of the Prophet Muhammad (PBUH). That is, one can earn a profit only if he or she firstly bears the liability, or risk of loss[30].

Therefore, in compliance with the *shariah* laws, Islamic banks can deserve their profit by firstly bearing the risk of the business that they are in like providing services to their clients such as supplying assets; in that case, the possibility of loss can be linked to the profit.

2.2.2.7. The Concept of Moral and Social Values

The Islam's religion fosters moral and social values for enhancing justice, equitability, and social well-being.

Islam covers legal codes and norms for guiding the all society to not cross the limits of morality. In parallel, the Holy *Quran* appeals all believers to support the poor and

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[29] Savalan, I.I, (2012), *The Principles of Islamic Finance, Its Challenges and Policy Suggestions for Azerbaijan, MSc Thesis*, Eastern Mediterranean Univ., Inst. of Graduate Studies and Research, Gazimağusa, North Cyprus, 8.

[30] WEB_PO Box 1882, Al Baraka Banking Group, Al Baraka Bank's Web Site, http://www.albaraka.com/default.asp?action=article&id=46, 2018.

people in need; all Muslims should consider his next to be his brother and they have to take care of themselves each other[31].

Financially speaking, there should be a special focus on the social dimension of the business for a fair wealth distribution. Thus, in accordance with the *shariah* laws, Islamic banks seek to align their operations and investments with the principle of ethical and social responsibility. Islamic banks cheer on social activities and projects, participate to charitable donations, and provide special services to people in need such as the profit-free loans or benevolent loans called *quard al hasan*.

Quard al hasan is used for a short-term funding. It is granted for a one year's period and there is not any charge related to the loan. The borrower should provide collateral as security for the loan and is required to return back the principal amount at the maturity date[32].

2.2.2.8. *Zakat* (almsgiving)

Zakat is derived from an Arabic word meaning pure. Indeed, *zakat* is one of the five pillars of the religion of Islam and is a kind of tax paid annually on all wealth; that is, it is hailed form the surplus of wealth. It is an obligation of rich Muslims to share their wealth with poor as *zakat.* Thus, *zakat* is a method of wealth distribution within a society. In those words, the Islamic banks can integrated *zakat* fund in their operations and collect taxes from their customers (investors and depositors) and allocate them to the poor and those in need. So, in a way, Islam banks can participate to the fair distribution of the income and the dwindling of the poverty which shall be in consistent with the *shariah* laws[33].

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[31] Elmelkl Anas, Ben Arab Mounira (2009), *Ethical Investment and the Social Responsibilities of the Islamic Banks,* International Business Research, Vol. 2, No. 2, p.125.

[32] Elmelkl Anas, Ben Arab Mounira (2009), *Ethical Investment and the Social Responsibilities of the Islamic Banks,* International Business Research, Vol. 2, No. 2, p.128.

[33] Elmelkl Anas, Ben Arab Mounira (2009), Ethical Investment and the Social Responsibilities of the Islamic Banks, International Business Research, Vol. 2, No. 2, p.128.

2.2.3. Basic Financial Instruments of the Islamic Banking

After the establishment of the Islamic banking system, few financial instruments were created. Then, with the spread of the Islamic banks, more financial products have been developed according to the demand presented on the market and in compliance with the *shariah* laws.

Thus, as the demand, the size and the complexity of the market were expanding, the *halal* financial instruments have become broader and Islamic banks proposed variety of financial services to their customers. Nevertheless, the basic Islamic financial instruments used are: *murabahah* (sale on profit), *musharakah* (joint venture partnership), *mudarabah* (trust), *ijara* (leasing), *bay'al-salam*, *istisna* (contract of work), *quard Al Hasan*.

2.2.3.1. *Murabahah* (sale on profit)

The term *murabaḥah* took root from the Arabic word *ribh*, which refers to profit in the term of Islamic jurisprudence for sales, where the seller and the buyer agree on the price of the commodity being sold.

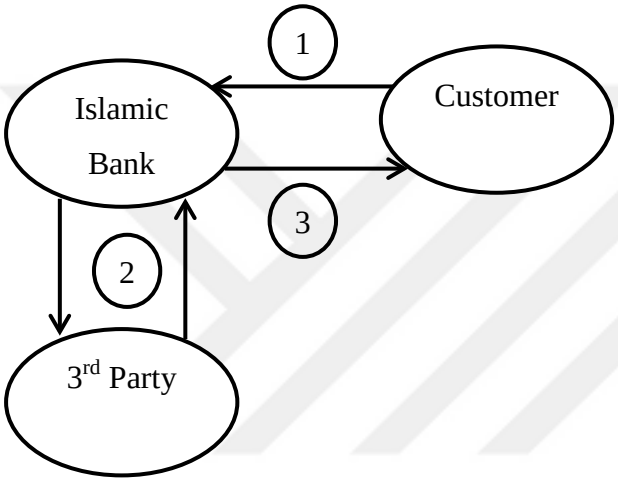
Murabahah is the most common financial instrument used in the Islamic banking system. It represents 80 percent of the total Islamic financing provided by Islamic banks. *Murabahah* is a mechanism for borrowing money; and a sale based instrument, that is, *murabahah* goes with a contract of sale of goods where the Islamic bank and its customer conclude on a fix price. *Murabahah* can only be used when an item is to be purchased; if funds are required by the customer for some other purposes, *murabahah* cannot be used. Financial assets under *murabahah* contracts are seen as non-tradable in the secondary market as debt cannot be traded in the Islamic banking system in consistent with the *shariah* laws[34].

Initially, the client would request from the bank the commodity being purchased, due generally to a lack of cash. Then, a contract would be signed staying that the bank

[34] *Islamic financial instruments and infrastructure institutions supporting Islamic financial market,* Chapter – 4, p.147.

accepts to provide the goods to the customer, including the pre-agreed price, the date and the place where the goods would be received.

Thus, the bank will purchase the needed goods and resells them to the client at a higher price than the acquisition price from a third party, that will permit to get a return on the sale of the goods and additional payments related to the service provided. The profit will be received as soon as the *murabahah* transaction is finalized. The bank bears all the risk of damage and the owner-ship of the goods until the loan is paid fully and the goods are delivered to the customer[35].



Legend:

1 – Request of good to be purchased

2 – Purchased of good from a 3rd party

3 – Resale of good to the customer with an added return.

Figure1: Murabahah Mechanism

2.2.3.2. *Musharakah* (joint venture partnership)

In the history, many civilizations have practiced *musharakah* as form of partnership before the coming of the religion of Islam. Later on, the practice has been approved by the *Sunnah* during the life time of the Prophet Muhammad (PBUH)[36]. Furthermore, *musharakah* is considered as been mentioned in the *Quran* in consistent with the

[35] Nikonova T., Kokh I., Safina L. (2015), *Principles and instruments of Islamic financial institutions*, International Conference on Applied Economics, ICOAE 2015, 2-4 July 2015, Kazan, Russia; Elsevier B.V, p.483.

[36] Islamic financial instruments and infrastructure institutions supporting Islamic financial market, Chapter – 4, p.134.

following Qur'anic verses "…but if more than two, they share in a third..." (Al-Nisa':12). Hence, *musharakah* is seen to be the most proper financial instrument[37].

Musharakah is hailed from the Arabic word *sharaka* which means "participating cooperatively"[38]. In the banking framework, *musharakah* contracts may be used by banks for providing an additional working capital in concordance with the *shariah l*aws.

Musharakah is a kind of joint project between an Islamic bank and a client or clients, and requires the signing of a partnership agreement between the parties wishing to collaborate; as well as the funding is obliged to be given by both parties. The investment should come from all the partners involved in the joint venture partnership; whether it is in the form of monetary asset or non-monetary assets including tangible and intangible assets.

Therefore, partners while contributing to the capital of their business; profits or losses are also allocated among them according to the respective business percentage shares of the partners. That is, the profit will be distributed under the conditions of the *musharakah* contract; and losses will be distributed regarding to the capital's shares that each partner has invested[39].

Nevertheless, in the *musharakah* mode, the contract may not be managed by all the partners. It is optional, all partners may be involved in the management and one or some partners may take part in the management while other partners will become sleeping

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[37] Noraziah C. A., Abdul G. I. (2010), *Shariah parameters for Musharakah Contract: A comment*, International Journal of Business and Social Science, Vol. 1 No. 1; October 2010, p148.

[38] Savalan, I.I, (2012), *The Principles of Islamic Finance, Its Challenges and Policy Suggestions for Azerbaijan, MSc Thesis*, Eastern Mediterranean Univ., Inst. of Graduate Studies and Research, Gazimağusa, North Cyprus, 16.

[39] Nikonova T., Kokh I., Safina L. (2015), *Principles and instruments of Islamic financial institutions*, International Conference on Applied Economics, ICOAE 2015, 2-4 July 2015, Kazan, Russia; Elsevier B.V, p.148.

partner. Once partners have contributed, in the *musharakah* contract, with their capital, rights, obligation; each of them have to assume the liability of all assets invested in the partnership. Although the capital invested may not be guaranteed by any of the partners; partners should act as agents of each other and must avoid misconduct or negligence regarding to the partnership. If any partner occasionates a loss of capital due to any misconduct or negligence, he or she should refund the loss of capital to the other partners. Otherwise, the loss of capital during the partnership can be recognized as capital impairment, and should be borne by all the partners in proportion with the capital invested.

Besides, we can find the diminishing *musharakah* where a partner can be allowed to buy the share of another partner one by one until the entire equity of this partner is completely transferred. This transaction starts with a partnership, or the intention to co-own an asset; then the Islamic bank leases the asset to the customer who accept to fulfil the all ownership of the asset over an agreed period. The partnership will end once the customer will become the owner of the asset. It can be a mode of home financing instrument[40].

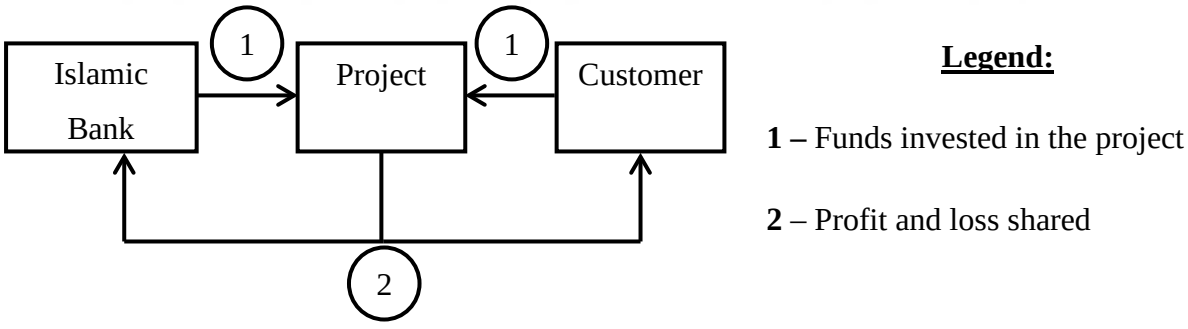

Figure 2: Musharakah Mechanism

[40] Nikonova T., Kokh I., Safina L. (2015), *Principles and instruments of Islamic financial institutions*, International Conference on Applied Economics, ICOAE 2015, 2-4 July 2015, Kazan, Russia; Elsevier B.V, p.159.

2.2.3.3. *Mudarabah* (trust)

Historically, in Arabia, *mudarabah* transactions were utilized for financing the caravan trade. Then, it was endorsed in the religion of Islam as the Prophet Muhammad (PBUH) himself used to practice *mudarabah*[41].

However, there is not any clear evidence from the *Quran* regarding to the permissibility of *Mudarabah*. But, in a *Hadith* it was mentioned that: "There are blessings in three transactions: credit sales, silent partnership and mixing wheat and barley for home not for trading."

Therefore, as *mudarabah* is called silent partnership, it is a legal financial instrument used in the Islamic banking and it is seen as trust-based financing used for medium and short-term investment[42]. *Mudarabah* can be defined as a partnership where the Islamic bank and its client agree on a project contract. One of the partners may be concentrated on the skill and the effort needed for the project who is generally the *mudarib* or the trustee and the other partner may contribute to the capital that is the *rabb al-mal* or the capital provider and does not have a direct relation with the management of the project. The profit generated form the invested money will be allocated between the two partners according to the conditions of the contract and the related agreed proportions of the return[43].

The Islamic bank bears the risk of loss in case it occurs and cannot use the invested capital for the funding of other projects, which were not noticed in the contract, without

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[41] Islamic financial instruments and infrastructure institutions supporting Islamic financial market, Chapter – 4, p.126.

[42] Savalan, I.I, (2012), *The Principles of Islamic Finance, Its Challenges and Policy Suggestions for Azerbaijan, MSc Thesis*, Eastern Mediterranean Univ., Inst. of Graduate Studies and Research, Gazimağusa, North Cyprus, 18.

[43] Nikonova T., Kokh I., Safina L. (2015), *Principles and instruments of Islamic financial institutions*, International Conference on Applied Economics, ICOAE 2015, 2-4 July 2015, Kazan, Russia; Elsevier B.V, p.482.

the permission of the client; which comes to say that there are two kind of *mudarabah*. The restrictive *mudarabah* where the client restricts the framework of the bank initially specified in the contract's details; and the unrestrictive *mudarabah* in which the client allows the deposited money to be use in any lawful projects. Besides, after agreeing on a specific investment project with a client, other sources of funding or the money of the bank should not be used on the financing of that project.

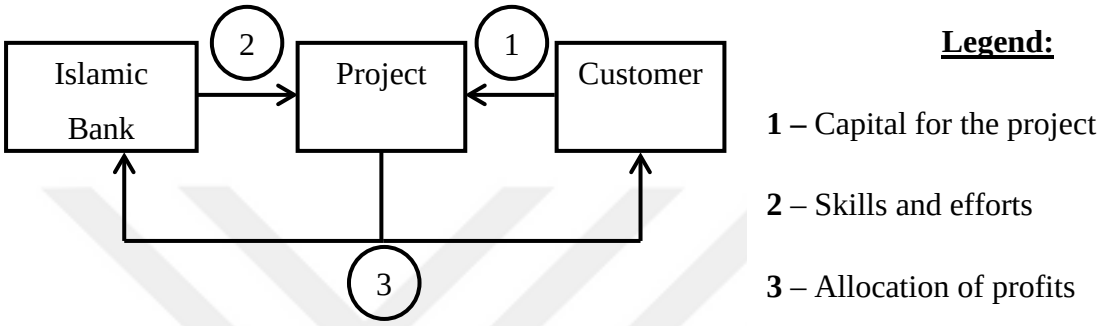

Figure 3: Mudarabah Mechanism

2.2.3.4. *Ijarah* (leasing)

Ijarah is an Arabic word meaning "giving something on rent". Generally; in *ijarah* contract, a good is given for a leasing purpose in exchange of a specific rent paid during the *ijarah* rental according to the term's conditions. *Ijarah* can be compared to a lease contract of the conventional financial system and it is a debt-based financing instrument[44].

Ijarah's legitimacy can be proven from the verses of the Holy *Quran* in which Allah says: "And said one of them (the two women): "O my father! Hire him! Verily, the best of men for you to hire is the strong, the trustworthy."(Al Quran 28:26), and "...If you had wished, surely, you could have taken wages for it!" (Al Quran 18:77)[45].

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[44] Savalan, I.I, (2012), *The Principles of Islamic Finance, Its Challenges and Policy Suggestions for Azerbaijan, MSc Thesis*, Eastern Mediterranean Univ., Inst. of Graduate Studies and Research, Gazimağusa, North Cyprus, 21.

[45] Marifa Team (2014), *Islamic Banking & Finance: Principles and Practices*, Marifa Academy, p.57.

Ijarah contracts start from a request, an offer, and then an acceptance. First of all, the Islamic bank agrees to buy a property or a physical asset on the demand of the customer with special requirement and rents it to the customer against predetermined instalment payments or *ujrah* to be paid within a specific period called the *ijarah* period in order to cover the acquisition cost of the asset plus a fair return. In this sense, the bank becomes the lessor and the customer will be the lessee who will receive the all advantages of using the asset.

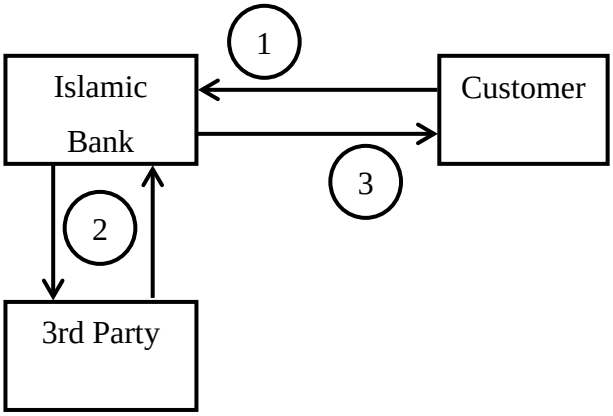
However, in one side, the asset's ownership acquired by the bank cannot be transferred to the customer during the *ijarah* period. Therefore, the bank will bear the all risks associated with the acquisition and the ownership of that asset; then, the asset should be returned back to the bank after the ending of the *ijarah* period which must be indicated at the beginning of the contract.

Moreover, in a case of a late delivery of the asset, the rent may not be paid for the date's period between the date mentioned in the contract and the actual delivery.

On the other side, *ijarah muntahia bittamleek* may occur; in which the Islamic bank agrees upon an *ijarah* contract with its customer while having an intention to sell it later at a specified price. That is, at the end of the *ijarah* period when all instalment payments have been completed; the bank signs a sale contract as a pre-agreement, in addition to the initial *ijarah* contract, to sell the asset to its customer who may purchase this asset at the end of the lease period.

In that sense, the asset's ownership will be shifted to the customer either at the end of the term or at any time of the contract term when the customer wishes to get his or her ownership[46].

[46] Marifa Team (2014), *Islamic Banking & Finance: Principles and Practices*, Marifa Academy, p.56-57.



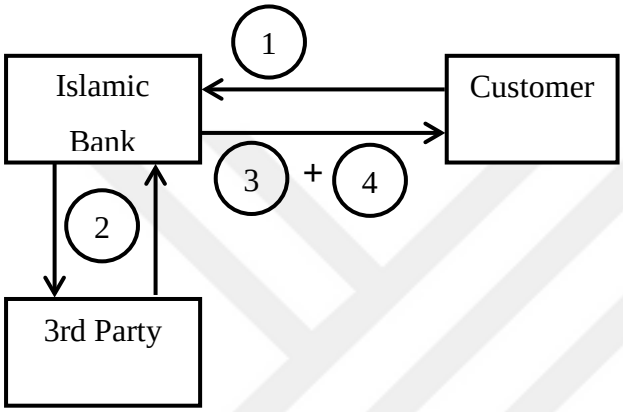
Legend:

1 – Request of commodity

2 – Purchase of the commodity

3– Rent of the commodity to the customer

Figure 4: Ijarah Mechanism



Legend:

1 – Request of commodity

2 – Purchase of the commodity

3 + 4 –Rent, then sale of the commodity to the customer after the ijrah period

Figure 5: Ijarah Muntahia Bittamleek Mechanism

2.2.3.5. *Bay'Al-Salam* (forward sale)

Bay'al salam, also known as *bay-salaf* or *bay*-mafalisa, is a financial instrument similar to forward contracts.

In the Holy Quran Allah denotes: "O you who believe! When you contract a debt for a fixed period, write it down..." (02:282).

The previous verse of the *Quran*, that was mentioned, reveals the acceptance of *bay'al salam*'s practices in the Islam religion; and it was carried out through the *Sunnah* reported by Ibn Abbas (May Allah be pleased with him) who attested: the Prophet Muhammad (PBUH) came to Medina and the people used to pay in advance the price of dates to be delivered within two or three years. He said (to them), "whoever pays in advance the price of a thing to be delivered later should pay it for a specified measure at specified weight for a specified period."

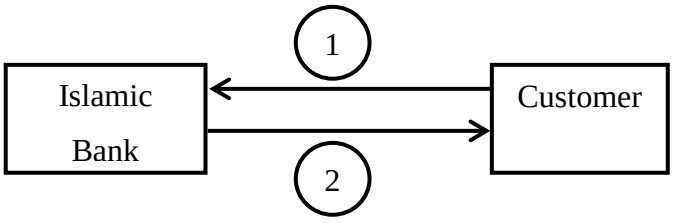
Therefore, in compliance with the *shariah* laws, *bay'al salam* sale contracts are commonly used in the Islamic banking; and it is a kind of sale contract in wich the payment known as *salam* capital is paid against a later delivery of the commodity.

The initial purpose of *bay'al salam* as financial instrument was to support the small farmers who needed financing for growing their crops and covering up their families' needs. So, the Islamic banks were financing them in exchange of their agricultural products sold at the time of the harvest[47].

Actually, the same idea is utilized. In fact, for a need to be financed, the customer will approach the Islamic bank. Then, the bank, after an agreement, enters into a *salam* sale contract with its customer and purchases the presented commodity to be delivered in a future date in exchange for an immediate payment.

The bank should pay the full price of the commodity at the contract date and the customer should hand over the commodity at the agreed delivery date. Moreover, the commodity to be sold must be in a physical or in a constructive possession of the customer; also, the mere ownership of the commodity should be perspicuous to the bank.

Bay'al-Salam contract is beneficial to both the bank and the customer. From the Islamic bank side, the *salam* capital is lower than the spot sales; and from the customer side, the money received in advance will permit to overlay the needs.



Legend:

1 –Sale of the commodity to be delivered later on.

2 – Immediate full payment.

Figure 6: Bay'Al Salam Mechanism

[47] Remali Y., Nor' A. M. K. (2016), *The Contract of Bay-al-Salam and Bay-al Istisna in Islamic Commercial Law: A Comparative Analysis*, Prosiding Perkem KE-11, (2016) 590 – 594 ISSN: 2231-962X, p.591.

2.2.3.6. *Istisna* (manufacturing finance)

Istisna comes from the Arabic derivative word "*Sa na'a*" which implies to construct something or to manufacture. *Istisna* is a contract of sale of special goods to be manufactured and delivered after the completion of the work by the seller to the purchaser in exchange of a specified payment.

Istisna's legitimacy can be proven from the *Hadith* narrated by Jabir (May Allah be pleased with him): A woman said, "O Allah's Apostle! Shall I get something constructed for you to sit on as I have a slave who is a carpenter?" He replied, "Yes, if you like." So she had that pulpit constructed. (Al Bukhari, Book 8, Hadith 440)[48].

Therefore, Islamic banks, in conformity with the *shariah* laws, may use *Istisna* contracts as mode of financing in their daily operations. In *istisna* sale contract, the commodity is transacted before it is realised; that is, the Islamic bank and its customer agree on a sale contract where an item with its specifications should be constructed within a time scale, be delivered at a determined date for a fixed price to be paid in instalments or deferred depending on the stages of completion of the item and the agreement of the two partners.

This sale contract sale may begin upon the demand of the customer, who generally wishes to purchase assets to be manufactured or constructed. The Islamic bank, naturally as the seller (*san'e*), starts an *istisna* contract with the consent of its customer. Then, the contract comes into existence. [49]

The *Istisna* assets to be manufactured can be realised using the bank's resources or the resources of another manufacturer. In both cases, the asset produced should fit with its specifications stated in the contract and should be completed within the period agreed with the customer or purchaser (*mustasene*). Besides, the customer may call out a consulting firm for ensuring whether the *istisna* asset is conformed to the

[48] Marifa Team (2014), *Islamic Banking & Finance: Principles and Practices*, Marifa Academy, p.48.

[49] Remali Y., Nor' A. M. K. (2016), *The Contract of Bay-al-Salam and Bay-al Istisna in Islamic Commercial Law: A Comparative Analysis*, Prosiding Perkem KE-11, (2016) 590 – 594 ISSN: 2231-962X, p.592.

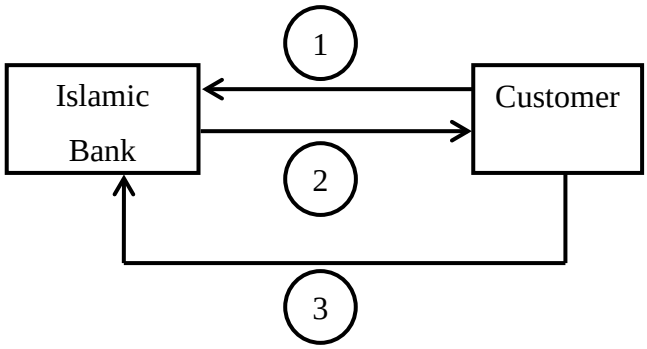
specifications mentioned in the contact. The costs of supervision as a mutual agreement can be borne by both partners.

The customer may pay the *istisna* asset, which must be a fix and fair price, in instalments according to the agreed terms, at the delivery of the asset, or may start the payment from the day when the *istisna* contract is signed and he or she may keep on paying during the manufacturing of the asset and after the work has been completed. This case may occur in a house financing mode. Then, in order to secure the instalments' payments, the bank may keep the title of the house as a guarantee till the price of the asset is fully paid. Also, the customer may demand for a security which may prove the amount of the advance payment given.

In addition, if the customer wishes to purchase a land, also the bank may provide it with an already constructed house on the specified piece of land. Furthermore, *istisna* may be used for financing a project. If a customer wants to set up machineries that need to be manufactured in his or her factory, the bank may finance the construction through the *istisna* contract. The same principles may be applicable with the construction of an industry building.

Nevertheless, one of the partners may cancel the contract after noticing the other and before the work has started. But, after the manufacturer starts the work, the contract cannot be cancelled unilaterally. The bank and the customer may mutually agree on amending and introducing new specifications on the *istisna* asset or adding other conditions; in this sense, extra expenses will be added to the previously agreed price; and they will be borne by the customer. However, after the completion and the delivery of the *istisna* asset the customer may retract the order if the asset is not conformed to the specifications demanded[50].

[50] Marifa Team (2014), *Islamic Banking & Finance: Principles and Practices*, Marifa Academy, p.49.



Legend:

1 –Request of a commodity to be manufactured.

2 – Delivery of the commodity after being manufactured.

3– Payment according to the contract.

Figure 7: Istisna Mechanism

2.2.3.7. *Quard Al Hasan*

Quard al hasan is a term formed of two Arabic words that can be broken down as follow: *al-qard* which means the deduction as a portion of the property lender is cut; and *hasan* which hails from grace[51].

The legitimacy of quard al hasan can be proven from the Quran; and one of the interpretations from the Chapter *Al-Baqarah*, verse 245, mentions that Allah decrees: "Who is it that (will) grant Allah a goodly (sincere) loan so that He will repay him many times over? And (remember) it is Allah who decreases and increases (sustenance), and to Him you shall all return"[52].

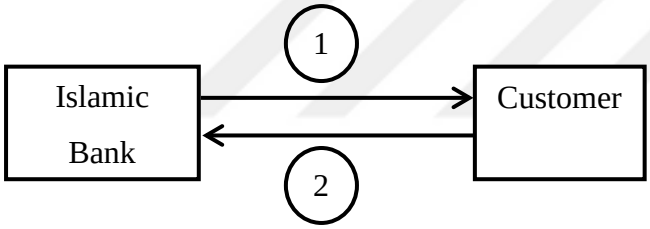
As it was mentioned in the *Quran*, *quard al hasan* is a type of a benefit-free mechanism welfare which is desired and recommended to Muslims to practice in order to help poor and people in need; but also this mechanism can permit to fill the gap that exists between the rich and the poor which can lead to a more cooperative and collaborative society. In this sense, Islamic banks, in consistent with the *shariah* laws, can grant *quard al hasan* as financial instrument to needy customers for a fixed period of time. Then, the principal amount borrowed must be returned back to the Islamic bank

[51] Wan N. A. W. Y., Abdul G. I., Shofian A., Sanep A. (2015), *The Originality of Qard and its Implication on the Loan Theory: Does Intention Matter?*, Malaysia Study No. 4, p.14.

[52] Wan N. A. W. Y., Abdul G. I., Shofian A., Sanep A. (2015), *The Originality of Qard and its Implication on the Loan Theory: Does Intention Matter?*, Malaysia Study No. 4, p.17-18.

at the end of the predetermined period without any return of a profit or a benefit. Besides, *quard al hasan* is a benevolent loan that can serve as a tool to enhance the financial and the social dimensions of a society while achieving the economic and social justice as envisioned by Islamic economics[53]; as the borrower is only required to repay the amount borrowed.

However, a service fee can be asked, for covering the maintaining and collection of the *quard al hasan* loans, depending on the country where the Islamic bank is located. For instance; in Iran, a portion of the Islamic banks' resources are allocated for the *quard al hasan* loans. These loans can be granted to small producers, farmers and consumers in need. Furthermore, the banks are allowed to impose a minimum service charge to cover the costs of administering these funds. On the other hand, in Pakistan, *quard al hasan* is considered as a mode of loans financing and there is any service fee charged on those loans. In addition, loans are subject to be repaid if and when the borrower can afford to pay[54].



Legend:

1 –Loan granted to a needy customer

2 – Loan returned back without any return

Figure 8: Quard Al Hasan Mechanism

[53] Zamir I., Bushra S. (2015), *Islamic Finance and the Role of Qard-al-hassan (benevolent loans) in Enhancing Inclusion: a Case Study of Akhuwat*, ACRN Oxford Journal of Finance and Risk Perspectives Special Issue of Social and Sustainable Finance, Vol.4 Issue 4, p.26.

[54] Wan N. A. W. Y., Abdul G. I., Shofian A., Sanep A. (2015), *The Originality of Qard and its Implication on the Loan Theory: Does Intention Matter?*, Malaysia Study No. 4, p.15.

For the purpose of a general idea, the table below shows the similitude of some of the Islamic banking instruments named above with some of the commercial banking instruments[55].

Table 1: Similitude of Islamic banking instruments with commercial banking instruments

Islamic Banking Instruments	Comparable Conventional Banking Instruments
Murabahah finance / *Ijarah*	Consumer loan finance
Ijarah muntahia Bittamleek	Mortgage loans
Murabahah, Ijarah	Corporate loans
Istisna, Bay Al Salam / *Murabahah*	Working capital
Istisna / *Ijarah*	Project finance
Quard Al Hasan	Overdraft

2.3. REVIEW OF ISLAMIC BANKING IN AFRICAN COUNTRIES

Africa is the second largest continent in the world and can be divided into five parts which are: North Africa, West Africa, Central Africa, Southern Africa, and East Africa. After North Africa, West Africa has the second largest number of Muslims and is the region where Senegal and Nigeria are part of; South Africa is included in Southern Africa region.

Refering to some accounts, Islam arrived in the West Africa at the 10th century AD chiefly by means of traders who came from North Africa. Between the 11th and 18th centuries, many Islamic empires were constructed in the area of land which was formed from today Senegal to modern Nigeria (Boahen, 1966). Thus, in Senegal and Nigeria, Islam remained the main factor defining the culture of Muslim population influencing the mode of dressings, the ways of interrelation and ceremonies. Therefore, the introduction of Islamic banking could be a chosen system by the West African Muslim.

[55] Nedal El Ghattis, *Ijara & its Application*, Center for Islamic Finance, BIBF, p.166.

Furthermore, Muslims constitute the half of Africa's population, so the region has a good promise for the Islamic banking's expansion as thought by many scholars[56].

The first attempt to establish Islamic banks in Africa, excepting the case of Sudan and Egypt, was in 1982 when the international Islamic finance organization Dar Al-Maal Al-Islami Trust (DMI) lodged an application to the central bank of the Monetary Union of West Africa which was composed of seven countries such as Benin, Gabon, Guinea, Ivory Coast, Mali, Niger, and Senegal. This led to the creation of several Islamic financial institutions; and many of those West African countries were members of the Organisation of Islamic Conference (OIC). In this sense, the establishment of Islamic banks would have aims as to accelerate West Africa region's economic growth and development, and to reduce the inequality and the poverty; in exchange, the region would provide the Islamic banking system a new growth area with a population of over 300 million people[57].

Up to this time Muslims in African countries took as model other religious grouping in the term of education, modern administration, and financial developments (Boahen, 1996). Hence, there were few studies on the subject of Islamic banking. Many bankers were trained in accordance with conventional banking system and they did not have enough skills and expertise in Islamic banking and its principles in order to understand the Islamic banking's contracts and operations.

Thus, Senegal, Nigeria and South Africa are three examples of nations which looked at the Islamic Finance to raise money for their development; even though, Islam is a minority religion in South Africa, whereas almost 50% of Nigeria's population are Muslims and 94% Senegalese are Muslims regarding to Wikipedia sources. Besides, the Islamic banking industry is prospering in Africa as even countries with small Muslim population began to offer Islamic banking services.

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[56] Shafiu Ibrahim Abdullahi (2013), *Islamic Banking In West African Sub-Region: A Survey*, Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 2, No.7, p.31.

[57] Shafiu Ibrahim Abdullahi (2013), *Islamic Banking In West African Sub-Region: A Survey*, Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 2, No.7, p.4.

Table 2: Trends of Islamic Finance Industry in some Major Countries in Africa

Country	No. Of Islamic banks / Islamic Financial Institutions	Laws Governing Islamic Finance Industry
Algeria	Two Islamic banks and conventional banks also offering Islamic financial solutions	No
Gambia	One Islamic bank	Yes
Guinea	Two Islamic banks and one investment firm	No
Kenya	Two Islamic banks	No
Mauritania	One Islamic bank	No
Mauritius	One Islamic bank and conventional banks also offering Islamic financial solutions	Yes
Niger	One Islamic bank	No
Nigeria	One Islamic bank	Yes
Senegal	One Islamic bank	No
South Africa	Two Islamic banks and conventional banks also offering Islamic financial solutions	No
Sudan	16 Islamic banks (the entire financial system in the country Islamized)	Yes
Tanzania	One Islamic bank and conventional banks also offering Islamic financial solutions	No
Tunisia	One Islamic bank	No

Source: Ahmad Alharbi (2015)

2.3.1. The Islamic Banking's Trend in Senegal

Senegal is a French spoken country where the majority of the population are Muslims. Thus, Senegal is like a hub for Islamic banking and its banking is one of the most competitive systems in Africa; although, there could be scope for its banking

systems to expand because of its steady economic growth and its large unbanked population according to the magazine International finance published in June 2013.

Senegal, with its central bank as BCEAO meaning Banque Centrale des Etats de l'Afrique de l'Ouest, is adjusting its policies in order to be able to sell debts that comply with *shariah* laws and trying to position itself as a centre for Islamic Finance in West Africa.

Banque Islamique du Senegal (BIS) is the biggest and unique Islamic bank in Senegal which was established in 1983 following a memorandum of understanding signed in October 1981 between the Prince Mohamed Fayçal Al Saoud, Chairman of the Banking Group DMI, and the President of Senegal; but, there are other Islamic financial institutions based on the report put out by Institut Numérique at June 2013. Nowadays, BIS has 28 branches in Senegal.

Then, in 2009, Tamweel Africa Holding (TAH) was established by a specialized institution of the IDB which is the Islamic Corporation for the Development of Private Sector (ICD). The aim of the holding's establishment was to buttress BIS and to ensure that its activities were in compliance with the *shariah* laws; and its mission was to make Islamic finance a factor of socio-economic development in Africa through a network of performing Islamic banks. Tamweel Africa Holding included four banks: BIS, Banque Islamique du Niger (BIN), Banque Islamique de Mauritanie (BIM), and Banque Islamique de Guinée (BIG) in accordance with BIS' website.

Furthermore, IDB and Saudi investors have been playing an essential role in the development of the Islamic banking system in Senegal by supporting the sector and putting capital and skill personnel into the sector[58].

2.3.2. The Islamic Banking's Trend in Nigeria

Nigeria is the most populated country in Africa with a population of about 170 million accounted for about half of West Africa's population.

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[58] Shafiu Ibrahim Abdullahi (2013), *Islamic Banking In West African Sub-Region: A Survey*, Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 2, No.7, p.38.

Literature exhibits that, since pre-colonial era, there had been elements of Islamic banking in Nigeria; mainly during the Sokoto caliphate. There was indication of money lending which was based on non-interest mechanism[59]. Hence, the Islamic banking is not a new concept in Nigeria; the first Nigerian Islamic bank was established in Lagos, the capital of Nigeria, in 1961 and it was named Muslim Bank West Africa Limited. Nevertheless, the bank lived shortly, and was closed in 1962 under the order of the ministry of finance (Dogarawa, n.d; & Orisankoko, 2010).

In 1992, an approval was given to Habib Bank to open a window of Islamic banking which is still operating. Actual Key Stone Bank also has been operating with an Islamic banking's window as well as some conventional banks have planned to do so as explained by the review Vanguard issued on July 2011. Indeed, it was in 2009, the first time that the governor of Central Bank Nigeria (CBN) proved its involvement with some provisions concerning the non-interest banking as sections 9, 23 and 52 which provided details for the establishment of Islamic banking in Nigeria. Consequently, in October 2010, the CBN had come together with other 11 Central Banks from Muslim countries and 2 multilateral organizations to install the International Islamic Liquidity Management Corporation (IILM) which is located in Kuala Lumpur, the capital city of Malaysia[60].

CBN has been continuing to work for the success of the Islamic banking in Nigeria and to make sure that it is in compliance with the international standards. In this sense, Jaiz Bank was created after the approval of the CBN, and it has been trying to raise the N25 billion capital base required as the first fully fledge Islamic bank of Nigeria. Then, the bank started its operations in January 2012. In 2016, Jaiz Bank upgraded a National operating license enabling it to operate in the all territory. Consequently, it increased its authorised Share Capital from N15 billion corresponding to USD $47.8 million to N25

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[59] Ahamad F. O., Umar A., Yusuf A. (2017), *Islamic Banking and Finance in Nigeria: Exploration of its Opportunities and Challenges*, International Journal of Innovative Knowledge Concepts, p.104.

[60] Ahamad F. O., Umar A., Yusuf A. (2017), *Islamic Banking and Finance in Nigeria: Exploration of its Opportunities and Challenges*, International Journal of Innovative Knowledge Concepts, p.104.

billion which is USD $79.6million according to Jaiz Bank' website. Besides, CBN has confirmed that it was on course of issuing its own Islamic bond at the years following 2013. Furthermore, there were a number of micro finance banks that had adopted the Islamic banking model in the selling of their services to their clients; mostly in the parts where Muslims were dominating.

Nevertheless, the instalment of the Islamic banking system in the country was a constraint and some segments of the population who was not Muslims were opposed to the initiatives due to the ignorance of the system. That could be a great challenge for the Islamic banking. In addition to that, Islamic banks in Nigeria were in a beginning stage; and it was facing a strong competition from well-established conventional banking; even though, some conventional banks have shown their interests; thus, by opening Islamic banking windows, the Islamic banking could extend and better improve in the long run[61].

2.3.3. The Islamic Banking's Trend in South Africa

Despite the fact that the Muslims represent 1.5% of the South African population; South Africa was the first Southern African country to make itself as a potential hub for *shariah* compliant banking in the region.

In 1989, Al-Baraka, which is a part of the Saudi Arabian Dallah Al Baraka group, and the Islamic Bank were the first Islamic banks granting licenses from the South African Reserve Bank. Later on, in 1998, Islamic Bank was liquidated due to some corporate governance issues.

Afterwards, in 2004, WesBank launched an Islamic window and became the WesBank Motor Vehicle and Asset Finance; then, WesBank was followed by First National Bank which opened an Islamic window operating in deposits and transactional banking. In 2005, Absa Bank also launched an Islamic window. However, there are

[61] Ahamad F. O., Umar A., Yusuf A. (2017), *Islamic Banking and Finance in Nigeria: Exploration of its Opportunities and Challenges*, International Journal of Innovative Knowledge Concepts, p.108.

other Islamic financial institutions; even if, Al Baraka is the only fully-fledged Islamic bank in the country and has 15 branches the head office included[62].

As the country seeks to diversify its debt Islamic finance, the Islamic banking is still at a nascent stage of development in South Africa. Besides, the demand for Islamic finance products is likely to increase in the coming years.

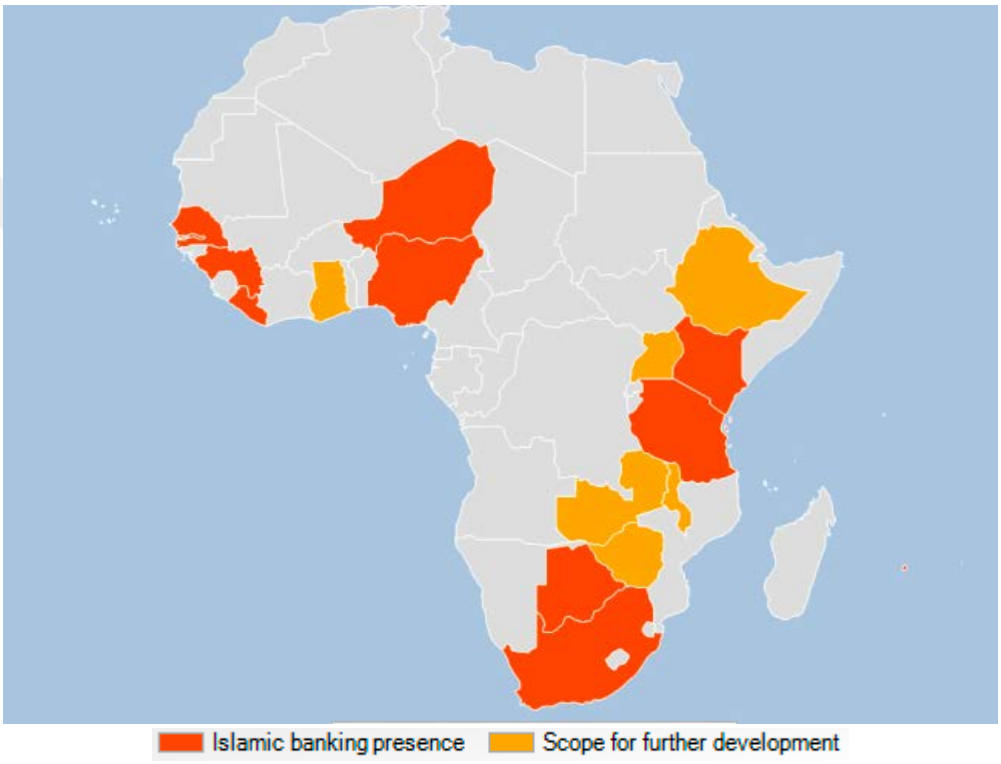

Figure 9: Islamic Banking Influence in Sub-Saharan Africa (Source: Enrique Gelbard, Mumtaz Hussain, Rodolfo Maino, Yibin Mu, and Etienne B. Yehoue, 2014)

[62] Enrique G., Mumtaz H., Rodolfo M., Yibin M., Etienne B. Y. (2014), *Islamic Finance in Sub-Saharan Africa: Status and Prospects*, International Monetary Fund, p.10.

3. DIFFERENCES BETWEEN COMMERCIAL AND ISLAMIC BANKS

Table 3: Basic Differences between Commercial and Islamic Banking System

Commercial Banking System	Islamic Banking System
Man made principles	*Shariah* principles
Interest based	Interest-free based (*riba*)
Predetermined fixed return on funds	Profit and loss sharing
Creditor and debtor' relationship with the clients	Partners, investor and trader, buyer and seller's relationships with the clients
Emphasis on credit-worthiness of the clients	Emphasis on the viability of the projects
Money as commodity	Money as means of exchange
Less ethical	More ethical
Don not deal with zakat	Zakat Collection
Guarantee all deposits	Guarantee deposits for deposit account based on *al-wadiah*'s principle
Pool together all the funds	Capital funds and investors' funds separated
Cash loans offered	Musharakah offered
All type of transactions allowed	Riba, hoarding, gambling, and unlawful goods and services related transactions not allowed
Client who does not pay an borrowed money within the loan's period, an additional amount is charged on the principal amount	Client who does not pay the amount borrowed, a penalty is charged which will be considered as a charity
Application of the rates KIBOR (Karachi Inter Bank Offer Rate) and LIBOR (London Interbank Offer Rate) as bench marking rate	Application of IBOR (Islamic Inter Bank Offer Rate) is started and soon it will be introduced in Pakistan as bench marking rate

Source: Rauf B., Istvan E. (2015), Alimshan Faizulayev (2011), Zahid I., Maria Q. (2017)

The Islamic banking system differs from the commercial banking system; the commercial banking is a debt based system, while the Islamic banking system is an asset based system and it enhances real transactions instead of debts.

Besides, even if the both systems aim at maximizing their profit; the commercial banking maximizes its profit without any restriction; whereas, the Islamic banking maximizes its profit within the *shariah* restrictions. Therefore, the above table illustrates the basic differences between the commercial banking system and the Islamic banking system.

4. BANKING SECTOR AFTER THE 2008 – 2012 FINANCIAL CRISIS

The 2008 - 2012 global financial crisis is considered as one of the biggest crises after the crisis of the year 1930. The first signs of the crisis appeared in the august of 2007; however, 2008 was the year of the real financial crisis. The global financial crisis has affected all countries developed as well as developing ones; even if the countries were not hit by the same degree. Also, it has negatively influenced all sectors including the banking industry, mostly the commercial banking system from where the crisis started from[63].

In those words, the countries, which were affected by the crisis, tried to recover by different manners. The financial sector mainly the banking industries adopted new measures for the purpose of avoiding bankruptcies. Moreover, banks chiefly commercial banks needed to operate at a higher level than before the crisis; whereas, Islamic banks have come to the fore front over the commercial banks.

In Africa, the African Union Commission and the chairman of Nouveau Partenariat pour le Développement de l'Afrique (NEPAD), meaning New Partnership for Africa's Development, collaborated with the Economic Commission for Africa in order to

[63] Albulena S., Besnik L., Vlora B. (2013), *The Current Global Financial Crisis 2008-2012*, Acta Universitatis Danubius Vol 9, no 6, p.106 – 107.

facilitate the debate on adequate policy responses. Hence, a conference of African ministers of finance was appointed in November 2008. Afterwards, a committee of the ten ministers of finance and central bank governors was settled to provide guidance on policy responses to the crisis[64].

In Turkey, the crisis did not affect so much the banking sector. Nevertheless, some regulations were undertaken.

4.1. AFTER CRISIS BANKING'S SITUATION IN SENEGAL

Senegal's financial sector is dominated by the banking sector. The global financial crisis reduced the economic activities notably the banks' performance while weakening their system and their financial depth.

Authorities had set up several initiatives through an updated and consolidated financial sector action plan which aimed at adopting measures for improving the institutional, operational, and legal environment of the banking sector as well as to develop protections against vulnerabilities of the banks mainly the commercial banks. Besides, as the crisis gets deeper and the international institutions and Western banks that had lent money to Senegal would need to reinforce their reserves, they could demand more debt repayments refering on the report of the Council for the Development of Social Science Research in Africa (CODESRIA) published in 2012.

In the opposite, the Islamic Bank in Senegal was less affected by the crisis due to its truancy from investing in toxic assets that were at the heart of the crisis.

4.2. AFTER CRISIS BANKING'S SITUATION IN NIGERIA

The global financial crisis had negative effects on Nigeria financial institution which caused a systematic unrest in the banking sector.

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[64] *Africa in the Wake of the Global Financial Crisis: Challenges Ahead and the Role of the Bank*, Policy Briefs on the Financial Crisis No. 1/January 2010, African Development Bank, p.10.

In this sense, the CBN's governor organized a convocation address, delivered at Bayero University Kano. The address was seen as a raison d'être for the Nigerian banking's situation. He mentioned that the Nigerian banking sector was going through a global financial crisis; additionally, bad lending decisions necessitated huge provisions that could rescue the capital of some banks. Thus, a financial bailout has been planned for stabilizing the system.

Afterwards, the CBN adopted the bailout prescription, similar to the US method; it proceeded by injecting NGN620 billion in a bailout operation on ten Nigerian troubled banks to protect them from illiquidity, to prevent them from collapsing, to stabilize the Nigerian banking system and to return confidence on the Nigerian financial market[65].

Furthermore, CBN adapted some new fluencies to permit the banking sector to recover and the affected Nigerian banks to restart their operations; to do so, the CBN had reduced the cash reserve requirement (CRR) from 4% to 2% and the liquidity ratio from 40% to 30%, had given directives to the banks to restructure their margin loans up to 2009 and had expanded lending facilities to banks up to 360 days[66].

Nevertheless, the Islamic Bank was not affected by the crisis as it started to operate in 2012 that coincided with the after the 2008 – 2012 financial crisis.

4.3. AFTER CRISIS BANKING'S SITUATION IN SOUTH AFRICA

Even if there is an exist situation of globalization leading the financial crisis which started from US to influence the other countries' banking sector; South African banking sector was not hit at the same degree and as deeply as the US and European's banking sectors. Besides, South African banks had a solid system and capital structure.

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[65] Edwin M. Egboro (2016), *The 2008/2009 Banking Crisis in Nigeria: The Hidden Trigger of the Financial Crash*, British Journal of Economics, Management & Trade 12(2): 1-16, 2016, Article no.BJEMT.23656, p.2&4.

[66] Prof. Chukwuma C. Soludo (2009), *Global Financial And Economic Crisis: How Vulnerable Is Nigeria?*, Central Bank of Nigeria, p.16.

However, South African banks had experienced some stress and a drop in their earnings.

In this sense, the South African Reserve Bank took immediate precautions by not letting their banks to get involved in toxic assets as others countries' banks were scrambling into. In order to get those assets, South African banks would required an exchange control approval, from the reserve bank, which would not be granted as the banks would not satisfy certain criteria.

Moreover, the South African Reserve Bank managed the financial crisis within the limits of its current constitutional mandate; it intervened by using moral suasion for the banks to get tighten to their lending criteria, improving banking regulation and supervision, and gradually lowering the repo rate.[67]

4.4. AFTER CRISIS BANKING'S SITUATION IN TURKEY

The Growth of the Turkish's banking industry was linked to important steps taken after the 2001 crisis. Policymakers strengthened the private banks' financial structure, restructured state banks and improved the country's regulatory and supervisory frameworks. Since that time, the Turkish banking sector had reached a much healthier and a strong position while reinforcing its capital structure and performing with an effective risk management[68].

Therefore, with the robust banking system prior to the financial crisis, Turkish policymakers thought that the global financial crisis would not further impact on the Turkish banking sector. Thus, there was not a need for direct support through loans, guarantees or capital injections into the banking sector.

Even though, in order to mitigate the effects of the crisis, as there is an exist globalisation, the central bank of Turkey reduced short-term interest rates, resumed its

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[67] Vishnu Padayachee*, Global economic recession: effects and implications for South Africa at a time of political challenges*, Claves de la Economia Mundial, p.7&13.

[68] Sübidey Togan (2010), *Managing the Crisis | Turkey Country Report*, Bertelsmann Stiftung (ed.), p11.

intermediary role in the foreign exchange deposit market until the uncertainty in international markets was dispelled, extended the maturity of foreign currency deposits borrowed, and lowered the lending rate. It undertook those strategies in order to support the needed liquidity in the banking system's foreign exchange.[69]

The Banking Regulation and Supervision Agency (BRSA) adopted measures for the purpose of preserving the Turkish banks' financial strength. Therefore, BRSA allowed banks to reclassify their securities by shifting from trading portfolios to investment portfolios. Furthermore, some initiatives were taken in the term of the credits for stemming the rise in the non-performing loans, especially loans granted to small and medium-sized enterprises (SMEs). [70]

5. CAMEL RANKING METHOD IN THE BANKING SYSTEM

5.1. DEFINITION OF THE CAMEL RANKING METHOD

The financial position dimension is a critical issue for the financial institutions notably the financial intermediaries. Thus, as banks are financial intermediaries, they need to know their financial strengths in order to come up with this critical issue and be able to operate efficiently and effectively in a constantly changing world. In this sense, banks frequently measure and evaluate their financial performance; additionally, banks need a uniform and conformed financial measurement which can enable them to compare each other their financial results. Therefore, the CAMEL method is an international rating system used generally in the banking system for measuring, evaluating and ranking the financial performance.

In fact, the CAMEL rating system was hailed from the U.S. and was created by the federal regulators for assessing uniformly financial institutions; then, on 13th November

[69] Sübidey Togan (2010), *Managing the Crisis | Turkey Country Report*, Bertelsmann Stiftung (ed.), p35 - 36.

[70] Sübidey Togan (2010), *Managing the Crisis | Turkey Country Report*, Bertelsmann Stiftung (ed.), p19.

1979, it was a method adopted by the Federal Financial Institution Examination Council as the Uniform Financial Institutions Rating System (UFIRS)[71]. CAMEL is an acronym composed of five dimensions which are the Capital adequacy, the Asset quality, the Management efficiency, the Earning quality, and the Liquidity. Those dimensions are called component factors. Later on, in 1997 Sensitivity to market risk, as a sixth component factor was added to the acronym CAMEL rating; and it became CAMELS which made the rating system more focused on the risk[72].

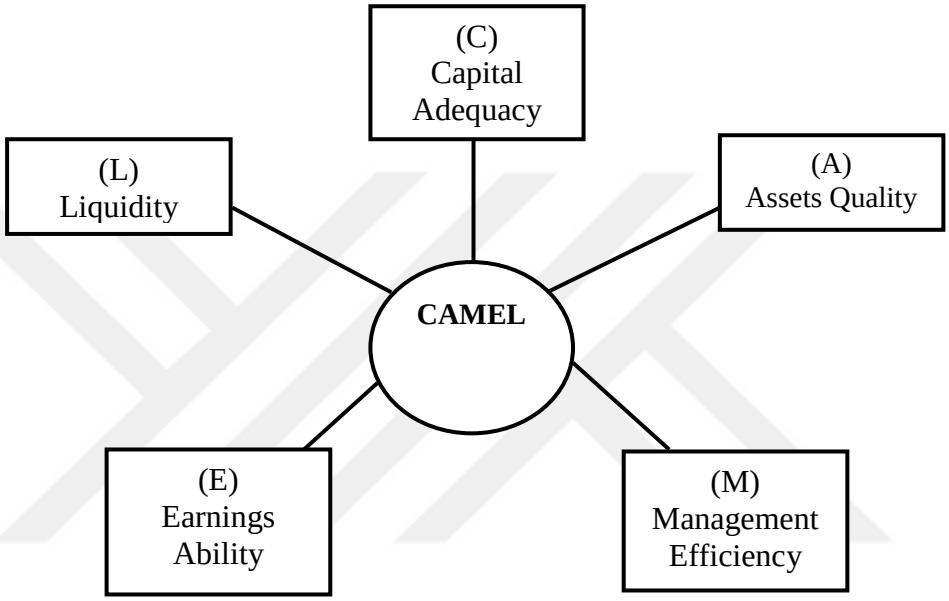

Figure 10: Component Factors of CAMEL (Source: Piyu, 1992)

Under CAMEL rating system, each bank can evaluate its operations and its financial performance on the basis of the five component factors whose data are derived from the bank's financial statements and related financial ratios are calculated accordingly. Each

[71] William F. Caton (1997), Federal Deposit Insurance Corporation, *Uniform Financial Institutions Rating System Report,* Federal Register / Vol. 62, No. 3.

[72] Malihe Rostami (2015), *CAMELS' Analysis in Banking Indutry*, Global Journal of Engineering Science and Research Management, p.11.

component factor is rated on a scale of 1 wich is the best to 5 that is the worst; also, a composite rating is assigned which reflects the bank's current financial situation.

Referring to the Federal Deposit Insurance Corporation (FDIC, 2015), the following table indicates the details of the CAMEL composite ratings range from 1 to 5: [73]

Table 4: CAMEL Composite Ratings Range Details

Range	Meaning
Composite 1	Institutions are normally sound in every respect
Composite 2	Institutions are sound, but may reflect modest weaknesses correctable in the normal course of business
Composite 3	Institutions present financial, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory
Composite 4	Institutions exhibit financial, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory
Composite 5	Institutions are extremely high immediate or near term probability of failure

5.1.1. Capital Adequacy

The capital adequacy component is an important factor which helps to understand a bank's financial health; that is, whether the bank is capable to watch over the necessary capital for the prevention from a bankruptcy.

The capital adequacy component reflects the overall financial conditions and shows the capacity of a bank to maintain its required capital in a risky situation like market shocks; and whether the bank will be able to cover up the gap in a case of unanticipated losses. Also, it acts as a boundary for financial managers to maintain the adequate capital level which leads to a more protection of depositors[74].

[73] Dr. Tesfatsion Sahlu Desta (2016), *Financial Performance of "the Best African Banks": a Comparative Analysis through CAMEL Rating*, Journal of Accounting and Management, Vol: 6; no: 1, p.5.

[74] Golam Mohiuddin (2014), *Use of CAMEL Model: A Study on Financial Performance of Selected Commercial Banks in Bangladesh*, Universal Journal of Accounting and Finance 2(5): 151-160, p.152.

5.1.2. Assets Quality

The financial soundness of a bank can be marked out by the quality of assets that the bank owns as assets are important prime resources for healthy ongoing bank's operations. A loss of value in the assets of a bank can affect the earning capacity and lead to a risk of solvency.

Therefore, the asset quality component is essential in a way that it can reflect the amplitude of credit risk of the bank due to its composition and the quality of loans, advances, off-balance sheet activities, and investments. It permits a bank to understand the amount of funds that have been reserved in a case of bad investments[75].

5.1.3. Management Efficiency

Management is important in every system particularly in the banking system. The management reflects the soundness of a bank. With a good quality of management, a bank can operate in a smooth atmosphere which can affect the bank's performance positively.

Thus, the management efficiency component is a significant parameter of the CAMEL model. It helps the managers to identify and monitor the risks associated to the management and it permits to control the overall costs of the bank and heightens the productivity that may lead to a profit's increase. Additionally, as the vision and the objectives are set, the management efficiency component factor can allow seeing whether the desired goals are reached efficiently; also, this parameter shows how the bank's resources are used in order to maximize the income[76].

5.1.4. Earnings Ability

Earning is one of the principal goals of every bank. Banks shall have the ability to gain profit from their daily operations, and avoid losses for a continuous performance;

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[75] *The CAMEL Model Explained*, Chapter-4, p. 160.

[76] Khaled A. Z., Ghassan D. (2017) , *Palestinian Banks Analysis Using CAMEL Model*, International Journal of Economics and Financial Issues ISSN: 2146-4138, p. 352.

they rely on the earnings for funding the dividends, preserving their adequate capital level, and maintaining their competitive level. However, the banks' earnings should be with a good quality term for sustainable gains. Hence, the earning ability component factor measures the financial performance and shows the capacity of a bank to carry out present and future operations. Besides, the earning ability enables a bank to monitor its productivity, its profitability, its earnings' sources, growth and sustainability.

Furthermore, the soundness in the earnings of a bank may attract the stakeholders, which is in favor of the bank. In this sense, the earning ability parameter can permit to notice the level, and constancy of the earnings, and the degree of exposure to the market risks[77].

5.1.5. Liquidity

The term liquidity in the banking system is the ability of the bank to meet its short-term obligations; the liquidity component factor measures that bank's ability. The bank necessitates good liquidity solvency for sound operations. Otherwise, if the bank faces a liquidity crisis, its current obligations might not be met; which is a critical event for the bank and its reputation. Therefore, liquidity is a crucial parameter for a bank's financial performance. The liquidity component factor enables banks to maintain the adequate level of liquidity to cover up their financial obligations and to satisfy the demands of the creditors and the depositors. Banks can acquire sufficient funds by increasing their liabilities or by converting their liquid assets into cash. However, the balance between the profitability and the liquidity should be overseen[78].

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[77] Mohammad Kamrul Ahsan (2016*), Measuring Financial Performance Based on CAMEL: A Study on Selected Islamic Banks in Bangladesh*, Asian Business Review Volume 6 Number 1(Issue 13), p.48.

[78] Khaled A. Z., Ghassan D. (2017) , *Palestinian Banks Analysis Using CAMEL Model*, International Journal of Economics and Financial Issues ISSN: 2146-4138, p. 352.

5.2. OBJECTIVES OF THE USE OF CAMEL RANKING METHOD IN THE BANKING SECTOR

The safety of the banking system is essential as the banking sector somehow participates to the economy developments of countries. Banks needs to monitor and rate their financial performance alongside their operations. For that purpose, banks resort to uniform and reliable financial measurements such as CAMEL ranking method. As its five alphabets indicate; CAMEL exhibits the financial attainments of banks on the basis of five important component factors. Those components factors which are the Capital adequacy, the Asset quality, the Management efficiency, the Earning quality, and the liquidity are all vital for the existence of banks. The banks' managers examine each of the components by allocating composite ratings from 1 to 5 that can give afterwards a final global rate of the bank. Therefore, managers as well as the board of directors of the banks have the possibility to see in details the strengths and the weaknesses of the bank, and consequently take the necessary corrective actions if needed in order to avoid the failure of the banks and to strengthen banks for continuous operations. CAMEL ranking method can be used for every type of banks commercial as Islamic. However, the results are kept within the bank and are not subject to be disclosed publicly[79].

Apart from evaluating the banks' safety and soundness, CAMEL method can assess banks overall quality management, ensure whether operations are in consistent with the banking laws and regulations as well as the banks policies, help to construe fundamental financial factors like the capital, the earning, the liquidity, also can identify the risks in advance.

Furthermore, CAMEL can afford the selection flexibility of the most convenient ratios for computing and analyzing each of the five parameters. The managers can

[79] Uyen Dang (2011), *The CAMEL Rating System in Banking Supervision a Case Study*, Arcada University of Applied Sciences International Business, p. 26-27.

choose the most adequate ratios that cope with the analysis reports for completing the financial performance measurement, and benchmark the results with the industry ones[80].

6. PERFORMANCE ANALYSIS OF AFRICAN COUNTRIES AND TURKISH'S BANKS

6.1. DATA AND METHODOLOGY

6.1.1. Objectives of the Study

This study is aimed to analyze and compare the financial performance of commercial and Islamic banks of African countries mainly in Senegal, Nigeria, South Africa and in Turkey between the years 2012 and 2014 that coincide with the after 2008 - 2012 financial crisis by using the CAMEL ranking method.

Senegal has a developing banking system and is my native country; whereas Nigeria and South Africa had in 2014 the highly developed banking institutions according to the magazine Global Finance. Hence, the combination of the best banks' financial performance's analysis of those three African countries could somehow give us a view on how the banking system is in Africa and how does it work; but also, it will show the financial performance's difference between the commercial and the Islamic banks in Africa.

Besides, the financial performance's analysis of the best Turkish banks could lighten out the strength of the Turkish banking system; as Turkey was not affected so much by the 2008 – 2012 financial crisis.

Moreover, we could have a financial performance's comparison of the African countries' banking system and the Turkish banking system and naturally know their strengths as well as their weaknesses.

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[80] Swati Goyal (2011), *CAMEL Model: a Tool to Measure Performance of Banks*, NIET Journal of Management, p. 23.

6.1.2. Data Collection

Data were gathered from each of the banks' balance sheet and the income statement of the years between 2012 and 2014.

First of all, a sample consisting of four best commercial banks and one Islamic bank was formed from each country. The reason behind, the fact that one Islamic bank is presented in the sample, is that there is only one leading Islamic bank in each of the African countries Senegal, Nigeria and South Africa according to the review Global Banking and Finance even if there are other Islamic financial Institutions. Therefore, for the purpose of a uniform study, one Islamic bank from each country remains in the sample's study; thus from Turkey side, the best Turkish Islamic bank was chosen depending on the ranking of the journal The Banker of the year 2013. Nevertheless, the ranking was based on the results of the year 2012.

Furthermore, the four first Senegalese commercial banks were selected from the classification, of the first twenty seven banks of the West African Economic and Monetary Union (WAEMU) zone, which was derived from the online magazine Financial Afrik. The banks were classified by the Central Bank of West African States (CBWAS) under the results of the year 2012. Then, according to the ratios' calculations related to each of the CAMEL component factors, the needed items were picked from the respective banks' financial statement and income statement.

The same procedure was performed with the other countries' banks although the Nigerian four biggest commercial banks were taken from the financial and economic magazine Ventures Africa. From the South Africa side, the four biggest commercial banks' selection was hailed from the top ranking of South African largest banks assessed by the newsletter Business Tech; however, the needed items in order to complete the ratios' calculations could not be found from one of the banks' annual reports. Hence, the South Africa commercial banking system was represented by three banks due to a lack of information. For Turkey, the four best Turkish commercial banks, by total assets, were sorted from the Banks Association of Turkey's article where the ranking was based on the results of the year 2012.

6.1.3. Methodology

CAMEL ranking method is a financial performance measurement composed of five component factors which are important dimensions for a continuous existence of a bank. Even though, the most recent acronym is CAMELS with a sixth component factor which represented the market risk, the study will be based CAMEL because of a missing information about the market risk of the countries.

For each of the CAMEL's five component factors, a ratio, that sound the most appropriated for the study of the banks' financial performance, was utilized and calculated. Therefore, the next table shows the ratios used for each of the CAMEL's component factors and their respective sources.

Table 5: Ratios of CAMEL's Component Factors

CAMEL Components	Ratios
Capital Adequacy	Equity to Total Assets
Assets Quality	Total Investment to Total Assets
Management Efficiency	Total Expenditure to Total Income
Earnings Ability	Return on Assets (ROA)
Liquidity	Cash to Deposit (CD)

Source: Merchant (2012), Shodganga

Besides, the results found from each of the component factors between the years 2012 - 2014 are assembled by bank in order to have a broader and a clear financial performance's analysis and to apprehend the financial situation of the banking systems too just after the 2008 – 2012 financial crisis. Then, the aggregate component factors are classified according to a composite ratings' range from 1 to 5. Those composite ratings' details are demonstrated as in the following table.

Table 6: Ratios Classification of CAMEL's Component Factors

CAMEL Components	Ratio Ranking				
	1	2	3	4	5
Capital Adequacy	> 11%	8 - 11%	4 - 8%	1 - 4%	< 1%
Asset Quality	< 1.5%	1.5 - 3.5%	3.5 - 7%	7 - 9.5%	> 9.5%
Management Efficiency	< 25%	26 - 30%	31 - 38%	39 - 45%	> 46%
Earnings Ability	> 1.5%	1.25 - 1.5%	1.01 - 1.25%	0.75 - 1.00%	< 0.75%
Liquidity	< 60%	60 - 65%	65 - 70%	70 - 80%	> 80%

Source: Majithiya and Pattani (2010), Sarwar and Asif (2011), Babar and Zeb (2011)

Afterwards, each of the aggregate component factors is rated according to a correspondent composite rating; that is, the component factors' composite ratings as seen in the table 6 above. Then, the averages of those ratings are calculated and consequently give a combined average rate for each of the banks. Later on, the combined average rate of each of the banks is ordered and analyzed based on the CAMEL's composite ratings. Thus, the table 7 below illustrates the range of the combined average rates and their respective CAMEL's composite ratings, but also it indicates their related interpretations.

For the purpose of a general view of the banking system of Africa and a general analysis of Africa's banking system financial performance, an aggregate table will represent the three African countries component factors. In this sense, the same process as explained above will be applied step by step. Then, from the results, the comparison between the financial performance of the Banking system of Africa and Turkey could be compared and consequently the banking systems' weaknesses and strengths.

Table 7: CAMEL's Composite rating

Rating	Rating Range	Rating Analysis	Interpretation
1	1.0 - 1.4	Strong	The bank is basically good in every aspect.
2	1.6 - 2.4	Satisfactory	The bank is primarily good, but has several identified weaknesses.
3	2.6 - 3.4	Fair with some categories to be watched	The bank has financial, operational, or compliance weaknesses that would give reasons for supervisory concern.
4	3.6 - 4.4	Marginal with some risk of failure	The bank has serious financial weaknesses that could damage future capability to ensure normal growth and development.
5	4.6 - 5.0	Unsatisfactory with a high degree of failure	The bank has critical financial weaknesses that will give a probability of failure to be extremely high in the near future.

Source: AAA (1996) and Sarker (2006)

6.2. FINANCIAL PERFORMANCE ANALYSIS OF SENEGALESE COMMERCIAL AND ISLAMIC BANKS

According to the methodology elucidated previously, the financial performance between the years 2012 – 2014 of Senegalese best four commercial banks and the existing Islamic bank is analyzed, interpreted and compared. The Senegalese four best commercial banks are respectively named as: Société Générale de Banques au Sénégal (SGBS), Compagnie Bancaire de l'Afrique Occidentale (CBAO), Ecobank, and Banque Internationale pour le Commerce et l'Industrie du Sénégal (BICIS) which is Türk Ekonomi Bankası (TEB) bank in Turkey. The Senegalese Islamic bank's name is Banque Islamique du Senegal (BIS).

Besides, the tables 8, 9, and 10 below shows respectively the banks' performance of the years 2012, 2013, and 2014 for each of the CAMEL's component factors. Then, the aggregate table which is the table 11 recaps those performances; that is, it represents the average of the years 2012, 2013, 2014 for each of the ratios of the CAMEL's component factors. The ratios are calculated accordingly and the values are as placed in the table 9 which will permit a global analysis of the each Senegalese bank's financial performance.

Table 8: Senegal Banks' Ratios for the Year 2012

CAMEL Components	Ratios	2012 (%)				
		Commercial Banks				Islamic Bank
		SGBS	CBAO	Ecobank	BICIS	BIS
Capital Adequacy	Equity / T. A	11.22	11.84	4.51	8.07	13.04
Asset Quality	Total Investment/ T.A.	5.34	20.03	13.06	14.70	1.13
Management Efficiency	Total Expenditure/ T.I.	111.71	95.39	113.03	95.98	84.01
Earnings Ability	ROA	0.34	1.42	0.57	1.18	2.77
Liquidity	CD	14.30	12.62	36.29	22.51	79.50

Table 9: Senegalese Banks' Ratios for the Year 2013

CAMEL Components	Ratios	2013 (%)				
		Commercial Banks				Islamic Bank
		SGBS	CBAO	Ecobank	BICIS	BIS
Capital Adequacy	Equity / T. A	11.68	10.98	5.87	8.04	16.22
Asset Quality	Total Investment/ T.A.	4.20	18.02	16.25	11.91	0.92
Management Efficiency	Total Expenditure/ T.I.	106.64	92.05	99.96	92.62	95.89
Earnings Ability	ROA	0.66	1.52	1.23	1.37	1.46
Liquidity	CD	12.58	14.61	35.58	22	59.16

Table 10: Senegalese Banks' Ratios for the Year 2014

CAMEL Components	Ratios	2014 (%)				
		Commercial Banks				Islamic Bank
		SGBS	CBAO	Ecobank	BICIS	BIS
Capital Adequacy	Equity/ T. A	5.44	9.46	5.44	7.53	14.72
Asset Quality	Total Investment/ T.A.	12.67	17.36	16.82	14.29	7.21
Management Efficiency	Total Expenditure/ T.I.	111	109.80	100.72	91.37	84.45
Earnings Ability	ROA	0	0.10	1.28	1.41	1.90
Liquidity	CD	15.27	11.71	28.97	21.04	52.86

Table 11: Aggregate Senegalese Banks' Ratio between the Years 2012-2014

CAMEL Components	Ratios	Aggregate Senegal banks for 2012 – 2014 (%)				
		Commercial Banks				Islamic Bank
		SGBS	CBAO	Ecobank	BICIS	BIS
Capital Adequacy	Equity/ T. A	9.45 [2]	10.76 [2]	5.27 [3]	7.88 [3]	14.66 [1]
Asset Quality	Total Investment/ T.A.	7.40 [4]	18.47 [5]	15.38 [5]	13.63 [5]	3.09 [2]
Management Efficiency	Total Expenditure/ T.I.	109.78 [5]	99.08 [5]	104.57 [5]	93.32 [5]	88.11 [5]
Earnings Ability	ROA	0.33 [5]	1.02 [3]	1.03 [3]	1.32 [2]	2.04 [1]
Liquidity	CD	14.05 [1]	12.98 [1]	33.61 [1]	21.85 [1]	63.84 [2]
Combined Average Rate (Σr/n)		3.4	3.2	3.4	3.2	2.4
Composite Rating		3	3	3	3	2
Rating Analysis		Fair	Fair	Fair	Fair	Satisfactory

6.2.1. Financial Ratio Results' Analysis of Senegalese Banks between the Years 2012 and 2014

In the table 11 above, each of the ratios' results is subject to a composite rating in accordance with the table 6. Then, for each of the banks, the average of its composite ratings is calculated; and it basically gives the combined average rate of the five banks which are evaluated based on the CAMEL's composite ratings as denoted in the table 7.

Therefore, the Senegalese's commercial banks indicates a rate of 3 meaning that they have fair performance and their financial, operational, or compliance weaknesses should be monitored; whereas the Islamic bank has 2 as its rate denoting that the Islamic bank is primarily good but may reflect modest weaknesses correctable in the normal course of the business.

Indeed, even if the Senegalese commercial banks (SGBS, CBAO, Ecobank, BICIS) have the same rate 3 over the years 2012, 2013, and 2014; they have different performances for each of the CAMEL's component factors and for each year as well as the Islamic bank BIS.

First of all, the capital adequacy of the five Senegalese banks differed from year to year.

SGBS bank, with a capital adequacy level of 9.45 % in average, is satisfactory according to the tables 6 and 7 although its capital adequacy level had a harsh decrease of 53% in 2014 in comparison with the previous years where the level was around 11% which is a strong capital adequacy position. CBAO bank, also had a capital adequacy level of 11.84% in 2012; but it reduced and attended 9.46% in 2014 with an average level of 10.76% which is satisfactory. The same scenario happened with BICIS bank; the capital adequacy level decreased from 8.07% in 2012 to 7.53% in 2014 with an average capital level of 7.88% that is fair. Ecobank also has a fair average level of capital adequacy of 5.27% over the three years; the capital adequacy first jumped from 4.51% in 2012 to 5.87% in 2013 then dropped slightly to 5.44% in 2014. From BIS bank side, the capital adequacy level during the three years has a strong position with a value of 14.66%; this level rose from 13.04% in 2012 to 16.22% in 2013 then decreased in 2014 to 14.72%.

The asset quality parameter varied from bank to bank and from year to year.

SGBS has an average asset quality of 7.40% which coincides with a rate of 4 refering to the table 6; that is, the bank is under performed in consideration of the asset quality's field. The percentage value of asset quality has decreased then increased hardly from 4.20% in 2013 to 12.67% in 2014. CBAO has an asset quality percentage value that fell from 20.03% in 2012 to 17.36% in 2014 with an average of 18.47% which is considered as unsatisfactory. Ecobank as well as BICIS are also unsatisfactory with their asset quality parameter; they respectively have an average value of 15.38% and 13.63%. Ecobank' asset quality value increased sharply from 13.06% in 2012 to 16.25% in 2013 and 16.82% in 2014. Whereas, BICIS asset quality value decreased from 14.70% in 2012 to 11.91% in 2013 and reached again 14.29% in 2014. The asset quality average value of BIS is 3.09% which is satisfactory; the value first diminished in 2013 from 1.13% to 0.92% then grew to 7.27% in 2014.

The management efficiency component value changed throughout the years; nevertheless, the all five Senegalese banks commercial (SGBS, CBAO, Ecobank, BICIS) as Islamic (BIS) are viewed as unsatisfactory in the efficiency of their management. Their respective average values of management efficiency parameter are: 109.78%, 99.08%, 104.57%, 93.32%, 88.11%.

SGBS management efficiency level first decreased from 111.71% to 106.64% then returned back in 2014 to the year 2012 level with a value of 111%. The same thing occurred in Ecobank and CBAO. Ecobank had a level of management efficiency of around 111%; then it diminished and augmented to 100.72%. CBAO had a level of 95.39% in 2012; in 2013, the percentage level lessened to 92.05% and increased the following year to 109.80%. BICIS had initially a management efficient level of 95.98% then it dropped to 91.37%. BIS management efficiency level first increased from 84.01% in 2012 to 95.89% in 2013 which reverted to around 84% in 2014.

The earning ability parameter altered from year to year and the banks had dissimilar abilities to earn.

SGBS average earning ability is around 0.33 regarding to the table 11 which is unsatisfactory. During 2012, 2013, 2014 years, the earning ability value first increased from 0.34 to 0.66 then lowered till 0. At the same time, CBAO average earning ability

was 1.02 that is fair; the value was initially 1.42 then increased and decreased from 1.52 to 0.10 in 2014. Ecobank earning ability redoubled from 0.57 in 2012 to 1.28 in 2014 with an average of 1.03 which is satisfactory. BICIS average earning ability also is satisfactory and the value has increased from 1.18 to 1.41. On the contrary, BIS earning ability decreased from 2.77 in 2012 to 1.90 in 2014 but with a strong average earning ability of 2.04.

The liquidity parameter of the banks differed over the three year; but all the five Senegalese banks (SGBS, CBAO, Ecobank, BICIS, and BIS) have almost a strong liquidity position. Their average liquidity positions are respectively: 14.50%, 12.98%, 33.61%, 21.85%, and 63.84% which is satisfactory because of the 2012 liquidity performance that was underperformed with a liquidity position value of 79.50%. Then, the value decreased to 52.86% in 2014.

SGBS liquidity parameter value first minimized from 14.30% to 12.58% then increased in 2014 to 15.27%. CBAO had a liquidity position of 12.62% then the value rose and decreased to 11.71% in 2014. Ecobank liquidity parameter value reduced from 36.29% to 28.97%; as well as BICIS, it had a position of 22.51% then the value decreased to 21.04%.

6.2.2. Interpretation and Comparison of Senegalese Commercial and Islamic Banks

All in all, by having a look at the capital adequacy side which was assessed from the ratio equity to total assets, SGBS and CBAO had a satisfactory rate, Ecobank and BICIS had a fair rate; whereas, BIS had a strong rate. That is, the Islamic bank was less risky than the commercial banks and was more able to face an unexpected financial problem related to credit risk or market risk. Even if SGBS stood out from the crowd in 2012 and in 2013, its performance dropped down in 2014. Besides, the depositors' interests were more subject to be protected in the Islamic bank.

From the asset quality side which was calculated by total investment to total assets, CBAO, Ecobank, BICIS had an unsatisfactory rate, and SGBS had an underperformed rate. On the other hand, BIS had a satisfactory rate; that is, the Islamic bank was more an aggressive bank and preferred the advances to the customers which are against

investments that might not form a part of the core income of the bank. In opposite to commercial banks, had kept a high cover of investment for the non-performing assets.

The management efficiency was evaluated by the ratio total expenditure to total income. Every bank should control its expenditure as it is an essential aspect to enhance the profits; and it gives investors a clear view of how efficiently the bank is managed. All the five banks, commercials as Islamic had an unsatisfactory management efficiency. Thus, over the three years, the costs of the banks have been rising at a higher rate than the income. Nevertheless, by looking at their ratios, the Islamic bank had a bigger potential of reducing its costs as its average costs to income was lowered than the commercial banks' one.

The Earning ability of the banks was measured by the Net profit to total asset. SGBS had an unsatisfactory average earning ability and its value fell to 0% due to its net losses in 2014. CBAO had a fair earning ability which was strong in 2013 then dropped down in 2014. Ecobank and BICIS had a satisfactory average earning ability while BIS was having a strong average earning ability. The Islamic bank was more efficient in utilizing its assets to generate profits and had a better signal of management's efficiency for the coming years.

The banks' liquidity was tested by the ratio cash to deposit. SGBS, CBAO, Ecobank, BICIS had a strong average liquidity position when BIS had in average a satisfactory liquidity position due to its underperformance in 2012. The amount of cash that the commercial banks generated from their deposits was more important than the amount generated in the Islamic bank side. However, banks have to maintain a sound cash to deposit ratio in order to ensure that a large volume of cash is not retained; as idle cash does not generate any returns and will consequently affect the earnings ability of the banks.

To sum up, Senegal's Islamic bank, in comparison with the four best commercial banks, was less risky in term of capital adequacy during the years 2012 – 2014 and had an aggressive system; though SGBS had a capital adequacy problem only in the year 2014 affecting its earning ability as well as CBAO had a problem with its return on assets too. Besides, the Islamic bank was more able to use its assets to generate its

earning than the commercial banks; even though, the amount of cash generated by the commercial banks from their deposits was more than the amount generated by the Islamic bank. Nevertheless, all the five banks' management efficiency was unsatisfactory. Their costs were more important comparing to their income.

According to the tables 11 and 7 and in compliance with the CAMEL rating model, Senegal commercial banking system was fair and had financial, managerial deficiencies that had to be straightened whereas the Islamic banking system sounded good although the efficiency of their management had to be reinforced. Thus, Senegalese Islamic bank had a better financial performance than the commercial banks over the three years. The strong point was that the Senegalese Islamic bank had a better and straight level of capital adequacy over the three years; besides, it used more effectively its assets in order to get its proper returns rather than the Senegalese commercial banks which were liquid but not profitable and constant in their financial performance. Furthermore, while looking at their overall financial performance over the three year, Senegalese commercial banks were much more underperformed in the 2014 which affected their average financial results as Senegal banks should have consistency in their performance for a sustainable financial growth and a developped banking system.

As a matter of fact, in accordance with the online magazine Press Afrik, SGBS had a net loss of 36. 4 billion CFA Francs. The loss was in part due to the bank's efforts to comply with the Central Bank new guidelines. Over three years, SGBS has been showing poor results, said Yann de Nanteuil the administrative head in a press conference; he added that the poor results were because of the WAEMU Banking Commission's audits, between the years 2012 – 2014, that required provisions for doubtful credits. For the managers of the bank, the high amount of doubtful credits explained their financial problems and promised a better financial performance in the year 2015 when Senegal would be marked by a strong growth and demands for business investment.

In addition, BICIS, after changing its general manager, had some managerial problems that affected its performance; at the same time, its branch network declined in 2012, from 66 to 41 agencies, while its workforce declined from 557 to 499 employees at the end of 2014. This was reported by the review Jeune Afrique.

The similar situation happened with the group Ecobank. The replacement of the general manager in 2012 caused some troubles within the group. The former manager left his post a few months before the scheduled date. Thus, the new manager was confronted with the most serious governance crisis known in Ecobank that somehow affected the management of Ecobank Senegal over three years.

6.3. FINANCIAL PERFORMANCE ANALYSIS OF NIGERIAN COMMERCIAL AND ISLAMIC BANKS

Refering to the methodology explained before, the financial performance of Nigerian four biggest commercial banks and the leading Islamic bank is analyzed, interpreted and compared. The Nigerian four biggest commercial banks are respectively: Zenith Bank, Guaranty Trust Bank (GTB), First Bank Nigeria (FBN), and Access Bank Nigeria; the Nigerian Islamic bank is Jaiz Bank.

Besides, the following tables 12, 13, and 14 are respectively showing the financial performance of Nigerian banks for the years 2012, 2013, and 2014 for each of the CAMEL's parameters. Then, the table 15 outlines those performances; that is, the aggregate table and it summarizes the average performance of the years 2012 - 2014 for each of the CAMEL's component factors.

Table 12: Nigerian Banks' Ratios for the Year 2012

CAMEL Components	Ratios	2012 (%)				
		Commercial Banks				Islamic Bank
		Zenith Bank	GTB	FBN	Access Bank Nigeria	Jaiz Bank
Capital Adequacy	Equity / T. A	17.97	17.68	13.43	15.68	71.57
Asset Quality	Total Investment/ T.A.	11.56	11.35	24.32	31.64	3.35
Management Efficiency	Total Expenditure/ T.I.	86.57	63.89	88.41	119.10	910.65
Earnings Ability	ROA	3.93	5.26	2.57	2.36	-5.16
Liquidity	CD	2.10	2.21	2.16	8.15	15.34

Table 13: Nigerian Banks' Ratios for the Year 2013

CAMEL Components	Ratios	2013 (%)				
		Commercial Banks				Islamic Bank
		Zenith Bank	GTB	FBN	Access Bank Nigeria	Jaiz Bank
Capital Adequacy	Equity / T. A	16.42	17.31	10.80	14.39	32.33
Asset Quality	Total Investment/ T.A.	8.23	7.98	21.45	21.86	13.63
Management Efficiency	Total Expenditure/ T.I.	89.44	69.24	102.49	137.64	252.41
Earnings Ability	ROA	2.90	4.49	1.83	1.54	-2.19
Liquidity	CD	1.85	1.95	1.51	8.58	10.78

Table 14: Nigeria Banks' Ratios for the Year 2014

CAMEL Components	Ratios	2014 (%)				
		Commercial Banks				Islamic Bank
		Zenith Bank	GTB	FBN	Access Bank Nigeria	Jaiz Bank
Capital Adequacy	Equity / T. A	14.97	16.92	12.12	13.83	25.27
Asset Quality	Total Investment/ T.A.	3.68	17.04	17.30	13.43	27.22
Management Efficiency	Total Expenditure/ T.I.	96.93	70.74	107.15	118.74	95.63
Earnings Ability	ROA	2.70	4.19	2.27	2.02	1.56
Liquidity	CD	2.82	1.73	1.73	2.74	12.36

Table 15: Aggregate Nigerian Banks' Ratio between the Years 2012-2014

CAMEL Components	Ratios	Aggregate Nigerian Banks for 2012 – 2014 (%)				
		Commercial Banks				Islamic Bank
		Zenith Bank	GTB	FNB	Access Bank Nigeria	Jaiz Bank
Capital Adequacy	Equity / T. A	16.46 [1]	17.31[1]	12.12[1]	14.63[1]	43.06[1]
Asset Quality	Total Investment/ T.A.	7.82 [4]	12.12 [5]	21.02 [5]	22.31 [5]	14.73 [5]
Management Efficiency	Total Expenditure/ T.I.	90.98 [5]	67.96 [5]	99.35 [5]	125.16 [5]	419.56 [5]
Earnings Ability	ROA	3.18[1]	4.65[1]	2.22[1]	1.97[1]	-1.93 [5]
Liquidity	CD	2.26[1]	1.96[1]	1.80[1]	6.49[1]	12.83[1]
Combined Average Rate (Σr/n)		2.4	2.6	2.6	2.6	3.4
Composite Rating		2	3	3	3	3
Rating Analysis		Satisfactory	Fair	Fair	Fair	Fair

6.3.1. Financial Ratio Results' Analysis of Nigerian Banks between the Years 2012 and 2014

In the table 15 on top, each of the component factors' ratio are hailed from the ratios' average of years 2012, 2013, 2014. Then each of the average ratios is rated related to its corresponding composite rating as showed in the table 6. From there, the combined average rate of each of the banks is found then rated accordingly and in conformity with the table 7.

In fact, each of the Nigerian banks has different performance differing from year to year and from each of the CAMEL component factors.

From the capital adequacy side, all the five Nigerian banks have in average a rate of 1; that is, their capital adequacy level is strong even though there are some fluctuations that are not so significant over the three years excepting Jaiz bank' case where the capital of adequacy level dropped by 64.66% from 2012 to 2014.

With the asset quality dimension, Zenith Bank had in average a value of 7.82% which was underperformed. The value evolved from 11.56% in 2012 to 3.68% in 2014. GTB average asset quality is unsatisfactory as well as other banks (FNB, Access Bank and Jaiz Bank). Even thought, GTB asset quality was underperformed in 2013 with a value of 7.98%, this value fell again to unsatisfactory with a value of 17.04%. FNB asset quality value decreased from 24.32% in 2012 to 17.30% in 2014, Access Bank value lowered too from 31.64% to 13.43% in 2014; whereas Jaiz Bank asset quality value which was satisfactory in 2012, turned to be unsatisfactory with a percentage increase of 87.62%.

The management efficiency was unsatisfactory for all the five Nigerian banks. Their respective averages management efficiency were: 90.98%, 67.96%, 99.35%, 125.16%, 419.56%. Zenith Bank management efficiency percentage increased by 10.68% in 2014. In the same way, GTB management efficiency ratio percentage grew by 9.63%; FBN value rose by 20.29%. Access Bank management efficiency percentage first increased by 13.47% then decreased by 13.73%. From Jaiz Bank side, the management efficiency percentage lessened by 89.50%.

The earning ability parameter was strong in average for Zenith Bank, GTB, FNB, and Access Bank; while Jaiz Bank was having an unsatisfactory average earning ability. Zenith Bank earning ability decreased by 31.30% from 3.93% in 2012 to 2.70% in 2014; as well as the earning ability of GTB, FBN, and Access Bank diminished respectively by 20.22%, 11.67%, and 14.41%. Jaiz Bank earning ability in 2014, comparing to the previous years which were unsatisfactory with negative values, became strong with a value of 1.56%.

The liquidity position of all the five Nigerian banks was strong while looking at their average rates. Nevertheless, those rates were not statics over the three years. Zenith Bank liquidity position first decreased from 2.10% in 2012 to 1.85% in 2013 then increased to 2.82% in 2014. GTB liquidity lowered from 2.21% in 2012 to 1.73% in 2014. The same case occurred with FBN, Access Bank and Jaiz Bank. FBN liquidity position fell from 2.16% in 2012 to 1.73% in 2014, Access Bank liquidity position dropped from 8.15% in 2012 to 2.74% in 2014, Jaiz Bank liquidity reduced from 15.34% to 12.36% in 2014.

6.3.2. Interpretation and Comparison of Nigerian Commercial and Islamic Banks

The capital adequacy helps banks to understand the shock attractive capability during risky time**.** By looking at the capital adequacy level which was found from the ratio equity to total assets, Nigerian commercial and Islamic banks were comparatively at a good level over the years 2012 – 2014. That is, all the five Nigerian banks had a capital adequacy level that could enable them to face any financial problem. Nevertheless, the capital adequacy of Jaiz Bank, which is the Islamic bank, diminished by 64.66% in 2014.

With the asset quality that was calculated from the ratio total investment to total assets, all the four Nigerian banks had an unsatisfactory rate over the three years excepting one commercial bank (Zenith Bank) which had an underperformed rate. In fact, Zenith Bank asset quality was unsatisfactory in 2012; then it evolved to a fair rate in 2014. Besides, Jaiz bank had a satisfactory rate in 2012 that turned to be unsatisfactory at the following years. In this sense, among the Nigerian banks, Zenith Bank was an aggressive bank and preferred more and more granting advances to customers instead of investing; while Jaiz Bank preferred less and less granting loans and was keeping a high cover of investment to safeguard for non-performing assets as well as the other Nigerian commercial banks.

From the management efficiency that was evaluated with the ratio total expenditure to total income, all the five Nigerian banks had an unsatisfactory rate. That is, their costs were rising at a higher rate than their income. Even though, Jaiz Bank total cost to total income had decreased in 2014 by 89.50%.

The earning ability came from the return on assets ratio. Nigerian commercial banks had a strong earning ability; whereas, the Islamic bank had an unsatisfactory earning ability. Moreover, its earning abilities were negative in 2012 and in 2013 due to its net losses that occurred at those years. Thus, Nigerian commercial banks are more able to get returns from their assets rather the Islamic bank which had a better performance in 2014 with a strong rate.

The liquidity parameter hailed from the ratio cash to deposit. As cash is the most liquid asset; it gives the liquidity's picture of a bank. All the five Nigerian banks got a

strong rate for their liquidity position over the three years. That is, Nigerian banks held an important amount of cash from their deposits that they had generated.

To recap between the years 2012 – 2014, the Nigerian banks commercial as Islamic had the capability to face any financial risk with a strong level of capital adequacy. Even though, the Islamic bank had an important drop in its level of capital adequacy; that is a decrease in its capacity to face a financial risk. Besides, the Nigerian banks preferred investing in order to safeguard against the non-performing assets; they did not have an aggressive system. But, Zenith Bank, which is the largest Nigerian commercial bank, became more aggressive and started to invest less in 2014 comparing to the previous years; that is, it was granting loans that could generate more profit and spark more risk at the same time. In contrary, Jaiz Bank was more an aggressive in 2012; and then chose to invest for the risk of non-performing assets the following years. Furthermore, the Nigerian commercial banks were able to gain from their assets; whereas, the Nigerian Islamic bank was not able to get returns from its assets with net losses in years 2012 and 2013 which attained its capital adequacy level. Moreover, Nigerian banks were liquid and generated cash from their deposits; although, the amount of cash generated and held by the Islamic bank was much more important and could either affect its earning ability as cash is an idle asset or could have the possibility to grant more loans. Nevertheless, Nigerian bank had low management efficiency, their costs has been rising at a higher rate than their income; despite the fact that Jaiz bank decreased its rate by 89.50% in 2014 while the commercial banks' rate increased.

In concordance with the tables 15 and 7, amongst Nigerian commercial banks, Zenith Bank only was a satisfactory bank which interfered that Zenith Bank was a good bank but had to improve its management efficiency. On the other hand, the other Nigerian commercial banks were fair banks and had to revise their asset quality and their management efficiency. As well as the Islamic bank was a fair bank and had to redress its financial, managerial and operational dimensions. Therefore, based on the CAMEL ranking method, Nigerian commercial banks performed better than the Islamic bank between the years 2012 – 2014.

Actually, according to Jaiz Bank's website, the Islamic bank obtained a regional operating license from the Central Bank of Nigeria on the 11th of November 2011 and

began to operate as the first Non-Interest Bank in Nigeria in 2012 with 3 branches. Then, their branches spread from 3 branches in 2012 to 30 branches. In this sense, between the years 2012 – 2014, Jaiz Bank was a starting bank and built new branches that necessitated high costs. Therefore, its financial performance was somehow unsettled.

Additionally, refering to the analysis of Cordros which is a Nigerian financial services company, Zenith Bank operating expenses became higher with charges being recognised in the year 2013. Also staff expenses increased as the bank carried out promotions and salary reviews; those costs increases could be seen into the change of the ratio cost-to-income influencing the management efficiency.

6.4. FINANCIAL PERFORMANCE ANALYSIS OF SOUTH AFRICAN COMMERCIAL AND ISLAMIC BANKS

Based on the method of our model, the financial performance of South African three biggest commercial banks and the sole Islamic bank will be analyzed, interpreted and compared between the years 2012 – 2014.

The South African three biggest commercial banks are respectively named as Standard Bank, Absa Bank and Nedbank. The South African Islamic bank is named as Al-Baraka Bank.

Moreover, the following tables 16, 17, 18 represent each of the CAMEL component factors' financial performance of South African banks commercial and Islamic respectively for the years 2012, 2013 and 2014.

Then, the table 19 is the aggregate table which regroups the average of CAMEL component factors' ratios results as well as its related composite ratings and ratings analysis between the years 2012 – 2014.

Table 16: South African Banks' Ratios for the Year 2012

CAMEL Components	Ratios	2012 (%)			
		Commercial Banks			Islamic Bank
		Standard Bank	Absa	Nedbank	Al-Baraka
Capital Adequacy	Equity / T. A	7.14	7.91	8.40	9.72
Asset Quality	Total Investment/ T.A.	7.91	9.15	2.56	0.85
Management Efficiency	Total Expenditure/ T.I.	139.18	145.80	138.91	160.21
Earnings Ability	ROA	1.19	0.97	1.14	0.94
Liquidity	CD	1.49	1.57	0.96	0.09

Table 17: South African Banks' Ratios for the Year 2013

CAMEL Components	Ratios	2013 (%)			
		Commercial Banks			Islamic Bank
		Standard Bank	Absa	Nedbank	Al-Baraka
Capital Adequacy	Equity / T. A	7.71	7.22	8.58	8.43
Asset Quality	Total Investment/ T.A.	7.32	8.61	2.76	0.57
Management Efficiency	Total Expenditure/ T.I.	135.84	137.29	131.94	172.95
Earnings Ability	ROA	1.02	1.10	1.19	0.46
Liquidity	CD	1.27	1.56	0.97	0.14

Table 18: South African Banks' Ratios for the Year 2014

CAMEL Components	Ratios	2014 (%)			
		Commercial Banks			Islamic Bank
		Standard Bank	Absa	Nedbank	Al-Baraka
Capital Adequacy	Equity / T. A	7.21	7.24	7.43	11.40
Asset Quality	Total Investment/ T.A.	8.95	8.81	0.47	0.72
Management Efficiency	Total Expenditure/ T.I.	139.51	139.14	146.17	158.47
Earnings Ability	ROA	1.06	1.14	1.07	0.76
Liquidity	CD	1.61	1.52	1.01	0.27

Table 19: Aggregate South African Banks' Ratio between the Years 2012-2014

CAMEL Components	Ratios	Aggregate South African Banks for 2012 – 2014 (%)			
		Commercial Banks			Islamic Bank
		Standard Bank	Absa	Nedbank	Al-Baraka
Capital Adequacy	Equity / T. A	7.36[3]	7.46[3]	8.14[2]	9.85[2]
Asset Quality	Total Investment/ T.A.	8.06[4]	8.85[4]	1.93[2]	0.71[1]
Management Efficiency	Total Expenditure/ T.I.	138.18[5]	140.74[5]	139.01[5]	163.88[5]
Earnings Ability	ROA	1.09[3]	1.07[3]	1.13[3]	0.72[5]
Liquidity	CD	1.46[1]	1.55[1]	0.98[1]	0.17[1]
Combined Average Rate (Σr/n)		3.2	3.2	2.6	2.8
Composite Rating		3	3	3	3
Rating Analysis		Fair	Fair	Fair	Fair

6.4.1. Financial Ratio Results' Analysis of South African Banks between the Years 2012 and 2014

The table 19 covers CAMEL component factors' ratios results of the three South African commercial bank and the Islamic bank over three years as well as their related composite ratings and analysis.

The first component factor, which is the capital adequacy, had changed between the years 2012 - 2014 from bank to bank.

Standard Bank capital adequacy level was almost constant over the three years with an average of 7.36% which was fair. Absa Bank average capital adequacy level was fair too; and the level was reduced by 8.47% from 7.91% in 2012 to 7.24% in 2014. Also, Nedbank capital adequacy level decreased by 10.95% in 2014 with an average capital adequacy level of 8.14% which was satisfactory. Whereas, Al-Baraka Bank capital adequacy level increased by 14.74% from 9.72 in 2012 to 11.40% in 2014 which was satisfactory in average.

The second CAMEL parameter is the asset quality.

Standard Bank had, over the three years, an asset quality of 8.06% which was underperformed; the value rose by 11.62% in 2014. Absa Bank had an underperformed average asset quality of 8.85% too; the value lowered by 3.72% in 2014. Nedbank asset quality diminished too from 2.56% in 2012 to 0.47% in 2014 with an average asset quality of 1.93% that was satisfactory. Al-Baraka Bank had a strong asset quality of 0.71%.

The third CAMEL dimension, which is the management efficiency, was unsatisfactory for the four South African banks. Standard Bank management efficiency first decreased slightly then increased in 2014 with a value of 139.51% almost as the same as the year 2012's value. Absa Bank management efficiency level dropped by 4.57% in 2014. In contrary, Nedbank's level increased by 4.97% in 2014. Al-Baraka Bank management efficiency increased from 160.21% in 2012 to 172.95% in 2013 and decreased by 8.37% in 2014.

The fourth CAMEL component factor, which is the earning ability, was in average fair for Standard Bank, Absa Bank, Nedbank; and it was unsatisfactory for Al-Baraka Bank.

Standard Bank earning ability first diminished by 14.29% then increased slightly in 2014 from 1.02% to 1.06%. Absa Bank earning ability jumped by 14.91% from 0.97% in 2012 which was underperformed to 1.14% in 2014. Contrariwise, Nedbank earning ability diminished by 6.14% in 2014. Also, Al-Baraka Bank earning ability decreased by 19.15% from 0.94% in 2012 to 0.76% in 2014.

The last CAMEL parameter, which is liquidity, was strong for all the four South African banks.

Standard bank liquidity percentage first decreased then increased from 1.27% in 2012 to 1.61% in 2014. Absa Bank liquidity percentage decreased a bit from 1.57% in 2012 to 1.52% in 2014. Nedbank liquidity percentage increased slightly from 0.96% in 2012 to 1.01% in 2014; as well as Al-Baraka Bank its liquidity rose by 66.67%.

6.4.2. Interpretation and Comparison of South African Commercial and Islamic Banks

The capital adequacy of the South African banks was measured with the help of the ratio equity to total assets. Among the South African commercial banks, Nedbank had a satisfactory level of capital adequacy over the three years; even if its capital adequacy was fair in 2014. The other two South African commercial banks had a fair capital adequacy level. The Islamic bank had a satisfactory level of capital adequacy too, over the years, which was strong in 2014. That is, only one of the South African commercial banks and the Islamic bank were more able to meet any financial unexpected risk like the credit risk, the market risk, the foreign exchange (FX) risk.

The asset quality was assessed by the ratio total investment to total assets. By looking at the asset quality over the three years of South African commercial banks, Nedbank had a satisfactory rate which was strong in 2014; whereas the other two South African commercial banks had an underperformed rate. On the other hand, the South African Islamic bank had a constant strong rate. Those results meant that over the three years, among the South African commercial banks, Nedbank was more an aggressive

bank and preferred providing advances to the customers in order to get more profits as well as the Islamic bank. The other two South African commercial banks had locked up in investments to safeguard against non-performing assets.

The management efficiency of South African banks was evaluated by the ratio total expenditure to total income. Between the years 2012 – 2014, all the four South African banks had an unsatisfactory performance. That is, in average their costs were rising at a higher rate than their income. Nevertheless, the Islamic bank costs to income reduced in 2014 by 8.37% in 2104 as well as Absa Bank.

The earning ability was analyzed from the return on assets ratio. Over the three years, South African commercial banks had a fair earning ability rate while South African Islamic bank was having an unsatisfactory rate; though its rate was underperformed in 2012. Therefore, South African commercial banks were more able to use efficiently their assets in generating profits rather than the Islamic bank which earning ability diminished by 19.15%.

The liquidity of South African banks was calculated from the ratio cash to deposit. Then, it was found that all the Four South African banks had a strong liquidity. That is, the South African banks commercials as Islamic held an amount of cash that hailed from their deposits that they had generated.

Based on the tables 19 and 7 and the CAMEL ranking method, all the four South African banks had a fair financial performance between the years 2012 - 2014. That is, South African banks commercials as Islamic had financial and operational weaknesses that had to be monitored in order to better perform the following years. In fact, the banks were liquid but their assets were not utilized in a sufficient way for getting good returns; even if the commercial banks were fair in their ROA performance. Besides, the banks were risky banks as their capital adequacies, enabling them to face a financial risk if any, were satisfactory only for one of the commercial banks which was Nedbank and the Islamic bank; the other commercial banks had a fair capital adequacy level. In addition, South African banks were investing for a purpose of safeguarding against non-performing assets rather than granting more loans which the Islamic bank and Nedbank preferred to do. Moreover, the banks did not manage well their balances between their

expenses and their income affecting their management efficiency that could influence their earnings. Therefore, although all the four South African banks had a fair financial performance over the three years, Nedbank then the Islamic bank fairly performed better than the other two commercial banks.

In actual fact, from Wikipedia's source, the fair financial performance of Standard Bank as the largest commercial bank of South Africa, between the years 2012 – 2014, could be explained by what the bank has gone through; since 2007 until the mid of 2011, Standard Bank had failed to comply its policies regarding with the anti-money laundering (AML). The bank did not take enough responsibilities to ensure that all aspects of the AML procedures and policies were applied properly to its corporate clients linked to politically exposed persons (PEPs) as they were risky customers. In addition to that, the Financial Conduct Authority (FCA) fined the bank in 2014 for that reason at the amount of £7,640,400.

Furthermore, based on the South Africa 2014 report of Oxford Business Group, at the years 2012 - 2013, South African banks were operating under unsecured lending. Therefore, by 2013, the National Credit Regulator applied regulation for unsecured lending. Despite that new regulation, the unsecured lending had increased.

6.5. OVERALL FINANCIAL PERFORMANCE ANALYSIS OF AFRICAN COMMERCIAL AND ISLAMIC BANKS

The table 20 below represents the average financial results of the Senegalese, Nigerian, South African banks commercial as Islamic. It is an aggregate table that recaps the financial performance of Senegalese, Nigerian, South African commercial and Islamic banks between the years 2012 – 2014.

The averages of the combined average rates from the respective tables 11, 15 and 19 of Senegalese commercial banks as well Nigerian and South African were calculated for each of CAMEL component factors. Then, those averages of each of the three African banking sectors (commercial and Islamic) formed the overall Africa commercial and Islamic banking financial performance for each of the CAMEL component factors between the years 2012 – 2014. Afterwards, the ratings were given accordingly in order

to analyze, interpret and compare the financial performance of African commercial and Islamic banking system.

Table 20: Aggregate African Banks between the Years 2012-2014

CAMEL Components	Ratios	Aggregate African Banks for 2012 – 2014 (%)							
		Senegalese banks		Nigerian banks		South African banks		Africa Overall Banks	
		Commercial	Islamic	Commercial	Islamic	Commercial	Islamic	Commercial	Islamic
Capital Adequacy	Equity/T. A	8.34 [2]	14.66 [1]	15.13 [1]	43.06 [1]	7.65 [3]	9.85 [2]	**10.37 [2]**	**22.52 [1]**
Asset Quality	Total Investment/ T.A.	13.72 [5]	3.09 [2]	15.82 [5]	14.73 [5]	6.28 [3]	0.71 [1]	**11.94 [5]**	**6.18 [3]**
Management Efficiency	Total Expenditure/T.I.	101.69 [5]	88.11 [5]	95.86 [5]	419.56 [5]	139.31 [5]	163.88 [5]	**112.29 [5]**	**223.85 [5]**
Earnings Ability	ROA	0.93 [4]	2.04 [1]	3.01 [1]	-1.93 [5]	1.1 [3]	0.72 [5]	**1.68 [1]**	**0.28 [5]**
Liquidity	CD	20.62 [1]	63.84 [2]	3.13 [1]	12.83 [1]	1.33 [1]	0.17 [1]	**8.36 [1]**	**25.61 [1]**
Combined Average Rate (Σr/n)		3.4	2.4	2.6	3,4	3	2.8	**2.8**	**3**
Composite Rating		3	2	3	3	3	3	**3**	**3**
Rating Analysis		Fair	Satisfactory	Fair	Fair	Fair	Fair	**Fair**	**Fair**

Over the three years, the capital adequacy of African commercial banks was strong in Nigeria and respectively satisfactory and fair in Senegal and South Africa. Whereas, the African Islamic banks capital adequacy was at a strong level apart from the Islamic bank of South Africa which was satisfactory. That is, the Islamic banks in Africa, between the years 2012 – 2014, were more able to face financial risks rather than the commercial banks.

The asset quality parameter was generally unsatisfactory for the African commercial banks; only South Africa commercial banks had a fair asset quality. In the contrary, African Islamic banks had in general a fair asset quality which was strong in South

Africa, satisfactory in Senegal, but unsatisfactory in Nigeria. Those results could reflect that the Islamic banks in Africa had an aggressive system; they preferred more to grant loans which the profits could be higher but the risk too mostly in the case of doubtful loans. Whereas, the commercial banks have kept a cover of investments to protect against the non-performing assets.

The management efficiency was unsatisfactory for all the African banks. That is, the costs incurred in the African banks were increasing at a higher rate than the income. Although, the African commercial banks percentage cost was lower than the African Islamic bank's percentage cost in the case of Nigeria and South Africa; and the percentage cost was higher for commercial banks in Senegal.

The earning ability was strong for the African commercial banks precisely in Nigeria; but it was respectively fair and underperformed in South Africa and Senegal. The earning ability was unsatisfactory for the African Islamic banks particularly in Nigeria and in South Africa but strong in Senegal. Thus, African commercial banks were more able to use their assets in order to get their returns in comparison to the Islamic banks.

The liquidity parameter was strong for all the African banks commercial as Islamic. That is, African banks were liquid as they had cash which was hailed from the deposits that they had generated.

Nevertheless, as cash is an idle asset and does not generate any returns, banks have to maintain sound cash in order to not endanger the banks' earnings.

All in all, between the years 2012 – 2014, the African commercial and Islamic banking systems were fair in their financial performance; that is, the banks were just on average and had financial, operational and mainly managerial weaknesses that had to be supervised and straightened in the term of their cost according to their income. Also, from the commercial banking side, banks had kept a cover of investments for their non-performing assets hailed from their risky loans. From the Islamic banking side, banks were not so much able to get satisfactory returns from their assets.

6.6. FINANCIAL PERFORMANCE ANALYSIS OF TURKISH'S COMMERCIAL AND ISLAMIC BANKS

In conformity with our methodology, the financial performance of Turkish commercial and Islamic banks, between the years 2012 – 2014, will be analyzed, interpreted and compared. The Turkish commercial banks, ranked by total assets, are respectively: Türkiye İş Bankası, (Türkiye Cumhuriyeti) TC Ziraat Bankası, Turkiye Garanti Bankası and Akbank. The Turkish Islamic bank is: Turkiye Finans.

The tables 21, 22, and 23 show respectively the CAMEL components ratios' results respectively for the years 2012, 2013, and 2014; then, the table 24 which is the aggregate table contains the average of those results with their corresponding composite ratings and ratings analysis.

Table 21: Turkish Banks' Ratio for the Years 2012

CAMEL Components	Ratios	2012 (%)				
		Commercial Banks				Islamic Bank
		İş Bankası	Ziraat Bankası	Garanti Bankası	Akbank	Turkiye Finans
Capital Adequacy	Equity / T. A	10.72	8.82	10.39	11.61	10.04
Asset Quality	Total Investment/ T.A.	2.28	7.51	6.29	0.002	0
Management Efficiency	Total Expenditure/ T.I.	125.61	123.21	125.63	118.23	127.83
Earnings Ability	ROA	1.49	1.54	1.54	1.60	1.31
Liquidity	CD	1.80	1.24	1.40	1.45	0.99

Table 22: Turkish Banks' Ratio for the Years 2013

CAMEL Components	Ratios	2013 (%)				
		Commercial Banks				Islamic Bank
		İş Bankası	Ziraat Bankası	Garanti Bankası	Akbank	Turkiye Finans
Capital Adequacy	Equity/ T. A	11.50	11.31	11.88	12.22	9.42
Asset Quality	Total Investment/ T.A.	2.54	4.09	11.11	0.002	0.02
Management Efficiency	Total Expenditure/ T.I.	134.81	138.67	139.88	136	150.67
Earnings Ability	ROA	1.35	1.62	1.68	1.54	1
Liquidity	CD	1.88	1.20	1.40	1.29	1.11

Table 23: Turkish Banks' Ratio for the Years 2014

CAMEL Components	Ratios	2014 (%)				
		Commercial Banks				Islamic Bank
		İş Bankası	Ziraat Bankası	Garanti Bankası	Akbank	Turkiye Finans
Capital Adequacy	Equity / T. A	12.36	10.55	12.04	14.06	12.06
Asset Quality	Total Investment/ T.A.	2.77	16.60	0.85	0.003	0.02
Management Efficiency	Total Expenditure/ T.I.	129.09	148.22	136.96	133.36	128.66
Earnings Ability	ROA	1.85	1.67	1.87	1.89	1.61
Liquidity	CD	1.59	1.22	1.29	1.62	0.89

Table 24: Aggregate Turkish Banks' Ratio between the Years 2012-2014

CAMEL Components	Ratios	Aggregate Turkish Banks for 2012 – 2014 (%)				
		Commercial Banks				Islamic Bank
		İş Bankası	Ziraat Bankası	Garanti Bankası	Akbank	Turkiye Finans
Capital Adequacy	Equity/T. A	11.53 [1]	10.23 [2]	11.44 [1]	12.63 [1]	10.51 [2]
Asset Quality	Total Investment/ T.A.	2.53 [2]	9.40 [4]	6.08[3]	0.002 [1]	0.01 [1]
Management Efficiency	Total Expenditure/ T.I.	129.84 [5]	136.70[5]	134.15[5]	129.20[5]	135.72[5]
Earnings Ability	ROA	1.56 [1]	1.61 [1]	1.70 [1]	1.68 [1]	1.31 [2]
Liquidity	CD	1.75 [1]	1.22[1]	1.36[1]	1.46[1]	1.[1]
Combined Average Rate (Σr/n)		2	2.6	2.2	1.8	2.2
Composite Rating		2	3	2	2	2
Rating Analysis		Satisfactory	Fair	Satisfactory	Satisfactory	Satisfactory

6.6.1. Financial Ratio Results' Analysis of Turkish Banks between the Years 2012 and 2014

In the table 24 on the top, the performances of Turkish commercial and Islamic banks for each of the CAMEL component factors over the three years are assembled.

Thus, the capital adequacy level of the Turkish banks was strong over the three years apart from Ziraat Bankası and Turkiye finans which had a satisfactory capital adequacy level. Ziraat Bankası capital adequacy first increased by 22.02% from 8.82% in 2012 to 11.31% in 2013 which was strong; then decreased to 10.53% in 2014. Turkiye Finans capital adequacy level rose by 16.75% from 10.04% in 2012, which was satisfactory, to 12.06% in 2014. İş Bankası also had a satisfactory capital adequacy of 10.72% in 2012, and then the level rose by 13.26% in 2014; as well as Garanti Bankası capital adequacy was 10.32% and it grew by 13.70% in 2014. Akbank had a constantly strong capital adequacy with an increase of 17.43% in 2014.

The asset quality parameter varied from bank to bank. İş Bankası had an asset quality which was satisfactory in average with a slight increase from 2.28% in 2012 to 2.77% in

2014. Ziraat Bankası had in average an underperformed asset quality; the value first lowered and then redoubled by 75.36% from 4.09%, which was fair, in 2013 to 16.60%, which was unsatisfactory, in 2014. In opposite to Garanti Bankası, the asset quality increased and then reduced by 92% from 11.11% in 2013 to 0.85% in 2014 with a fair asset quality in average. Akbank and Turkiye Finans asset qualities were strong in average with bit increases from year to year.

The management efficiency of all the Turkish banks was unsatisfactory in average. The management efficiency of İş Bankası, Garanti Bankası, Akbank, and Turkiye Finans firstly rose in 2013 and then diminished respectively in 2014 by 4.24%, 6.44%, 2.08%, 1.94%, and 14.60%. Whereas, Ziraat Bankası, management efficiency rose by 16.87% in 2014 without any decrease over the three years.

The earning ability of all the Turkish banks was strong in average excepting Turkiye Finans which was satisfactory. Turkiye Finans had a satisfactory earning ability in 2012; then, the earning ability rose by 18.63% and became strong in 2014. As well as İş Bankası earning ability was satisfactory in 2012; then it increased by 19.46% and reached strong in 2014. Earning ability of Ziraat Bankası, Garanti Bankası, and Akbank increased slightly in 2014 respectively by: 7.78%, 17.65%, and 15.34%.

The liquidity was strong in average for all the Turkish banks (İş Bankası, Ziraat Bankası, Garanti Bankası, Akbank and Turkiye Finans). Their respective liquidity averages were: 1.75%, 1.22%, 1.36%, 1.46%, and 1%.

6.6.2. Interpretation and Comparison of Turkish Commercial and Islamic Banks

The capital adequacy of Turkish banks was measured with the ratio equity to total assets. Among Turkish commercial banks, which had a strong capital adequacy over the three years, Ziraat Bankası had a satisfactory capital adequacy as well as the Islamic bank. That is, apart from Ziraat Bankası which capital adequacy decreased by 10.53% in 2014, the other Turkish commercial banks are more able to meet any financial unexpected situations than the Turkish Islamic bank regarding to the fact that its capital adequacy level was just strong in 2014 and satisfactory the previous years.

The asset quality of Turkish commercial banks was respectively strong, satisfactory, fair, and underperformed for Akbank, İş Bankası, Garanti Bankası, and Ziraat Bankası. The Islamic bank asset quality was strong as Akbank. Hence, the Turkish Islamic bank and Akbank, as one of the Turkish commercial banks, were more aggressive. The other Turkish commercial banks chiefly Ziraat Bankası banks were investing in order to reduce and safeguard from non-performing loans.

The management efficiency of the Turkish banks was found from the ratio total expenditure to total income. All the Turkish banks had unsatisfactory management efficiency in average. Even though apart from Ziraat, all the other Turkish Banks cost to total income reduced in 2014.

The earning ability of Turkish banks was assessed by the return on assets ratio. The Turkish commercial banks had a strong return on assets; whereas the Turkish Islamic bank had a satisfactory return on assets. Therefore, the Turkish commercial banks were using more efficiently their assets in order to generate profits rather than the Turkish Islamic bank over the three years.

The liquidity of Turkish banks was calculated from the ratio cash to deposit. All of the Turkish banks had a strong liquidity; thus, Turkish banks were liquid and they held a volume of cash that they had from the deposits that they had generated.

In total, according to the tables: 24, 7 and CAMEL ranking method, between the years 2012 – 2014, all Turkish banks had a satisfactory financial performance excepting Ziraat Bankası which had a fair financial performance. In this sense, Turkish banks commercial as Islamic, apart from Ziraat Bankası, were primarily goods; but the banks had to better perform their costs' management; even if in 2014 their costs to their total income had lowered. Besides, the Islamic bank had to work a bit on its return on assets performance which affected its capital adequacy level in 2012 and 2013. Ziraat Bankası had operational and managerial weaknesses, over the three years, which had to be rectified.

6.7. PERFORMANCE'S COMPARISON OF AFRICAN COUNTRIES BANKING AND TURKISH BANKING SYSTEMS

In accordance with the methodology elucidated before, the financial performance of African commercial and Islamic banks and Turkish commercial and Islamic banks between the years 2012 – 2014 will be compared.

The table 25 below shows the average financial performance of the Turkish banks commercial as Islamic and the African banks commercial as Islamic for each of the CAMEL component factors over the three years. Also, the composite ratings are allocated for each of the result of the CAMEL component factors' ratio.

Table 25: Performance Comparison of Africa and Turkey between the Years 2012-2014

CAMEL Components	Ratios	Turkey vs Africa for 2012 – 2014 (%)			
		Turkey		Africa	
		Commercial	Islamic	Commercial	Islamic
Capital Adequacy	Equity/T. A	11.46 [1]	10.51 [2]	10.37 [2]	22.52 [1]
Asset Quality	Total Investment/ T.A.	4.5 [3]	0.01 [1]	11.94 [5]	6.18 [3]
Management Efficiency	Total Expenditure/T.I.	132.47 [5]	135.72 [5]	112.29 [5]	223.85 [5]
Earnings Ability	ROA	1.64 [1]	1.31 [2]	1.68 [1]	0.28 [5]
Liquidity	CD	1.45 [1]	1.00 [1]	8.36 [1]	25.61 [1]
Combined Average Rate (Σr/n)		2,4	2,2	2.8	3
Composite Rating		2	2	3	3
Rating Analysis		Satisfactory	Satisfactory	Fair	Fair

The capital adequacy was evaluated with the formula equity to total assets. It was found that Turkish commercial banks had a strong capital adequacy level as well as African Islamic banks; whereas Turkish Islamic bank and African commercial banks

had a satisfactory capital adequacy. That is, between the years 2012 – 2014, the Turkish commercial banking was more able, than the African commercial banking, to face any financial unexpected problem such as market risk, credit risk. In the opposite, the Turkish Islamic banking, in comparison to the African' one was less able to face an unexpected financial trouble.

The asset quality was assessed from the ratio total investment to total assets. Turkish commercial banks and African Islamic banks had a fair rate of asset quality. Turkish Islamic bank had a strong rate; and African commercial banks had an unsatisfactory asset quality. This meant that, the Turkish commercial banking was investing in order to protect from the non-performing assets; but also, loans were granted to its customers too. On the other hand, the African commercial banking invested more to safeguard against non-performing assets; the non-performing assets were higher the Turkish' ones. The same scenario, as the Turkish commercial banking, happened with the African Islamic banking; whereas, the Turkish Islamic banking had a more aggressive system and was more in granting loans to its customers that could generate more profits.

The management efficiency was tested with the ratio total expenditure to total income. Turkish banks as well as African banks had unsatisfactory management efficiency. This inferred that Turkish and African banking system had costs which were growing at a higher rate than their income.

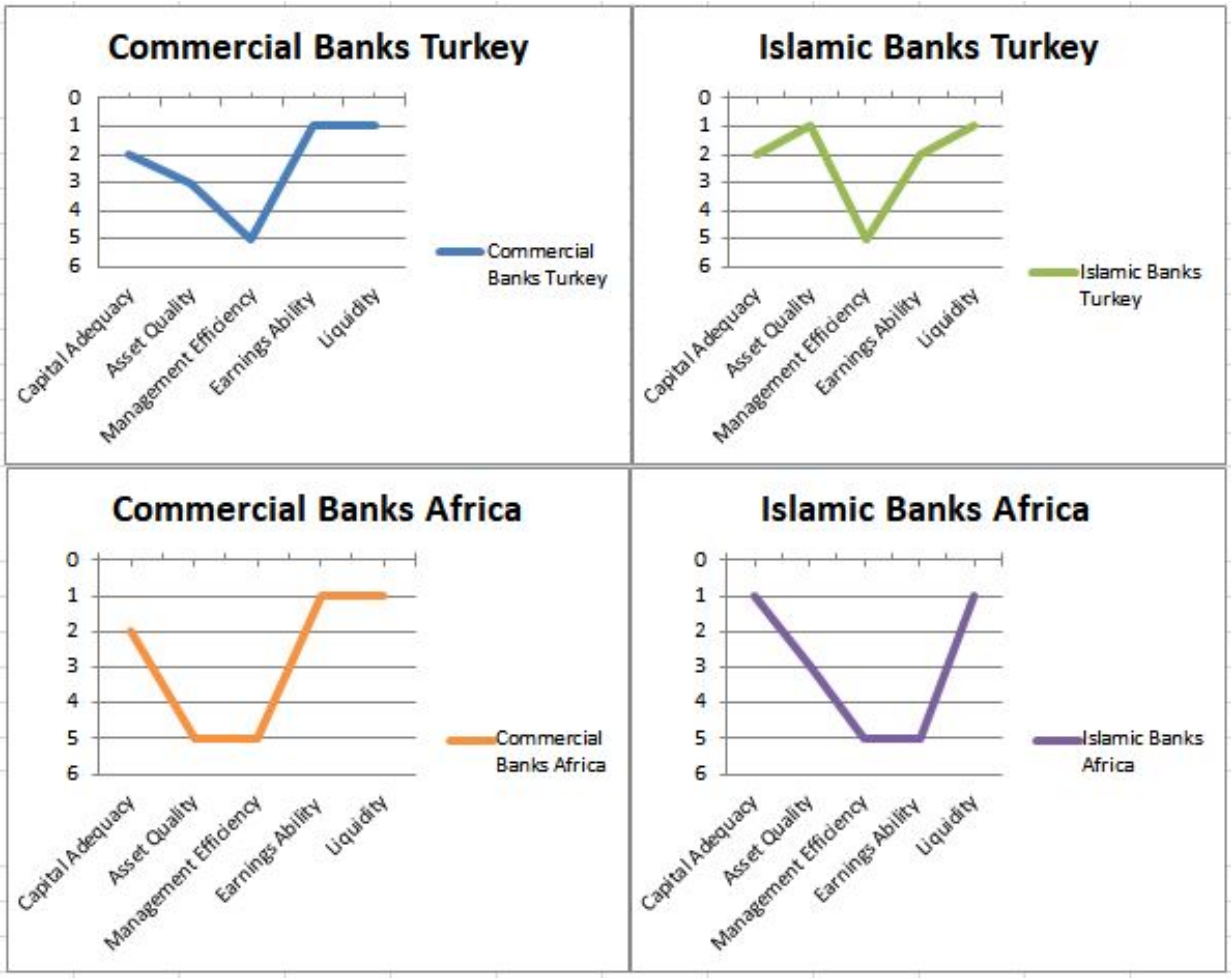
The earning ability was measured by the return on assets ratio. Both Turkish and African commercial banks had a strong earning ability. Turkish Islamic bank had a satisfactory earning ability; while, African Islamic banks were having unsatisfactory earning ability. That is why, both of the two Turkish banking systems and the African commercial banking had more the possibility to get their returns from their assets rather than the African Islamic banking.

The Liquidity was calculated with the formula cash to deposit. Turkish banks as well as African banks had a strong liquidity. Thus, both the Turkish banking and African banking were liquid and has held an amount of cash generated from their depositors.

To recapitulate, over the three years that coincided with the after 2008 – 2012 financial crisis, Turkish banking had a satisfactory financial performance. So, the

Turkish commercial and Islamic banking sounded good; even though, their costs' management had to be monitored and took into account the following years. On the other hand, African banking had a fair financial performance. Thus, African banking had to review their costs' management too; furthermore, some weaknesses had to be solved. African commercial banking had to better manage the balance between investments, non-performing assets and loans granted. The credit evaluation ability and the credit processes had to be improved for the purpose of a rapid and a less risky loans' allocation and correct analysis. Besides, African Islamic banking had to work on their return on assets which affected their earning abilities. Commercial banking had a more risky system than the Islamic banking In Africa. The Turkish Commercial and Islamic banking had almost the same financial performance; but, had a better financial performance than the Africa commercial and Islamic banking.

The figure 11 shows the financial performance curves of Turkish commercial and Islamic banking and African commercial and Islamic banking under CAMEL ranking method between the years 2012 – 2014; additionally, the data was based on the CAMEL components' composite rating mentioned in the table 25.



Legend: Y-axis, composite ratings / X-axis, CAMEL component factors

Figure 11: Turkey and Africa CAMEL Financial Performance Curves

7. CONCLUSION

The 2008 – 2012 financial crisis was a global trouble which affects the banking sector of numerous countries; starting from the US, the financial crisis spread to other continents notably Africa. Nevertheless, all countries were not hit at the same degree; and all countries did not respond to the crisis at the same manner. In this sense, the banking system of African countries differed in term of financial performance from the banking system of Turkey, which was among the countries which was almost not affected, after 2008 – 2012 financial crisis. In addition to that, the commercial banking, which was the most affected system in comparison to the Islamic banking, had to operate at a higher level than before the financial crisis in order to recover and to avoid a sudden collapse.

Therefore, with the CAMEL ranking method, which is a reliable international performance's measurement used in the banking industry, the financial performance of Turkish commercial and Islamic banking and the financial performance of African commercial and Islamic banking between the years 2012 – 2014, which coincide with after global financial crisis, was analyzed and compared.

Therefore, it was found that the banks did not have similar financial performance over those three years. While looking from the African banking systems' side, African commercial and Islamic banking systems were fair in their financial performance; that is, the banks were just on average and had financial, operational and managerial weaknesses that had to be straightened. In term of their cost according to their income, the balance should be rectified; their costs were increasing at a higher rate than their income. Besides, the Islamic banking got quite satisfactory returns from their assets excepted BIS. It could be explained by the fact that Islamic bank had few sources of investing their assets due to the *shariah* restrictions. For The African commercial banking, banks had kept a cover of investments for their non-performing assets hailed from their risky loans and bad lending procedure. Their capital adequacy level needed to be revised as well as their credit evaluation and processes had to be improved.

The Turkish Commercial and Islamic banking had almost the same financial performance. Turkish banks commercial as Islamic were primarily goods; but they had

to better perform their costs' management; even if in 2014 their costs to their total income had lowered. Besides, the Islamic bank had to work a bit on its return on assets performance which affected its capital adequacy level in 2012 and 2013.

All in all, the banking systems Turkish as African had a cost management problem between the years 2012 – 2014; even if, the Turkish banking system showed more evidences to manage it more efficiently the following years. Besides, Turkish commercial and Islamic banking operated at almost the same level of financial performance.

Furthermore, the Turkish Banking system had a better financial performance than the African banking system. It can be explained by the fact that some African commercial banks were facing some problems due to their high non-performing loans and the lack of a good management and a supervisory of their loans. That is why, the capital structure, the policies and procedures related to the operations and the management of the African commercial banks had to be reviewed and monitored. On the other hand, African Islamic banking had to diversify their asset in order to get better returns on their assets. Nevertheless, the Islamic banking had better performed than the commercial banking; even if the system is at a nascent level in Africa excepting the case of Sudan and North Africa. There should be more full fledge Islamic banking, more products and a competitive advantage that had to be developped in order to attract more potential customers; but also as the system is at a nascent stage, in Africa the Islamic banking has to better unveil its system. Besides, more investors had to invest in the Islamic banking industry in Africa or there shall be government initiatives in a way the industry could be a competitive sector. For the case of Turkey, the Islamic banking system is at a growing stage; even if the Islamic banks are foreign owned. Recently, new initiates have been undertaken as commercial banks to open Islamic windows as the case of Vakıf Bankası and Vakıf Katılım Bankası. In that case, interesting products and naturally in compliance with the *shariah* laws should be innovated; also a competitive advantage should be implemented in order to compete in the well-established existing market.

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