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ISLAMIC AND CONVENTIONAL BANKING: ANALYSIS OF THE PERFORMANCE OF ARAB GAMBIA ISLAMIC BANK DURING THE FINANCIAL CRISIS OF 2009

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ABSTRACT

This article examines the performance of Islamic and conventional banks in the Gambia from 2009 to 2012. Many see the Islamic banking system as a modern phenomenon that has attracted a lot of attention and discussion over the last few decades. Islamic banking system is a banking system that complies with Islamic Sharia law. Islam does not allow payment or acceptance of interest charges (riba) in banking activities. Whiles Conventional banks deal with interest, Islamic banks method of operation is strictly based on Sharia principles (profit, loss and risk sharing). The objective of this study is to analyze the impact of the 2009 financial crisis on the performance of the only Islamic bank in the Gambia compared to the performance of some conventional banks in the country. Financial ratios are used to measure the profitability, liquidity and leverage of the banks. The empirical results of the analysis showed that the only Islamic bank in The Gambia was better than its conventional counterparts in terms of liquidity and leverage for the period under review. In addition, the conventional banks selected in the study were relatively more profitable than their Islamic counterpart bank between 2009 and 2012.

Keywords: Sharia, Islamic bank, Conventional banks, Riba, Financial crisis

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Introduction

There is a shortage of empirical studies on Islamic banking system in The Gambia. This paper attempts to fill this gap to a certain extent. Using data for 2009-2012. In this global financial situation, Islamic banking has become a powerful alternative financial system. Today, the Islamic financial sector has reached $ 1 trillion and is growing at around 20% a year. Its growth is not limited to Islamic societies, but Islamic financial products are gaining popularity among non-Muslim countries. Many international banks have also opened separate windows to serve their Muslim customers (Awan, 2009). Islamic banking have a number of opportunities in The Gambia with a population of over 90% Muslim. However, Islamic banking face multiple challenges due to the strong reaction of conventional banks, because they are popular among the public to meet their requirements. The global financial crisis has shaken the international financial system around the world and its repercussions are still felt at the global level. Because of its seriousness, it has been described as the worst crisis since the Great Depression. It is now clearer than ever that the current financial system is unstable and that the invisible hand is not doing what its supporters claim. The crisis has not only raised doubts about the proper functioning of conventional banking, but has also increased interest in Islamic banks (Beck, Demirgüç-Kunt, & Merrouche, 2010). This work compares Islamic and conventional banking during and after the 2009 financial crisis in The Gambia. The performance of the Islamic Bank of The Gambia (Arab Islamic Bank of The Gambia) is compared to that of three conventional banks (Trust Bank, Guaranty Trust Bank Gambia and Eco Bank Gambia) from 2009 to 2012. It is important to note that banks play a very important role in our society. In fact, they act as intermediaries. It helps to transfer money from the surplus sector of the economy (depositors) to people who need money (borrowers) to carry out their business activities. Over the years, banks have made a positive contribution to the well-being of the world's population. It is good to know that financial institutions are not only good for the society. It has also contributed significantly to the recent global financial crisis. According to an article in the Economic Times, banks are accused of being the main cause of the financial crisis. This it said was due to the excessive use of leverage and bad credit (Ganesh, 2008). In history, the first banking systems started with conventional banks (Wikipedia, n.d). However, with the growing number of Muslims in the world, most countries have embraced the Islamic banking system to satisfy the Muslim minority. In fact, (Awan, 2009) suggests that Islamic banking has become a practical reality and started operating in the 1970s. Since then, it has been growing all over the world.

To measure performance between Islamic banks and conventional banks, this work measures performance in terms of liquidity, profitability and leverage. The financial crisis was a global problem. In fact, Great Britain, the European Union and the United States of America have been mainly affected by this crisis. The period of the financial crisis shows new regulatory policies as an intervention aimed at saving the countries affected by the crisis. The period has also seen the closure of some banks around the world, leaving the fate of the economies of many countries in precarious situations. According to the Institute of Islamic Banking and Insurance, the Islamic

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Bank is a banking system whose activities comply with the principles of Islamic law. Islam does not allow payment or acceptance of interest charges (riba) in banking activities. In addition, trading in activities contrary to the principles of Islam is prohibited. However, it is important to note that the Islamic banking sector is not limited to Muslims alone.

As confirmed by Awan (2009), the four major financial crises of the past two decades include the United States (US) savings and loan crisis from 1986 to 1995. The crisis cost US $ 225 billion, while the country lost 5 percent of its GDP. The second major banking crisis in Japan occurred in 1990-1999, spread over a decade, called the "mother of all crises". The Japanese economy lost about $ 800 billion, about 18 percent of GDP. The third major crisis occurred in the countries of East Asia and Latin America in 1998-1999, entailing a financial cost of about $ 400 billion, or 10 percent loss of GDP. The fourth largest financial crisis (commonly referred to as the sub-prime mortgage crisis) occurred in the United States in 2007 and continues into 2009. The IMF estimated its financial cost at $ 1.4 trillion and its GDP losses at 10 percent in 2007, revised to $ 2.2 billion and 16 percent of GDP in 2009. The crisis has hit the United States, European countries and some Asian countries. This will be the worst funding crisis since the Second World War, which has undermined the viability and financial soundness of developed economies.

Introduction to Islamic and Conventional Banking in The Gambia

According to the Central Bank of The Gambia, banking services started in the Gambia more than 100 years ago. At the beginning of the post-independence period in The Gambia, there was an urgent need for a national development bank to facilitate economic growth and development. For example, the Gambia Commercial and Development Bank (GCDB) was established by an Act of Parliament, No. 13 of 1972 as a corporate body. It had three shareholders, The Gambia Co-operative Union (GCU) with 23 percent, The Gambia Produce Marketing Board (GPMB) with 26 percent and The Gambia Government which owned a majority share of 51 percent. GCDB mission was to *assist the economic development of The Gambia, in particular by promoting trade, industry, agriculture, fisheries, mining, public works, communication, public utilities and tourism in the country and to operate all the usual banking business concerning commercial and development banks and in accordance with the by-laws of the bank*" (Seeku A K, 2017). The subsequent banking institutions in the Gambia include Standard Chartered Bank Gambia which began operations in 1894, Arab Gambia Islamic bank among others. Presently, there are twelve banks within the industry of which one is an Islamic Bank and eleven conventional commercial banks. It is necessary to recall time and time again that banks are financial intermediaries in the financial market. In the Islamic world, the Islamic bank is replacing the conventional banking system to ensure the safety of Muslims against exploitation by conventional banks.

Whiles conventional banks deal with Interest, Islamic banks method of operation is strictly based on Sharia principles (profit, loss and risk sharing). Islamic banking deals with asset based

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transactions which means that its transactions must be backed by some assets. In his paper, (Hanif, 2011) states that usury (interest) is not only forbidden in Islam, but in all celestial religions. Therefore, interest in Islamic banking is not allowed. The meaning of the term "interest" used in the Arabic language means increase. In the Islam terminology, Interest means effortless profit or that profit which comes free from compensation or that extra earning obtained that is free of exchange. Andrews (2010) states that the modes of operation of Islamic banking are based on Laws and regulations which are found in the Holy Quran (Holy Book of Muslim) and the Sunnah (saying) of the last Prophet Muhammed S.A.W. The rule of justice is vital in the transactions of Islamic banking. In fact, Profit and loses are shared between and among parties involved in a transaction. Complete risk on transactions' is not just transferred to one party. Therefore, a bank for example does not take all the risk, by promising the provider of the funds returns regardless of whether the transaction makes money or not. Islamic banking is typically based on a fair play.

Historical Perspective of Islamic Banking

Many considered Islamic banking as a recent phenomenon. However, the origin of Islamic banking dates back to the era of Islam. This is evident in the Muslim book (Al-Quran). If you read the Qur'an, you will find at least four verses where Allah (Lord) mentioned Riba (interest). A Student of Darul-Uloom, Bury, U.K (1998 to 2001) mentioned one of them found in Sura **Al-baqarah verse nos. 275** to **279** "Those who devour usury (interest) will not stand except as stands one whom the Satan by his touch has driven to madness. That is because they say, "trade is like usury (interest)", but Allah has permitted trade and has forbidden usury (interest)". V**erse 276** "Allah will deprive usury of all blessing, and will give increase for deeds of charity, for he does not love any ungrateful sinner." Later in **verse 278** the Quran mention "Oh you who believe! Fear Allah and give up what remains of your demand for usury (interest) if you are indeed believers". Consequently in **verse 279** He says "If you do not, take notice of war from Allah and his Messenger "S*allallahu Alaihe Wasallam"* but if you repent you shall have your capital sum. Deal not unjustly and you shall not be dealt with unjustly".

It is interesting to note that usury (interest) is not only forbidden in Islam, but also in Judaism and Christianity. In Judaism, Israelis were not allowed to claim an additional amount in addition to the principal amount of the sum lent in transactions. However, they were not forbidden to charge interest in their dealings with the Gentiles. The reason for this was that at the time there were no laws among the Gentiles which prohibited the practice of interest. Therefore, Jews were allowed to recover interest from people who charged interest from them (Ahmad, n.d). According to Judaism, The Talmud (B. M. 61b) dwells on Ezek. xviii. 13 (Hebr.*): "He has lent on usury; he has taken interest; he shall surely not live, having done all these abominations";* on the words with which the prohibition of usury in Lev. xxv. 36 closes: *"Thou shalt be afraid of thy God";* and on the further words in which Ezekiel (l.c.) refers to the usurer*: "He shall surely*

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suffer death; his blood is upon him"; hence the lender on interest is compared to the shedder of blood. It is mentioned in the Old Testament of the Bible that *"Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury."* (Deuteronomy, n.d). Recent developments in the Islamic banking sector have attracted much interest and have become the center of the developed economies of the West. One of the reasons for the establishment of the Islamic Development Bank (IDB) in 1973 by the Organization of Islamic Countries (OIC) was mainly to inspire economic development and to create a distinct social progress for Member States and Islamic communities in line with the rule of Sharia (Islamic law). Ghafoor (1995) stated that the first form of Islamic Banking was established in Dubai (Dubai Islamic Bank) in 1975. The Dubai Islamic Bank was the first Islamic commercial bank in the world. The goal was to create an institution in which a full range of Islamic banking services could be offered to Muslims.

Banking industry performance from 2009 to 2012 in The Gambia

According to a report by the Central Bank of The Gambia in 2012, the banking sector had thirteen banks in the country (twelve commercial banks and one Islamic bank). However, all banks at that time met the required minimum capital of D 200 million, with the exception of Prime Bank Gambia Ltd., whose parent had decided to divest its investments in The Gambia. The total assets and liabilities of commercial banks from 2009 to 2012 are summarized below.

Table 1: Banking Industry Performance from 2009 to 2012

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Assets of Commercial Banks

	2009		2010		2011		2012	
	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change
Gambian Notes & Coins	211,910	-2.5	371,768	75	324,157	-12.8	365,219	12.7
Total Foreign Currency	348,035	-13.3	401,732	15	285,314	-29	264,066	-7.4
Balances Held With Banks	1,221,897	43	1,259,689	3	-	19	1,146,674	-23.5
O/W: Held With CBG	999,248	17.3	1,116,224	12	1,385,562	24.1	1,039,935	-24.9
Balances Held With Banks Abroad	959,116	26.5	1,152,870	20	1,384,629	20.1	2,194,525	58.5
Head Office & Branches	173,744	-33.2	378,881	118	515,076	35.9	653,729	26.9
Other Banks Abroad	785,372	57.6	773,989	-1	869,553	12.3	1,540,796	77.2
Bills Purchased & Discounted	74,285	81.6	20,083	-73	220	-98.9	105,000	47627.3
Loans And Advances	4,101,802	25.7	4,906,574	20	5,068,699	3.3	5,138,148	1.4
Public Sector	679,922	108.8	870,371	28	811,284	-6.8	764,924	-5.7
Private Sector	3,421,880	16.5	4,036,203	18	4,257,415	5.5	4,373,224	2.7
Investments	3,998,189	23.7	5,164,752	29	6,213,195	20.3	7,305,768	17.6
Gambia Gov't Tbills	3,683,928	24.9	4,735,486	29	5,617,945	18.1	6,750,726	20.3
Others	152,338	8.9	137,942	-9	312,003	126.2	280,357	-10.1
Foreign Investments	161,923	14.3	291,324	80	283,247	-2.8	274,685	-3.0
Fixed Assets	1,140,843	35.8	1,112,085	-3	1,136,917	2.2	1,232,829	8.4
Acceptances, Endorsements & Guarantees	1,764,152	22.9	2,472,952	40	1,909,432	-22.8	2,099,248	9.9
Other Assets	985,368	-30.9	944,338	-4	833,981	-11.7	767,437	-8.0
Total Assets	14,805,597	18.7	17,806,843	20	18,655,014	4.8	20,618,914	10.5

Source: (Central Bank of The Gambia, annual report (2012), p. 64)

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Liabilities of Commercial Banks

	2009		2010		2011		2012	
	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change	GMD'000	Annual Percent Change
Capital And Reserves	**1,586,091**	**9.5**	**2,580,427**	**63**	**2,657,902**	**3.0**	**3,064,629**	**15.3**
Demand Deposits	**3,594,958**	**9.4**	**3,957,348**	**10**	**4,290,486**	**8.4**	**4,577,183**	**6.7**
Residents	2,737,107	3.1	3,569,913	30	3,904,773	9.4	4,242,595	8.7
Non Residents	443,923	3.20	41,834	-91	39,909	-4.6	53,427	33.9
Government Entities	413,928	-30.3	345,601	-17	345,804	0.1	281,161	-18.7
Savings Deposits	**3,281,017**	**19.8**	**3,864,843**	**18**	**4,494,099**	**16.3**	**5,154,189**	**14.7**
Residents	3,181,314	20.6	3,740,422	18	4,327,111	15.7	4,915,014	13.6
Non Residents	90,660	20.9	115,929	28	149,790	29.2	197,957	32.2
Government Entities	9,043	-62.4	8,492	-6	17,198	102.5	41,218	139.7
Time Deposits	**2,814,213**	**45.1**	**3,405,423**	**21**	**3,592,475**	**5.5**	**3,351,994**	**-6.7**
Residents	2,058,211	48.5	2,477,303	20	2,637,934	6.5	2,731,459	3.5
Non Residents	63,809	251.9	58,219	-9	23,148	-60.2	53,361	130.5
Government Entities	692,193	29.5	869,901	26	931,393	7.1	567,174	-39.1
TOTAL DEPOSITS	**9,690,188**	**21.7**	**11,227,614**	**16**	**12,377,060**	**10.2**	**13,083,366**	**5.7**
Balances Held For	**233,509**	**70.4**	**41,265**	**-82**	**59,442**	**44**	**72,486**	**21.9**
Head Office & Branches	189,703	118.7	15,819	-92	23,928	51.3	14,070	-41.2
Other Banks Abroad	8,784	-82.5	25,446	190	35,514	39.6	58,416	64.5
Borrowings From	**594,717**	**43.4**	**488,710**	**-18**	**454,017**	**-7.1**	**1,214,996**	**167.6**
O/W: Head Office & Branches	451,894	124.8	307,783	-32	221,911	-27.9	1,095,047	393.5
O/W: Other Banks Abroad	112,823	-44	140,927	25	212,106	50.5	97,949	-53.8
Acceptance Endorsement & Guarantees	**1,764,152**	**22.9**	**2,472,952**	**40**	**1,909,432**	**-22.8**	**2,099,248**	**9.9**
Other Liabilities	**936,940**	**-12.4**	**995,872**	**6**	**1,197,158**	**20.2**	**1,084,192**	**-9.4**
Total Liabilities	**14,805,597**	**18.7**	**17,806,840**	**20**	**18,655,011**	**4.8**	**20,618,917**	**10.5**

Source: (Central Bank of The Gambia, annual report (2012), p. 65)

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Macroeconomic Data

The service sector in The Gambia includes financial institutions, insurance companies, tourism and other service providers. Tourism is the main source of foreign exchange for the country, accounting for 14.7% of GDP in 2009 (Gambia, 2012-2015). The sector was not expected to recover in 2012 and 2013 due to difficult economic conditions in the EU, the main source of tourists in The Gambia. Industry accounts for 18.3% of GDP.

Table 2: Commercial Banks in The Gambia

Company	Year Established
Standard Chartered Bank Gambia Ltd	1894
Arab Gambia Islamic Bank	1994
Trust Bank Ltd	1997
First International Bank	1999
Guaranty Trust Bank Gambia Ltd	2002
International Commercial Bank	2005
Access Bank Gambia Ltd	2007
Eco-bank (Gambia) Ltd.	2007
Bank Sahelo-Saharienne Pour L'investissement et le commerce	2008
Oceanic Bank (Gambia) Ltd. (Liquidated)	2008
Bank PHB	2008
Sky Bank Gambia Ltd	2008
Zenith Bank Gambia Ltd	2009
Prime Bank Gambia Ltd (Liquidated)	2009

Source: < http://fic.wharton.upenn.edu/fic/africa/Gambia%20Final.pdf >

Difference between Islamic and Conventional Banking

Islamic banks and conventional banks have become viable and competitive financial institutions, all of which are engines of economic growth and development. However, Islamic and Conventional banks differ in many ways. Some of these differences are listed below:

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Table 3: Difference between Islamic and Conventional Banking

	Islamic Banking	Conventional Banking
Principle	This is a financial system that is purely based on the teachings of Islam (Sharia). Transactions in Islamic banking are based on exchange, where real assets are exchanged for real assets. Fulfilling the teachings of the Holy Quran is most important as oppose to making maximum returns from financial assets.	Conventional banking follows an interest base principle. The principles governing the operation of Conventional banks are artificial principles. Returns are one of the most vital elements in this sector, so it is important for banks to maximize profit even if someone else have to suffer (no sharia restrictions)
Profit and loss Sharing	Islamic banking encourages profit and loss sharing. This act promotes social solidarity. There is mutual trust between bank and customer.	Transactions in Conventional banking are based on pre-determined rate of interest. Since profit and loss are not shared, bank and its customer both safeguard their interest. This sometimes leads to impulsive reactions in financial dealings.
Interest	Interest is prohibited in the operation of Islamic banks	Interest not prohibited
Speculative transactions	Islamic principles strictly encourage investments that have a social and an ethical benefit to society. It requires a complete transparency of contract terms. Any uncertainty about price, delivery and other terms are prohibited. Therefore, trading in speculative instruments such as derivatives are forbidden. It also prohibits investment in sectors classified as inappropriate on moral grounds by the Quran. Some examples of these sector include, trading in alcohol, gambling, or drugs.	Conventional banking allows trading in speculative instruments such as derivatives. It also allows investment in alcohol.
Islamic tax (ZAKAT)	Islamic banks serve as Zakat collectors for many Muslims and they also pay out their zakat. These zakat are usually distributed to the needed in society.	Does not deal with zakat
Penalty charges	Extra money is not levied on defaulters in Islamic Banking. What is collected from defaulter is a small compensation and the proceeds from this compensation are given out as charity.	It can charge additional money (penalty and compounded interest) in case of defaulters.

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Borrowing	For the Islamic banks, it must be based on a Sharia approved underlying transaction.	For interest-based commercial banks, borrowing from the money market is relatively easier.

Source: <http://zaharuddin.net>

Literature Review

Top economist agrees that the 2009 financial crisis was the worst crisis since the Great Depression of the 1930s. Since then, several studies have been conducted to study the impact of the crises on the performance of banks. Amba and Almukharreq (2013) revealed that the 2009 financial crisis has drawn much attention to Islamic banks where conventional banks have been hit hard. It is interesting to note here that at the beginning of this phenomenon, while conventional banks were suffering the effects of the crisis, Islamic banks maintained their stability and realized profits. Thus, the Islamic banking system has attracted the attention of many people to be the ideal banking system as it prohibits interest and operates on the basis of profit and risk sharing. However, as the phenomenon became universal, the biggest Islamic banks in the Islamic region began to feel the impact and eventually ended up with some losses.

Addawe (2012) research results showed that Islamic banks were better than their counterparts during the recent global financial crisis. Because of the different financing and corporate governance systems in both banking secctors, Islamic banks have been less affected by the crisis than conventional banks. The reasons for being less affected by the crisis are that Islamic banking transactions were asset-backed transactions. In addition, Islamic banks have avoided trading in speculative instruments and selling debt. They also avoided trading toxic assets and all their financial resources were based on profit and loss sharing.

According to (Parashar & Venkatesh, 2010) before the global financial crisis, conclusions were made by many researchers that the performances of Islamic banks by and large were better than those of their counterpart conventional banks. However, there were other researchers who maintain that Islamic banking is too young to conclude that argument. According to them the financial crisis did not only affect conventional banks but affected Islamic banks as well. In fact, Islamic banks they said suffered more than conventional banks in terms of Capital Ratio, Leverage and Returns on Average Equity. On the other hand conventional banks did suffer more than their Islamic peers in terms of Returns on Average Assets and Liquidity. Consequently, their conclusions were that for the four years period (i.e. 2006 to 2009) used for the study, overall Islamic banks outperformed their counterpart conventional banks in the crisis period. Although Islamic banking to a large extend gain recognition in the 21st century, it is interesting to note that this sector had been growing steadily far back in the nineties. This is way (Iqbal, 2001) conducted a research which compared Islamic and conventional banks and their growth and performance in the nineties. Twelve banks of conventional and Islamic banks were

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chosen for the study. In order to have a fair comparison of the two set of banks, Iqbal choice of the twelve conventional banks were selected from the same country where the Islamic banks were chosen. The study covers eight years period (1990 to 1998), in which growth and performance of both Islamic and conventional banks were evaluated. In the study, he tested a number of hypothesis and perceptions using empirical data. He also used a number of key ratios for the analysis. His conclusions were that in general, Islamic banks were fairly more capitalized, profitable and stable. Therefore, the profit ratio of Islamic banks compared favorably with international standards. However, he mentioned that since conventional banks depositors were guaranteed their principal amounts, and thus bear less risk than their counterpart Islamic bank depositors, the depositors of Islamic banks would truly expect a higher rate of return to compensate for the extra risk they take.

According to (Smolo & Mirakhor, 2010) both Keynes and Minsky argued that a system dominated by interest-based debt contracts is inherently unstable. They further in their research stated that the financial crisis was caused by a number of factors such as easy money, uncontrolled growth of credit and debt, lax regulation and supervision, innovation of complex and opaque financial products, mismanagement of risks involved, lack of disclosure and transparency, predatory lending and high leverage. Although the Islamic Financial Industry (IFI) was not totally resistant to the crisis, however it was less affected compared to the Conventional systems. Therefore, a lot of attention was shifted to IFI as an alternative system. The duo concluded by saying that although the crisis had limited impact on IFI, there are many lessons that should be learned from it to prevent IFI from committing the same mistake.

Performance Evaluation Criteria

This requires the collection of relevant data in the banks' financial statements and a comparative analysis of the results. Complete data on the bank and in particular on AGIB in The Gambia were not readily available from the bank. As a result, most of the data used in this work is collected from the Central Bank of The Gambia (CBG). The data is collected from the income statement and the balance sheet of the selected banks. The use of financial ratios to measure bank performance is common in research. As a result, the researcher conducted a pilot analysis and used financial ratios to determine the performance of selected banks. Four major banks were selected, including three Conventional banks and one Islamic bank in The Gambia. Financial information is used from 2009 to 2012 for the study. The names of the selected banks are listed in Table 4.

Table 4: Selected Banks for the Analysis

Country	Name of Bank	Period of Study
The Gambia	Arab Gambia Islamic Bank (AGIB)	2009-2012
	Trust Bank Gambia Limited (TBL)	2009-2012
	Guaranty Trust Bank Gambia limited (GTB)	2009-2012
	Eco Bank Gambia Limited (Eco)	2009-2012

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The criteria used to select banks for the study are thus: Selected the only Islamic bank in The Gambia and compare it with a group of three conventional banks. Trust Bank Gambia is chosen because it's the only bank majority owned by Gambians at the time of this study. Guaranty Trust banks is chosen because out of the Nigerian banks in existence, it is the first bank to be granted license to operate in The Gambian market by the CBG. Consequently, Eco Bank Gambia is selected for the study simply because it's the only Pan African bank in the country and had over the years done well. In addition to these features, they are chosen owing to the fact that they are part of the dominant banks that contributed about 82% of total industry assets (Gambia, 2012) which makes them systematically important banks.

Table 5: Financial Ratios Selected for the Study

Liquidity Ratio: ✓ Current Ratio ✓ Cash to Deposit Ratio ✓ Loan to Deposit Ratio	**Profitability Ratio:** ✓ Return on Assets ✓ Return on Equity
Financial Leverage ratio: ✓ Debt-to-Asset ratio	

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Empirical Analysis

To study the behavior of the banks' liquidity position during the financial crisis, it was important to use several ratios to perform analyzes. The results of the analysis are shown below.

Liquidity

Liquidity provides information on the Company's ability to meet its short-term obligations at maturity. Liquidity is the importance of a company's survival because it helps it avoid defaulting on its short-term commitments. When a company cannot raise funds or short-term funds from its customers regularly and in a timely manner, it will soon face financial difficulties. As a result, the more liquidity the bank has, the better it will be able to meet its short-term obligations. This indicates that the banks are working well. As a result, liquidity problems can arise when Bank withdrawals exceed its deposits substantially over a short period of time.

Current Ratio

Table 6: Current Ratio (CR) and Cash to Deposit Ratio (CDR)

Bank	CR				Average	CDR				Average
YEAR	**2009**	**2010**	**2011**	**2012**		**2009**	**2010**	**2011**	**2012**	
Arab Gambia Islamic Bank (AGIB)	0.96	1.19	1.07	1.19	1.10	0.22	0.27	0.15	0.15	0.20
Trust Bank Ltd (TBL)	1.01	1.01	1.01	1.00	1.01	0.15	0.15	0.24	0.19	0.18
Ecobank Gambia Ltd (Eco)	0.90	1.10	1.12	1.18	1.07	0.62	0.49	0.27	0.63	0.50
Guaranty Trust Bank Gambia Ltd (GTB)	1.05	1.05	1.07	-	1.06	0.30	0.15	0.13	-	0.19

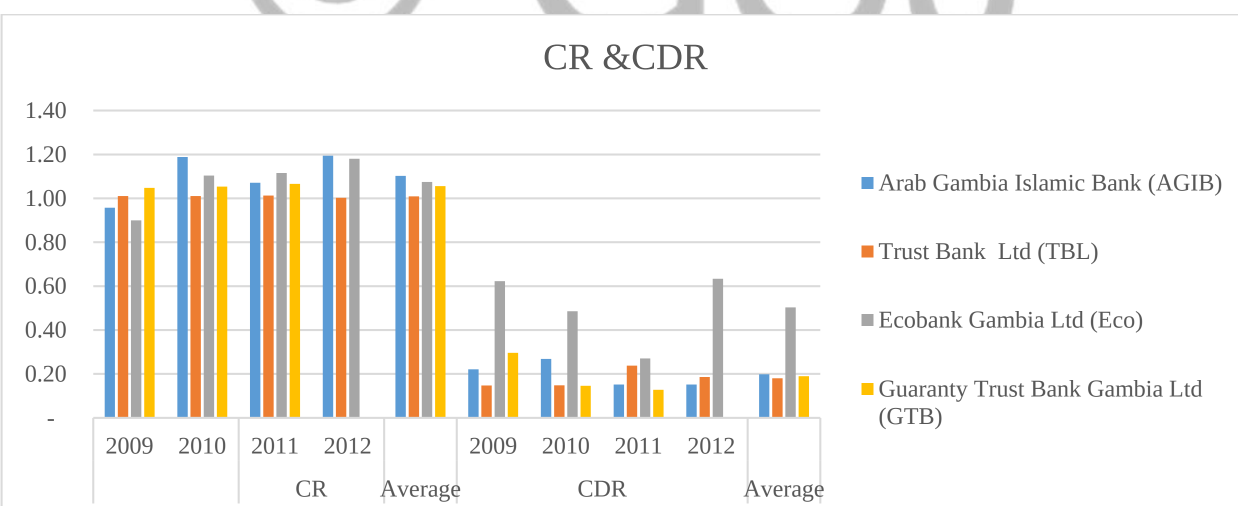

Figure 1: Current Ratio and Cash to Deposit Ratio

The level of liquidity of Arab Gambian Islamic Bank (AGIB) during the financial crisis in 2009 indicates that Islamic bank was no better than its Conventional counterparts in terms of liquidity. However, the bank from 2009 to 2010 register growth in liquidity of 24.16% which is considerably

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more than growth of 0.02%, 22.70% and 0.61% for Trust Bank Gambia (TBL), Eco bank Gambia (Eco) and Guaranty Trust Bank (GTB) respectively. The reason for this growth was that AGIB's total current assets from 2009 to 2010 increase by 13.86%. It is important to note that not only did AGIB's current assets increase but current liabilities decrease by -8.29% for the same periods (2009 to 2010). Growth slowed down a bid in 2011 (-9.89% decrease) mainly due to a decline in the banks short term assets. This however, improved from 1.07 in 2011 to 1.19 (11.54% increase). The trend of liquidity for TBL and GTB was stable and consistent from 2009 to 2012. Eco bank has a more improved position after AGIB in terms of liquidity. Eco banks liquidly position despite the financial crisis in 2009, grew from 0.90 in 2009 to 1.10 in 2010 (22.70%increase). Although growth in its liquidity of 1.05% from 2010 to 2011 was not as good as that of 2010. This however was still, better than growth in liquidity of AGIB and TBL. The increase in trend of the current ratio for AGIB is an indication that the bank is more liquid and able to settle its short term obligation faster than its competitors.

Cash to Deposit Ratio

On average, the cash to deposit ratio of the Conventional banks are higher than that of AGIB by the end of 2012. The reason for Eco bank having a greater cash deposit ratio in most years is because the bank from 2010 to 2012 on average had the highest growth in cash and bank balances, this growth was 41.33%, compared to -2.79%, 31.01% and -28.40% for AGIB, TBL and GTB respectively, see Figure 2:.

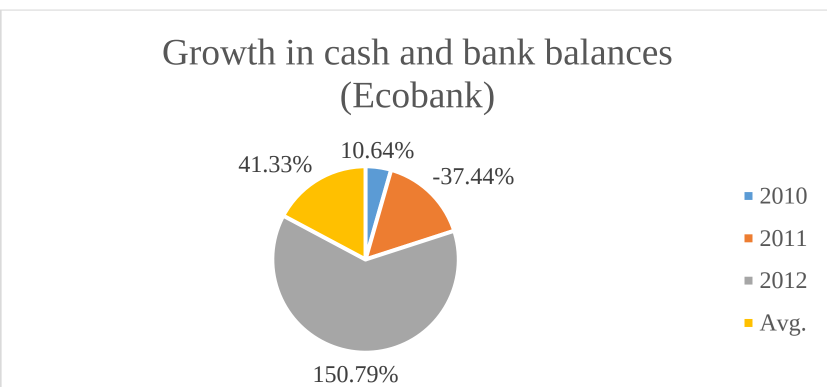

Figure 2 Growth in Cash and Bank balances (Ecobank)

The reasons for the -37.44% decline in cash and bank balances in 2011 for Eco bank was attributed to the following on table 8.

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Table 7 Cash and Bank balances (Ecobank)

Cash and bank balances:	Eco bank			
	2011	2010	changes	change in %
Central Bank of The Gambia Balances	81,400	78,955	2,445	3.10%
Balance with Foreign banks	129,330	204,198	(74,868)	-36.66%
Cash in hand	40,180	139,261	(99,081)	-71.15%
Clearing account	20,191	10,932	9,259	84.70%
	271,101	433,346	(162,245)	-37.44%

As we can see on table 7, there were significant decline in both Balances with foreign banks and cash in hand. I mentioned earlier in this study that too much cash can result to a bank losing profit, so most banks try not to hold too much, instead they always try to find a balance in their positions. Again, they cannot afford to hold a lower than necessary of cash reserves because if they do, it could lead to a distress and failure to meet short term obligations. Banks in the Gambia have the opportunity to invest their excess cash in T/Bills or Sukuk and other short term banking instruments provided by the Central Bank or through the interbank market.

Most of AGIB's investments with CBG involve Sukuk. Sukuk is the Arabic name for financial certificates, but it usually refers to the equivalent of Islamic bond. It is commonly believed that Islamic banks have excess liquidity because of the non-availability of investment opportunities and securities which of course is the cause of their low profitability. By looking at Table 12, I realized that AGIB registered a growth in its investments in Sukuk from 13.11% in 2010 to 40.65% in 2011. This growth in investment resulted to a low ratio on its cash/deposit position for the years 2011 and 2012. However, on average there is an indication that AGIB still lacks investment opportunities than the other banks. This is illustrated on the same table below. The average growth in the investment portfolios for TBL and Eco are all relatively higher than AGIB.

Table 8 Treasury Bills and Sukuk

	Growth			
Investment in T/Bills and Sukuk	2010	2011	2012	Average
Arab Gambia Islamic Bank (AGIB)	13.11%	40.65%	2.95%	18.91%
Trust Bank (TBL)	19.65%	39.71%	24.80%	28.05%
Eco Bank Gambia (ECo)	551.62%	-52.80%	2.45%	167.09%
Guaranty Trust Bank Gambia (GTB)	4.64%	0.61%		2.63%

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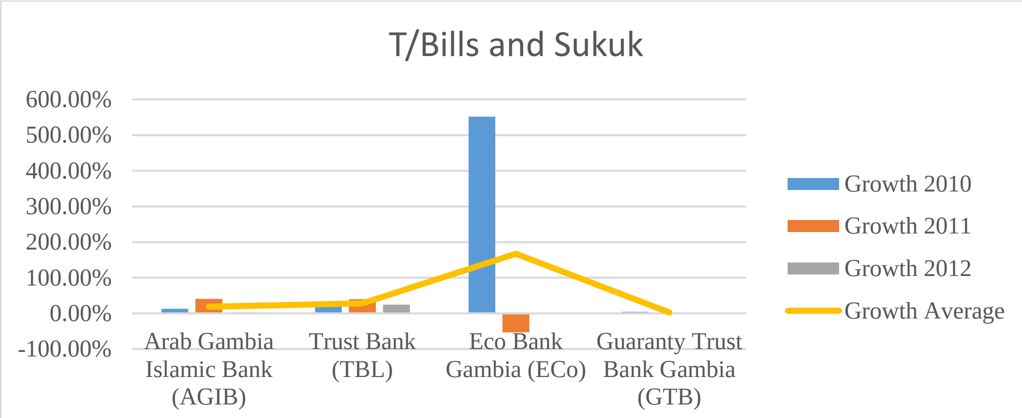

Figure 3: Treasury Bills and Sukuk

Loan Deposit Ratio

This is the ratio of total bank loans to total deposits. In general, when the loan-to-deposit ratio (LDR) is less than 1, this means that banks use their own deposits to lend to their customers, without any outside borrowing.

Table 9 Loan to Deposit Ratio

Loan to Deposit Ratio	2009	2010	2011	2012	Average
Arab Gambia Islamic Bank (AGIB)	0.46	0.47	0.31	0.43	0.42
Trust Bank Ltd (TBL)	0.45	0.47	0.33	0.27	0.38
Ecobank Gambia Ltd (Eco)	0.40	0.27	0.65	0.61	0.48
Guaranty Trust Bank Gambia Ltd (GTB)	0.36	0.46	0.44		0.42

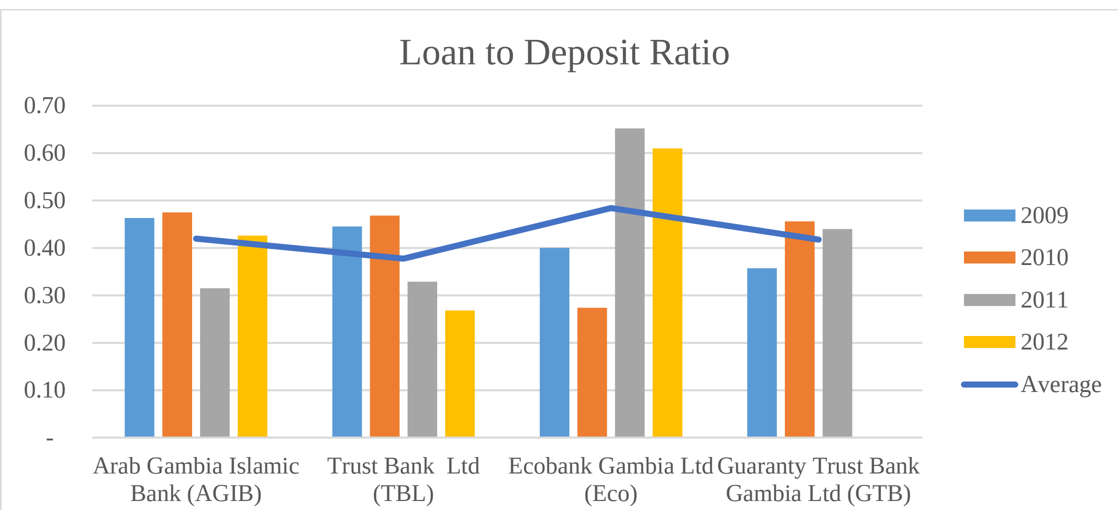

Figure 4: Loan to Deposit Ratio

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On average all the banks LDR's are low which signifies managerial efficiency for the periods under review. The management of liquidity is vital. This means when not properly done could lead to liquidity scarcity. Consequently, affected banks sometimes would have to offer very high interest rates, either to collect deposits from customers or borrow from the interbank market.

Profitability

This is one of the most frequent financial measure of a firm's success in generating profits. It is used to compute a firm's bottom line and returns to its investors. Profitability determines the overall efficiency and performance of a bank. It measures the difference between revenues and cost. For the ratios, the higher the value, the more desirable it is for the firm. A higher ratio indicates that the bank is doing well and is good at generating profits, revenues and cash flows. The ratios are going to assess the ability of a firm to generate income after offsetting all its cost and expenses during a specific time period

Table 10: Return on Assets and Return on Equity

Bank	ROA				Average	ROE				Average
YEAR	2009	2010	2011	2012		2009	2010	2011	2012	
Arab Gambia Islamic Bank (AGIB)	-4.64%	0.13%	-6.88%	0.95%	-2.61%	-85.20%	0.58%	-39.27%	3.67%	-30.06%
Trust Bank Ltd (TBL)	2.21%	2.05%	2.70%	2.52%	2.37%	23.10%	24.01%	34.28%	31.23%	28.16%
Ecobank Gambia Ltd (Eco)	-10.65%	-3.73%	-0.37%	0.61%	-3.54%	-108.91%	-11.49%	-1.16%	2.21%	-29.84%
Guaranty Trust Bank Gambia Ltd (GTB)	1.64%	2.02%	1.14%		1.60%	31.79%	21.92%	11.11%		21.61%

Return on Asset (ROA)

The results on table 10 look surprising. On average there is 0.00% returns on assets for Conventional banks and a negative -2.61% return for AGIB. The ROA for TBL, although small but better, was consistent over the years.

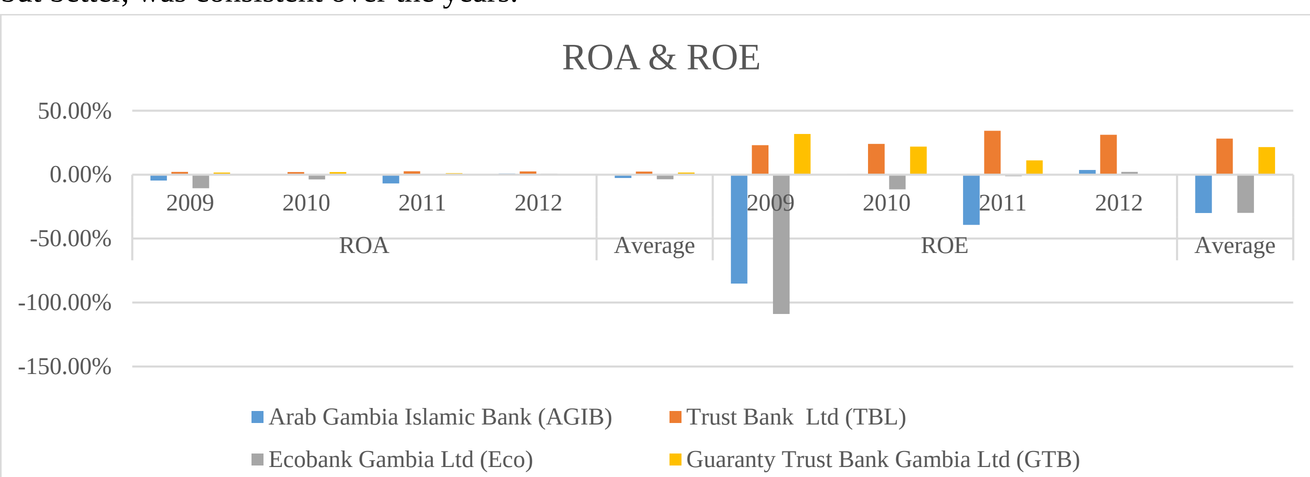

Figure 5: Return on Assets and Return on Equity

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These results are somehow alarming. This could be an indication of managerial inefficiency in its use of assets to generate profits. The negative ROA signifies that AGIB and Eco bank in years 2009 to 2011 where not earning the desired rate of returns on their assets.

Return on Equity (ROE)

Results on table 11 indicate that from 2009 to 2011 both TBL and GTB ROE were constantly higher than AGIB. On average we can see that TBL and GTB return on equity is higher at 28% and 22% respectively than AGIB average ROE of -30%. This difference is significant for the period 2009 to 2012. The reasons for a loss of -30% on ROE for AGIB were as a result of huge decline in its Net Income. The company did not make profit from 2009 to 2011, this position however changed a little in 2012 by (1% profit). Eco bank position on ROA is similar to AGIB both companies relatively performed worse than their counterpart during and after the financial crisis.

Financial Leverage

This measures the solvency of the company. It also measures the extent to which the company uses long-term debt. Companies with very high leverage ratios often risk bankruptcy. Leverage is not always bad because it can lead to higher returns on shareholder investments

Debt-to-Asset Ratio

Debt is a measure of total debt relative to total assets. This explains how the company uses debt to finance its assets. It also shows the amount of the company's debt on its balance sheet in relation to its assets. A company with lower debt to equity ratio is generally considered better than a company with higher debt to equity ratio. The lower percentage means that the company uses lower leverage and has a stronger equity position.

Table 11 Debt to Asset Ratio (DAR)

Debt to Asset Ratio	2009	2010	2011	2012	Average
Arab Gambia Islamic Bank (AGIB)	94.56%	77.58%	82.49%	74.04%	82.17%
Trust Bank Ltd (TBL)	90.44%	91.48%	92.13%	91.92%	91.49%
Ecobank Gambia Ltd (Eco)	102.03%	87.10%	87.65%	86.64%	90.85%
Guaranty Trust Bank Gambia Ltd (GTB)	88.72%	88.14%	87.56%		88.14%

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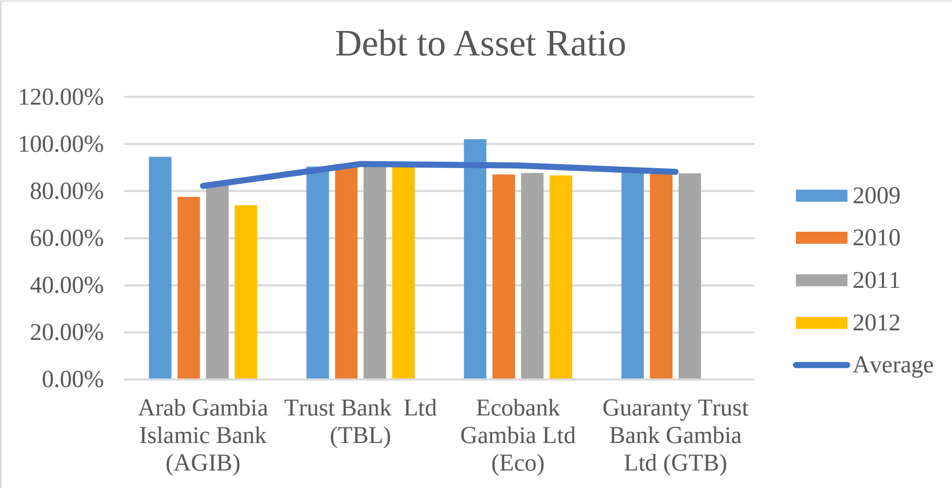

Figure 6 Debt to Asset Ratio

The results on table 11 indicate that in 2009 on average, Islamic bank had a much higher DAR of 94.56% compared to 93.73% of Conventional banks. Noticeably, the trend of DAR on Conventional banks increased year after year more than the trend in Islamic bank. Islamic bank DAR trend gradually decline year by year, which puts it in a better position compared to its competitor Conventional banks. Therefore, the conclusions are that on average, Conventional banks are more risky than their counterpart peer Islamic banks for the period 2009 to 2012.

Results and Conclusions

The purpose of the research work was to study the difference between Islamic and Conventional banking and to analyse whether the only Islamic bank in The Gambia perform better than its Conventional bank peers during the recent global financial crisis in terms of Liquidity, Profitability and Financial Leverage. The empirical analysis allowed the researcher to draw certain conclusions. The researcher used six ratios and the study period from 2009 to 2012. Although Islamic bank (AGIB) Liquidity position in 2009 was no better than Conventional banks (TBL,GTB and Eco) , the results revealed that on average from 2009 to 2012, AGIB (Islamic Bank) fared better than its counterpart Conventional banks (TBL, GTB and Eco). Profits of TBL and GTB in the report were found to be relatively higher than AGIB and Eco bank. Therefore, conclusion on profitability was that Conventional Banks fared better in terms of profitability for the periods 2009 to 2012. The researcher's findings on Financial Leverage for banks in The Gambia shows that Conventional banks from 2009 to 2012 on average were moderately riskier than their counterpart Islamic bank for the period under review.

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With regards to Liquidity (CR, CDR and LDR), the results showed that selected Islamic banks on average performed better than their counterpart peer Conventional banks during and after the financial crisis. While the profitability of Islamic bank was lower than that of conventional banks, it was good to note that for risk and solvency measures, "the higher the risk, the higher the returns". Based on this simple financing principle, my conclusion about the profitability, risk and solvency of the selected banks was that Conventional banks were on average more profitable but also more moderately risky than Islamic Bank.

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