THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Leverage and Financial Performance of Islamic Banking in Nigeria

Ibrahim Mallam Fali
Lecturer, Department of Accounting, University of Calabar, Nigeria
Nyor Agnes Ibenre
Lecturer, Department of Business Education, Niger State College of Education, Nigeria
Dr. Lateef Olumide Mustapha
Senior Lecturer, Department of Accounting and Management,
Nigerian Defence Academy Nigeria, Nigeria

Abstract:
The aim of this study is to investigate the effect of leverage on financial performance of Islamic Banking in Nigeria. The population of the study was Jaiz Bank because it is the only listed Islamic Banking in Nigeria. The study uses secondary data from annual reports of Jaiz Bank Nigeria Plc quoted on the floor of the Nigerian Stock Exchange for the period of 2012 to 2017. Ex post research design was adopted. This study concludes that there is a positive and significant effect between DEBTCAP and ROA. In addition, positive and insignificant effect exists between DEBTCAP and ROE. Based on the findings, it's necessary to recommend that Jaiz Bank in Nigeria should not refrain from including loan/debt in their capital mix, or they should have more of debt capital for financing their investments as this will lead to an increase in the return of their assets.

Keywords: Islamic banking, Jaiz bank, leverage, financial performance & pecking order theory

1. Introduction

Leverage is employed to avoid using too much equity to fund operations. An excessive amount of financial leverage increases the risk of failure, since it becomes more difficult to repay debt. Financial leverage is the degree to which a company uses fixed-income securities, such as debt and preferred equity. It is the additional volatility of net income caused by the presence of fixed-cost funds. The potential benefits are that, if the operating income is rising then the net income will rise more quickly. The potential benefits are that, if the operating income is rising then the net income will rise more quickly. It is referred to as capacity of an organization to utilized debt in its capital structure. Financial leverage is a measure of how much firms use equity and debt to finance its assets. The importance of any financial decisions cannot be over emphasized since many of the factors that contribute to business failure can be addressed using strategies and financial decisions that drive growth and the achievement of organizational objectives.

Financial performance is the extent to which objectives of the firm and in this case financial objectives will be met or have been meet. In the work of Kajirwa (2015) cited by Mohammed (2016) deduced that the company's financial performance subject to how effectively a firm uses its assets from its principal role of conducting business and its subsequent generation of revenues. It also refers to the general well-being of a firm as far as finance is concerned over a certain period of time. Financial performance in summary, is a crucial objective that firms especially the profit oriented firms desire or aim at to achieve (Yahaya & Lamidi, 2015).

The objective of financial management in structuring a firm's capital components is to maximize the shareholders wealth, as a measure of performance thereby improving the performance of the company at whole.

Jaiz Bank Plc was created out of the former Jaiz International Plc, which was set up in 2003/2004 as a special purpose vehicle (SPV) to establish Nigeria's first full-Fledged Non- Interest Bank. It is an unquoted public company owned by over 20,000 shareholders spread over the six geographical zones of Nigeria. Jaiz Bank Plc obtained a regional operating license to operate as a Non-Interest Bank from the Central Bank of Nigeria on the 11th of November 2011 and began full operations as the first Non-Interest Bank in Nigeria on the 6th of January, 2012 with 3 branches located in Abuja, Kaduna and Kano. The regional license allows the bank to operate geographically in a third of the country.

Efforts have been made by researchers to ascertain the leverage effects on firm performance but mostly, they are of varying findings, conclusions and recommendations and besides these, none of those studies have considered Jaiz Bank Nigeria Plc, it is clear that there are little research studies that examined the Effect of Leverage on Financial Performance of Islamic Banking in Nigeria.

This study is to ascertain the effect of leverage on profitability measured by Return on Asset, Return on Equity and Return on Capital Employed on performance of Islamic Banking in Nigeria.

This study also seeks to know the positive or negative effects poised in Jaiz bank as the only listed Islamic and interest free bank in Nigeria. It gives better understanding of what is really meant by debt in capital structureand how debt will help company to maximize shareholders wealth. This study is limited to Jaiz Bank Nigeria Plc for the period of six (6) years (2012 to 2017).

The hypotheses for this study are stated in null forms as follows:

- Ho_1: Leverage does not significantly affect Return on Asset.
- Ho_2: Leverage does not significantly affect Return on Equity.
- Ho_3: Leverage does not have any significant effect on Return on Capital Employed.

The study is structured in to five sections: section one is the Introduction, section two takes up the literature review, section three presents the methodology, section four deals with results and discussions and section five conclude the study.

2. Literature Review

2.1. Overview of Islamic Banking

The concept of Islamic banking is relatively new in the academic literature particularly in Nigeria. Non-Interest Banking is a profitable growing global phenomenon practiced in nearly 70 countries across the world including the United Kingdom, Canada, the United States of America, the United Arab Emirate, Malaysia, China, Singapore, South Africa, Kenya etc. Global Banks like HSBC, Citibank, Barclays Bank etc. are also offering it. It is an alternative financial service offering which is open to all irrespective of race or religion. It is based on the ethical principles of fairness, transparency and objectivity. Non-Interest Banking offers almost all the services of conventional banks.

The difference is that non-interest Islamic Banks do not give or receive interest, nor finance anything that is harmful to society like alcohol, tobacco, gambling etc. They also seek to avoid gharar-speculation, uncertainty deception and more. Currently, about 41% of Nigeria's total population of 174 million craves for such Non-Interest banking services. These people are desirous of ethical banking services which provide for socially responsible investment outlets. In a nutshell, Non-Interest Banking is a profit and loss sharing arrangement where the mode of financing is mostly on mark-up, leasing and partnership basis (Yahaya, et al 2015).

Islamic finance has the ability to enable the advancement of infrastructure; a system less disposed to inflation and not as susceptible to speculation as other banking systems, which are presently being fueled by the existence of large debt instruments in the market. (Nana, 2016)

2.2. Concept of Leverage

According to Ali (2014), financial leverage can be defined as the extent to which an Investor or a business is using the borrowed money. Companies that are highly levered are at risk of going into bankruptcy if they fail to pay Interest on the Debt and will not be able to get loans in future time period. Financial leverage is not often considered as negative indicator for the company. It can increase the wealth of shareholders of the company and there is also tax advantages associated with borrowing leverage. As financial leverage is increased, finance cost is also increased as a result. In the after math of high finance cost earning per share is also affected negatively.

Leverage refers to the extent to which firms make use of their money, borrowings (debts financing) to increase profitability and is measured by total liabilities to equity. Leverage refers to the proportion of debt to equity in the capital structure of a firm. The financing or leverage decision is a significant managerial decision because it influences the shareholder's return and risk and the market value of the firm (Omondi & Muturi, 2013). Leverage is viewed as a result of events that determines companies' source of financing to run the business (Alkhatib, 2012). Firms that borrow large sums of money during a business recession are more likely to default to pay off their debts as they mature; they will end up with high leverage and are more likely to end up with a potential risk of bankruptcy.

Firms with a high leverage are expected to disclose more information than firms with low leverage. The disclosure of information can be used to lower the monitoring costs of creditors. Creditors would like more information to be disclosed to control their own credit risk. Business owners seek to increase their wealth and the performance of their firms. Njeri & Kagiri (2013) opine that leverage increases the level of the debt in the capital structure and the turnover of the business and hence its profit, resulting in an increase in returns to the business owners. They also claim that an increase in interest rate is expected to result in reduced borrowing, increased interest expenses and thus reduced returns to business owners.

2.3. Concept of Financial Performance

Financial performance can be characterized as a level of execution of a business over a determined time of a period. Communicated regarding general benefits and misfortunes amid that time it is measured in connection to possessions, value and obligation utilized by the organization. Assessing the monetary execution of business permits chiefs to make judgment on the consequence of business methods and exercises in the destination financial terms (Ali, 2014).
According to Iswatia, & Anshoria (2007), performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage. Financial performance emphasizes on variables related directly to financial report. Almajali, Alamro and AlSoub (2012) argue that there are various measures of financial performance. For instance return on sales reveals how much a company earns in relation to its sales, return on assets explain afirm's ability to make use of its assets and return on equity reveals what return investors take for their investments.

Financial performance focuses more items that affect the financial statements or reports of a firm directly. The financial performance analysis can deal with items such as dividend growth, sales turnover, capital employed, asset base among others about the firm (Omondi & Muturi, 2013). It is a crucial indicator or measure of some economic units' success for example on achievement of set goals and objectives (Xu & Wanrapee, 2014). Firms stakeholders are mostly interested in the firm's performance as far as finance is concerned (Nyamita, 2014).

Financial performance of a firm has several major characteristics, potentials of the business, defines competitiveness, economic intents of the company's leadership and reliability of present or future contractors (Dufera, 2010). It is more often than not expressed with regards to increase in sales or price of stocks (Maghanga & Kalio, 2012). The study attempt to establish a clear linkage of leverage on financial performance of Islamic banking in Nigeria. Performance is measured in terms of return on equity, return on assets and debt to capital ratio using the Ex-post facto research design.

2.4. Theoretical Review

The trade-off theory of capital structure is the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. The trade-off theory claims that companies should aim to find the optimal level of financial leverage. With optimal level of financial leverage, it means when gains and costs of financial leverage is balanced (Myers, 1984). There is a gap in the trade-off theory, where it fails to explain why some large and successful companies do not use financial leverage (Brealey, Myers and Allen, 2017). An important purpose of the theory is to explain the fact that corporations usually are financed partly with debt and partly with equity. It states that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs (e.g. staff leaving, suppliers demanding disadvantageous payment terms, bondholder/stockholder infighting, etc.).

Pecking order theory (or pecking order model) was first suggested by Donaldson in 1961 and it was modified by Stewart C. Myers and Nicolas Majluf in 1984. The theory postulates that the cost of financing increases with asymmetric information. Financing comes from three sources, internal funds, debt and new equity. Companies prioritize their sources of financing, first preferring internal financing, and then debt, lastly raising equity as a "last resort". Hence: internal financing is used first; when that is depleted, then debt is issued; and when it is no longer sensible to issue any more debt, equity is issued. This theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when available, and debt is preferred over equity if external financing is required (equity would mean issuing shares which meant 'bringing external ownership' into the company). Thus, the form of debt a firm chooses can act as a signal of its need for external finance.

Dividend Irrelevance Theory is one of the major theories concerning dividend policy in an enterprise. It was first developed by Franco Modigliani and Merton Miller in a famous seminal paper in 1961. The authors claimed that neither the price of firm's stock nor its costs of capital are affected by its dividend policy. According to Modigliani and Miller, only the company's ability to earn money and riskiness of its activity can have an impact on its value (Modigliani & Miller, 1958).

The market timing hypothesis is a theory of how firms and corporations in the economy decide whether to finance their investment with equity or with debt instruments. It is one of many such corporate finance theories, and is often contrasted with the pecking order theory and the trade-off theory, for example. The idea that firms pay attention to market conditions in an attempt to time the market is a very old hypothesis. Baker and Wurgler (2002), claim that market timing is the first order determinant of a corporation's capital structure use of debt and equity. In other words, firms do not generally care whether they finance with debt or equity, they just choose the form of financing which, at that point in time, seems to be more valued by financial markets. Market timing is sometimes classified as part of the behavioural finance literature, because it does not explain why there would be any asset mis-pricing, or why firms would be better able to tell when there was mis-pricing than financial markets. Rather it just assumes these mis-pricing exists, and describes the behaviour of firms under the even stronger assumption that firms can detect this mis-pricing better than markets can.

The free cash flow theory which postulates that managers are forced to pay excess cash to investors as dividend to equity holders and interest to debt holders. High debt ratio discipline managers and prohibits them not to invest in projects with negative NPVs making the firm profitable. Jensen (1976) argues that increasing leverage instills discipline in managers as they will be cautious not to make the firm insolvent (Owadabi and Anyang, 2013).

The study adopts the pecking theory model. However, several authors have found that there are instances where it is a good approximation of reality. Fama and French, Zeidan, Galil and Shapir (2018) document that owners of private firms in Brazil follow the pecking order the oryand also Myers and Shyam-Sunder find that some features of the data are better explained by the pecking order than by the trade-off theory.

2.5. Empirical Review

A few empirical studies have been performed to analyze the effect of leverage on financial performance. Jeleel & Olayiwolu (2017) investigated on the Effects of Leverage on firm Performance in Nigeria. The research statistical population was consisted of those Nigerian stock exchange listed Chemicals firms, analyzed from 2000 to 2009. Descriptive methods of analysis were applied with aid of SPSS 16 statistical software. The study, however, conclude that against the theoretical expectations provides evidence of a negative and significant relationship between TAN and ROA in model one. The implication of this is that firms in the Chemicals and Paints Sectors failed to efficiently utilize the fixed asset composition of their asset base to impact positively on their performance though TAN is a major determinant of performance. Mohamed (2016) evaluate the effect of financial leverage on financial performance of non-financial firms

listed at the Nairobi Securities Exchange. The research statistical population was consisting of those Nairobi Stock Exchange listed non-financial firms, analyzed from 2001 to 2015. This study employed a correlation analysis and a multiple linear regression method in analyzing the collected data. This study concluded that financial leverage has an adverse effect on financial performance whereas the size of the firm improves the financial performance and liquidity improves (increases) financial performance of the listed non-financial firms. Banafa, Muturi and Ngugi (2015) examined impacts of leverage on financial performance of listed Kenyan non-financial firms. The study employed a causal research design and to examined the effect of leverage of the 42 listed non - financial firms at NSE. Secondary data from firms' financial statements was used for a period of five years from the year 2009-2013. The study used the regression model to analyze the collected data. The study revealed that leverage had a negative and significant impact on corporate financial performance.

Gweyi and Karanja (2014) investigated the impact of leverage on performance of Kenyan registered deposit-taking SACCOs using a sample of 40 Savings and Credit Co-operative Societies. The study used secondary data for period of 2 years from the year 2010 to 2012. The findings of the study established that a positive correlation exists between the debt-equity ratio with return on equity and after tax profits. Javed, Rao, Akram & Nazir (2015), examine the effect of financial leverage on performance of the firm. The statistical data of 154 textile firms listed on Pakistan Stock Exchange for the period of 2006 to 2011. The least square technique is used. The result conclude that Financial leverage is negatively associated with return of assets and equity, which shows that firms borrow less, while market-to-book ratio shows positive profitable association with firms.

3. Methodology

The research was carried out using the ex post facto research design technique. The ex-post facto research design seeks to retrieve and study data for events which have already occurred. It is also known as "after the fact" research design because it is a method in which groups that already exist are compared on some dependent variables. Testing the reliability and validity of the data was deemed unnecessary since the data has been published and thus seen as certified by external auditors. The population of the study is Jaiz Bank Nigeria Plc public quoted Islamic bank in Nigeria. The study was carried out using secondary data. Annual reports for six years (2012 to 2017) were used. They were obtained from the Nigerian Stock Exchange (NSE). The annual reports were collected from the Jaiz Bank's websites. The area of the annual reports where data were extracted from were Directors' Reports, Statement of Comprehensive Income, Statement of Financial Position and Notes to the Accounts. Descriptive statistics is used to describe and summarize the behavior of the variables in this study. Regression analysis has been brought into play to find out the impact of Leverage on financial performance. Data collected is analyzed using E-view's. The Procedure for Data Analysis and Model Specification

The independent variable for this study is financial leverage measured by debt-equity ratio (DER) in line with Enekwe, Agu and Eziedo (2014).

Debt-Equity Ratio (DER) = $\dfrac{\text{Total Liabilities (Debt)}}{\text{Total Equity}}$ * 100

The dependent variable which is Financial Performance is measured by Return on Asset (ROA), Return on Equity (ROE) and Return on Capital Employed (ROCE) in line with Ali (2014), Rachel, Chelichi & Raymond (2017), Javad, Rao& Nazir (2015) and Perinpanathan (2014).

ROA = $\dfrac{\text{PAT}}{\text{Total Assets}}$ * 100

ROE = $\dfrac{\text{PAT}}{\text{Total Equity}}$ * 100

ROCE = $\dfrac{\text{Profit before Interest \& Tax}}{\text{Capital Employed}}$ * 100

Note: Capital Employed is equal to Total Equity and Total Liabilities.
The empirical model is specified as follows:

$ROA_t = \beta_0 + \beta_1 DEBTCAPt + \varepsilon_t$ i

$ROE_t = \beta_0 + \beta_1 DEBTCAPt + \varepsilon_t$ ii

$ROCE_t = \beta_0 + \beta_1 DEBTCAPt + \varepsilon_t$ iii

Whereas:
ROA = Return on Assets
ROE = Return on Equity
ROCE = Return on Capital Employed
DEBTCAP = Debt to Equity ratio
β_0 = is the intercept
β_1 = is the parameters to be estimated in the equation
t = Time subscript (in this case 10 years)
e = Stochastic error term

3.1. Data Presentation and Discussion

The various descriptive statistics are displayed in table 1. The essence of the table is to provide understanding on the nature of the data being used.

3.2. Summary of Descriptive Statistics

VARIAB.	MEAN	Std.Deviation	Minimum	Maximum	Observ.
ROA	-0.49500	2.682661	-5.16000	1.73000	6
ROE	1.076667	6.535282	-7.2100	7.9800	6
ROCE	3.946667	3.251533	0.52000	7.56000	6
DEBTCAP	54.61333	17.39395	24.15000	74.1400	6

Table 1
Source: Eview Output version 10

Table 1 reveals that the mean of ROA for the firm (Jaiz bank) is about -0.49500. This implies that on average, the firm had incurred expenses/loss (0.49%) on its assets rather that generating revenue for them. The minimum and maximum values are -5.16000% and 1.73000% respectively. This means that throughout the years covered in this study, the firm had the lowest ROA in a financial year when it has incurred a loss/ expenses (5.1600%) on its assets. However, there was also a year when the firm had the highest return on its assets (ROA) to be 1.7300%.

The mean of ROE has a mean of 1.076667%, which implies that on average, Jaiz bank in Nigeria has net income of 1.076667% on the money of the shareholders. The maximum and minimum values of 7.98000% and -7.21000% show that Jaiz bank in Nigeria had a year when no return or income was made from using shareholders fund, rather the bank made a loss i.e. a negative return of (7.21000%), while throughout the period covered in this study, Jaiz bank in Nigeria had made the highest return of (7. 98%) for using or investing shareholders' fund. The minimum and maximum values of ROCE of Jaiz bank in Nigeria for the period covered in the study are 0.52000% and 7.5600% respectively. On average, the value of 3.946667% indicates that Jiaz bank throughout the period covered in this study as a ROCE of N3.946667%. The mean of ROE has a mean of 1.076667%, which implies that on average, Jaiz bank in Nigeria has net income of N1.076667% on the money of the shareholders. The maximum and minimum values of 7.98000% and -7.21000% show that Jaiz bank in Nigeria had a year when no return or income was made from using shareholders fund, rather the bank made a loss i.e. a negative return of (7.21000%), while throughout the period covered in this study, Jaiz bank in Nigeria had made the highest return of (7. 98%) for using or investing shareholders' fund. The mean of DEBTCAP has a mean of 54.61333%, which implies that on average, Jaiz bank in Nigeria has 54.61333% loan as part of its capital. The maximum and minimum values of 74.1400% and 24.15000% show that Jaiz bank in Nigeria had a year when loan capital was the smallest and it stood at 24.1500% and the maximum value of 74.1400% means that the bank had a loan of 74.1400% as part of the capital, and it was the highest loan capital throughout the period covered in the study.

3.3. Test for Heteroskedasticity
The following robustness tests are carried out to find out whether data used for analysis are reliable.

```
Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic              12.89956    Prob. F(4,1)              0.2055
Obs*R-squared            5.885928    Prob. Chi-Square(4)      0.2078
Scaled explained SS      0.275569    Prob. Chi-Square(4)      0.9913


Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 10/03/18   Time: 17:29
Sample: 2012 2017
Included observations: 6
```

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.139975	0.470189	-4.551314	0.1377
ROA	-0.273669	0.059496	-4.599821	0.1363
ROCE	0.042069	0.021666	1.941654	0.3028
ROE	0.041606	0.017772	2.341117	0.2570
DEBTCAP	0.036889	0.006591	5.597121	0.1126

R-squared	0.980988	Mean dependent var	0.220929
Adjusted R-squared	0.904940	S.D. dependent var	0.222171
S.E. of regression	0.068500	Akaike info criterion	-2.649073
Sum squared resid	0.004692	Schwarz criterion	-2.822607
Log likelihood	12.94722	Hannan-Quinn criter.	-3.343743
F-statistic	12.89956	Durbin-Watson stat	3.609626
Prob(F-statistic)	0.205516		

Table 2

Jarque- Bera test was conducted to show the distribution of the data. The result of the test shows a probability of 0.713974 that is not significant which means the data were normally distributed.
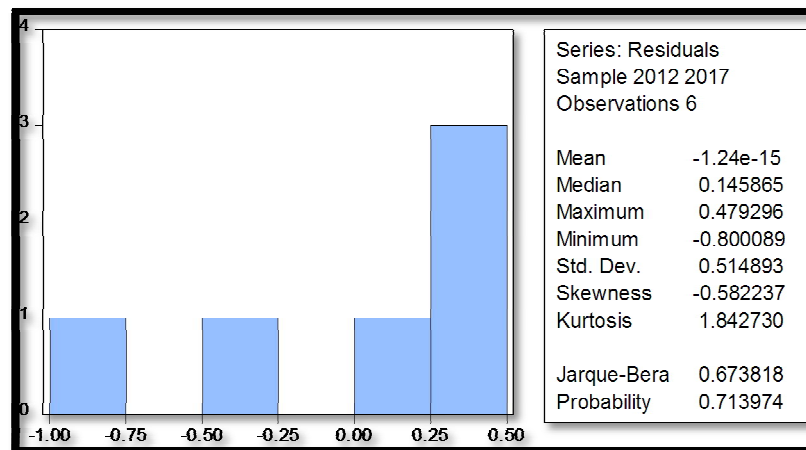
Series: Residuals
Sample 2012 2017
Observations 6

Mean	-1.24e-15
Median	0.145865
Maximum	0.479296
Minimum	-0.800089
Std. Dev.	0.514893
Skewness	-0.582237
Kurtosis	1.842730
Jarque-Bera	0.673818
Probability	0.713974

Figure 1

3.4. Regression Results

Regression analysis is discussed in this section. Both equations are checked separately and results are displayed in table 3.

Model 1: $ROA_t = \beta_0 + \beta_1 DEBTCAP_t + \varepsilon_t$

Dependent Variable: ROA
Method: Least Squares
Date: 10/03/18   Time: 17:18
Sample: 2012 2017
Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.863196	2.125116	-3.700126	0.0208
DEBTCAP	0.134916	0.037365	3.610769	0.0225

R-squared	0.765226	Mean dependent var		-0.495000
Adjusted R-squared	0.706532	S.D. dependent var		2.682661
S.E. of regression	1.453269	Akaike info criterion		3.846709
Sum squared resid	8.447961	Schwarz criterion		3.777296
Log likelihood	-9.540128	Hannan-Quinn criter.		3.568841
F-statistic	13.03765	Durbin-Watson stat		1.302556
Prob(F-statistic)	0.022541			

Table 3

From the table 3, it can be observed that the R^2 is 0.765226 which means that 76.52% of the variation in the performance of Jaiz bank in Nigeria is explained by the independent variable (DEBTCAP) as captured in the model. The F-statistics is 13.03765 which is significant at 5%. This indicates that the model is fit.

From the table 3, the relationship between leverage (DEBTCAP) and performance (ROA) can be seen. The results shows that DEBTCAP has a coefficient of 0.134916 and a P-value of 0.0225 which means that DEBTCAP is positively related to ROA , and the relationship is found to be significant at 5%. This suggests that Jaiz bank in Nigeria over the years had their DEBTCAP and ROA moving towards the same direction. That is, an increase in the debt/loan of the bank by 1% will lead to an increase in the ROA by 0.13%. The finding is in line with the study of Javed et al (2015) but contradicts the findings of Bafana et al (2015), Mohamed (2016) and Knekwe et al (2014) who found a negative value.

Model 2: $ROE_t = \beta_0 + \beta_1 DEBTCAP_t + \varepsilon_t$

Dependent Variable: ROE
Method: Least Squares
Date: 10/03/18   Time: 17:23
Sample: 2012 2017
Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-14.54444	6.928050	-2.099356	0.1037
DEBTCAP	0.286031	0.121812	2.348129	0.0787

R-squared	0.579554	Mean dependent var		1.076667
Adjusted R-squared	0.474443	S.D. dependent var		6.535282
S.E. of regression	4.737775	Akaike info criterion		6.210214
Sum squared resid	89.78603	Schwarz criterion		6.140800
Log likelihood	-16.63064	Hannan-Quinn criter.		5.932346
F-statistic	5.513708	Durbin-Watson stat		2.125082
Prob(F-statistic)	0.078676			

Table 4

It can be observed from the table 4 that the R^2 is 0.579554 which means that 57.95% of the variation in the performance of Jaiz bank in Nigeria is explained by the independent variable (DEBTCAP) as captured in the model. The F-statistics is 5.513708 which is insignificant. This indicates that the model is not fit.

From the table 4, the results shows that DEBTCAP has a coefficient of 0.286031 and a P-value of 0.0787 which means that DEBTCAP has a positive value with ROE and the value of these variables is found to be insignificant. This implies that, an increase in the debt/loan of the bank by 1% will lead to an increase in the ROE by 0.286%. This is possible because if this bank has loan as part of their capital structure, this will make it possible for the bank to increase their investment, as it is seen that using loan and shareholders fund in financing investments will increase the performance of the bank and also make it possible for them to maximize shareholders wealth. The finding is in line with the study of Gweyi et al (2014) but contradicts the findings of Mohamed (2016) and Javed (2015) who found a negative value.

Model 3: $ROCE_t = \beta_0 + \beta_1 DEBTCAP_t + \varepsilon_t$

Dependent Variable: ROCE
Method: Least Squares
Date: 10/03/18   Time: 17:26
Sample: 2012 2017
Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	12.45272	2.939715	4.236029	0.0133
DEBTCAP	-0.155750	0.051688	-3.013310	0.0394

R-squared	0.694190	Mean dependent var		3.946667
Adjusted R-squared	0.617738	S.D. dependent var		3.251533
S.E. of regression	2.010336	Akaike info criterion		4.495683
Sum squared resid	16.16581	Schwarz criterion		4.426269
Log likelihood	-11.48705	Hannan-Quinn criter.		4.217815
F-statistic	9.080036	Durbin-Watson stat		1.766907
Prob(F-statistic)	0.039422			

Table 5

From the regression result in table 5, it can be seen that the R-squared has a value of 0.694190, which means that the independent variable (DEBTCAP) alone has explained about 69.41% of the variation in the performance (ROCE) of Jaiz bank in Nigeria, while the remaining 30.59 would be explained by other variables not captured in the study model. The F-statistics of 9.080036 with a p-value of 0.039422 which is significant at 5% shows the model is fit.

It can be inferred from the table that DEBTCAP has a coefficient and P-value of -0.155750 and 0.0394. This implies that DEBTCAP has a negative value with ROCE. The negative value means that DEBTCAP and ROCE are moving in a contrary or opposite direction. The implication is that, an increase in DEBTCAP by 1% will reduce ROCE by 0.155750%. Also, the value is found significant. The addition of debt/ loan to investment by Jaiz could reduce the ROCE because, the bank has to pay interest on the debt/loan and this will have a decrease effect on the return the debt/loan has brought for them, as the

interest will be paid from the return. The finding is in line with the study of Javed et al (2015) but contradicts the findings of Ashraf, Ahmad & Mehmood (2017) who found a negative value.

4. Conclusion and Recommendations

The study examined the effect of leverage on performance of Jaiz Bank in Nigeria for the period 2012 to 2017. Data were sourced from annual financial reports of the firms. The study proxied leverage by debt to capital ratio, while performance is proxied by profitability. The profitability is measured using return on asset, return on equity and return on capital employed. Using multivariate regression to analyze the data, this study found that there is a positive and significant relationship between DEBTCAP and ROA. In addition, positive and insignificant relationship exists between DEBTCAP and ROE. However, the relationship between DEBTCAP and ROCE is negative and significant.

Based on the findings, it's necessary to recommend that Jaiz Bank in Nigeria should not refrain from including loan/debt in their capital mix, or they should have more of debt capital for financing their investments as this will lead to an increase in the return of their assets. Jaiz Bank in Nigeria should resist from going for debt in financing their investments, as this will reduce the return the on the amount investments. This is because interest on the debt has to be paid with the debt from the amount investment. Finally, further research on timeliness of financial reporting should be conducted using other corporate governance variables.

6. References

i. Ali, M. (2014). Relationship between Financial Leverage and Financial Performance (Evidence of Listed Chemical Companies of Pakistan). Research Journal of Finance and Accounting, 5(23), 46-56.
ii. Aliu, N. O. (2010). Effect of Capital Structure on the Performance of Quoted Manufacturing Firms in Nigeria. Unpublished Thesis. Ahmadu Bello University.
iii. Alkhatib, K. (2012) the Determinants of Leverage of Listed Companies, International Journal of Business andSocial Science. 3(24): 78-83.
iv. Almajali .Y.A., Alamro, A.S. & Al-Soub, Z.Y., (2012), Factors Affecting the Financial Performance of Jordanian Insurance Companies Listed at Amman Stock Exchange, Journal of Management Research, 4(2), 226-289
v. Al-Otaibi, R. (2015). Impact of Financial Leverage on the Company's Financial Performance. Saudi Arabia
vi. Ashraf, M., & Ahmad M. W., Mehmood N. (2017). The Impact of Financial Leverage on Firm Performance in Fuel and Energy Sector, Pakistan. Journal of Energy Technologies and policy.
vii. Baker and Wurgler, "Market Timing and Capital Structure", The Journal of Finance, 2002. http://www.blackwellpublishing.com/content/BPL_Images/Journal_Samples/JOFI0022-1082~57~1~414%5C414.pdf
viii. Brealey, R. A., Myers, S. C., Allen, F. (2017), Principles of Corporate Finance
ix. Calabrese, T. D. (2011). Testing Competing Capital Structure Theories of Nonprofit Organizations. Public Budgeting & Finance, 119-143
x. Chadha, S., & Sharma, A. K. (2015). Capital Structure and Firm Performance: Empirical Evidence from India. Vision: The Journal of Business Perspective, 19(4), 295–302.https://doi.org/10.1177/0972262915610852
xi. Dufera, A. (2010). Financial Performance Evaluation: A Case Study of Awash International Bank. Unpublished MSc Project. Mekelle University, Ethiopia
xii. Fama, Eugene F.; French, Kenneth R. (1 January 2002). "Testing Trade-Off and Pecking Order Predictions About Dividends and Debt". Review of Financial Studies. 15 (1): 1–33. Doi:10.1093/rfs/15.1.1. Retrieved 1 November 2018.
xiii. Iswatia, S., & Anshoria, M., (2007), The Influence of Intellectual Capital to Financial Performance at Insurance Companies in Jakarta Stock Exchange (JSE), Proceedings of the 13th Asia Pacific Management Conference. Melbourne.
xiv. Itiri, I. O. (2014). Impact of Financial Structure on the Performance of Quoted Firms in Nigeria. University of Nigeria
xv. Javed, Z. H., Rao, H. H., Akram, B., & Nazir, M. F. (2015). Effect of financial leverage on performance of the firms: Empirical evidence from Pakistan. SPOUDAI-Journal of Economics and Business, 65(1-2), 87-95.
xvi. Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and capital structure. Journal of Financial Economics, 3, 305-60
xvii. Jeleel, A., & Olayiwola, B. (2017). Effect of Leverage on Firm Performance in Nigeria: A Case of Listed Chemicals and Paints Firms in Nigeria. Global Journal of Management and Business Research.
xviii. Maghanga, E. N & Kalio, A. M. (2012). Effects of Leverage on the Financial Performance of Parastatals: A Case Study of Kenya Power. International Journal of Science and Research, 3(10), 990 – 994
xix. Modigliani, F., & Miller, M. H. (1958). The cost of capital, corporation finance and the theory of investment. The American economic review, 48(3), 261-297
xx. Mohamed, I. B. (2016). Effect of financial leverage on financial performance of non-financial firms listed at the nairobi securities exchange (doctoral dissertation, school of business, university of nairobi).
xxi. Mule, M. K. & Mukras, M. S. (2015). Financial Leverage and Performance of Listed Firms in a Frontier Market: Panel Evidence from Kenya. European Scientific Journal, 11(7), 547 – 563
xxii. Muchiri, M. J., Muturi, W. M. & Ngumi, P. M. (2016). Relationship between Financial Structure and Financial Performance of Firms Listed at East Africa Securities Exchanges. Journal of Emerging Issues in Economics, Finance and Banking, 5 (1), 1734 - 1755

xxiii. Myers, S. C. (1984), The capital structure puzzle, The journal of finance

xxiv.   Myers, Stewart C.; Majluf, Nicholas S. (1984). "Corporate financing and investment decisions when firms have information that investors do not have". Journal of Financial Economics. 13 (2): 187–221. doi:10.1016/0304-405X(84)90023-0

xxv.   Njeri, M.M.K. & Kagiri, A.W. (2013), Effect of Capital Structure on Financial Performance of Banking Institutions Listed in Nairobi Securities Exchange, International Journal of Science and Research.

xxvi.   Nyamita, M. O. (2014). Factors Influencing Debt Financing and Its Effects on Financial Performance of State Corporations in Kenya. Doctorate Thesis. Durban University of Technology

xxvii. Omondi, O. M. & Muturi, W. (2013). Factors Affecting the Financial Performance of Listed Companies at the Nairobi Securities Exchange in Kenya. Research Journal of Finance and Accounting, 4 (15), 99 – 104.

xxviii. Perinpanathan, R. (2014). Impact of Financial Leverage on Financial Performance Special Reference to John Keels Holdings PLC Sri Lanka.

xxix.   Xu, M. & Wanrapee, B. (2014). Factors Affecting Financial Performance of Firms Listed on Shanghai Stock Exchange 50. University of the Thailand.

xxx.   Yahaya, O. A., & Lamidi, Y. (2015). Empirical examination of the financial performance of islamic banking in Nigeria: a case study approach. International Journal of Accounting Research, 2(7), 1-13.

xxxi.   Zeidan, Rodrigo M.; Galil, Koresh; Shapir, Offer Moshe (2018). "Do Ultimate Owners Follow the Pecking Order Theory?". SSRN Electronic Journal. Doi:10.2139/ssrn.2747749. Retrieved 1 November 2018.