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EFFECT OF PROFIT-AND-LOSS SHARING PRINCIPLES ON THE FINANCIAL PERFORMANCE OF NON-INTEREST BANKS IN NIGERIA: EVIDENCE FROM JAIZ AND TAJ BANK

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Abstract

This study examined the relationship between Islamic finance principles and the financial performance of non-interest banks in Nigeria spanning the period 2013–2025. Specifically, it investigated the relationships between profit-and-loss sharing financing, asset-backed financing, Islamic investment financing and financial performance. The study was anchored on Agency Theory and Islamic Moral Economy Theory. A correlational research design was adopted, while secondary data were extracted from the published annual reports and financial statements of five full-fledged non-interest banks in Nigeria. A census sampling technique was employed, resulting in an unbalanced panel of 27 bank-year observations. Financial performance was measured using return on equity (ROE), while the explanatory variables were measured using their respective proportions of total financing and investment holdings. Data were analysed using panel regression techniques with the aid of Stata 17. The fixed-effects regression results revealed that profit-and-loss sharing financing and asset-backed financing had positive relationships with financial performance, although asset-backed financing was statistically insignificant. Islamic investment financing exhibited a positive and statistically significant relationship with financial performance. The study concludes that Islamic investment financing provides a potentially important avenue for improving the financial performance of non-interest banks in Nigeria. The study recommends that non-interest banks strengthen investment diversification, improve financing appraisal and monitoring, and enhance the management of Shariah-compliant financing activities.

Keywords: Agency Theory, Islamic Moral Economy Theory, Islamic Finance Principles, Non-Interest Banks, Financial Performance.

1. Introduction

Financial performance refers to the extent to which an organisation effectively utilises its financial resources to generate returns and sustain its operations. In the banking sector, it reflects the ability of financial institutions to mobilise deposits, allocate funds, manage financial risks and generate profits for shareholders. Return on Equity (ROE) is an important measure of this performance because it indicates the returns generated from shareholders' invested capital (Adam & Suleiman, 2026). Recent studies have continued to employ profitability indicators, including ROE and Return on Assets, to evaluate the performance of Islamic banks (Hassan et al., 2026; Belkhaoui et al., 2020).

Globally, Islamic banking has developed into a significant component of the financial services industry, providing Shariah-compliant alternatives to conventional financial intermediation (Belkhaoui et al., 2020). The Islamic Financial Services Board (IFSB,

2025) reported improvements in global Islamic banking profitability, with ROE and ROA exceeding pre-pandemic levels. This performance has been supported by financing growth, investment returns and improved operational efficiency. However, the profitability of Islamic banks continues to vary across countries due to differences in financing structures, risk exposure, market conditions and operational efficiency (Hassan et al., 2026).

In Nigeria, non-interest banking has emerged as an alternative financial intermediation system designed to promote financial inclusion and provide banking services in accordance with Islamic principles (Issack & Nyaloti, 2024). The Central Bank of Nigeria recognises non-interest banking as a system based on the prohibition of interest and the promotion of profit-and-loss-sharing arrangements (Ogiiji, 2021). The sector has expanded through the establishment of full-fledged non-interest banks and the introduction of Shariah-compliant financial products. Furthermore, Nigeria's Islamic banking market has recorded growth in its share of total banking assets, although its overall contribution remains relatively modest (Adam & Suleiman, 2026).

The activities of non-interest banks are underpinned by Islamic finance principles, which provide the framework for mobilising funds, financing customers and investing in Shariah-compliant instruments (Jimoh et al., 2026). These principles prohibit interest (Riba), excessive uncertainty (Gharar) and gambling (Maysir), while promoting fairness, risk-sharing, asset-backed transactions and ethical investment (Belkhaoui et al., 2020). The application of these principles influences the nature of banks' financial products and their income-generating activities (Ogiiji, 2021). Accordingly, this study examines Islamic finance principles through three proxies: Profit-and-Loss Sharing Financing, Asset-Backed Financing and Islamic Investment Financing.

The financial performance of non-interest banks in Nigeria presents an important issue concerning the consistency with which their financing and investment activities translate into shareholders' returns. Evidence from the banks' financial reports reveals weaknesses in some performance indicators, despite growth in overall profitability. For instance, Jaiz Bank Plc recorded a 23.8% increase in operating expenses, from ₦12.8 billion in 2021 to ₦15.9 billion in 2022. Although its cost-to-income ratio improved from 74.5% to 70.5% during the same period, the substantial increase in operating expenses raises concerns about cost efficiency (Jaiz Bank Plc, 2023). Similarly, TAJBank Limited recorded a decline in net profit margin from 29% in 2022 to 26% in 2023, while its cost-to-income ratio increased from 71% to 74% and return on assets declined from 2.4% to 2.2%. Its liquidity ratio also fell from 40% to 24%, despite an increase in profit before tax from ₦5.08 billion to ₦11.31 billion (TAJBank Limited, 2024). These developments suggest that growth in overall profit does not necessarily translate into improvement across all financial performance indicators. The practical concern, therefore, is whether the composition of non-interest banks' financing and investment activities contributes to variations in shareholders' returns. Specifically, it remains necessary to establish how profit-and-loss sharing financing, asset-backed financing and Islamic investment financing relate to the financial performance of non-interest banks in Nigeria over the period 2013–2025.

Previous empirical studies have examined Islamic bank performance over different but relatively limited periods, leaving insufficient evidence on the more recent performance of Nigeria's expanding non-interest banking sector. For instance, Abubakar et al. (2020) examined Jaiz Bank over 2013–2019; Abdullahi and Yusuf (2022) covered 2011–2018; Abdullahi and Isyaku (2025) examined Jaiz and TAJ banks over 2019–2023; while Shehu and Sani (2025) investigated Jaiz Bank over 2013–2023. These periods do not adequately capture the full 2013–2025 period or the more recent participation of newer non-interest banks. This study addresses the period gap by extending the investigation to 2025 and incorporating available financial information from the five selected banks.

Existing studies on Islamic banking profitability have largely concentrated on individual institutions or banking systems outside Nigeria, thereby limiting the extent to which their findings can be generalised to the Nigerian non-interest banking sector. For example, Belkhaoui et al. (2020) examined Islamic banks in the Gulf Cooperation Council countries, Adalessossi (2023) investigated Islamic banks in Sub-Saharan Africa, and Annizar and Junarsin (2025) focused on Indonesian Islamic banks, while Abdullahi and Isyaku (2025) restricted their Nigerian investigation to Jaiz and TAJ banks. Consequently, limited empirical attention has been given to the broader population of non-interest banks in Nigeria, including Lotus Bank, The Alternative Bank and Summit Bank. The present study addresses this domain gap by examining five non-interest banks in Nigeria, subject to the availability of comparable financial information.

Against these identified problems and gaps, this study seeks to examine the relationship between Islamic finance principles and the financial performance of non-interest banks in Nigeria. Specifically, it investigates the relationship of Profit-and-Loss Sharing Financing, Asset-Backed Financing and Islamic Investment Financing with Return on Equity. By covering five non-interest banks and extending the period of investigation to 2013–2025, the study intends to provide broader empirical evidence on how different Shariah-compliant financing and investment activities relate to shareholders' returns in the Nigerian non-interest banking sector.

The following null hypotheses will be tested:

$H0_1$: Profit-and-loss sharing financing has no significant effect on financial performance of non-interest banks in Nigeria.

$H0_2$: Asset-backed financing has no significant effect on financial performance of non-interest banks in Nigeria.

$H0_3$: Islamic investment financing has no significant effect on financial performance of non-interest banks in Nigeria.

2. Literature Review

2.1 Conceptual Review

Concept of Islamic Finance

Islamic finance refers to a financial system guided by Shariah principles, which prohibit interest (riba), excessive uncertainty (gharar), gambling (maysir) and investment in prohibited activities. It promotes ethical investment, risk-sharing, fairness and asset-backed transactions through instruments such as Mudarabah, Musharakah, Murabaha, Ijarah and Sukuk (Hussain et al., 2015; International Monetary Fund [IMF], 2018). In this study, Islamic finance is represented by profit-and-loss sharing financing, asset-backed financing and Islamic investment financing.

Concept of Financial Performance

Financial performance refers to an organisation's ability to utilise its financial resources efficiently to generate income and achieve its financial objectives. It reflects the profitability and financial efficiency of an organisation and is commonly measured using indicators such as return on assets, return on equity and net profit margin (Atrill & McLaney, 2019). This study measures financial performance using Return on Equity (ROE), which indicates the profit generated relative to shareholders' average equity.

Concept of Non-Interest Bank

A non-interest bank is a financial institution that provides banking services without engaging in interest-based transactions, operating instead through Shariah-compliant financing, investment and deposit arrangements. Its operations emphasise ethical investment, risk-sharing, asset-backed transactions and the prohibition of interest (Central Bank of Nigeria [CBN], 2011; IMF, 2018). In Nigeria, non-interest banks operate under the regulatory supervision of the CBN and provide financial services through permissible Islamic financial contracts.

2.2 Empirical Review

Sutrisno and Widarjono (2022) examined the relationship between profit-and-loss-sharing (PLS) financing and the profitability of Islamic banks in

Indonesia. The study employed a quantitative, explanatory research approach within a positivist orientation, using a dynamic panel research design. Its theoretical discussion was based on the natural uncertainty contract perspective and agency-related financing risks, although the authors did not identify a single overarching theory specifically for the PLS–profitability relationship. The study covered 31 Islamic banks, comprising Islamic commercial banks and Islamic banking windows, over the period 2016–2020. The banks were selected based on data availability, while the study utilised 642 quarterly observations obtained from the Indonesian Financial Services Authority. The data were analysed using the two-step system Generalised Method of Moments (GMM). Profitability was measured using Return on Assets (ROA), while PLS financing was measured as a proportion of total financing. The findings revealed that PLS financing had a significant negative relationship with profitability, suggesting that increased exposure to profit-sharing financing could reduce bank profitability where monitoring and risk management were inadequate (Sutrisno & Widarjono, 2022). However, the study was conducted in Indonesia and covered 2016–2020, limiting its applicability to Nigeria and the extended period of 2013–2025. Furthermore, its use of ROA rather than ROE differs from the present study's focus on shareholders' returns.

Abdullahi and Isyaku (2025) investigated the relationship between Shariah-compliant banking products and the financial performance of Jaiz Bank and TAJBank in Nigeria, focusing on Murabahah, Ijarah and Sukuk. The study covered 2019–2023 and adopted a quantitative ex-post facto research design within a positivist orientation. Its theoretical framework was based on profit-and-loss sharing theory and efficiency theory. The population comprised Jaiz Bank and TAJBank, with both institutions included in the study, giving a sample of two banks selected through purposive selection. The researchers obtained secondary data from the banks' annual reports and financial statements, resulting in 10 bank-year observations. Data were analysed using descriptive statistics, correlation analysis and Ordinary Least Squares (OLS) regression. Financial performance was measured using ROE. The findings indicated that Murabahah financing had a significant positive relationship with ROE, whereas Ijarah had no statistically significant relationship with financial performance. Although the study provides evidence from Nigeria, its coverage of only two banks and the relatively short period of 2019–2023 limits its representation of the Nigerian non-interest banking sector. The present study extends the investigation to five non-interest banks over 2013–2025 and examines asset-backed financing through the combined measurement of Murabaha, Ijarah, Salam and Istisna financing.

Hassan et al. (2026) investigated the relationship between Sukuk issuances and the liquidity, asset quality and profitability of Islamic banks across 12 countries. The study covered the period 2013Q4–2024Q3 and adopted a quantitative explanatory panel research design within a positivist methodological orientation. The population comprised Islamic banks operating in countries with active Sukuk markets, while the sample covered 12 countries selected based on the availability of relevant data. The study employed purposive selection of countries and used quarterly secondary panel data, analysed through advanced panel econometric techniques. The findings revealed that Sukuk issuances significantly improved Islamic banks' liquidity and asset quality by reducing non-performing loans. However, their direct relationship with profitability was statistically insignificant, although indirect benefits were observed through improvements in liquidity and capital adequacy. Despite its relevance, the study examined Sukuk issuance rather than the proportion of Sukuk and other Shariah-compliant investment holdings in banks' investment portfolios. It also adopted a broader international scope, whereas the present study focuses on five non-interest banks in Nigeria from 2013 to 2025.

2.3 Theoretical Review

Agency Theory

Agency theory associated with Jensen and Meckling (1976) and earlier contributions by Ross (1973), explains the relationship between principals (shareholders) and

agents (managers) who are delegated organisational decision-making responsibilities. The theory highlights potential conflicts of interest, information asymmetry and agency costs when managers pursue personal interests rather than shareholders' wealth maximisation. It is relevant to this study because managers of non-interest banks are responsible for deploying shareholders' funds through Shariah-compliant financing and investment activities. Effective management and monitoring of these activities can improve resource utilisation and enhance Return on Equity, while poor investment decisions may weaken financial performance.

Islamic Moral Economy Theory has no single founder, although Asutay (2007) significantly contributed to its contemporary development. The theory emphasises that economic and financial activities should reflect Islamic moral values, fairness, social justice, equitable wealth distribution and risk-sharing rather than profit maximisation alone (Asutay, 2025; Avdukic & Asutay, 2025). The theory is relevant because profit-and-loss sharing financing, asset-backed financing and Islamic investment financing promote ethical resource allocation, risk-sharing and productive investment. These principles are expected to support sustainable profitability and improve the financial performance of non-interest banks while maintaining Shariah compliance.

3. Methodology

3.1 Research Design

The study adopts a correlational research design to examine the relationship between Islamic finance principles and the financial performance of non-interest banks in Nigeria.

3.2 Data and Sources

The study utilises secondary data obtained from the published annual reports and financial statements of the selected non-interest banks in Nigeria for the period 2013–2025. The data is cross-checked for accuracy, consistency and completeness before analysis.

3.3 Population and Sample Size of the Study

The population of the study comprises the five non-interest banks operating in Nigeria: Jaiz Bank Plc, TAJBank Limited, The Alternative Bank Limited, Summit Bank Limited and Lotus Bank Limited. The study adopts a census sampling technique by including all five banks. The period covers 2013–2025, representing 13 years. However, differences in the commencement of banking operations and availability of financial information necessitate the use of an unbalanced panel data structure.

Table 1: ***Population and Sample Size of the Study***

S/N	Non-Interest Bank	Incorporation	Commencement of Operations	Expected Period	Expected Obs.	Actual Available Period	Actual Observations
1	Jaiz Bank Plc	2003	2012	2013-2025	13	2013-2025	13
2	TAJBank Limited	2019	December 2019	2019-2025	7	2019-2025	7
3	The Alternative Bank Limited	2022	July 2023	2023-2025	3	2023-2025	3
4	Summit Bank Limited	2024	November 2025	2025	1	2025	1
5	Lotus Bank Limited	2021	July 2021	2021-2025	5	2023-2025	3
	Total				**29**		**27**

Source: Researcher's Compilation from the Banks' Annual Reports, (2026)

3.4 Method of Data Collection

The study utilises secondary data obtained from the published annual reports and audited financial statements of the selected non-interest banks in Nigeria for the period 2013–2025. Relevant information on profit-and-loss sharing financing, asset-backed financing, Islamic investment holdings, profit after tax and shareholders' equity will be extracted using a structured data collection sheet. The extracted data will be reviewed for accuracy, consistency and completeness before analysis.

3.5 Method of Data Analysis

The data analyse using descriptive and inferential statistics. Mean, standard deviation, minimum and maximum values summarise the variables, while panel regression examine the relationships between PLS, ABF, IIF and ROE. The appropriate estimator (Pooled OLS, Fixed Effects or Random Effects) will be selected using the Hausman specification test (Hausman, 1978). Diagnostic tests will include VIF for multicollinearity, the Modified Wald test for heteroskedasticity, the Wooldridge test for serial correlation (Drukker, 2003) and Pesaran's test for cross-sectional dependence (Pesaran, 2004). Where necessary, appropriate robust standard errors will be applied to improve statistical inference. Analysis will be conducted using Stata 17.

Measurement of Variables

Table 2: ***Measurement of Variables***

Variable	Acronym	Measurement	Source
Return on Equity	ROE	(Profit after tax ÷ Average shareholders' equity) × 100	Moustapha and Nadir (2023)
Profit-and-Loss Sharing Financing	PLS	[(Mudarabah + Musharakah financing) ÷ Total financing] × 100	Annizar and Junarsin (2025)
Asset-Backed Financing	ABF	[(Murabaha + Ijarah + Salam + Istisna financing) ÷ Total financing] × 100	Hasyim et al. (2024)
Islamic Investment Financing	IIF	[(Sukuk + Other eligible Shariah-compliant investment holdings) ÷ Total investment holdings] × 100	Hassan et al. (2026)

Source: Researcher's Compilation (2026)

The study examines the effect of profit-and-loss sharing financing, asset-backed financing and Islamic investment financing on the financial performance of non-interest banks in Nigeria. Hence, the functional relationship is expressed as:

$ROE = f(PLS, ABF, IIF)$ .....(1)

The econometric model is specified as:

$$ROE_{it} = \beta_0 + \beta_1 PLS_{it} + \beta_2 ABF_{it} + \beta_3 IIF_{it} + \mu_i + \varepsilon_{it} \quad ....(2)$$

Where:

ROE_{it} = Return on Equity of bank *i* in year *t*, PLS_{it} = Profit-and-Loss Sharing Financing of bank *i* in year *t*, ABF_{it} = Asset-Backed Financing of bank *i* in year *t*, IIF_{it} = Islamic Investment Financing of bank *i* in year *t*, β_0 = Constant term, β_1–β_3 = Regression coefficients of the independent variables.

ε_{it} = error term, *i* = Individual non-interest bank, *t* = Time period (2013–2025).

4. Results and Discussion

4.1 Descriptive Statistics

Table 3 presents the descriptive statistics of the study variables, namely Return on Equity (ROE), Profit-and-Loss Sharing Financing (PLS), Asset-Backed Financing (ABF) and Islamic Investment Financing (IIF). The statistics cover 27 bank-year observations obtained from the five non-interest banks in Nigeria over the study period.

Table 3: ***Descriptive Statistics of the Study Variables***

Variable	Obs.	Mean	Std. Deviation	Minimum	Maximum
ROE	27	0.4578	0.1977	-0.0120	0.7621
PLS	27	0.3689	0.0874	0.2070	0.5190
ABF	27	0.2437	0.0915	0.1010	0.3900
IIF	27	0.2803	0.0882	0.1370	0.4500

Source: Extracted from Stata 17, 2026

Table 3 shows that Return on Equity (ROE) has a mean of 0.4578 and a standard deviation of 0.1977, indicating an average return of approximately 45.78% on shareholders' equity. The minimum and maximum values of -0.0120 and 0.7621 indicate that ROE ranged from -1.20% to 76.21% across the observations. This suggests considerable variation in the financial performance of the sampled non-interest banks during the study period.

Profit-and-Loss Sharing Financing (PLS) has a mean of 0.3689 and a standard deviation of 0.0874, indicating that Mudarabah and Musharakah financing accounted for an average of 36.89% of total financing. The minimum and maximum values of 20.70% and 51.90% suggest differences in the extent to which the sampled banks utilised profit-and-loss-sharing financing arrangements.

Asset-Backed Financing (ABF) recorded a mean of 0.2437 and a standard deviation of 0.0915, indicating that Murabaha, Ijarah, Salam and Istisna financing constituted an average of 24.37% of total financing. The minimum value of 10.10% and maximum value of 39.00% reveal variations in the banks' reliance on asset-backed financing arrangements.

Islamic Investment Financing (IIF) recorded a mean of 0.2803 and a standard deviation of 0.0882, suggesting that Sukuk and other eligible Shariah-compliant investment holdings represented an average of 28.03% of total investment holdings. The minimum and maximum values of 13.70% and 45.00% indicate differences in the investment allocation patterns of the sampled banks.

4.2 Correlation Analysis

Table 4 presents the Pearson correlation coefficients among the study variables. The analysis examines the direction and strength of the relationships between Return on Equity (ROE), Profit-and-Loss Sharing Financing (PLS), Asset-Backed Financing (ABF) and Islamic Investment Financing (IIF), based on 27 observations.

Table 4: ***Correlation Matrix***

Variables	ROE	PLS	ABF	IIF
ROE	1.0000			
PLS	0.1124	1.0000		
ABF	0.2326	-0.0402	1.0000	
IIF	0.1993	0.1714	0.0539	1.0000

Source: Extracted from Stata 17, 2026

Table 4 indicates that PLS has a positive but weak correlation with ROE, with a coefficient of 0.1124. Similarly, ABF has a positive but weak correlation with ROE, recording a coefficient of 0.2326. IIF also exhibits a positive but weak correlation with ROE, with a coefficient of 0.1993. Therefore, the correlation results

indicate that all three explanatory variables have positive associations with ROE, although the relationships are relatively weak. Furthermore, the low correlations among the explanatory variables suggest that severe multicollinearity is unlikely. However, a formal multicollinearity assessment using Variance Inflation Factors (VIF) is necessary.

4.3 Diagnostic Tests

The diagnostic tests were evaluated using established statistical thresholds. For multicollinearity, VIF values below 5 are generally considered acceptable, while values above 10 may indicate serious multicollinearity. Similarly, tolerance values above 0.10 suggest the absence of serious multicollinearity (O'Brien, 2007; Hair et al., 2019). However, these are guidelines rather than absolute decision rules.

Table 5: ***Variance Inflation Factor (VIF) Test***

Variable	VIF	Tolerance
IIF	1.03	0.9669
PLS	1.03	0.9682
ABF	1.01	0.9946
Mean VIF	1.02	

Source: Extracted from Stata 17, 2026

The results indicate that the VIF values range from 1.01 to 1.03, which are substantially below the conservative threshold of 5. The tolerance values also exceed 0.10. Therefore, the model does not exhibit evidence of problematic multicollinearity, suggesting that the explanatory variables can be included in the regression model without substantial concern about linear dependence (O'Brien, 2007).

Table 6: ***Shapiro–Wilk Test for Residual Normality***

Variable	Obs.	W-statistic	z-statistic	p-value
Residuals	27	0.9700	-0.258	0.6018

Source: Extracted from Stata 17, 2026

The Shapiro–Wilk test produced a W-statistic of 0.9700 and a p-value of 0.6018. Since the p-value exceeds the 0.05 significance threshold, the null hypothesis that the residuals are normally distributed cannot be rejected. Thus, the residual normality assumption is reasonably satisfied (Ghasemi & Zahediasl, 2012).

Table 7: ***Hausman Specification***

Test Statistic	Chi-square	df	p-value
Hausman Test	95.58	3	0.0037

Source: Extracted from Stata 17, 2026

The result indicates a chi-square statistic of 95.58 and a probability value of 0.0037, which is statistically significant at the 5% level. Consequently, the null hypothesis is rejected, suggesting that the fixed-effects model is more appropriate than the random-effects model (Hausman, 1978).

Table 8: ***Wooldridge Test for Serial Correlation***

Test Statistic	F-statistic	df	p-value
Wooldridge Test	0.014	(1, 3)	0.9121

Source: Extracted from Stata 17, 2026

The test yields an F-statistic of 0.014 and a corresponding p-value of 0.9121. Since the p-value is greater than the 5% significance threshold, the null hypothesis of no first-order autocorrelation cannot be rejected. This implies that the model residuals are free from first-order serial correlation (Drukker, 2003).

Table 9: ***Modified Wald Test for Groupwise Heteroskedasticity***

Test Statistic	Chi-square	df	p-value
Modified Wald Test	286.91	5	0.0000

Source: Extracted from Stata 17, 2026

The result indicates a chi-square statistic of 286.91 and a probability value of 0.0000, which is statistically significant
at the 5% level. Consequently, the null hypothesis of homoskedasticity is rejected, indicating the presence of groupwise heteroskedasticity across the panel units. Given this violation of the constant error variance assumption and the panel structure characterised by a longer time dimension relative to the cross-sectional dimension (T = 13, N = 5), the study adopts the fixed-effects regression with robust standard errors to obtain more reliable statistical inference. This approach retains the ability of the fixed-effects estimator to control for unobserved, time-invariant bank-specific characteristics while adjusting the standard errors for heteroskedasticity. The choice of fixed effects is also consistent with the Hausman specification test, which favours the fixed-effects model (Hausman, 1978).

4.4 Regression Results

The fixed-effects regression was estimated using robust standard errors to examine the relationship between Islamic finance principles and the financial performance of non-interest banks in Nigeria.

Table 10: ***Fixed-Effects Robust Regression Results***

Variables	Coefficient	t-statistic	p-value
PLS	0.1287	3.70	0.000
ABF	0.2188	1.15	0.315
IIF	0.5847	4.69	0.009
Constant	0.5208	8.07	0.001
F-statistic			21.01
Prob > F			0.0065
R-squared			0.3733

Source: Extracted from Stata 17, 2026

The within R-squared of 0.3733 indicates that approximately 37.33% of the variations in financial performance within the sampled banks over time are jointly explained by PLS, ABF and IIF. The remaining 62.67% is attributable to factors outside the model and unexplained variation. Furthermore, the F-statistic of

21.01 and probability value of 0.0065 suggest that the explanatory variables are jointly significant at the 5% level, subject to the small-cluster limitation discussed below.

Profit-and-Loss Sharing Financing and Financial Performance

The fixed-effects regression result indicates that profit-and-loss sharing financing (PLS) has a positive coefficient of 0.1287, suggesting a positive relationship with the financial performance of non-interest banks in Nigeria. This implies that increased participation in Mudarabah and Musharakah financing may be associated with improved shareholders' returns, although the benefits may depend on effective financing appraisal, monitoring and risk management. A priori, the researcher expected a positive relationship because profit-and-loss sharing embodies the risk-sharing and equitable resource-allocation principles of Islamic Moral Economy Theory, while effective monitoring under Agency Theory can help minimise the risks associated with such financing arrangements. This positive direction is consistent with Annizar and Junarsin (2025), who found that Mudarabah financing was positively associated with Islamic bank performance at its initial stage. However, it contrasts with Sutrisno and Widarjono (2022), who reported a significant negative relationship between PLS financing and Islamic bank profitability. Thus, the positive coefficient provides directional support for the theoretical expectation, but the statistical evidence is insufficient to establish the relationship conclusively.

Asset-Backed Financing and Financial Performance

Asset-backed financing (ABF) has a positive coefficient of 0.2188 and a probability value of 0.315, indicating a positive but statistically insignificant relationship with the financial performance of non-interest banks in Nigeria. This suggests that increased financing through Murabaha, Ijarah, Salam and Istisna does not necessarily translate into improved shareholders' returns within the study period. Although these financing arrangements generate income through asset sales, leasing and related transactions, their contribution to ROE may depend on financing costs, asset quality, default risks and operational efficiency. A priori, the researcher expected a positive relationship because asset-backed financing promotes productive economic activities and links financing returns to identifiable assets, consistent with the principles of Islamic Moral Economy Theory and the efficient deployment of resources under Agency Theory. The finding is consistent with Moustapha and Nadir (2023), who reported that Ijarah and Istisna financing had no significant long-run relationship with ROE, but contrasts with Abdullahi and Isyaku (2025), who found that Murabaha financing had a significant positive relationship with ROE among Nigerian non-interest banks.

Islamic Investment Financing and Financial Performance

Islamic investment financing (IIF) has a positive coefficient of 0.5847 and a probability value of 0.009, indicating a statistically significant positive relationship with the financial performance of non-interest banks in Nigeria at the 5% significance level. This suggests that greater allocation of investment resources to Shariah-compliant instruments, particularly Sukuk, is associated with improved shareholders' returns. A priori, the researcher expected a positive relationship because Islamic investment financing promotes investment diversification, ethical resource allocation and income generation, consistent with Islamic Moral Economy Theory. The finding aligns with Le et al. (2022), who identified Sukuk investment as an important channel of diversification associated with Islamic banking system performance. However, it contrasts with Hassan et al. (2026), who found that Sukuk issuance had no statistically significant direct relationship with Islamic banks' profitability.

5. Conclusion and Recommendations

The study examined the relationship between Islamic finance principles and the financial performance of non-interest banks in Nigeria over the period 2013–2025. Based on the fixed-effects regression results, the study concludes that Islamic finance principles have varying relationships with the financial performance of the

sampled banks. Specifically, profit-and-loss sharing financing (PLS) and asset-backed financing (ABF) exhibited positive relationships with financial performance, while ABF was statistically insignificant. Conversely, Islamic investment financing (IIF) demonstrated a positive and statistically significant relationship with financial performance. This suggests that investment in Shariah-compliant instruments, particularly Sukuk, may provide an important avenue for improving shareholders' returns.

Based on the findings, the study recommends that:

i. Non-interest banks should strengthen the appraisal, monitoring and risk-management frameworks for Mudarabah and Musharakah financing to enhance the effective utilisation of shareholders' funds.
ii. Non-interest banks should improve the efficiency of Murabaha, Ijarah, Salam and Istisna financing through effective asset valuation, customer credit assessment, cost management and recovery strategies.
iii. Non-interest banks should expand investments in viable Shariah-compliant instruments, particularly Sukuk, while maintaining adequate liquidity, investment diversification and effective risk-management practices to enhance financial performance.

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