Journal of Finance and Accounting

Investment Financing and Performance of Islamic Commercial Banks in Kenya

Adan Abdo Jarso & Mr. Gerald Kalenywa Atheru

ISSN: 2616-4965

Investment Financing and Performance of Islamic Commercial Banks in Kenya

[1*]Adan Abdo Jarso & [2]Mr. Gerald Kalenywa Atheru

[1]Post graduate Student, Kenyatta University

[2]Senior lecturer, Kenyatta University

***Corresponding Authors Email: abdo.adan1@gmail.com**

***How to cite this article*: Jarso, A.A. & Atheru, G.K. (2018) Investment Financing and Performance of Islamic Commercial Banks in Kenya. *Journal of Finance & Accounting*, Vol 2(2) pp. 60-75.**

Abstract

Investment financing is very important for good performance of Islamic commercial banks. Unlike conventional banks which depend heavily on the crutches of collateral and of non-participation in risk, Islamic commercial banks would have to rely heavily on project evaluation, especially for equity-oriented financing. Islamic commercial banks have continued to record decline in performance. For example performance of Gulf African banking reduced by 12 % in the year 2016 from the previous year 2015. This has greatly affected the saving rate of their customers. Most customers have also lost confidence in banking with those banks. The purpose of this study was to analyze the effect of investment financing on performance of Islamic commercial banks in Kenya. The study employed a descriptive survey research design and incorporated elements of both qualitative and quantitative approaches in terms of instruments and data analysis. The study population was the two fully fledged Islamic commercial banks which are First Community Bank Limited and Gulf African bank and five conventional banks that offer partial Islamic commercial banking (Barclays banks of Kenya, National Bank of Kenya, Diamond Trust Bank of Kenya, Kenya Commercial Bank and Standard Chartered Bank of Kenya). The study used primary data. The study used mean and percentages in this study. The study used Statistical Package for Social Sciences (SPSS) to generate the descriptive statistics and also to generate inferential results. Inferential included both correlations and regression. The study found that mortgage financing, equity financing and trade financing have a positive and significant relationship with performance of Islamic commercial banks. The study recommends that banks should make the interest rates for mortgages affordable so as to boost their performance. In addition banks should make the process of getting a mortgage in their bank is simple and short. The repayment period given to customers for the mortgage should be favorable. This will encourage customers to take the mortgage thus improving the banks performance.

Key words: *investment financing, performance, mortgage financing, trade financing, equity financing*

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance & Accounting
Volume 2||Issue 2||Page 60- 75||October||2018|
Email:info@stratfordjournals.org ISSN 2616-4965

1.0 INTRODUCTION

1.1 Background of the Study

Islamic commercial banking refers to a conduct of banking operations in consonance with Islamic teachings (Abubakar & Aduda, 2017). Islamic commercial banking system has been growing quickly in the course of recent years. This framework has been expanding significantly around the globe including Middle Eastern nations, Southeast Asian nations, European nations, North American and even in East Africa (Guyo & Adan, 2013). The decision that informed the formation of Islamic commercial banks was to attract clients who want to avoid premium. Since premium is restricted in Islam, Islamic commercial banks need to refrain from it in any form. Therefore, Islamic commercial banks established a Profit-Loss Sharing System (PLS) and various sales contracts.

The Islamic commercial banking system needs to work as per Islamic rules and standards (Hassan & Bashir, 2003). Islamic commercial banking begun as a practical reality and began functioning in 1970s with the key idea of providing services to its clients free from interest, and prohibited the giving and taking of premium (Riba) in all exchanges. Prohibition of interest (Riba) makes Islamic commercial banking framework vary from the ordinary banking system. The primary distinction amongst Islamic and traditional banks is the utilization of cash. In customary banks, cash is utilized as a product that is purchased and sold through the premium's utilization (Visser, 2009).

While the sole purpose of conventional banks is profit, Islamic commercial banks are established for religion motives besides making profit. Since they are founded on the bases of religion of Islam, they should agree to its standards, underscoring more on good values. Nevertheless, Islamic commercial banks are expected to make benefit from their business operations at the same time. This implies that Islamic commercial banks must create a balance between profit and religion to succeed. In their business goals, they should discover the equilibrium between religion and profit, on the grounds that in accomplishing one viewpoint and not the other, the banks are vanquishing the entire motivation behind their presence. By prevailing with regards to making profits just while disregarding the standards of Shariah compliance, the bank is a disappointment as an Islamic organization (Rosly, 2005). Then again, concentrating exclusively on Islamic law and neglecting the benefit making parts of the bank's operations would mean its failure as a business entity, prompting insolvency and finally failure. In this manner, a solid harmony between both of its key elements, profit and religion, is paramount for the survival of a bank as an Islamic financial institution (Chong & Liu, 2009).

There are some core factors contributing to the recent success of Islamic commercial banking and finance, such as spiraling oil prices worldwide, prolonged boom in the Middle eastern economies, product innovation and sophistication, increase receptive attitude of conventional regulators and information advancements that have been acting as a catalyst for the Islamic commercial banking and finance industry to go global (Khan & Bhatti, 2008). According to the PLS (profit and loss sharing) principle, the bank may earn a return on invested funds provided that the bank shares in the risk of the investment and bears a loss if the project fails. Islamic commercial banks utilize two instruments based on two major principles namely Mudarabah and Musharakah.

Mudarabah financing is where the bank provides capital and the entrepreneur contributes effort and exercises complete control over the business venture. In case of a loss, the bank earns no return or a negative return on its investment and the entrepreneur receives no compensation for his/her effort. In case of a gain, returns are split according to a negotiated equity percentage (Aggarwal & Yousef, 2000). Musharaka financing, where the entrepreneur and the bank jointly supply the capital and manage the project. Losses are borne in proportion to the contribution of capital while profit proportions are negotiated freely (Aggarwal & Yousef, 2000).

Although Mudarabah and Musharakah are the two primary true Islamic methods of fund in Islamic commercial banking system, the banking industry has not fully promoted these basic Islamic modes of finance. This means that nowadays, Murabaha and Ijara play a major role in Islamic commercial banking (Ringim, Osman, Hasnan & Razalli, 2013). Ijara contract is an agreement in which a lessor (mu'ajjir) rents physical property or assets to a tenant (musta'jir) who gets the advantages connected with responsibility for resource against installment of predetermined rentals (ujrah). According to Ahmad and Haron (2002), Murabaha, a type of Islamic contract is a standout amongst the most broadly used methods of financing by the Islamic commercial banks.

This instrument is being utilized for financing of real estate, consumer durables and in the business for buying raw materials, equipment or machinery. Mudarabah is an agreement between a capital supplier (rabbul mal) and a business visionary (Mudarib) under which the rabbul mal gives capital to be overseen by the Mudarib and any benefit produced from the capital is shared between the rabbulmal and Mudarib according to mutually settled profit sharing ratio (PSR) while losses are borne by the rabbulmal as long as those misfortunes are not due to the mudarib's carelessness (taqsir), delinquency (ta`addi), or breach of determined terms (mukhalafahal-shurut) (Rammal & Zurbruegg, 2007). Istisna's gives medium term financing to meet the finance needed for supplying / manufacturing / sale of distinguished products, for example, construction / industrial machinery, equipment, load vessels, oil tankers, trawlers, locomotives and dredgers (Rammal & Zurbruegg, 2007).

In addition, Islamic commercial banks performance is generally superior to that of conventional banks. Islamic commercial banks are profitable, well capitalized, and stable because of their successful utilization of assets. In contrast with universal guidelines in banking, Islamic commercial banks are at standard with them in terms of profitability ratios yet their operations are not cost effective (Badreldin, 2012). Campbell (2010) observed that at the onset of the global financial crisis of 2008, Islamic commercial banks were seen as one type of financial institution that had fared well and they were viewed by some as a possible savior to fill the gap made by failed conventional banks. Islamic commercial banking is grounded on the prohibition of being involved in interest-bearing activities. Taken to its logical end, this prohibition means that Islamic commercial banks cannot hold any securitized assets, interest related derivatives or other assets that led to the 2008 global financial crisis. Hasan and Dridi (2010) found that the Islamic commercial banking business model shielded Islamic commercial banks from adverse profit effects that befell many conventional banks in 2008.

Hamedian (2013) compared the investment financing of Islamic commercial banks versus conventional banks in Malaysia. The experimental analysis uncovered that traditional banks performed superior to their Islamic partners regarding profitability. However, Islamic commercial banks' performance amid 2008 financial crisis was much better when contrasted with conventional banks. Loghod (2010) found no huge contrasts as far as profitability amongst Islamic and conventional banks from Gulf Cooperation Council nations. Nonetheless, the study found that Islamic commercial banks are less presented to liquidity risk and that traditional banks rely more on external liabilities compared to Islamic commercial banks. Irfan and Zaman (2014) studied the efficiency of Islamic commercial banks in South Asian Countries and established that Islamic commercial banking's efficiency is around 98.19% as for return on asset ratio; around 91.4% regarding return on equity ratio and 77.03% as for n net profit ratio.

According to Ernst and Young's (2014), Islamic commercial banking has demonstrated that worldwide benefit pool of Islamic commercial banks is set to triple by 2019. The researchers also added that Islamic commercial banking resources in six core markets, Qatar, Saudi Arabia, UAE, Indonesia, Malaysia and Turkey, is on course to hit the US$1.8 trillion mark by the year 2019. The researchers also noted that worldwide Islamic commercial banking resources saw a compounded annual growth rate (CAGR) of about 17% from 2009 to 2013.

The potential for Islamic-banking services has even attracted the attention of conventional banking giants such as City bank and Hong Kong and shanghai Banking Corporation (HSBC). These industry behemoths have created special subsidiaries or windows to attend to the demand for these services. Indeed Western banks such as Switzerland's UBS target both Muslim and non-Muslim investors with their Islamic investment products (Badreldin, 2012). If, however, Islamic finance is offered alongside conventional finance, the range of products offered to the public is widened; greater choice is in principle a good thing (Visser, 2009).

1.2 Statement of the Problem

Investment financing is very important for good performance of Islamic commercial banks. Unlike conventional banks which depend heavily on the crutches of collateral and of non-participation in risk, Islamic commercial banks would have to rely heavily on project evaluation, especially for equity-oriented financing. Financing of investments by the Islamic commercial banks is mainly based on two types one is the profit and loss sharing method, which is the cornerstone of Islamic financing, and the cost plus or mark-up method which advocates for debt avoidance (Abubakar & Aduda, 2017). However, these Islamic commercial banks have continued to record decline in performance. For example performance of Gulf African banking reduced by 12 % in the year 2016 from the previous year 2015. First Community Bank Limited also recorded a decline in return on asset in the year 2017 from the previous year. This has greatly affected the saving rate of their customers. Most customers have also lost confidence in banking with those banks. The decline in saving affects the economic growth of the Kenyan economy.

According to Ali (2013) Islamic commercial banks' choice of financing instruments are not consistent with Islamic principles. Bulk of the financing operations of Islamic commercial banks in Kenya does not conform to the principle of profit-and-loss sharing (for example equity contracts). Instead, most of the financing is based on the markup principle, and is very debt-like in nature. The majority of financial transactions are directed away from agriculture and industry and long-term financing is rarely offered to entrepreneurs seeking funds. Further, it appears that much of the lending done by Islamic commercial banks is secured, violating a prohibition on collateral. Thus, the financial contracts offered by Islamic commercial banks are not in accord with fundamental principles of Islamic Law. Moreover, the financing practices of Islamic commercial banks have not lived up to the expectations of their advocates (Aggarwal & Yousef, 2000).

A Comparative analysis of credit risk management practice of Islamic and conventional banks in Kenya was done by Ogle (2010), the research revealed that Islamic banks do not have well established credit risk management practices as compared to conventional banks. This was observed by the disparities in monitoring of the credit risk levels. The duration taken by the institution to know that the customer has defaulted and how the institution deal with difficult to pay on time clients. The study did not address the effects of investment financing on performance of Islamic commercial banks thus presenting a conceptual gap.

1.3 Objective of the Study

The general objective of this study was to analyze the effect of investment financing on performance of Islamic commercial banks in Kenya.

The specific objects were;-

i. To determine the influence of Mortgage financing on performance of Islamic commercial banks in Kenya.
ii. To examine the influence of equity financing on performance of Islamic commercial banks in Kenya.
iii. To access the influence of trade financing on performance of Islamic commercial banks in Kenya.

2.0LITERATURE REVIEW

2.1Theoretical review

2.1.1 Profit and Loss Sharing (PLS) Theory

Profit and Loss Sharing (PLS) Theory was developed by Khan (1987). Islamic scholars treat PLS instruments, mudarabah and musharakah as a central pillar of the Islamic commercial banking model. In mudarabah banking, the Islamic Commercial Banks accepts funds from depositors under risk sharing arrangements. The Islamic Commercial Banks either directly invests these funds in profitable investments or extends them to entrepreneurs on a risk-sharing basis. The Islamic Commercial Banks shares the profit or loss made on mudarabah ventures with its depositors. In musharakah banking, the Islamic Commercial Banks contributes the depositors' funds to a joint enterprise with the client (an entrepreneur). Generally, the Islamic Commercial Banks allows the client to manage all the affairs of a Musharakah business. The Islamic Commercial Banks and the client mutually share the profit or loss made on the Musharakah investment (Khan, 1987).

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance & Accounting
Volume 2||Issue 2||Page 60- 75||October||2018|
Email:info@stratfordjournals.org ISSN 2616-4965

In a typical PLS arrangement, an Islamic Commercial Banks provides the risk capital to a firm in which professional managers are responsible for making strategic and operational decisions. The bank shares in profits and is liable to any financial loss. There is no serious problem with this arrangement if the bank is able, and is allowed, to monitor business operations of the firm. However, proper monitoring mechanisms are yet to be devised for PLS, especially in case of Mudaraba that does not provide any control rights to the financier (the Islamic Commercial Banks in this case). Fiqh literature on this issue is quite out-of-date and needs serious reconsideration. For example, Saleh (1986) lists three rights and one responsibility of the financier in a Mudaraba arrangement. The rights include ensuring that the borrowing entrepreneur (firm) complies with the terms of the contract, sharing profits, and limited liability in case of loss.

The sole responsibility is handing over the Mudaraba capital. He also outlines two rights and two responsibilities of the borrower. The rights include conducting the business with an appropriate degree of freedom, and accounting decisions. The responsibilities are compliance with the terms of the contract, and liquidation of the Mudaraba business at the end of the contract. The modern use of Mudaraba as a mode of financing obviously requires more than such preliminary specification of rights and responsibilities (Khan, 1987). There is a need for construction of standardized PLS contracts, or bylaws, in the light of the legal frameworks of Muslim countries. A prominent feature of these bylaws should be definition of the rights and obligations of various officers or groups within the organizational structure. Similar bylaws should delineate the clauses related to performance of the borrowing firm compared with other firms in the same sector and, possibly, other firms. Therefore this theory was relevant to this study as it informs the dependent variable which is performance of Islamic commercial banks.

2.1.2 Title Theory and Lien Theory of Mortgages

In title theory states, the borrower does not actually keep title to the property during the loan term. The seller gives the buyer/borrower a deed to the property but when the borrower signs the mortgage for the loan the borrower gives the title back to the mortgage holder. The lender then holds title to the property, as security only, until all loan payments have been made. During that time the borrower has the right to possession of the property, and the lender delivers the deed back to the borrower only after the loan obligation has been satisfied. Since the mortgage is said to hold a title interest, she has the right to possession under this theory. The mortgagee is said to hold the title for security purposes only. The mortgagor is given the right of possession (Buckley & Kalarickal, 2004).

In a lien theory state, the buyer holds the deed to the property during the mortgage term. The buyer promises to make all payments to the lender and the mortgage becomes a lien on the property, but title remains with the buyer. The lender's lien is removed once the payments of all loan payments have been completed. Foreclosure proceedings in a lien theory state may be more difficult for the lender than in a title theory state, due to the fact that the buyer is holding title to the land and not the lender. The interest is a security interest or mortgage, which forms a lien on the property. In this theory, the right to possession arises upon a default. The mortgagor has a right to sue the mortgagee for any interference with his right of possession ((Buckley & Kalarickal, 2004). This theory was deemed relevant to this study since it informs one of the independent variable which is mortgage financing.

2.2 Empirical Review

Kioko (2014) conducted a study on effect of mortgage financing on performance of real estate market in Kenya. The study considered a population of 19,177 outstanding mortgage loans drawn from 35 mortgage and financial institutions. The study employed stratified sampling techniques to draw a sample size of 392 respondents. Structured questionnaires and interviews were used as instruments of data collection to gather primary data from the respondents. Analyzed data was presented inform of tables, pie charts, percentages and bar graphs. SPSS Version 17.0 and advanced MS Excel were used to analyze quantitative data. Multiple regression analysis model was used to establish the effect of mortgage financing on performance of real estate market in Kenya. The study revealed that positive relationship exists between mortgage financing and performance of real estate market in Kenya. Homeowners invest in real estate property in anticipation of future increase in prices and rental income. Financial institutions provide adequate information to potential homeowners thus there is flow of information hence reduction in cases of moral hazards and adverse selection. To boost performance of real estate market in Kenya, the government has introduced RIETs, private public partnership, introduction of pension funds to be used as security to access the mortgage market. The study focused on real estate market thus presenting a scope gap. The current study focused on commercial Islamic banks in Kenya.

Musila (2015) conducted a study on the relationship between equity financing and financial performance of the energy and petroleum companies listed at the Nairobi securities exchange. The study was descriptive in nature and the research analyzed the data selected within a specified period of time. The population for the study consisted of the five firms in the energy and petroleum sector listed at Nairobi Securities Exchange from the year 2005 to 2014 period. The results of the study showed an insignificant but positive relationship between equity financing and financial performance. The study also showed a significant positive relationship between financial performance and growth opportunities and equity ratio. It can be concluded that firms which invest resources towards increasing growth in asset base show greater improvement in financial performance. Equity financing are important especially as far as raising capital for growth, expansions or acquisitions is concerned. The study recommends that firms to use equity financing in increasing asset base and growth since this translates to improved financial performance. Policies regarding equity issues should be reviewed and made flexible to encourage firms to participate in equity issues. The study concentrated on listed firms whose findings cannot be generalized for all firms' hence further studies can be to include non listed firms to compare the findings. The study focused on energy and petroleum companies listed at the Nairobi securities exchange thus presenting a scope gap. The current study focused on commercial Islamic banks in Kenya.

Ali (2013) attempted to investigate the challenges and limitations facing the use of Islamic finance to promote Small and Medium Enterprises (SMEs) in IDB member countries. The findings of this study showed that despite of the recent growth of the Islamic institutions and the development of new Islamic financing products, still there is no favorable environment for Islamic finance to play vital role in the development of SMEs in the IDB member countries. The main reasons might be due to the weakness in the development of trade and the Islamic financing infrastructures. Given the uprising unemployment in many member countries, this study makes specific recommendations to the governments, Islamic commercial banks management as well as IDBG to contribute in removing the challenges associated with accessing the sources of financing to

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance & Accounting
Volume 2||Issue 2||Page 60- 75||October||2018|
Email:info@stratfordjournals.org ISSN 2616-4965

encourage Islamic finance to further promote SMEs. The study focused on all IDB member countries thus presenting a scope gap. The current study was conducted in Kenya.

Garralda and Vasishtha (2015) analyzed the key determinants of bank-intermediated trade finance using a novel data set covering ten banking jurisdictions. The study focused on the role of global factors as well as country-specific characteristics in driving trade finance. The results indicated that country-specific variables, such as growth in trade flows and the funding availability for domestic banks, as well as global financial conditions and global imports growth, are important determinants of trade finance. These results are robust to different model specifications. Further, we do not find that trade finance is more sensitive to global financial conditions than other loans to non-bank entities. The study focused on trade financing as the only variable that affects financial performance thus presenting a conceptual gap.

Merab (2010) conducted a study on the relationship between mortgage financing and financial performance of commercial banks in Kenya. The study adopted correlation research and secondary data was used to fulfil the above objective. The analysis showed that there is a strong and positive relationship between mortgage financing and financial performance of the commercial banks. Over the years, the commercial banks that provide mortgage financing have had improved profitability and financial performance mainly due to the high interest from mortgages. Other reasons why commercial banks offer mortgage financing are increased market penetration, enhanced cross-selling potential, high profitability and as a competitive strategy. Based on the findings, the study recommends policies that would encourage commercial banks to adopt mortgage financing to enhance their profitability, market penetration and as a competitive strategy. The improved profitability of commercial banks is driven by the high interest rates pegged on mortgages. Therefore, banks should lower the interest rates so that mortgages are affordable resulting to a wider customer base. The study adopted correlation research thus presenting a methodological gap. The current study adopted a descriptive research design.

Kahuthu (2016) conducted a study on the effect of trade finance on the performance of commercial banks in Kenya. The descriptive survey was ideal because it ensured thorough description of the situation ensuring least possible bias in data collection. The study made use of secondary data collected from annual reports submitted to the CBK for the target population comprised of all the commercial banks in Kenya. Summaries of data findings together with their possible interpretations were presented using tables, charts, correlations, standard deviations and regression. The study found out that mean of fees and commission transactions were relatively high as compared to other variables while dividend income transactions had the highest standard deviation. Foreign exchange transactions had the highest positive correlation. Fees and commissions also had high and positive correlation to the return. From the regression equation the study concluded that a unit increase in fees commissions, foreign trading, and dividend transactions lead to improvement on return on assets. Therefore; the study recommends that; trade finance should always be taken in to account to improve the banks performance. Policy makers should also undertake to understand risks affecting the banks in order to maximize returns. The study focused on commercial banks in Kenya while the current study focused on Islamic banks in Kenya.

3.0 RESEARCH DESIGN

The study employed a descriptive survey research design and incorporated elements of both qualitative and quantitative approaches in terms of instruments and data analysis. The study population was the two fully fledged Islamic commercial banks which are First Community Bank Limited and Gulf African bank and five conventional banks that offer partial Islamic commercial banking (Barclays banks of Kenya, National Bank of Kenya, Diamond Trust Bank of Kenya, Kenya Commercial Bank and Standard Chartered Bank of Kenya). The specific respondents were185 senior and junior staff working in the headquarters of these banks. The sample size was 63 employees at Barclays banks of Kenya, National Bank of Kenya, Diamond Trust Bank of Kenya, Kenya Commercial Bank and Standard Chartered Bank of Kenya headquarters. The study used stratified random sampling to select the sample. This method is appropriate because the sample represents the target population and eliminates sampling bias. The study used primary data. The study used mean and percentages in this study. The study used Statistical Package for Social Sciences (SPSS) to generate the descriptive statistics and also to generate inferential results. Inferential included both correlations and regression.

4.0 RESULTS

4.1 Bio data Analysis

4.1.1 Gender of the Respondents

The respondents were asked to indicate their gender. The results were presented in figure 1 below.

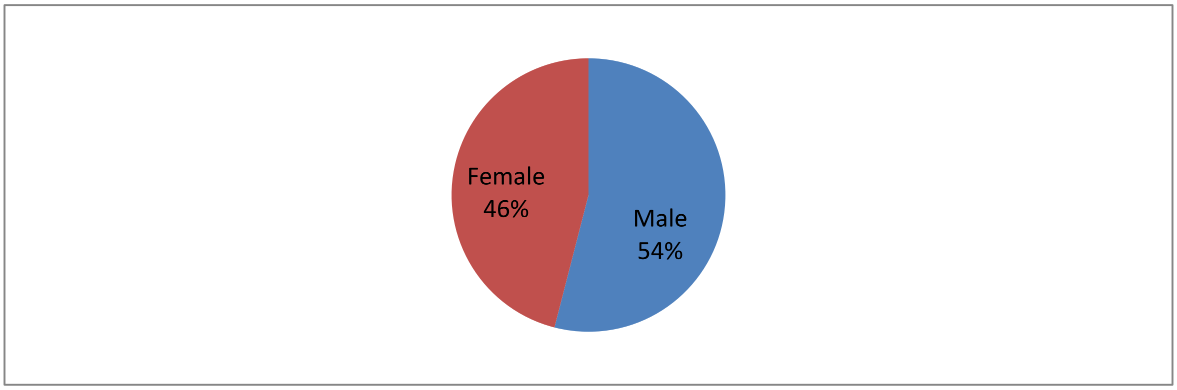

Figure 1: Gender of Respondents

The results revealed that majority of the respondents (54%) were male while only 46% who were females. This implies that most employees of Islamic commercial banks are men.

4.1.2 Age of the Respondents

The respondents were further asked to indicate the age. The results were presented in figure 2 below.

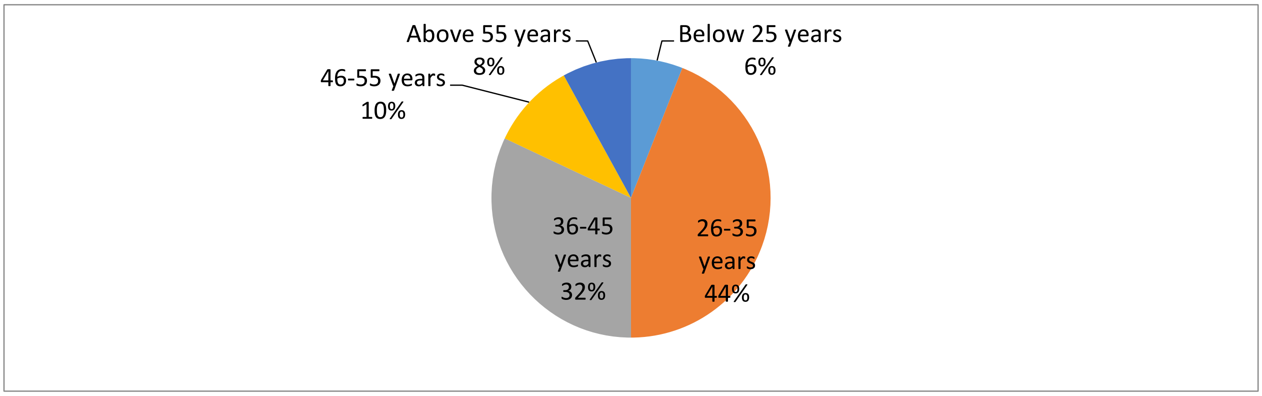

Figure 2: Age of Respondents

The results revealed that majority of the respondents (44%) were between 26 – 35 years, 32% were between 36 – 45 years, 10% of the respondents were between 46 – 55 years, 8% of the respondents were aove 55 years while only 6% who were below 25 years. This implied that most employess are young and energetic and thus have the ability to improve performance of the commercial Islamic banks.

4.1.3 Level of Education

The respondents were further asked to indicate their level of education. The results were presented in figure 3 below.

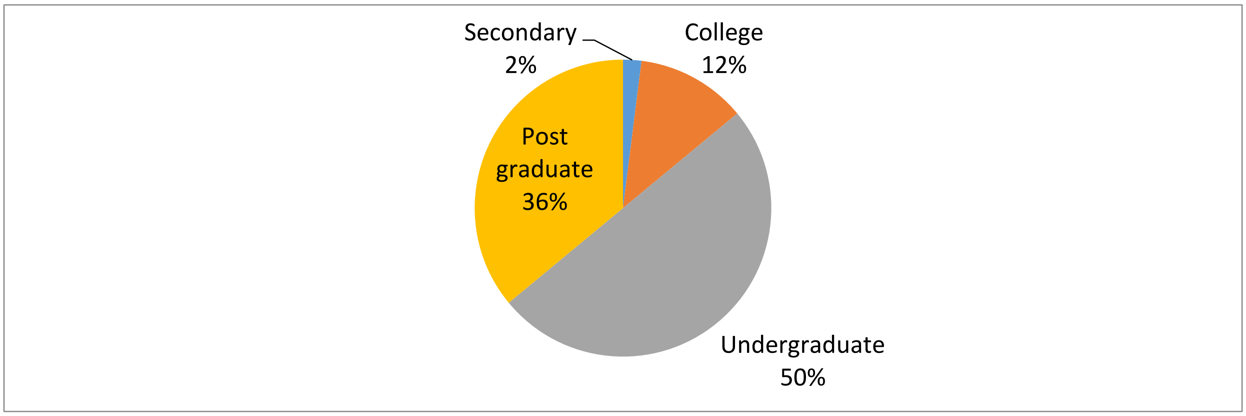

Figure 3 : Level of Education

The results revealed that majority of the respondents who were 50% indicated that they were undergraduates, 36% of the respondents were post graduates, 12% were college graduates while only 2% were form four leavers. This implies that most employees in the islamic commercial banks were educated and thus have the skills to improve performance of the commercial Islamic banks.

4.2 Inferential Statistics

Inferential analysis was conducted to generate correlation results, model of fitness, and analysis of the variance and regression coefficients.

4.2.1 Correlation Analysis

Table 1: Correlation Analysis

		Performance of Islamic commercial bank	**Mortgage Finance**	**Equity financing**	**Trade financing**
Performance of Islamic commercial bank	Pearson Correlation	1.000			
	Sig. (2-tailed)				
Mortgage Finance	Pearson Correlation	.367**	1.000		
	Sig. (2-tailed)	**0.009**			
Equity financing	Pearson Correlation	.309*	.463**	1.000	
	Sig. (2-tailed)	**0.029**	0.001		
Trade financing	Pearson Correlation	.439**	.280*	-0.011	1.000
	Sig. (2-tailed)	**0.001**	0.049	0.939	

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

The results revealed that mortgage financing and performance have a positive and significantly association ($r = 0.367$, $p=0.009$). The results agreed with that of Kioko (2014) who found a positive relationship exists between mortgage financing and performance of real estate market in Kenya. The results also showed that equity financing and performance have a positive and significantly association ($r = 0.309$, $p=0.029$). These findings agreed with that of Raude, Wesonga and Wawire (2015) conducted a study on equity financing strategy and the performance of small and medium who found evidence of strong correlation between Equity Financing Strategy and the Performance of SMEs. The results also showed that trade financing and performance have a positive and significantly association ($r = 0.439$, $p=0.001$). These findings agreed with that of Kahuthu (2016) who found a positive and significant relationship between trade financing and financial performance.

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance & Accounting
Volume 2||Issue 2||Page 60- 75||October||2018|
Email:info@stratfordjournals.org ISSN 2616-4965

4.2.2 Regression Analysis

The results in table 2 presented the fitness of model of regression model used in explaining the study phenomena.

Table 2: Model Fitness

Variables	Coefficients
R	0.797
R^2	0.636
Adjusted R^2	0.631
Std. Error of the Estimate	0.361

Mortgage financing, equity financing and trade financing were found to be satisfactory variables in performance of Islamic commercial banks. This was supported by coefficient of determination also known as the R square of 63.6%. This meant that Mortgage financing, equity financing and trade financing explain 63.6% of the variations in the dependent variable which was performance of Islamic commercial banks. The results further meant that the model applied to link the relationship of the variables was satisfactory.

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant. Table 4.8 provided the results on the analysis of the variance (ANOVA).

Table 3: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.118	3	1.706	6.729	**.001**
Residual	11.663	46	0.254		
Total	16.781	49			

The results indicated that the overall model was statistically significant. Further, the results implied that the independent variables are good predictors of performance of Islamic commercial banks. This was supported by an F statistic of 6.729 and the reported p value (0.000) which was less than the conventional probability of 0.05significance level.

Table 4: Regression of Coefficients

	B	Std. Error	t	Sig.
(Constant)	0.802	0.715	1.122	0.268
mortgage finance	0.263	0.055	4.782	**0.000**
Equity Financing	0.285	0.145	1.972	**0.003**
Trade Financing	0.388	0.125	3.108	**0.013**

The results revealed that mortgage finance and performance are positively and significantly related (B = 0.263, p=0.000). The results agreed with that of Kioko (2014) who found a positive relationship exists between mortgage financing and performance of real estate market in Kenya. In addition equity finance and performance are positively and significantly related (B = 0.285,

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance & Accounting
Volume 2||Issue 2||Page 60- 75||October||2018|
Email:info@stratfordjournals.org ISSN 2616-4965

p=0.003). These findings agreed with that of Raude, Wesonga and Wawire (2015) conducted a study on equity financing strategy and the performance of small and medium who found evidence of strong correlation between Equity Financing Strategy and the Performance of SMEs. In addition trade financing and performance are positively and significantly related (B = 0.388, p=0.013). These findings agreed with that of Kahuthu (2016) who found a positive and significant relationship between trade financing and financial performance.

Thus, the optimal model for the study is;

Performance of Islamic commercial banks= 0.802 + 0.263 Donor Communication + 0.182 Donor Segmentation+ 0.285 Donor Reporting + 0.388 Donor Recognition

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

This section provided a summary of the findings from the analysis. This was done in line with the objectives of the study. The first objective of the study was to determine the effect of Mortgage financing on performance of Islamic commercial banks in Kenya. The results revealed that there was a positive and significant association between mortgage financing and performance of Islamic commercial banks in Kenya. The findings were also supported by the statements in the questionnaire which majority of the respondents agreed. This was further supported by the regression results which revealed that mortgage finance had a positive and significant effect on performance of Islamic commercial banks in Kenya.

The second objective of the study was to determine the effect of equity financing on performance of Islamic commercial banks in Kenya. The results revealed that there was a positive and significant association between equity financing and performance of Islamic commercial banks in Kenya. The findings were also supported by the statements in the questionnaire which majority of the respondents agreed. This was further supported by the regression results which revealed that equity financing had a positive and significant effect on performance of Islamic commercial banks in Kenya.

The third objective of the study was to determine the effect of trade financing on performance of Islamic commercial banks in Kenya. The results revealed that there was a positive and significant association between trade financing and performance of Islamic commercial banks in Kenya. The findings were also supported by the statements in the questionnaire which majority of the respondents agreed. This was further supported by the regression results which revealed that trade financing had a positive and significant effect on performance of Islamic commercial banks in Kenya.

5.2 Conclusion of the Study

The study concluded that mortgage financing, equity financing and trade financing have a positive and significant relationship with performance of Islamic commercial banks. In addition, the study concluded that affordable interest rates for mortgages help to improve the performance of the bank. In addition, high mortgage prices are associated with declining sales. In addition mortgages that amortize faster are preferred by most customers.

In addition, the study concluded that angel investors are major source of finance in Islamic commercial banks. Friend contributions are also a source of finance in most Islamic Commercial Banks. Most islamic commercial banks also borrows loans from investors in case of financial crisis and repays it back in good time.

Fees income form sells of mutual funds to financial markets have been increasing in Islamic commercial banks in Kenya. In addition foreign exchange trading income has been increasing over the past five years in their bank. Increase in number of new customers in banks increases deposit fees and transactional fees

5.3 Recommendations of the Study

The study recommends that banks should make the interest rates for mortgages affordable so as to boost their performance. In addition banks should make the process of getting a mortgage in their bank is simple and short. The repayment period given to customers for the mortgage should be favorable. This will encourage customers to take the mortgage thus improving the banks performance. Authorization and approval of mortgage loan should be promptly done in banks so as to boost their performance.

The study aslo recomends that banks should plough back profit as a source of their finance. In additions banks should offer venture capitalists opportunitiies to invest in their bank. Islamic commercial banks should also market for new customers and this will increase the deposit fees and transactional fees. This will boost performance in the long run.

REFERENCES

Abubakar, A. S., & Aduda, J. (2017). Islamic commercial banking and Investment Financing: A Case of Islamic commercial banking in Kenya. *International Journal of Finance*, *2*(1), 6

Aggarwal, R.K. & Yousef, T. (2000). Islamic commercial banks and investment financing, *Journal of Money, Credit, and Banking*, 32 (1), 93–120

Badreldin, A. M. (2012). Measuring the Performance of Islamic commercial banks by Adapting Conventional Ratios.

Chong, B. S., & Liu, M. H. (2009). Islamic commercial banking: interest-free or interest-based?. *Pacific-Basin Finance Journal*, *17*(1), 125-144

Garralda, J.M. S. & Vasishtha, G. (2015). *What Drives Bank-Intermediated Trade Finance? Evidence from Cross-Country Analysis.* Bank of Canada Working Paper.

Guyo, W., & Adan, N. (2013). The determinants of retail consumer choice of Islamic commercial banking in Kenya. *International Journal of Social Sciences and Entrepreneurship*, *1*(2), 1.

Hasan, M. M., & Dridi, J. (2010). The effects of the global crisis on Islamic and conventional banks: A comparative study.

Kahuthu, K. M. (2016). *The effect of trade finance on the performance of commercial banks in Kenya* (Doctoral dissertation, School Of Business, University Of Nairobi).

Khan, M., & Bhatti, I. (2008). Islamic commercial banking and finance: On its way to globalization, *Emerald Group Publishing Ltd. Vol*. 34 no.10 p.708-725.

Kioko, N. (2014). The Effect of Mortgage Financing on the Performance of the Real Estate Market in Kenya. *Unpublished MSC Finance Project, University of Nairobi*.

Merab, A. D.(2010). The relationship between mortgage financing and financial performance of commercial banks in Kenya.

Mwangi, M. (2013). Relationship between mortgage Financing and Profitability of Commercial Banks in Kenya. *Unpublished MBA Project, University of Nairobi*.

Rammal, H. G., & Zurbruegg, R. (2007). Awareness of Islamic commercial banking products among Muslims: The case of Australia. *Journal of Financial Services Marketing*, *12*(1), 65-74

Rosly, S. A. (2005). *Critical issues on Islamic commercial banking and financial markets: Islamic economics, banking and finance, investments, Takaful and Financial Planning*. Dinamas Publishing.

Visser, H. (2009). *Islamic finance: Principle and practices*. Edward Elgar, UK, Cheltenham, and USA, Northampton, MA.