ISLAMIC BANKING PRODUCTS AND FINANCIAL PERFORMANCE OF BANKS IN NAIROBI COUNTY, KENYA

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ABSTRACT

The economic growth of a nation is largely determined by its financial institutions, particularly its banking industry. Kenya has a diversified financial system that includes both Islamic (interest free) and conventional banks. Three fully fledged Islamic banks have emerged and numerous institutions have opened branches that provide Islamic banking solutions to its customers. Islamic banking has sprouted and had a favorable bearing on the economy in spite of client misinformation, regulatory hurdles and excessive liquidity. Consequently, it is necessary to consider the magnitude of this influence in Kenya. Given the limited literature in this field, existence of contextual, conceptual, methodological and information gaps, this task sought to scrutinize the effects of Islamic banking products on Kenyan banks' financial performance with specific focus of how profit and loss sharing products, asset backed financing products and contract and safety products affect financial performance of banks in Nairobi County Kenya. The project was guided by theory of intermediation, stakeholders' theory and theory of Islamic banking. The study employed a descriptive research approach. The study target population was 853 respondents forming unit of observation from the 8 banks that provide Islamic banking products that formed unit of analysis. The sampling design was stratified sampling that gave a sample of 240 respondents. Both Primary and secondary data were used with primary data being gathered via questionnaire and secondary data drawn from financial statements of the banks from a period of 2017 to 2021. The raw data was scrutinized using descriptive and inferential statistics. Descriptive statistics focused on standard deviation and means whereas inferential statistics focused on establishing the relationship between Islamic banking products and financial performance of banks using a multiple regression model. The analyzed data was presented using tables, diagrams and graphs. Ethical considerations were fully adhered to. The study found that product and loss sharing products and asset backed financing products all individually had a statistically significant effect on financial performance and therefore rejected. On the other hand, contract and safety products was statistically insignificant and therefore not rejected. This study recommends the utilization of Mudarabah product, Musharakah product, Murahaba, istisna, Salam and Ijara and pooling resources together to help improve the performance of banks in Nairobi County Kenya.

Key words: Islamic Banking Products, Profit and Loss Sharing Products, Asset Backed Financing Products and Contract and Safety Products and Financial Performance

INTRODUCTION

A part of any financial economy is characterized by international trade. The financial sector plays the role of mobilizing resources, providing long-term and short-term loans, and to investors for investment purposes (Nyasha, & Odhiambo, 2017). This sector plays a significant role in accepting deposits from its clients and playing a saver channel for income distribution to achieve specific financial objectives. These roles apply to both Islamic banks and conventional banking. However, some aspects of conventional banking such as interest receipts and payments do not apply to Islamic banking.

Islamic banking is an approach to banking that is distinguished by the exclusion of loan costs and is based on a camouflaged concept of justice wherein gains and risks are shared. In the last two decades, Kenya has witnessed the rise and development of shariah law based Islamic banking, and has thus developed into a traditional bank substitute, especially for the Muslim community as it aligns with their beliefs. Islamic banking has expanded rapidly and is currently among the most rapidly expanding financial sectors worldwide (Godana 2016). Because Islamic banking products serve as an alternative for existing offerings on the marketplace, their introduction has increased competition.

Barclays launched an Islamic banking platform in 2005, and shortly afterward, First Community Bank and Gulf African Bank (GAB) and were established. Numerous banks, such as Kenya Commercial Bank (KCB) and Standard Chartered, have customized Shariah-compliant offerings for their consumers. Since there are no specifically adapted regulations to govern Kenyan Islamic banks, they are subject to the same rules as other banks. The general market assumption that it is exclusively for Muslims, as well as an absence of accurate awareness about this banking system, have severely restricted its popularity (Godana, 2016). Investments are only permitted in non-profit enterprises under Islamic banking, which results in surplus liquidity. Despite confronting regulatory obstacles, misperception, and excessive liquidity, Islamic banking has created intense competition in the banking industry. In order to promote an environment where the significance of Islamic banking can be appreciated, in light of the degree to which it affects financial performance, it is necessary to address these issues.

Globally, Laldin and Djafri (2019) observe that Islamic finance is rapidly being embraced in the Western and other non-Islamic countries as an international financial system. For example, Li and Jin (2020) stated that Islamic bond (Sukuk) was first utilized in UK; a western country as an alternative revenue generation medium. In addition, Germany's first full-scale Islamic bank was established in 2017. Similarly, Japanese governments are considering enacting regulations to embrace Islamic banking products. However, despite growing interest, the penetration of Islamic finance in China appears to lag behind the penetration of other parts of the world. Azeez (2017) observes that Nigeria has collaborated with other countries to establish the Islamic Bank despite all grievances and misunderstandings about what the Islamic Bank aims to achieve. In Nigeria, Islamic banks face many obstacles geared by economic, legal, social and political factors. Legally, Nigeria's banking sector has no regulations or policies that allow the establishment of banks of religious shade. According to Kenny (2019), most Muslim and non-Muslim citizens believe that introducing Islamic banks will create rising cases of riot, onslaught and chaos which is already existing.

Kenyan Islamic banks are subject to the similar guidelines as traditional banks, as there is no specially coordinated framework for regulation. Its customer base is limited based on inadequate information and the market perception of its target audience (Nyasha, & Odhiambo, 2017).

Investment in Islamic banks is limited to nonprofits, making them more competitive in Kenyan Islamic banking. To maximize the potential of Islamic banks, challenges such as inadequate regulation and lack of information on Islamic products need to be mitigated.

Mambodallus (2018) studied the challenges associated with Islamic bank window growth in traditional banks in Kenya and found that that regulatory framework is related to explaining Islamic window growth. However, the availability of Islamic tradable commodities had a positive impact on growth, and serious bank competition and sociocultural factors had a lesser but negative impact on growth. According to a survey by Wako, Kamaria, and Kimani (2020) on issues affecting Islamic banks growth in Kenya, it was gathered that although governments less restricted the banks, they however failed to provide regulations and policies that favor their performance and awareness which has thus limited their growth.

Statement of the Problem

According to Sehrish *et al*. (2012), decision-makers including investors, savers, and borrowers are concerned about banks' financial performance since these financial institutions serve a substantial role in an economy's growth. The economic growth of a nation is largely determined by its financial institutions, particularly its banking industry. Kenya has a diversified financial system that includes both Islamic (interest free) and traditional banks. The n Kenyan, Islamic banking began to take shape in 2005, the year the country's inaugural Islamic banking window opened. Three fully fledged Islamic banks have also emerged since then: Dubai Islamic Bank (DIB) Kenya Limited, Gulf Bank, and the first community bank. Numerous institutions, notably Kenya Commercial Bank, have opened branches that provide Islamic banking solutions to its customers. Despite regulatory hurdles, client misinformation, and excessive liquidity, the Islamic banking sector has grown and had a favorable economic impact. Consequently, the magnitude of this influence in Kenya must be investigated.

Several research initiatives have been launched around the world to explore the effect of Islamic banking products on bank financial performance. According to the studies by Mzee, (2016); and Rabbani *et al.* (2020) Islamic banks face significant regulatory challenges in financial engineering, Shariah issues, proper institutional framework, inappropriate legal framework, a scarcity of equity institutions, an inability to proper accounting guidelines, and the high overhead costs in Islamic countries which influence their performance. Azma *et al.* (2018) attribute low performance to the absence of a fitting legislative structure for the proper operation of Islamic Economics and Finance Research Group, accounting standards, the cost and competitiveness of cross-jurisdictional trade and inequality in the operations environment for Islamic and conventional banking are some of the Shariah issues that need to be addressed.

Islamic banking has a favorable impact on economic growth, as per findings by Iheanacho (2016), Nyasha and Odhiambo (2017). Omar (2016) specifies that Murabaha and Musharaka banking products has a favorable impact on bank financial performance. Thomi (2017) study revealed that increasing Islamic banking products will improve the performance of banking operations. Additionally, Halake's (2021) research looked at the inherent interlinkages around Islamic financial products and commercialized banks operating in Isiolo County's financial performance finding a positive relationship between the two.

Given the limited literature in this field, there still exist contextual, conceptual, methodological, and information gaps. Few of these studies were utilize both secondary and primary sources of data. Additionally, some only focus on Islamic banks even though conventional banks also offer Islamic banking projects. Lastly, few studies examine Kenyan banks. This current study will attempt to address some of these gaps that exist. The study will scrutinize the effects of Islamic banking on Kenyan banks' financial performance.

Objective of the study

To explore the impact of Islamic banking products on the financial performance of Kenyan Banks.

Specific Objectives

i. To explore the impact of profit and loss sharing products on Kenyan banks' financial performance.
ii. To establish the impact of asset backed financing products on Kenyan banks' financial performance.
iii. To assess the influence of Contract and safety products Kenyan banks' financial performance.

THEORETICAL REVIEW

Theory of Financial Intermediation

Gurley and Shaw (1960) created the Theory in the 20th century. The agency theory and informational asymmetry theory birth the theory of financial intermediation. The major reason why the theory of financial intermediation was founded was due to the existence of causes such as increased cost of transactions, information inadequacies at the right time and the mode of regulation. Leland and Pyle (1977) made reference to financial intermediaries and explained it to be a coalition with the distribution of certain information. The various financial intermediaries are present to eliminate some aspects of transaction costs.

Financial intermediaries mainly act as agents who have been granted permission of people who have savings and can attain economies of scale (Diamond, 1991). The theory of financial intermediation has a link with transaction cost which is quite dependent on the differences that emerge between the technologies utilized by the various participants. The transaction costs of foreign exchange money, evaluation money and research money. The theory of financial intermediation is also dependent on the way monetary creation is being regulated. It contributes a role in influencing the solvability of intermediaries as well as influencing the liquidity of intermediaries.

This theory is essential to the research because it illustrates how banks serve a vital role in the economy by moving funds from surplus units to deserving units. Islamic banking certainly serves this function by amassing deposits and advancing the money to borrowers for investment objectives, but at no interest.

Stakeholders Theory

Stakeholders Theory involves the interest of capitalism which focus on the different relationships that is taking place between a customer and the business, the investors, the employees, the suppliers and including other people who have a quota in the running of an organization which is in a connected medium. Freeman (1984) happens to be one of the developers of the stakeholder's theory. The stakeholder's theory suggested that a firm should pay much consideration into making value in a form in which stakeholders will benefit from it and not only the shareholders of the firm. The stakeholder's theory opined that when the unit of analysis is adopted, the existing relationship between individuals and their business who are concerned or affected directly or indirectly by the adoption has a better hand in tackling the recognized problem.

During the occurrence of conflicts between executives and stakeholders of a firm, it is the job of the executive to find a way by which the problems can be solved and the stakeholders getting what they requested for (Harrison, Bosse & Philips, 2000). The stakeholder's theory addressed the only major responsibility of an executive to be efficiently managing the relationship between the stakeholders and being value oriented (Freeman, 1984). Freeman and other researchers found a way to reform the vocabulary by addressing the issue of trade and value creation, capitalism ethics issue and managerial mindset issues. This theory is relevant to the study as it discusses the importance of meeting the stakeholder's interests while ensuring that they are satisfied and how that is important in achieving a high performance.

The Theory of Islamic Banking

Islamic banking theory was developed in the 1970s. This was motivated by the desire to substitute bank loan interest with profit sharing. This transformed the idea of financial intermediation, requiring multiple partners to share corporate risk with retail customers (Ismail, 2002). Fairness was the major emphasis of early scholars. It was deemed unfair for end-user entrepreneurs to incur all potential losses while allowing fund owners and banks guarantee a predetermined return. The method wherein profitable ventures were conducted could not guarantee a favorable return. As a result, irrespective of the outcomes of big business, there were no safeguard for cash capital that guaranteed a favorable return (Hasan, 2005).

Mauudi (1961) maintained that the act of lending on interest established most, but not all, alternate issues of private enterprise. Among such challenges were expansion, widening disparities, joblessness, and erratic business cycles. These challenges could be revealed by abolishing interest and replacing it with benefit sharing. Complex monetary investigations could not prepare Islamic financial specialists for these issues till the next decade. This stage's emphasis was, among other things, on highlighting the shortcomings of free enterprise and relating them to the enthusiasm establishment. With it died the arguments indicating that it was possible to have keeping money without paying a premium and that doing so would not have a negative impact on reserve funds and venture. Some argued that eliminating interest would encourage investment, resulting in increased output (Mannan, 1999). This theory is significant to the research because it explains how Islamic banking employs loss and profit-sharing models to distribute financial resources.

Empirical literature Review

Profit and loss sharing products and Financial Performance

Magnan and St-Onge (2018) studied the influence of profit sharing on the performance of specific financial service organizations using a quantitative cross-sectional technique. The companies compare PSP users to control groups of PSP non-user companies, and is qualitative and comprehensive mainly through interviews. Relies on a qualitative approach. Manager`. The results show that companies that implement the PSP have improved growth compared to past performance and companies non implementing the PSP. The results also show that the WBS implementation has both a long term and short-term impact. Despite the study's findings, a cross sectional approach was utilized thereby posing as a gap in which will be bridged by this present study by utilizing a descriptive approach.

Sudarsono and Saputri (2018) studied the financial performance to profit-sharing ratio of Mudarabah deposits at Sharia Bank, Indonesia. Automatic Regression Distribution Lag (ARDL) examined the relationships. It was gathered that ROA and OER variables in a short term adversely influences profit-sharing ratio. On the other hand, FDRs and interest rates influences positively, while NPF variables has no substantial bearing on the deposits. Although the study was based on Sharia banks, it was however conducted in Indonesia context and not Kenya.

Asset backed financing products and Financial Performance

A study by Bello, Ahmad and Aliyu (2016) sought to look into the effect of leasing loans on Nigerian oil and gas industry performance. Survey data is collected from six samples of NSE listed Nigerian oil and gas companies' annual reports and accounts engaged in lease financing dated from Jan 2005. With the aid of OLS regression analysis, it was concluded that leasing loans largely influences the ROA of the oil and gas firms and should be encouraged for adoption. The study relied on Nigerian oil and gas firms which differs from the target population of the current study.

A study by Sindani, Namusonge & Nambuswa (2016) determined the impact of lease on the financial growth of Trans-Nzoia County. A survey-based descriptive method was adopted in which 10 departments in the County was examined and 10 full time staff was sampled for the study's analysis. The key findings from the study through regression analysis was that financial leasing exhibits considerable impact on ROA measure of performance in Trans Nzoia County Government. The focus of the study was centered only on Trans-Nzoia County while this study will focus majorly on Nairobi County.

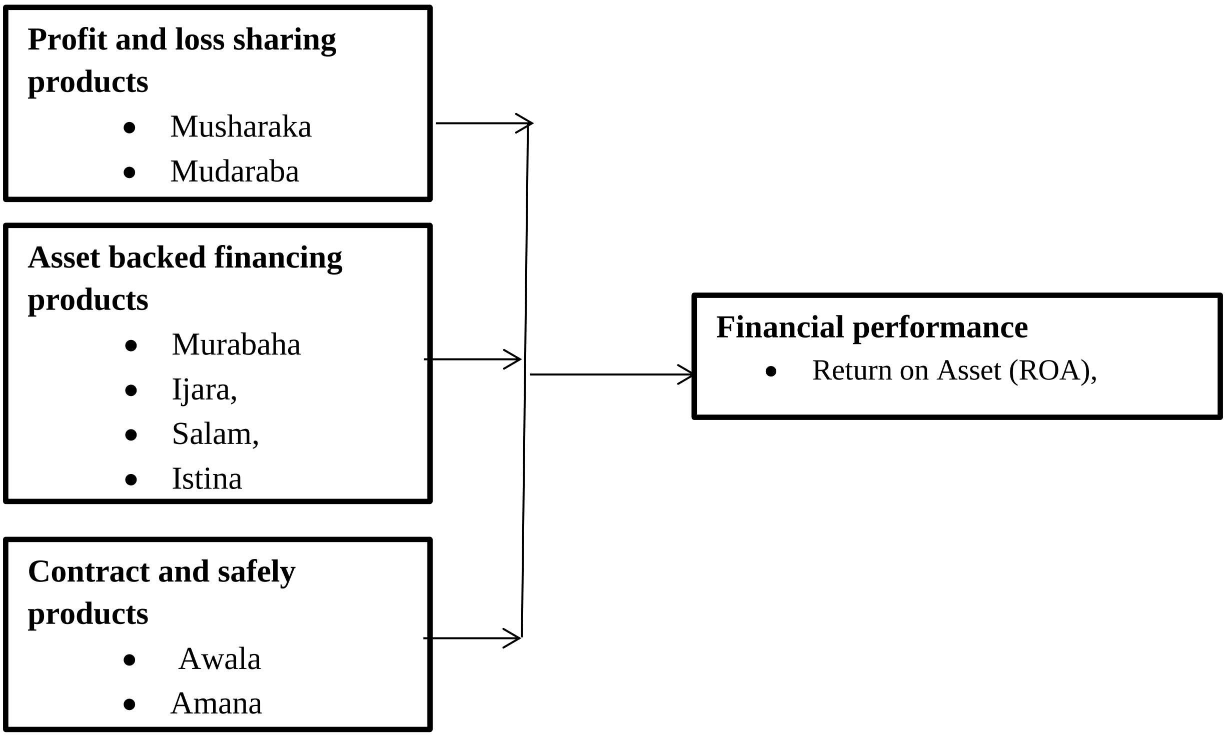
Contract and safety products and Financial Performance

Wanjiku (2016) studied to see whether partnership strategies are a strong determinant of commercial banks' performance. In this investigation using a survey approach, 88% response rate was recorded. The respondents consisted of only HR managers and simple regression model was used to determine relationships. As a result, 54.7% of changes in commercial bank performance are caused by changes in strategic partnerships. The study however only focused on commercial banks whereas Islamic banks will be the focus of the present study.

Figure 1: Conceptual Framework

INDEPENDENT VARIABLE **DEPENDENT VARIABLE**

ISLAMIC BANKING PRODUCTS



Research Design

A Descriptive method of design was adopted. Kothari (2004) asserted that descriptive research designs are used to describe the specific characteristics of a given phenomenon based on a scenario. It will be useful for this research because it leads to a large amount of data collected and allows data collection to collect quantitative or qualitative details. This enables diverse insight and approach to the date gathering and analysis phase. Therefore, this design helps to obtain information about the financial performance of Kenyan banks.

Target Population

This study's target population included all conventional banks in Kenya that provide Islamic products and the three fully pledged Islamic banks in Kenya. As per the Central Bank of Kenya (2019), 5 traditional banks provide Islamic banking products. The respondents will be 853 finance manager, sales manager and operations managers who are employees of these banks.

Sampling Design

To have all cases represented, stratified sampling was used to classify samples into departments. The study used Taro Yamane (1967) formula with 5% error term. The sample size was 240 finance managers, sales managers and operations managers of the 10 banks

Data Collection Instruments.

Primary and secondary data sources was to be relied upon. The use of questionnaire was appropriate assuming that the respondents included in the sample understand these survey questions, the interpretation of the questions were minimized, and data collection was cheaper and faster. The questionnaire is divided into various sections that cover the purpose of the survey using Likert scale. The financial statements of the banks chosen from the population of banks offering Islamic banking services were used to acquire secondary data regarding Islamic banking products for the fiscal years 2017 through 2021. The information was gathered from yearly and quarterly financial statements.

Data Collection Procedure

For primary data collection, the administrative department of the banks were contacted for authorization. The drop-and-pick method is used to manage the survey. Respondents were given two weeks to complete the survey. Before the designated two weeks have passed, the researcher visited and send a reminder mail for faster and high response rate. For the secondary data, net income and total assets data were collected from the banks' financial records

Data Analysis and presentation

To analyze secondary data, the research examined the risk, liquidity, profitability, and efficiency from 2017 to 2021 that should arise from Islamic banking products. To assess the bank's performance, ROA was employed. At a significance level of 5%, inferential analysis was utilized. Furthermore, standard deviations and mean, descriptive statistics, and inferential analysis was employed to assess the primary data. Data amassed was coded and cleaned then entered into SPSS (Social package for social statistics) software for analysis:

$$\mathbf{Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Where:

$Y =$ Financial performance

$\beta_0 =$ Constant

$X_1 =$ Profit and Loss Sharing Products

$X_1 =$ Asset Backed Financing Products

$X_3 =$ Contract and Safety Products

$\beta_1 - \beta_3 =$ Regression Coefficient

$\varepsilon =$ Error Term

The analyzed data was eventually be exhibited through frequency tables, graphs and pie charts

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Statistics

Table 1: Descriptive Statistics of Profit and loss Sharing Products

	N	Mean	Std. Deviation
Profits and losses are distributed in accordance with the signed contract	231	3.1732	.75491
Capital Financing (Mudarabah) is a friendly deal between the capital supplier and capital user	231	3.1991	.73081
Mudarabah integrates human efforts and skills with capital, which contributes to a society's development activities and also helps to alleviate unemployment	231	3.6061	.99815
Profit sharing products helps bank shareholders pool together their resources	231	3.3203	.96074
Musharaka is a friendly deal between the bank and the purchaser	231	3.4428	.69236
Valid N (listwise)	231		

Source: Study Data (2023)

In table 1 above, on the aspect of whether Mudarabah integrates human efforts and skills with capital that contribute to a society's development activities and also helps to alleviate unemployment, it was noted that majority of the respondents agreed to a great extent with the statement at a mean of 3.606 with a variation of 0.0.991. These results are consistent with the findings by Sudarsono and Saputri's (2018) findings that there is a positive association between profit-sharing ratio of Mudarabah deposits at Sharia Bank, Indonesia, and financial performance. On the aspect of profits and losses being distributed in accordance with the signed contract, capital Financing (Mudarabah) being a friendly deal between the capital supplier and capital user, and profit sharing products helping bank shareholders pool together their resources, it was noted that majority of the respondents agreed to a moderate extent with the statement at a mean of 3.173, 3.199 and 3.320 with a variation of 0.7549, 0.731 and 0.961 respectively. It also agrees with the findings by Siebert (2016) who revealed that there a significant impact of joint ventures (profit and loss sharing products) on firm performance

Table 2: Descriptive Statistics of asset backed financing products

	N	Mean	Std. Deviation
Murabaha is a friendly deal between the bank and the purchaser	231	3.2381	.82858
The bank utilizes Ijara (leasing)	231	3.1861	.94867
Ijara opened a greater window for Islamic bank	231	3.0260	.95062
Istisna can be utilized to provide funding in specific transactions, particularly in the housing finance industry	231	3.2121	.81456
In Salam transaction the seller decides to bequeath certain products to the customer at a later period in exchange for an advance fee completely paid at spot.	231	3.2814	.93880
Valid N (listwise)	231		

Source: Study Data (2023)

In table 2 above, on the aspect of whether Murabaha is a friendly deal between the bank and the purchaser, the bank utilizes Ijara (leasing), Ijara opened a greater window for Islamic bank, Istisna can be utilized to provide funding in specific transactions, particularly in the housing finance industry and in Salam transaction the seller decides to bequeath certain products to the customer at a later period in exchange for an advance fee completely paid at spot, it was noted that majority of the respondents agreed to a moderate extent with the statements at a mean of 3.238, 3.186, 3.026, 3.212 and 3.281 respectively with a variation of 0.829, 0.949, 0.951, 0.815 and 0.939 respectively. These results are agreement with the findings by Thiongo *et al.* (2016) who found attributed improved financial performance as a result of adopting asset backed financing practices.

Table 3: Descriptive Statistics of Contract and Safety Products

	N	Mean	Std. Deviation
Every hawala transaction is totally based on honor	231	2.9697	.92027
Hawala is widely utilized, colloquial value transfer mechanism for sending funds from one geographic location to the next	231	2.8788	.82516
A hawala transaction, per the IMF, often transfers the value of money but not equivalent currency from one nation to another.	231	2.8442	.79779
The hawala network works independently of or alongside financial channels, standard banking, and remittance systems, yet it predates them by centuries.	231	3.1212	.99259
Each hawala transaction is conducted solely on the honor system. Amana is a friendly deal between the bank and the purchaser	223 131	3.0909	.88241
Valid N (listwise)	231	3.0473	.75629

Source: Study Data (2023)

In table 3 above, on the aspect of whether every hawala transaction is totally based on honor, Hawala is widely utilized, colloquial value transfer mechanism for sending funds from one geographic location to the next, hawala transaction, per the IMF, often transfers the value of money but not equivalent currency from one nation to another, the hawala network works independently of or alongside financial channels, standard banking, and remittance systems, yet it predates them by centuries and each hawala transaction is conducted solely on the honor system., it was noted that majority of the respondents agreed to a moderate extent with the statements at a mean of 2.970, 2.879, 2.844, 3.121 and 3.091 respectively with a variation of 0.920, 0.825, 0.798, 0.993 and 0.882 respectively. These results are consistent with the findings by Abdullah (2014) who concluded that Amanah is inappropriate deposit strategy.

Correlation Analysis

The researcher created a correlation matrix between the variables utilizing the SPSS software. The results are summarized in Table 4.

Table 4: Correlations Analysis

		Profit and Loss sharing	Asset Backed Financing	Contract and Safety	financial performance
Profit and Loss sharing	Pearson Correlation	1	.674**	.604**	.510**
	Sig. (2-tailed)		.000	.000	.000
	N	231	231	231	231
Asset Backed Financing	Pearson Correlation	.674**	1	.696**	.619**
	Sig. (2-tailed)	.000		.000	.000
	N	231	231	231	231
Contract and Safety	Pearson Correlation	.604**	.696**	1	.503**
	Sig. (2-tailed)	.000	.000		.000
	N	231	231	231	231
financial performance	Pearson Correlation	.510**	.619**	.503**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	231	231	231	231

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

Source: Study Data (2023).

Results from the correlation analysis evidenced a presence of strong positive and significant correlation among all the features of the Islamic banking products tested in this study with the financial performance of banks in Nairobi County. The relationship between profit and loss sharing products, asset backed financing products and contract and safety products against financial performance of banks in Nairobi County was strong and positive at 0.510, 0.619 and 0.503 respectively but significant at 0.000, 0.000 and 0.000 respectively ($p<0.05$). This findings agree with the findings by Nur and Ahmed (2012) who indicated that World Islamic banks have demonstrated excellent pure technical efficiency.

Regression Analysis

Multiple regressing analysis was computed to derive the relationship between the variables.

Model Summary

From table 5, R^2 was .403 detonating that profit and loss sharing products, asset backed financing products and contract and safety products contributed 40.3% of the total variability in the financial performance. The remaining 59.7% constituted factors outside the model.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.635[a]	.403	.396	.52226

a. Predictors: (Constant), Contract and Safety , Profit and Loss sharing, Asset Backed Financing

Source: Study Data (2023).

Analysis of Variance (ANOVA)

The ANOVA test was done and the results shown in Table 6.

Table 6: ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.867	3	13.956	51.165	.000[b]
	Residual	61.917	227	.273		
	Total	103.784	230			

a. Dependent Variable: financial performance
b. Predictors: (Constant), Contract and Safety, Profit and Loss sharing, Asset Backed Financing

Source: Study Data (2023).

From the ANOVA statistics in table 6 above, p-value 0.000 as calculated denotes that the regression model was statistically significant in predicting the association amongst Islamic banking products and financial performance of banks as the p-value was less than 5%. By use of the F* test table (5%, 3), the tabularized value was 4.2, which was less than the calculated F=51.165, and this also confirms that the model was significant.

Regression Coefficients

The regression output was done and represented in Table 7.

Table 7: Regression Coefficientsa

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.147	.178		6.437	.000
	Profit and Loss sharing	.129	.064	.144	2.003	.046
	Asset Backed Financing	.439	.078	.450	5.647	.000
	Contract and Safety	.097	.069	.103	1.400	.163

a. Dependent Variable: financial performance

Source: Study Data (2023).

The researcher conducted regression analysis to realize the connection between Islamic financing products and financial performance of banks. The resulting regression equation was established.

$$\mathbf{Y = 1.147 + 0.129X_1+0.439X_2+0.097X_3}$$

Where: **Y** = Financial Performance, $\mathbf{X_1}$= Profit and Loss Sharing Products $\mathbf{X_2}$= Asset Backed Financing Products $\mathbf{X_3}$= Contract and Safety Products

From the findings, the subsequent hypotheses were tested:

$HO_{1:}$ Profit and Loss Sharing Products have no significant effect on financial performance of banks in Nairobi County, Kenya

Table 7, the study noted that Profit and Loss Sharing Products (β=0.0.129, p<0.05), showing that it was positive and statistically significant. Thus, hypothesis HO_1 was rejected. These results are consistent with the findings by Sudarsono and Saputri's (2018) findings that there is a positive association between profit-sharing ratio of Mudarabah deposits at Sharia Bank, Indonesia, and financial performance. It also agrees with the findings by Siebert (2016) who revealed that there a significant impact of joint ventures (profit and loss sharing products) on firm performance

HO_2 Asset Backed Financing Products have no significant effect on financial performance of banks in Nairobi County, Kenya

Table 7, the study noted that technological innovation (β=0.439, p<0.05), showing that it was positive and statistically significant. Thus, hypothesis HO_2 was rejected. These results are agreement with the findings by Thiongo *et al.* (2016) who found attributed improved financial performance as a result of adopting asset backed financing practices. The study also agree with the findings by Bello, Ahmad and Aliyu (2016) concluded that leasing (Ijara) loans largely influences the return on assets of the oil and gas firms and should be encouraged for adoption.

HO_3 Contract and Safety Products have no significant effect on financial performance of banks in Nairobi County, Kenya

Table 7, the study noted that Contract and Safety Products (β=0.097, p>0.05), showing that it was positive and statistically insignificant. Thus, hypothesis HO_2 was not rejected. These results are consistent with the findings by Abdullah (2014) who concluded that Amanah is inappropriate deposit strategy.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study findings indicate that Profit and loss sharing products had a significant positive effect on financial performance of banks in Nairobi County. In view of this finding Mudarabah, Musharakah, pooling resources together influence financial performance of banks. This implies that addressing Profit and loss sharing products issues improves the financial performance of banks. Profit and loss sharing products helps in finding out whether profit-and-loss-sharing modes of finance have become viable financial alternatives that Islamic partnership structures aim at incentivizing the bank and the entrepreneur to cooperate with each other to increase their wealth and avoid losses and they can hence minimize the disadvantages of conventional interest-based debt contracts.

The study equally found out that asset backed financing products has significant positive outcome on financial performance of banks. This informs the conclusion that the use of Murahaba, istisna, Salam and Ijara impact the financial performance of banks in Nairobi County. This implies that adopting asset backed financing products improves financial performance of banks. Asset backed financing products unlike conventional financial institutions, financing in Islam is always based on illiquid assets which creates real assets and inventories.

Finally, the study also established that contract and safety products have positive and insignificant effect on financial performance of banks. Therefore, the study concludes that Hawala and Amana does not necessarily affect the financial performance of banks. This indicates that the use of the contract and safety products does not necessarily increase the financial performance of banks in Nairobi County. Despite the relevance of the application of Hawala i.e., international transfer system by the Islamic banking, it does not play a vital role on the financial performance of these banks.

Recommendations

Recommendations to Practice

The researcher established that profit and loss sharing products has a significant positive effect on financial performance of banks in Nairobi County Kenya. This study hence recommends the utilization of Mudarabah product, Musharakah product and pooling resources together to help improve the performance of banks.

The researcher established that asset backed financing products has significant positive effect on financial performance of banks. This study hence recommends the use of Murahaba, istisna, Salam and Ijara by Islamic banking to help enhance the financial performance of banks in Nairobi County Kenya.

Recommendation for Policy

The study recommends policy formulation regarding a legal framework to strengthen sector regulation in order to reap the full benefits of supplying Islamic banking products. This means that Islamic banking principles should be incorporated into both the Central Bank Act and the Banking Act.

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