

**FACTORS INFLUENCING PROFITABILITY OF ISLAMIC BANKING IN KENYA;
CASE OF GULF AFRICAN BANK**

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FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTER OF
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UNIVERSITY.**

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DECLARATION

I certify that this research project is my original work and that all the material in this proposal which is not my own has been identified. I further declare that it has not been presented elsewhere or at any other university for the purpose of attainment of a degree or any other purpose. It is submitted in partial fulfilment of the requirements for the Degree of Master in Business Administration (MBA).

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DEDICATION

I would like to take this opportunity to thank God for making this study possible. I also dedicate this study to my family, special thanks to my wife Siham Jeehad, My brother Ahmed Anwar and My Friend and colleague Julia Naliaka Lunani who supported me morally throughout my study period and had to make do without my presence at home many weekends due to studies.

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Above all I give all the glory to God for being my ever present help.

ABSTRACT

Islamic Banking is one of the rapidly developing areas of finance in Kenya and the world at large. This study aimed to fill the gap in knowledge of the factors that enhance profitability of Islamic banking and especially in Gulf African bank. The objectives of the study were; to examine Shari'ah compliance as a factor influencing the profitability of Islamic banking, to investigate and understand Perception of people towards Islamic banking Products, and to establish the relationship between customer satisfaction and Profitability of Gulf African bank. To achieve the above, the researcher adopted a survey research design. The target population was 4,300 headquarter customers and 27 Managers in Head quarter. Stratified and simple random sampling methods were used to identify the sample. Both primary and secondary data have been used for the study. The secondary data was obtained from Central Bank of Kenya (CBK) and Kenya Bankers Association. Questionnaires were used to collect primary data from the respondents. The data that was collected was first coded statistically and then analysed using the Statistical Package for Social Scientists (SPSS). Chi-square was conducted to test hypothesis of agreement among respondents. These research findings indicate positive relationship between Shari'ah Compliance, Islamic banking products and customer satisfaction to profitability of Islamic banks. The results from the inferential statistics showed value of R² is 0.54 which means that 54.1% of dependent variable profitability of Islamic Banking of Gulf African Bank was explained/ contributed by independent variables (Shari'ah compliance, Customer's Perception and customer satisfaction) analysed. The study concludes that Shari'ah compliance, Customer perception and customer satisfaction were very important towards the profitability of Islamic banking at Gulf African Bank.

Key Words: Factors, Islamic banking, Profitability.

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ABBREVIATIONS

IFI, Islamic Financial Institutions.

Quran, The central religious text for Islam and the followers of Islam- Muslims.

GAB, Gulf African Bank

CHAPTER ONE

INTRODUCTION

1.0 Background

Islamic banking refers to financial services that meet the requirements of the Shari'ah or Islamic law. While designed to meet the specific religious requirements of Muslim customers, Islamic banking is not restricted to Muslims. Also called Islamic finance or Islamic financial services, Islamic banking represents the practical application of modern Banking concepts within the overall development of Islamic Economics (Abdeen & Dale, 1984).

The Islamic banking system has gained momentum worldwide (Juma, V. (2010). The second half of the twentieth Century has witnessed a resurgence of a new type of banking and finance: the Islamic banking and finance. Islamic financial institutions are already great names in many Muslim countries and are now becoming main stream in western countries as well (Safa, 2009). Benaissa, Parekh, and Wiegand (2005) observed that Islamic financial institutions are growing faster than conventional banks, at 15 to 20 per cent a year. The value of Islamic finance assets being managed presently is worth \$US700 billion which is likely to hit \$US1 trillion by 2010 (Seidu, 2009).

In spite of this boom, Islamic banking and finance lacks a global scale. Compared to the total assets gathered by the top thousand conventional banks which amounted to US\$90,256 billion, Islamic banking remains a niche but a potential market representing less than one percent of the world total banking assets (Oakley, 2008). Aziz (2009) states that the Islamic financial industry has gained wider acceptance and appreciation and has expanded beyond the traditional borders of the Muslim-based economies into the major industrial economies to become an integral component of the global financial system. The Islamic banking industry is a major player in the world competition.

The Shari'ah prohibits the payment riba, gharar (Excessive risk and Uncertainty) and maysir gambling). While Islamic Banking principles were used as the basis for a flourishing economy in earlier times, it is only in the late 20th century that a number

of Islamic banks were formed to apply these same principles to modern day banking activities both within the Muslim and non-Muslim communities successfully.

1.1.1 Islamic Banking Concepts

The concepts of Islamic Banking are provided and guided by the Qur'an (the Islamic Holy book) and Hadith. The Qur'an and Hadith provide for what is and is not prohibited in the Islamic faith (Khan, 2010). The basic concept of Islamic Banking is the prohibition of *riba* (Ayub, 2002). According to Khan, profits earned must be the product of risk sharing through engagement in profitable trade (Khan, 2010).

The basic guidelines of Islamic Banking and Finance as provided by El Hawary et al, (2004) are; Risk-sharing: the terms of the financial transactions must reflect the sharing of risk and returns amongst all the stakeholders in the transaction, Materiality: all financial transactions should be equity based rather than debt based, No exploitation: there should be equality i.e. No party should feel inferior or superior to the other in the transaction (bank and customer), and Activities forbidden under Islam should not be financed e.g. phonographic, firearms, alcohol sale and gambling.

There are more than 180 Islamic banks and financial institutions operating in Asia, Africa, Europe and the USA with more than 8,000 branches with an estimated \$170 billion. The popularity of the Islamic banking system is not limited to the Islamic banks only. Increasingly large international conventional banks are showing interest in the Islamic banking system as well (Naser, 2009).

1.1.2 The Profile of Gulf African Bank Ltd

Gulf African Bank Ltd. was incorporated on August 9, 2006 and commenced operations as a commercial bank on January 8, 2008, after it was granted the country's first fully-fledged commercial banking license as a dedicated Islamic bank (Gulf African Bank [GAB], 2013). To date, the bank has clearly established itself as the leading Islamic bank in Kenya with a network of 14 branches, in Nairobi, Mombasa, Lamu, Malindi and Garissa (GAB, 2014).

The fully fledged Islamic bank is owned by: Istithmar World, the investment arm of the government of Dubai; Bank Muscat International (BMI Bank BSC), a regional bank headquartered in Bahrain; Sheikh Abdallah Mohamed Al Romaizan, a Saudi

Arabia-based investor; Gulf Cap Group, a Dubai-based firm; PTA Bank; and individual investors who comprise of selection of prominent business and opinion leaders in Kenya (GAB, 2014). Recently, in 2012, the International Finance Corporation (IFC), the World Bank's private lending arm, put in \$5 million, acquiring 15% shares of the bank, and according to the bank's chairman Jamali Al-Hazeem, this a clear indication of the belief not only in the bank's future but also the future of Islamic banking in the region (GAB, 2013).

During the first five years of the bank's operation (years leading to 2013), as an Islamic commercial bank offering universal banking services to customers, it has been one of the fastest growing banks in the history of the Kenya's banking sector (GAB, 2013). As at September 2011 the bank broke even boasting of a strong balance sheet, with excellent operating profitability and strong ratios, placing it at the zenith of the 'industry' and currently, the mid-sized financial services provider with total assets of over Kes.11.9 billion and a net profit of Kes.75 million, (GAB, 2013).

According to Herbling, (2013), getting a boost from lending income- which was up 53.1 per cent to Kes.1.47b- GAB posted a 154 per cent growth in net profit to Kes.242.2m in the year ending December 2012.

Gulf African Bank is set to revolutionize banking experience in Kenya. Their business is based on the core principles of ethics and fairness and is planning to shun undue commercial enrichment at the expense of their customers. It is these principles that Gulf African Bank believes will make it the ideal choice for all sections of Kenyan society.

The Bank is promoted by premier and well-respected Gulf-based institutions along with prominent institutional and individual investors from Kenya. The shareholders are fully committed to the vision of growing the bank into a strong regional financial institution and have accordingly well capitalized the Bank.

Gulf African Bank has assured its customers and potential customers that their finances are managed by a team of dedicated, professional and experienced bankers who have committed themselves to this model of banking. The Bank is fully geared to meet the challenges in the market. The Bank, on the strength of its highly motivated staff and backed by state-of-the-art information technology platform, is

capable of delivering on their promise of providing you with first-class services and adding value to the Kenyan economy by attracting investments.

Gulf African Bank has also been Nominated Second Best Bank in Customer Satisfaction, 2009 in Kenya and in 2013 they were announced by the Kenya Institute of Management as the winner of two awards in the category of “Financial Management” and “Innovation, Information and Knowledge Management” at the prestigious “Company of the Year Awards” (COYA), in addition to being first runners-up for the overall COYA award.

CFI (Capital Finance International), an organization that provides news, analysis and commentary on the markets worldwide, were encouraged by the institution’s steady growth and achievements as a fully-fledged Shari’ah financial services provider. This saw Gulf African Bank being declared the winner of the prestigious Capital finance International (CFI) Islamic Banking Award, for Best Islamic Bank, Kenya, after a stiff competition of able competitors. This big win has been hugely attributed to the bank’s recognition of the need for taking the lead in addressing the increasing demand for Shari’ah compliant financial products and services in the region and its commitment towards providing unmatched services to its customers. In 2012, the bank also won in the same category. The performance of Gulf African bank since its inception is illustrated below.

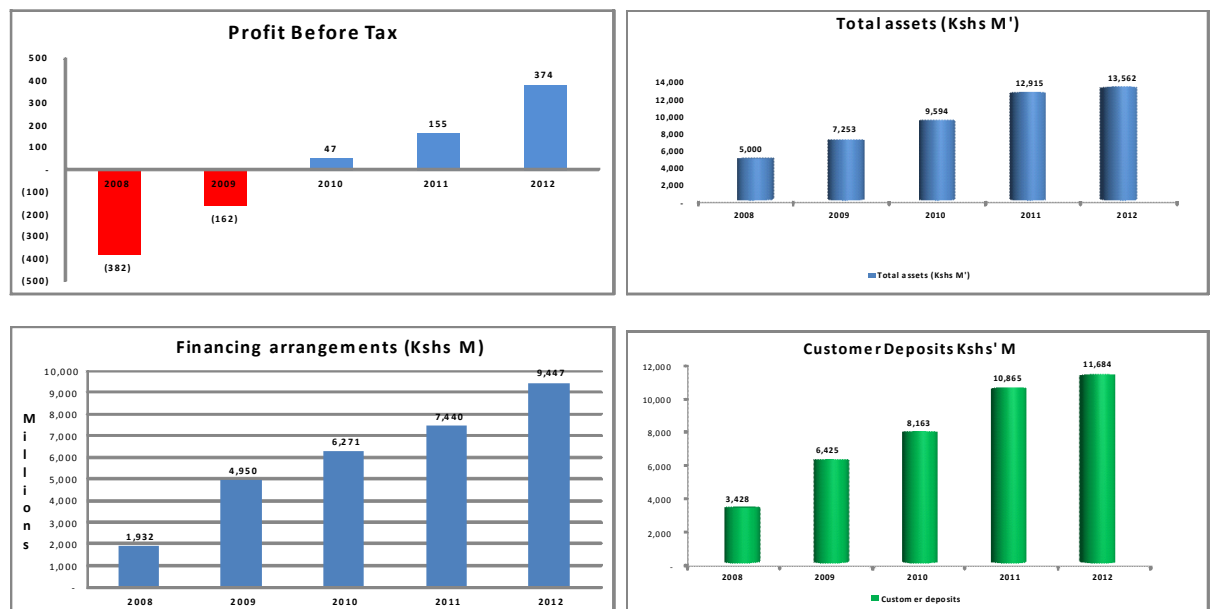


Figure 1.1: Gulf African Bank Trend analysis, Source: Gulf African Bank (2014)

1.2 Problem Statement

According to the financial statement result for 2013, United Bank of Africa, Guarantee bank and Eco Bank which practice conventional banking posted loses of KES.272Mio, KES.253Mio and KES.881Mio respectively compared to First Community and Gulf African Bank which practice Islamic Banking which posted KES.132.20 and KES.285Mio. This indicates a positive growth of profitability in Islamic Banking compared to conventional banking, thus attracting some conventional banks such as National Bank, Barclays Bank and Chase Bank to open banking windows. Other empirical studies revealed the profitable business of Islamic banks in different countries but none has been done on Kenya. The performance of the Islamic banks has been judged by using different key ratios like profitability ratios, liquidity ratios, risk and solvency ratios. For example, Iqbal, Munawar (2001) made trend analysis to depict the overall performance of the Islamic banks as compared to the conventional banks. According to him, Islamic banks in general are fairly stable, profitable and well capitalised.

Their profitability ratios compare favourably with international standards in banking. Alam (2000) undertook a case study to examine the contribution of Islamic Bank Bangladesh Limited (IBBL) towards small and rural sector. The study revealed that IBBL succeeded in attracting both deposits and investment positions since it started its activities. This study aimed to fill the gap in knowledge of the factors influencing profitability of Islamic banking in Kenya.

1.3 Objectives of the study

1.3.1 General Objective

To investigate and evaluate the factors influencing the Profitability of Islamic banking; a case of Gulf African bank

1.3.2 Specific Objectives

- a) To examine Shari'ah as a determining factor influencing profitability of Islamic banking at Gulf African Bank.
- b) To investigate how the Perception of customers towards Islamic banking Products and Services influence profitability of Islamic banking.

- c) To establish significance of customer satisfaction on Profitability of Gulf African bank.

1.4 Research Questions

1. In what ways does Shari'ah influence profitability of Gulf African Bank?
2. How does perception of customers towards Islamic banking Products and Services influence profitability?
3. How does Customer satisfaction influence Profitability?

1.5 Significance of the Study

This study is of benefit to not only Gulf African bank but also to the banking Industry as a whole as it provided information that has helped in understanding the factors influencing growth of profitability of Gulf African Bank. Banks can also use the findings to enhance profitability by emulating Gulf African Bank. The study also created a better understanding on Islamic banking and how it works.

This study also form basis for further research, having noticed that so far not much has been written on this study especially in Kenya. Governments who are in the phase of introducing fully-fledged Islamic banks and Islamic banking windows in their commercial banks could use this research as a background for understanding the principles and features underlying Islamic banking as well as for factors influencing profitability of Islamic banking which in the long run provides enormous contribution to the national economy.

1.6 Justification

The study investigated the factors influencing profitability of Islamic banking. So far, only a minority of Muslims strongly believe in the Islamic mode of banking, whereas, a majority of Muslims and non-Muslims are somehow ignorant about it or are not deeply convinced about its viability. This study constitute a source of effective information for decision makers.

This research form basis of better strategies that has illuminated future opportunities that Islamic banking can seize for greater profits and growth in the future. It has also assisted to understand customer needs and design other products and services that suit

these needs. Expansion of customer base and thus profitability will see new entrants into Islamic banking. This study, has assisted to better understand the effects and concerns surrounding the Islamic banking.

1.7 Scope of the Study

The research was based on a case study of Gulf African bank and was carried out in Nairobi (Kenya) at Gulf African bank head office Upper hill. The research targeted the bank's customers and managers and the study took duration of two months. The study aimed at capturing the factors influencing profitability of Islamic Banking.

1.8 Limitations of the Study

A key limitation of this study was respondent's truthfulness. The researcher encountered cases where the respondents were not fully truthful, and may have provided what they think the researcher wants to hear as opposed to what was the exact situation. Secondly, the study was faced with difficulties in accessing top level management owing to the busy schedule.

Delimitations of the Study

To counter the limitation of respondent's truthfulness, the researcher had to assure the respondents' anonymity and confidentiality, and re-assure them that the feedback will only be used for the purpose of the study. On the difficulties imposed by accessing top level management, the researcher attempt to reach them via electronic means, for instance the use of emails and book appointments.

1.9 Definition of Terms

Islamic banking, Financial services that meet the requirements of the Shari'ah or Islamic law. (Iqbal & Abbas, 2007).

Riba refers to the 'premium' that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in its maturity. Ahmad (2013).

Shari'ah, Divine guidance & laws as given by the Holy Quran, the Hadith (sayings) and the Sunnah of the Prophet Muhammad (Peace Be upon Him).

Fatwa (plural fatawa) an authoritative legal opinion based on the Shari'ah. It is promulgated by a Khalife, a Mufti, or a Qadi (magistrate or judge appointed by a ruler of an Islamic State) or a Muslim scholar (Moody's Global Credit Research, 2008)

Shari'ah Advisor, An independent professional, usually a classically trained Islamic legal scholar that advises an Islamic bank on the compliance of its products and services with the Shari'ah, or Islamic law (Naser, Kamal; Jamal, Ahmad. (1999)

Shari'ah compliant, an act or activity that complies with the requirements of the Shari'ah, or Islamic law. Safa S. (2009).

Hadith, The Hadith is anecdotes about Muhammad and other founders of Islam, (Khan, 2010).

Quran, The central religious text for Islam and the followers of Islam- Muslims.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter presented the literature that is relevant to the objectives. The literature was obtained from previous studies done on Islamic banking as documented in books, both manual and online journals and other projects.

2.2 Islamic Banking

An Islamic bank is a financial institution which identifies itself with the spirit of Shari’ah as laid down by the Holy Quran and the Sunnah (Sayings of the Prophet), as regards its objectives, principles, practices and operations (Siddiqui 2007). There are now nearly two hundred Islamic banks and financial institutions operating in twenty seven Muslim and sixteen non-Muslim countries. These are managing a portfolio of about \$230 Billion. Many western banks e.g. Citibank, J.P Morgan, Deutsche Bank and ABN AMRO bank of Netherlands have Islamic units (Musa 2007).

Hanif and Iqbal (2010) demonstrate that Shari’ah based transactions are the financing modes adopted by IFIs on profit and loss sharing basis including Musharaka (partnership in capital) and Mudaraba (partnership of capital and skill). Musharaka is an arrangement where two or more parties establish a joint commercial enterprise and all contribute capital as well as labour and management as a general rule (Iqbal and Molyneux, 2005). Under Musharaka IFIs are receiving deposits and finances business requirements for profit and loss sharing.

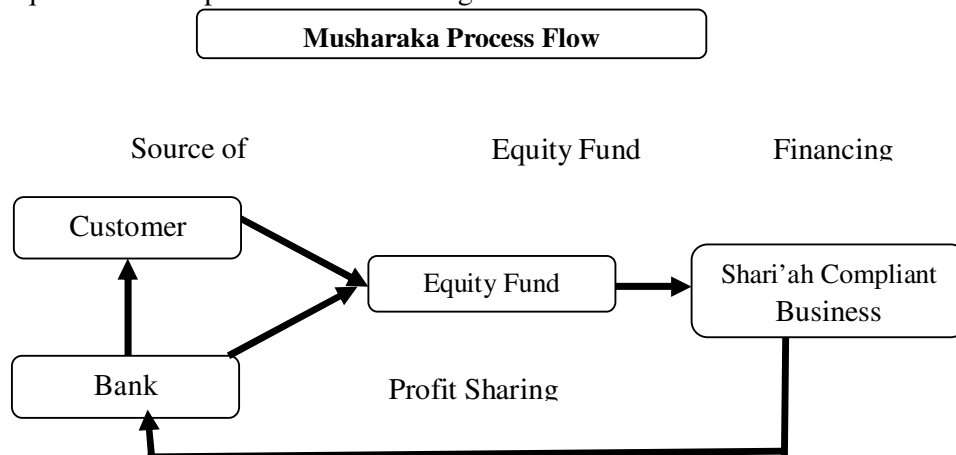


Figure 2.1: Musharaka Process Flow, Source: Gulf African Bank (2014)

Hanif and Iqbal (2010) defines Mudaraba is a type of partnership whereby skill and money brought together to conduct business. Profit is shared according to agreement while loss is born by capital provider only. Under this scheme of financing IFIs provide capital to financially weak but skilful people to do the business and share outcome with IFIs. This scheme is also used in deposit collection. Mudaraba contract can be restricted or unrestricted. No one can claim a lump sum amount of profit. It must be based on actual outcome, (Shari'ah standard 13).

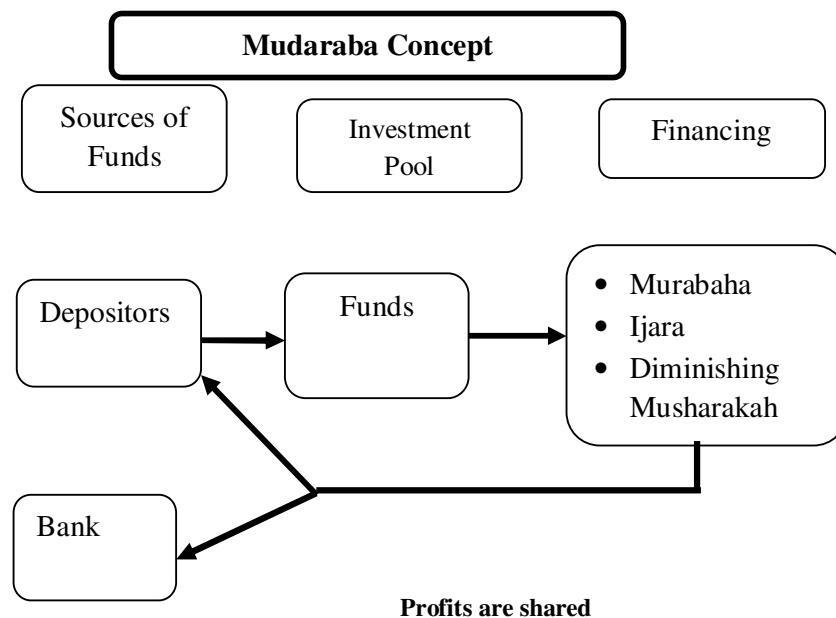


Figure 2.2: Mudaraba Concept Flow, Source: Gulf African Bank (2014)

Hanif and Iqbal, (2010) define Murabaha as a cost-plus profit sale contract whereby disclosure of cost to the buyer is necessary. They added that under Murabaha arrangement customer requests to the Islamic Financial Institution (IFI) to purchase an asset for him (customer) and sell on deferred payment. Bank charges a certain profit usually linked with Inter Bank Offered Rate. Recovery could be agreed in instalments or Balloon payment. Amount of instalment or price of the asset cannot be (stipulated) increased or decreased in case of default or early payment (Sharia standard 8). In order to create pressure on client for prompt payment a penalty is

imposed upon customer as agreed in Murabaha contract. Amount of penalty recovered for default in prompt payment cannot be included in income of IFIs in any case and must be spent for charity (Usmani, 2002).

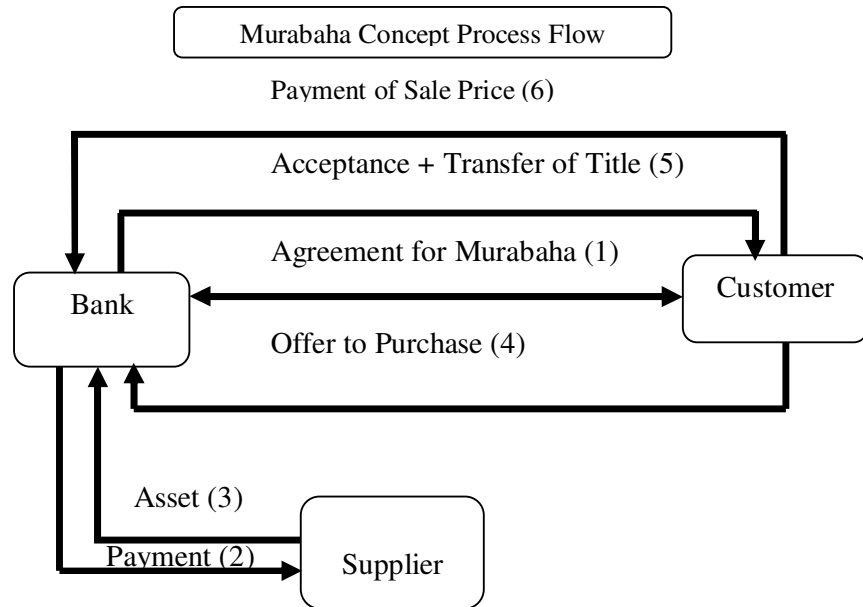


Figure 2.3: Murabaha Concept process flow, Source: Gulf African Bank (2014)

Islamic banks use the tawarruq structure to facilitate cash financing to their clients. Musa, (2007) explains the structure of Tawarruq financing the bank directly or indirectly buys an asset and immediately sells it to a customer on a deferred-payment basis. The customer then sells the same asset to a third party for immediate delivery and payment. The result is that the customer receives an immediate cash payment with an obligation to make deferred payments to the bank for the marked-up price of the asset. The asset financed is typically a freely tradable commodity, such as platinum or copper. Gold and silver are treated by the Shari'ah as currency and cannot be used. In modern Islamic banking, the bank usually performs all the transactions needed for tawarruq financing.

Ijara is a rental contract whereby IFI leases an asset for a specific rent and period to the client (Hanif and Iqbal, 2010). Ownership risks of the asset are born by IFI while expenses relating to use the asset are the responsibility of client. The difference between Ijara and sale is that ownership in Ijara remains with lesser while in case of sales it is transferred to purchaser. Ending Ijara in sale of asset is allowed by Islamic Fiqh Academy (IFA) through a separate contract at completion of term of lease.

Contract can be executed prior to purchase and possession of asset. The owner of the asset, or lessor (the bank), bears all the risks associated with ownership, such as asset maintenance, while the user of the asset (lessee) pays a fixed price (rent) for enjoying the benefits of the asset (Ayub, 2007). At the completion of Ijara term either asset is returned to IFI or purchased by client, (Shari'ah standard 9).

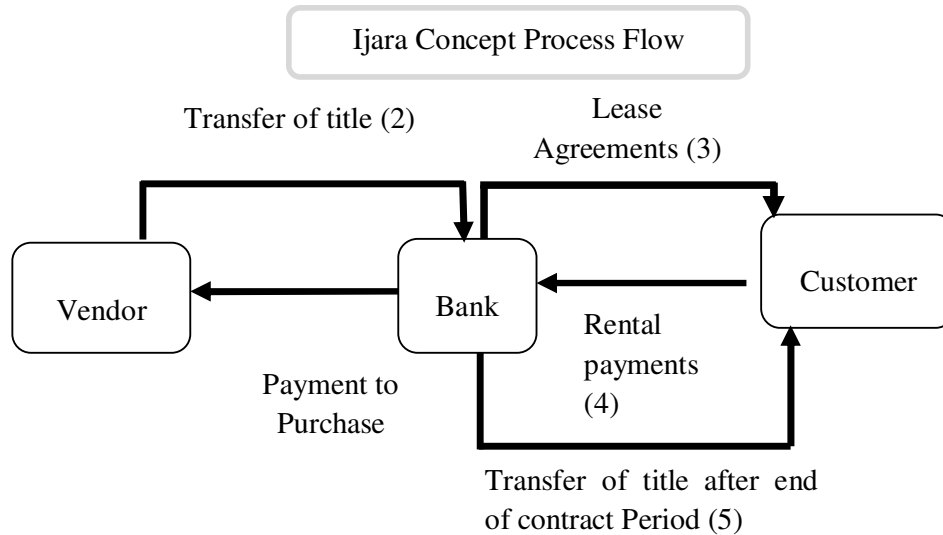


Figure 2.4: Source: Gulf African Bank (2014): Ijara Concept Process Flow

This is a form of declining partnership between IFI and client (Hanif and Iqbal, 2010). When a customer requests to IFI for financing to purchase an asset IFI participates in the ownership of asset by contributing required finance. Certain portion (e.g.20%) must be contributed by customer. Total equity of bank is divided into units of smaller amounts which are purchased by client in instalments. Hanif and Iqbal, (2010) notes that under this mode of financing one of the partners (client) promises to buy the equity share of the other partner (IFI) gradually until the title to the equity is completely transferred to him. Buying and selling of equity units must be independent of partnership contract and must not be stipulated in partnership contract.

2.3 Shari'ah Compliance as a factor of influencing profitability in Islamic Banking

The first principle of Islamic banking is prohibition of Riba. Riba is any return or compensation charged on a loan contract as well as charged in rescheduling debts. Riba is interest which in conventional finance is the price of debt (Ayub, 2010). Prohibition of riba; the most striking feature of Islamic banking is that, unlike conventional banking, it is totally interest-free (Musa 2007). Many scholars consider the prohibition of interest as one of the important features of Islamic banking.

Gharar is the sale of probable items whose existence or characteristics are not certain due to risky nature which makes the trade similar to gambling (Musa 2007). Commercial gain in itself is not illicit but of imminent concern to Shari'ah scholars and practitioners alike is the scope of uncertainty that transforms commercial gain into unlawful Gharar. According to Farah (2007), the reasons of the prohibition of Gharar are that it demotes varying degrees of deception pertaining to the price and quality of goods received by a party at the expense of the other, therefore, making options, futures and other derivations securities having high uncertainty haram.

Maysir is considered by Islamic scholars as gambling or any games of chance including lotteries, lotto, casino-type games and betting on the outcomes of animal races. Gambling and games of chance share a strategy for earning a profit through pre-meditated risk-taking (Naser, 2009). The high risk available in these types of transactions allows some people to win a large amount of money, but others suffer from a loss of their money, and sometimes face bankruptcy (Iqbal and Molyneux, 2005). This usually leads to greater financial and societal problems.

Islamic banks cannot use or deal in forbidden commodities. According to Hanif, Muhammad and Iqbal Abdullah Muhammad (2010) Islamic financial Institutions cannot provide finance for an activity which is prohibited by Shari'ah irrespective of its profitability and economic viability e.g. business of liquor, pork and pornography. Therefore, Amin, H. (2010) argues that only those business activities that are not forbidden by the Shari'ah rules are qualified for investment Shari'ah disapproves of investments in forbidden business sectors that may be deemed as 'unethical or immoral'.

Another key principle of Islamic finance is the sharing of business risks, profits and losses, according to the Profit and Loss Sharing (PLS) principle both the owner of the capital and the entrepreneur share in the profits and losses of the business (Aziz Z. (2009). Anouar, H. (2002) notes that the PLS principle creates a clear engagement among the parties involved in a transaction. Shari'ah prohibits Muslims from earning income by charging interest but permits income generation through the sharing of risks and rewards (mudharabah) between the parties to a transaction. The relationship between the investors and the financial intermediary is based on PLS principle, and the financial intermediary shares the risks with the investors (Greuning and Iqbal, 2008). Financial instruments are primarily used to finance obligations that arise from trade and sale of commodities or properties (Greuning and Iqbal, 2008). Many studies have been conducted to analyze the determinants of the profitability of conventional banks .Only a handful studies have examined the profitability of Islamic Banks. Haron (1996) was the first to examine the effects of competition and external factors on the profitability of Islamic Banks. He shows that, in competitive market, Islamic Banks earned more than those which operate in a monopolistic market this is due to the Shari'ah aspect. Furthermore, interest rates, inflation and size have significant positive impact on the profits of both conventional and Islamic Banks.

2.4 Perception of people towards Islamic banking Products and Services

Previous studies acted as an indicator to determine customers' perception towards Islamic banking. For instance, Hassan, M. (2007) studied customers' perception towards Islamic banking in Pakistan. His study examined several important dimensions including knowledge, socio-religious context, Shari'ah compliances, and willingness to deal with Islamic banks, and quality and attractiveness of offerings. This study found a positive perception of all dimensions investigated with customers indicating overall high satisfaction towards products and services of Islamic banks as compared to conventional banks.

Rashid, Hassan and Ahmad (2010) conducted a study on perception of customers towards domestic Islamic banks in Bangladesh. They examined six critical elements, namely corporate efficiency, compliance with Islamic rules, convenience, core banking, confidence, and cost benefit. This study found that customers are highly

satisfied with corporate efficiency and compliance with Islamic rules as substantial factors for them to choose their intended service.

In the case of Malaysia, Dusuki and Abdullah (2006) studied several critical reasons why Malaysian customers patronize Islamic banks and measured the elements of reputation, service delivery, product price, and social responsibility of Islamic banks. The study found that a combination of Islamic and financial reputation and service quality are the main patronage factors.

Specifically, among corporate customers, Ahmad and Harun (2002) conducted a study to examine their perception towards Islamic banking in Malaysia. They examined factors such as the usage of banking facilities, respondents' understanding of Islamic banking concept and practices, and personal opinions towards Islamic banking. They found that cost of the products and services is the most important factor perceived by corporate customers in selecting their banks.

Similarly, Rustam et al. (2011) discussed three main parameters to determine the perception of corporate customers towards Islamic banking in Pakistan. They examined factors such as the usage of conventional and Islamic banking facilities, respondents' understanding of Islamic banking system, and their personal opinion on various aspects of Islamic banking products like economic and religious view. They found that the Islamic banking industry has good potential within the Pakistani corporate sector. Instead of the Islamic banks' customers, few studies conducted to determine perception of bankers and students towards Islamic banking. For example, a research conducted by Zainol and Shaari (2008) on bankers' perception towards Islamic banking in both Islamic and conventional banks. In their study, they have included several critical factors, namely Islamic products and services, the training and experience, and the potential of Islamic banking in Malaysia. The result revealed that bankers in Islamic banks have more positive perceptions towards Islamic banking as compared to bankers in conventional banks.

Bley and Kuehn (2004) focused on students' knowledge and perception towards conventional and Islamic finance in United Arab Emirates (UAE). This study investigated the elements of financial knowledge, religion and language on self-reported attitudes and preferences for financial services and found that students' knowledge on conventional banking terms and concepts was higher than Islamic

banking terminology. However, students with higher academic achievement showed a better response towards understanding Islamic banking concepts and practices.

Razak and Mohamed (2008) conducted a study on the acceptance of Muslim and non-Muslim customers on Islamic banking in Malaysia towards the features and operation of a specific product of Islamic banking, which is Bai Bithaman Ajil (BBA). This study found a high level of dissatisfaction among customers as evidenced by their low intention to use BBA, which the researchers then suggested, is replaced with Musharaka Mutanakisah Partnership (MMP).

In case of retail banking, Thambiah et al. (2011) studied customers' perception and preference on Islamic Retail Banking (IRB). They examined the difference in terms of awareness, perception, and preferences on IRB between the urban and rural banking customers of Malaysia. The study found that there is a significant difference in terms of awareness and on perceived complexity, uncertainty, and observability. There also seem to be some variations for returns, loan repayment period, service charges, and overdraft facilities.

Comparing Muslims to non-Muslims, Loo (2010) conducted a study in Malaysia to gauge the different attitudes and perception towards Islamic banking. He examined the elements of knowledge, understanding of Islamic banking concepts, conflict with religious beliefs, together with the other elements of attractiveness of Islamic banking, disadvantages of Islamic banking, promotional influence, prospects of Islamic banking, and willingness to do business with Islamic banking. This study found that Muslims are supportive of Islamic banking while non-Muslims perceived Islamic banking as relevant mainly to Muslims.

A study conducted on the perception of non-Muslims towards Islamic banking by Mahamad and Tahir (2010) in Kuala Terengganu, examined the perception of users and non-users of Islamic banking from two elements, namely understanding of Islamic banking concept and practices, and bank selection criteria. They found low confidence among non-Muslims on the ability of Islamic banks to effectively compete with conventional banks, while non-users indicated a low willingness to deal with Islamic banks. This study also found that high return on investment is the most important criteria for banking selection among non-Muslims

In Kuala Lumpur, a recent study conducted by Abdullah, Sidek and Adnan (2012) on perception of non-Muslim customers towards Islamic banks in Malaysia revealed that Islamic banking services are making headway among non-Muslims in Kuala Lumpur, by observing the knowledge and understanding of Islamic banking among respondents, bank selection criteria, general perception of customers, among others.

2.5 Customer Satisfaction and Profitability

Similar to the studies on the conventional banks' growth, most studies on Islamic banking growth is also investigated through the saving theory framework. Earlier studies generally discuss the normative aspects of saving behaviour in the Islamic framework.

The four motives of saving proposed in the life-cycle model are consistent with Islamic norm behaviours. These motives are evident not only contemporarily, but also during the prophet's (pbuh) time. A Qur'an verse, for example, states that a Muslim should "...not spend everything so that you became blameworthy and destitute" (Al-Qur'an 17:29), hence emphasizes the importance of savings.

At the micro-level, extensive studies have been conducted to survey the banking selection criteria among customers of the Islamic banks. Researchers find various factors that influence the customer's choice of Islamic banks such as cost and benefit of product offered (products prices and rate of return of the investment), service quality (fast/efficient banking service and friendliness of the bank's staff), size and reputation of the bank, convenience (location and ample parking space) and friends/families influences (Ahmad and Haron, 2002; and Bank Indonesia, 2005b).

The selection of Islamic banks in Malaysia appears to be based on a combination of religious motive, financial reputation and quality services offered by the banks (Ahmad and Haron, 2002). In addition, recent study by Dusuki and Abdullah (2007) point out that good social responsibility practices, location/ convenience, and product prices are also important in patronizing the Islamic banks.

Furthermore, in Indonesia, study on potency, preference and people's behaviour towards Islamic banks conducted by Bank Indonesia (2005) finds that the main reason to choose Islamic banks service in the country are religious motive and bank's location (people's accessibility to the bank). The study also reveals that return of

Islamic banks is not a significant reason in choosing the Islamic bank's services. However, the perception on interest rate is rather ambiguous. Although most of the respondents agree that interest rate is prohibited in Islam, they are not against the interest rate application in the banking system.

Overall, the empirical evidences discussed above suggest that the determinants of saving and the preference towards Islamic bank is affected not only by the returns of the Islamic banks and interest rate of the conventional counterpart but also by macroeconomic variables such as income as well as banking policies/banking specific features such as location and number of Islamic banks' branch.

Customer satisfaction (the full meeting of one's expectations) has been a critical concept in contemporary marketing thought and in research related to buyer behaviour. It is generally argued that if customers are satisfied with a particular product or service offering after its use, then they are likely to engage in a repeat purchase and try line extensions (East, Robert 1997). Satisfied customers are also likely to tell others of their favourable experiences and thus engage in positive word of mouth advertising. Dissatisfied customers, on the other hand, are likely to switch brands and engage in negative word of mouth advertising. The significance of customer satisfaction and customer retention in strategy development for a "market oriented" and "customer focused" firm thus cannot be underestimated (Kohli and Jaworski, 1990).

Customer satisfaction is often described as the essence of success in today's highly competitive world of business. In the literature related to customer satisfaction, a great deal of attention has been paid to the confirmation paradigm which concerns the comparison of product or service performance expectations and evaluations. The confirmation model treats satisfaction as meeting customer expectations and is generally related to habitual usage of products (East, Roberts 1997). However, research on customer satisfaction has moved towards the disconfirmation paradigm which views satisfaction with products and brands as a result of two cognitive variables: repurchase expectations and disconfirmation (Peter and Olson, 1996, p. 509).

Services have some unique characteristics that make them different from physical products (Zeithaml and Bitner, 1996). Services are often characterized by their

intangibility, inseparability, heterogeneity, and perishability (Zeithaml and Bitner, 1996). The implications of these characteristics are that it is often difficult for customers to evaluate services at preconception, consumption and post-consumption stages of consumer decision making (Legg and Baker, 1996). Because of the intangible nature of services, it also becomes difficult for an organization to understand how its customers perceive and evaluate the quality of its services. Furthermore, services exist in real time: services are consumed at the very moment when they are made available to customers. They cannot be stored and quality checked like a physical product. Hence, every service production failure is likely to be experienced by a customer. Consequently, "dissatisfaction with a service might occupy most of the time over which service is consumed" (East, Roberts 1997) which may not be true for a physical product. Services are often high in credence and experience qualities and low in search qualities (Zeithaml and Bitner, 1996).

According to Zeithaml and Bitner (1996), search qualities represent those attributes that customers can determine prior to purchase. Examples of search qualities are attributes like colour, style, price, fit, feel, and smell. Experience qualities represent those attributes that customers can only determine after the purchase or during the consumption. Examples include attributes like taste, wear ability and satisfaction. Credence qualities represent those qualities that the customer may find impossible to evaluate, even after purchase and consumption. This is mainly because the customer may not have the appropriate level of skills, expertise and knowledge to perform the evaluation. Zeithaml and Bitner (1996) argued that because of their unique characteristics, services often pose few search qualities and many experience and credence qualities. On the basis of this, Alford and Sherrell (1996) argued that customers, in the case of services high in experience or credence properties, may depend on their affective responses to the service provider and their script-based expectations about the process used in the service to deliver satisfaction judgments.

Dutka (1994) states that satisfied customers offer businesses a promise of enhanced revenues and reduced operating costs. He says that "business success in today's competitive market requires that the seller adopts the customer's viewpoint. Sales of a product or service must satisfy the customer's objectives and requirements.

Banking is one of the many service industries where customer satisfaction has been an increasing focus of research. This is mainly because of the fact that banking sector is increasingly experiencing a growing level of competition.

Developing economies are experiencing similar changes in the external environment while, in many developing economies, moves towards privatization and economic liberalization have increased competition among domestic players and opened up markets to the entry of foreign competitors. The consequence of this increased competition is that many financial institutions are now focusing on increasing customer satisfaction and customer retention through improved quality of their services (Levesque and McDougall, 1996).

2.6 Conceptual Framework

After reviewing Literature review and previous studies the researcher developed a model to determine the factors that lead to profitability of Islamic banking in Kenya with a specific interest in Gulf African Bank. According to Parsons and Shils (1962), a conceptual framework systematically places descriptive categories in a broad structure of explicit propositions or statements of relationships between two or more empirical properties which are to be accepted or rejected. The proposed model of the study is represented. The output of these processes would be the growth of profitability of Islamic Banking.

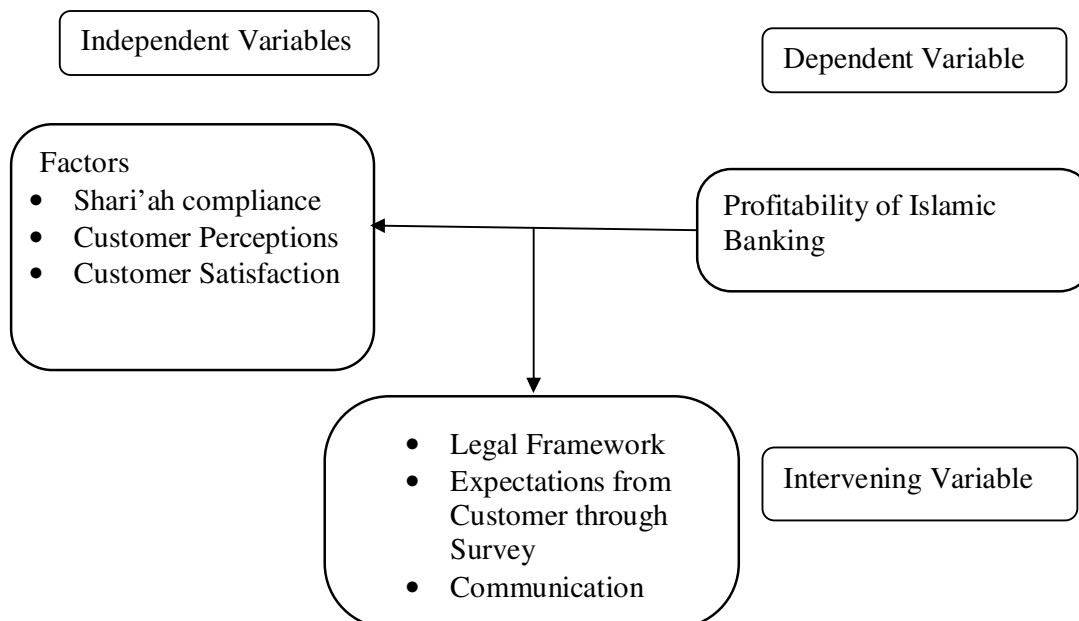


Figure 2.6: Conceptual Framework. Source: Author (2014)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

A quantitative technique was used to address the research process and questions. This chapter presented the research design and approach to answering these process and questions.

3.2 Research Design

The research was designed as a case study using the survey method. Emory (1995) describes a case study as a detailed analysis of an individual organization, supposing that one can properly acquire know of the phenomenon from intensive exploration of a single case. It is a form of qualitative analysis involving very careful and complete observation of a situation. It also probes deeply and analyses the interaction between factors that explain the present status or that influence growth or change.

3.3 Population

Cooper & Schindler (2003) define population as the total collection of elements about which the researcher wishes to make some inferences. The population of the study comprised 4,300 customers and all 27 Staff Members of Gulf African Bank in Headquarters Upper hill.

3.4 Sampling Design

3.4.1 Sampling Frame

Cooper & Schindler (2003) define sampling frame as a list of the elements from which the actual sample is drawn and is closely related to the population. Although each bank maintains a list of its customers, it is not possible to use the list to trace customers. Customers were accessed at random by issuing questionnaires to those who come to the bank at upper hill headquarters. In addition all the 27 staff were interviewed using questionnaire to correlate with customer views.

3.4.2 Sampling Technique

Cooper & Schindler (2003) defines random sampling as taking a number of independent observations from the same probability distribution, without involving any real population. In accordance to the study, the researcher picked the customers randomly. The bank opening hours are between nine in the morning to four in the afternoon i.e. 9am-4pm. The questionnaires were filled in 2 days where customers were given the questionnaires each day in each branch. The questionnaires were filled after one hour interval i.e. at 10am, 11am, 12pm, 1pm, and 2pm. Any customer who entered at the interval assigned was requested to participate and fill the questionnaire. The target population was 4,327, comprising of 4,300 upper hill customers and 27 staff of Gulf African Bank.

3.4.3 Sample Size

In order to determine the sample size, Yemen's formula presented below was used.

$$n = \frac{N}{1 + N(e)^2}$$

With e=0.05

Where; e = Deviation of sampling

N= Size of Population

n = Size of sampling

$$n = \frac{4300}{1 + 4300(0.05)^2} = 365.95$$

Table 1: Sample Size

SAMPLE FRAME	SAMPLE SIZE
Customers	366
Bank staff members	27
TOTAL	393

3.5 Data Collection Methods

The main data collection instrument was a questionnaire (Appendix 2) containing both structured and unstructured questions. Open ended questions were administered to staff. A qualitative preliminary survey was also be carried out and aim at interviewing individuals who are influencers in the banking industry. These included Muslim and non-Muslim customers, and select business people who were current customers of Shari'ah compliant banking.

3.6 Research Procedures

An interview was held with the Manager Upper hill branch so as to get permission to issue the questionnaire and background history of the branch, including profitability statements and reports on the branch's performance over the financial period. The questionnaire was pre-tested on a subset of the population to establish clarity and relevance of the questions. Before collection, the researchers counterchecked the levels of completion of the questionnaires and enquire for any assistance in case the respondents want more information about filling the research instruments.

3.7 Data Analysis Method

Data was verified to ensure that everything is right before the actual analysis is done. The collected data was statistically analysed using Statistical Program for Social Scientists (SPSS) chi-square method and regression analysis were used The below regression model was applied to establish whether there existed any relationship between the dependent variable and the independent variables.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \sum e$$

Where Y is the dependent variable (Profitability of Islamic banking)

β_i being the coefficients

X_i is the predictor/independent variable: X_1 Being Shari'ah

Compliance, X_2 being Customer' perception and X_3 is Customer

Satisfaction, while α is the constant and $\sum e$ = error term.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis, interpretation and presentation of the data as was obtained from the field. The analysis and presentation was done in tandem with the research objectives set in the study each answering the relative research questions. The objectives of the study were; to examine Shari'ah as a determining factor influencing profitability of Islamic banking at Gulf African Bank; to investigate how the perception of people towards Islamic banking Products and Services influence profitability of Islamic banking and to establish the relationship between customer satisfaction and Profitability of Gulf African bank.

Table 4.1 Response Rate

	Distributed	Responded	Response rate
Customers	366	325	89
Bank staff	27	24	89
Total	393	349	89

A total of 366 questionnaires were distributed to the customers and 27 bank staff as respondents to the study. Out of these, a total of 325 customers and 24 staff from the bank filled and returned the questionnaires hence giving a response rate of 89% respectively which is adequate according to Mugenda and Mugenda 2003 who asserts that a research study with a response rate of 75% and above is very adequate.

4.2 Demographic Information of the Respondents

The section below presents the demographic information of the respondents.

Table 4.2: Demographic Information of the Respondents

Variable	Category	No. Respondent	Percentage
Age	Less 25 Years	123	35%
	25-35 Years	91	26%
	36-50 Years	74	21%
	Above 50 Years	61	17%
Total		349	100%
Gender	Male	165	47%
	Female	184	53%
Total		349	100%
Religion	Muslim	262	75%
	Non-Muslim	87	25%
Total		349	100%
Year of operation	Less 1 year	102	29%
Total	1-5 Years	186	53%
	6-10 Years	61	17%
	Above11 Years	-	
		349	100%

The study was required to establish on the demographic information of the respondents who participated in the study. According to the results displayed in the table 4.2, majority of the respondents were female as shown by 53% whereas the rest were male as shown by 47%.

On the age of the respondents, the study established that majority of the respondents were aged between 25 or less years as shown by 35%, 25-35 years as shown by 26% 36-50 years as shown by 21% and above 50 years as shown by 17% respectively. This

is an implication that more of youthful customers and account holders at Gulf Bank were reached by the study.

Accordingly, the study established that 75% of the respondents were Muslims while the rest as shown by 25% were non-Muslims. This could be contributed by the fact that Gulf Bank is a Muslim founded bank and its origin is in the Islamic land hence a few of other religions is expected.

On the year of operation as a customer in the bank, the study established that majority of the respondents were account holders or staff for a period of 1-5 years as shown by 53%, less than one years as shown by 29%, 6-10 years as shown by 17% respectively. The study failed to establish the existence of other customers in the range of being customers for over 11 years.

4.3 Influence of Shari'ah on profitability of Islamic banking at Gulf African Bank

The researcher intended to establish the Influence of Shari'ah on profitability of Islamic banking at Gulf African Bank. The following section presents the analysis on the influence of Shari'ah on profitability of Islamic banking at Gulf African Bank.

Table 4.3: Level of importance on Shari’ah as a determining factor influencing profitability of Islamic banking at Gulf African Bank

N=325	Not Important	Somewhat Not Important	Neutral	Somewhat important	Very important
Good Shari’ah governance	4%	2%	16%	40%	38%
Runs on Islamic principles	10%	6%	11%	27%	46%
Has a Shari’ah Board	5%	11%	14%	28%	42%
To deal with products that is accepted by Islamic Law Only (Halal)	13%	7%	12%	29%	39%
No interest neither paid nor taken on saving and on loans	22%	17%	13%	11%	38%
Opportunity to get interest free loans	19%	17%	20%	17%	28%
Enhance Confidants and trust	23%	19%	23%	13%	22%
Profit sharing investments	32%	25%	20%	14%	9%
knowledge of Shari’ah laws by staff	42%	25%	13%	12%	9%

Table 4.3 presents the results on respondent’s level of importance of Shari’ah as a determining factor influencing profitability of Islamic banking at Gulf African Bank. According to the results, majority of the respondents said that; Good Shari’ah governance in the bank, bank running on Islamic principles, bank having a Shari’ah Board and dealing with products that are accepted by Islamic Law Only (Halal) was important towards the profitability of Islamic banking at Gulf African Bank as shown. Majority of the respondents also said that; no interest neither paid nor taken on saving and on loans, Opportunity to get interest free loans and enhancing Confidants and trust was somewhat important towards the profitability of Islamic banking at Gulf African Bank. Majority of the respondents said that profit sharing investments and knowledge of Shari’ah laws by staff was somewhat not important towards the

profitability of Islamic banking at Gulf African Bank. The results show that most of the factors are important implying that Shari’ah is a determining factor influencing profitability of Islamic banking at Gulf African Bank. Now, to find out whether various components of Shari’ah compliance affect profitability the following hypothesis has been tested for each product/service.

Null hypothesis: Shari’ah compliance does not influence profitability (i.e. $H_0=3$).

Alternative hypothesis: Shari’ah compliance does influence profitability (i.e. $H_A>3$).

Table 4.3.1:Chi-Square Tests

	Shari’ah governance	Islamic principles	Shari’ah board	Opportunity	Confidence and trust	Profit sharing	Halal business	Shari’ah Knowledge
Chi-Square	208.745a	181.046b	141.446b	13.169b	11.754b	55.692b	1.205E2b	120.615b
df	4	4	4	4	4	4	4	4
Asymp. Sig.	.000	.000	.000	.010	.019	.000	.000	.000

From Table 4.3.1, the researcher found out good Shari’ah governance with χ^2 value of 208.75, with two degrees of freedom, is significant. In other words, there is a relationship between the Shari’ah governance and profitability. Likewise it indicates from this table that bank running on Islamic principles, bank having a Shari’ah Board and dealing with products that are accepted by Islamic Law Only (Halal),

No interest neither paid nor taken on saving and on loans, Opportunity to get interest free loans and enhancing Confidents are significant with the χ^2 value of 181.046,141.446,13.169,11.754,55.692,1.205 and 120.615 respectively, with two degrees of freedom, is significant. In this case, there is a relationship between Shari’ah compliance and profitability. Hence we reject the null hypothesis.

Table 4.4: Benefits accrued by complying with the Shari’ah principle in investment of the products

Shari’ah Compliance	Strongly disagree	Disagree	Moderately agree	Agree	Strongly agree
Make product pricing Competitive compared to Conventional	11%	26%	7%	30%	27%
Enhances Islamic products flexibility	23%	19%	13%	23%	22%
Better decision making	21%	16%	4%	28%	31%
Worldwide trend towards Islamic Banking	1%	13%	11%	26%	49%

The study required the researcher to establish from the respondents the benefits accrued by complying with the Shari’ah principle in investment of the products. According to the results displayed in the table 4.4, majority of the respondents moderately agreed that there are benefits accrued on compliance to principle in investment of the products like making product pricing Competitive compared to Conventional, Enhancing Islamic products flexibility, enabling better decision making and enhancing worldwide trend towards Islamic Banking all which determine the profitability of Islamic banking at Gulf African Bank. Now, to find out whether various components of Shari’ah have Benefits accrued by complying with the Shari’ah principle the following hypothesis has been tested for each product/service.

Null hypothesis: Complying with the Shari’ah does not have benefit (i.e. $H_0=3$).

Alternative hypothesis: Complying with the Shari’ah have benefit (i.e. $H_A>3$).

Chi-Square Tests

Table 4.4.1: Benefits accrued by complying with the Shari’ah principle in investment of the products

Test Statistics				
	Pricing competition	Enhance product flexibility	Better decision making	Worldwide trend
Chi-Square	66.954a	11.754b	76.677c	221.969d
Df	4	4	4	4
Asymp. Sig.	.000	.019	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 60.8.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 65.0.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 62.0.

d. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 64.0.

From Table 4.4.1, we can reject the null hypothesis as the χ^2 value of the various variable mentioned i.e. product pricing Competitive compared to Conventional, Enhancing Islamic products flexibility, enabling better decision making and enhancing worldwide trend towards Islamic Banking are 66.954,11.754,76.677 and 221.969 respectively, with two degrees of freedom, is significant. In other words, there is benefit derived from Shari’ah compliance and thus results in profitability.

4.5 Perception of customers on how products and Services influence profitability of Islamic banking

The study required to know how the perception of people towards Islamic banking products and services influence profitability of Islamic banking. The following section presents the analysis on perception on how products and Services influence profitability of Islamic banking at Gulf African Bank.

Table 4.5: Respondent’s perception on how products and Services influence profitability of Islamic banking

Perception	Not Good	Somewhat not good	Moderately good	Somewhat good	Very Good
How do you find GAB as a bank	1%	2%	39%	33%	25%
From your Observation how do you find Staff at Gab	4%	3%	36%	31%	26%
How reliable is Gab product and Service	2%	14%	21%	27%	35%
What is your experience whenever you bank with Gab	2%	7%	40%	25%	27%
How is service at GAB compared to Conventional banks	4%	10%	28%	34%	24%
how do you rate GAB Products and services compared to others	7%	7%	40%	26%	20%
How do you find the pricing of GAB products	11%	25%	43%	14%	7%

Table 4.5 presents the findings on respondents’ perception on how products and Services influence profitability of Islamic banking. According to the findings, majority of the respondents rated that; find GAB as a bank good, find Staff at GAB good, find GAB product and Service reliable and good, experience whenever one

bank with GAB good. Respondents also rated; services at GAB compared to Conventional banks as moderately good, GAB Products and services compared to others as moderately good and the pricing of GAB products as moderately good.

Now, to find out whether Respondent’s perception on how products and Services influence profitability of Islamic banking the following hypothesis has been tested for each product/service.

Null hypothesis: Perception on products and Services does not influence profitability of Islamic banking (i.e. $H_0=3$).

Alternative hypothesis: Perception on products and Services influence profitability of Islamic banking y (i.e. $H_A>3$).

Chi-Square Tests

Table 4.5.1: Respondent’s perception on how products and Services influence profitability of Islamic banking

Test Statistics							
	GAB as a bank	Reliability	Staff	Experience	Service	Rate	Pricing
Chi-Square	199.325a	96.820b	153.258c	149.082b	97.414d	201.854e	129.082b
Df	4	4	4	4	4	5	4
Asymp. Sig.	.000	.000	.000	.000	.000	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 63.4.

- b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 61.0.
- c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 62.0.
- d. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 60.8.
- e. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 51.5.

From Table 4.5.1, the χ^2 value of 199.325, with two degrees of freedom, is significant. In other words, there is a relationship between people perception of GAB as a bank and profitability. Likewise it indicates from this table that the χ^2 value of 96.82, with two degrees of freedom, is significant; there is a relationship between reliability of product and services and profitability. It is also seen from the table that the χ^2 value of 153.258, 149.082, 97.414, 201.854 and 129.082 for staff at Gab, customer experience, service compared to conventional bank, rate of product and service compared to other banks and product pricing respectively with two degrees of freedom, significant. In other words, there is a relationship people's perception and profitability. Hence we reject the null hypothesis.

Table 4.6: Respondents rating on usage of products that influence profitability of Islamic Banking at Gulf African Bank

Products	Least Used	Usually used	Mostly used
Mudaraba (Savings and Current A/c)	0%	33%	67%
Murabahah (Financing)	28%	30%	42%
Musharakah (Deposit fixed)	48%	23%	30%
Ijara (Leasing)	57%	31%	12%
Takaful (Bank assurance)	58%	28%	14%

The study was required to find out Respondents rating on usage of products that influence profitability of Islamic Banking at Gulf African Bank. On this question, the study established that majority of the respondents said that; Mudaraba (Savings and Current A/c), Murabahah (Financing), Musharakah (Deposit fixed), Ijara (Leasing) and Takaful (Bank assurance) as usually used as products which influence profitability of Islamic Banking at Gulf African Bank as shown on table 4.6.1 below.

Chi-Square Tests

Table 4.6.1: Respondents rating on usage of products that influence profitability of Islamic Banking at Gulf African Bank

Test Statistics					
	MUDARABA	MURABAHA	MUSHARAKA	IJARA	TAKAFUL
Chi-Square	31.890a	10.576b	27.516c	80.206d	68.452e
Df	1	2	2	2	2
Asymp. Sig.	.000	.005	.000	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 141.5.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 100.7.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 92.3.

d. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 87.3.

e. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 73.7.

From Table 4.6.1, we can see all the Islamic products are of significance and have an impact on profitability, when we look at the Pvalue all of them have a Pvalue of less than 0.05. This shows they are significant. The χ^2 value of Murabaha was the lowest 10.576 followed by Musharakah 27.516, Mudaraba 31.890, Takaful 68.452 and Ijara 80.206.

Table 4.7: Internal Respondents rating on reasons for Islamic Banking product selection

	Very High	High	Insignificant
Strictly religion	57%	35%	9%
Economics (profit & cost elements)	32%	41%	27%
Both religion and economics	55%	41%	5%
Other reasons	21%	42%	37%

Internal Respondents (staff at GAB) were required by the study to indicate their rating on reasons for Islamic Banking products selection. On this question, majority of the respondents indicated that; Strictly religion, Economics (profit & cost elements), Both religion and economics among other reasons as highest reasons considered on Islamic Banking products selection at Gulf African Bank. This implies that selection and choice of products at Gulf African Bank is based on reasons such as religion, economics (profit & cost elements) and economics respectively.

Chi-Square Tests

Table 4.7.1: Respondents rating on reasons for Islamic Banking product selection

Test Statistics				
	Strictly religion	Economic	both religion and econ	Other
Chi-Square	7.913a	.636b	8.818b	1.368c
Df	2	2	2	2
Asymp. Sig.	.019	.727	.012	.504

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 7.7.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 7.3.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 6.3.

From Table 4.7.1, it explains reasons why customer select Islamic bank the χ^2 value of 7.913, with two degrees of freedom, is significant. In other words, there is a relationship between religion and Islamic banking product selection. Likewise it indicates from this table that the χ^2 value of 0.636, with two degrees of freedom, is not significant. In this case, there is no relationship between economic gain and Islamic banking product selection. It is also seen from the table that the χ^2 value of 8.818, with two degrees of freedom, is significant. In other words, there is a relationship between both religion and economics and Islamic banking product selection. Also from the table we can understand other reason does not really have a huge impact on Islamic banking selection with a χ^2 value of 1.368 and a Pvalue of 0.504 which is more than the recommended 0.05. We can conclude that strictly religion and Both religion and economic benefits are significant to once choice of Islamic banking.

Table 4.8: Internal Respondent’s level of agreement on statements related to their perception on Islamic banking at Gulf African Bank

Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
The advent of Islamic Banking in the Kenya banking sector has brought stiff competition	39%	35%	26%	0%	0%
Non-Muslim customers think Islamic banking is just meant for Muslims	52%	26%	9%	13%	0%
Customers Prefer Shari’ah Compliant Product than conventional product	35%	26%	30%	4%	4%
People think Shari’ah compliant banking to be better than conventional banking	26%	39%	22%	9%	4%
Islamic Banks tend to offer better customer service compared to Conventional banking	52%	26%	4%	13%	4%
Of late most customers look at other factors other than Shari’ah	23%	23%	32%	18%	5%
Most customers choose Islamic banking as it offers cost effective services and pricing	9%	36%	18%	14%	23%

The table above depicts the findings on Respondent’s level of agreement on statements related to their perception on Islamic banking at Gulf African Bank. According to the results, the study established that majority of the respondents were in agreement that; The advent of Islamic Banking in the Kenya, banking sector has brought stiff competition, Non-Muslim customers think Islamic banking is just meant for Muslims, Customers Prefer Shari’ah Compliant Product than conventional product, People percept Shari’ah compliant banking to be better than conventional banking, Islamic Banks tend to offer better customer service compared to Conventional banking, Of late most customers look at other factors other than Shari’ah and that most customers choose Islamic banking as it offers cost effective services and pricing as shown.

Chi-Square Tests

Table 4.8.1 Internal Respondent's level of agreement on statements related to their perception on Islamic banking at Gulf African Bank

	The advent stiff competition	Just meant for Muslims	Prefer Shari'ah Compliant Product	Better than conventional banking	Better customer service	Other factors	Cost effective services and pricing
Chi-Square	.609a	10.565b	9.826c	8.957c	18.522c	4.364d	4.818d
Df	2	3	4	4	4	4	4
Asymp. Sig.	.738	.014	.043	.062	.001	.359	.306

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 7.7.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 5.8.

c. 5 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 4.6.

d. 5 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 4.4.

From Table 4.8, according to staff at GAB ,customers perceive Islamic banking as banking meant for Muslims, customers prefer Shari'ah compliant products and better customer service this can be seen from the χ^2 value of 10.565,9.826 and 18.522 respectively with two degrees of freedom, is significant.. Likewise it indicates from this table that the advent of Islamic banking has brought stiff competition, Islamic banking is better than conventional, customers look at other factors other than Shari'ah and cost effective service and pricing are insignificant with χ^2 value of 0.609, 8.957, 4.364 and 4.818 respectively as their Pvalue is more than 0.05. In this case, there is no relationship. Advent of Islamic banking has brought stiff competition, Islamic banking is better than conventional, customers look at other factors other than Shari'ah and cost effective service and pricing.

Table 4.3.2: Whether respondent think more Non-Muslim are likely to open account with Islamic banks

Responses	Frequency	Percentage
Yes	17	71
No	7	29
Total	24	100

The researcher intended to find out whether respondent think more Non -Muslim are likely to open account with Islamic banks. On this question, majority of the respondents as shown by 75% were in agreement that more Non -Muslim are likely to open account with Islamic banks whereas 25% of the respondents thought more Non -Muslim are unlikely to open account with Islamic banks.

4.5 Customer Satisfaction and Profitability of Gulf African bank

The researcher wanted to investigate on the influence of customer satisfaction on Profitability of Gulf African bank. The section below presents the analysis of the responses on influence of customer satisfaction on Profitability of Gulf African bank.

Table 4.4: Respondents level of agreement on Reasons for Choosing GAB

Statements	Strongly agree	Agree	Moderately agree	Disagree	Strongly disagree
Bank location	42%	21%	30%	7%	0%
Efficiency and effectiveness of Islamic Banking	28%	47%	14%	7%	3%
Level of customer service	29%	34%	21%	12%	4%
Influence by friends	31%	32%	24%	7%	6%
Innovation (Mobile/Internet Banking)	29%	25%	27%	14%	4%
Different products offered that suits your needs	26%	27%	17%	10%	20%
Reliability of Affordability	23%	21%	29%	23%	4%

The table above presents the findings on Respondents level of agreement on Reasons for Choosing GAB. According to the results displayed, majority of the respondents were in agreement that the bank location, Efficiency and effectiveness of Islamic Banking, Level of customer, service, Influence by friends, Innovation (Mobile/Internet Banking), Different products offered that suits your needs and reliability of affordability are some of the major reasons for choosing Gulf African Bank.

Chi-Square Tests.

Table 4.9.1 Internal Respondent’s level of agreement on statements related to their perception on Islamic banking at Gulf African Bank

Test Statistics							
	Bank location	Efficiency of Islamic banking	level of customer service	Influence by friends	Innovation	Different products offered	Reliability of affordability
Chi-Square	92.188a	187.127b	94.523c	97.115d	74.654e	28.436f	56.871g
Df	3	4	4	4	4	4	4
Asymp. Sig.	.000	.000	.000	.000	.000	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 73.3.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 58.2.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 60.4.

d. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 61.0.

e. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 64.2.

f. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 60.6.

g. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 62.0.

From Table 4.9.1, we found out that bank location, efficiency and effectiveness ,high level of customer service ,influence ,innovation ,product differential and reliability and a affordability are all significant as they have a Pvalue of less than 0.05 and the χ^2 value of 92.188,187.127,94.523,97.115,74.654,28.436 and 56.871, with two degrees of freedom, is significant. In other words, there is a relationship between the above variables and profitability.

Table 4.5: Respondents level of satisfaction with services offered to by the bank

	Very satisfied	Satisfied	Somehow Satisfied	Dissatisfied	Very Dissatisfied
Internet banking and Mobile Banking	46%	30%	20%	1%	4%
Customer service	51%	28%	7%	3%	10%
Cheque Services	31%	27%	16%	11%	14%
Action on Feedbacks	31%	11%	21%	29%	7%
ATM services	27%	23%	12%	13%	25%
Monthly statements	14%	21%	21%	11%	32%
money withdrawal	24%	27%	17%	10%	22%

Respondents were required by the study to indicate their level of satisfaction with services offered to by the bank. According to the results as displayed in the table above, majority of the respondents were satisfied with the; Internet banking and Mobile Banking, Customer service, Cheque Services, Action on Feedbacks, ATM services, Monthly statements and money withdrawal services.

Chi-Square Tests

Table 4.10.1 Respondents level of satisfaction with services offered by the bank

	Internet banking and mobile banking	Customer services	Cheque services	Action on feed back	on Atm services	Monthly statement	Money withdrawal
Chi-Square	311.830a	215.532b	46.669c	70.474d	27.715e	38.685f	32.230g
df	4	4	4	4	4	4	4
Asymp. Sig.	.000	.000	.000	.000	.000	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 80.2.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 62.4.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 59.8.

d. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 60.8.

e. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 61.8.

f. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 58.4.

g. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 71.2.

From Table 4.10.1, we can see customers are having a high level of satisfaction with the χ^2 value of 311.830, 215.532, 46.669, 70.474, 27.715, 38.685 and 32.230 from Internet banking and mobile banking, customer services, cheque services, action on feed back, ATM services, monthly statement and Money withdrawal respectively with their Pvalue below 0.05significance level as such the above variable are is significant.

In other words, there is a relationship between the level of satisfaction with banks products and profitability.

Table 4.6: Respondents level of importance of practices by the Gulf African bank that enhance profitability

Customer satisfaction	Not Important	Somewhat not important	Neutral	Somewhat important	Very important
Quick service and speed of transactions	0%	0%	7%	39%	54%
Security of transaction	0%	0%	1%	46%	53%
Confidence in banks management	0%	1%	8%	55%	36%
A wide range of services provided;(for example; bill payment, account reconciliation)	0%	3%	20%	34%	43%
Better profit comparing with the interest in traditional Bank	1%	2%	27%	24%	46%
Lower service charge	7%	11%	13%	28%	41%
Confidentiality of bank	0%	3%	14%	42%	41%
Financial counseling provided	4%	3%	17%	41%	36%
Friendliness of bank personnel	6%	11%	15%	24%	44%
Knowledge and experienced management team	1%	8%	21%	41%	29%
intergraded value-added services ;(Kids festivals, Seminars etc)	14%	12%	9%	23%	41%
Availability of credit on favorable terms	20%	15%	10%	22%	33%
Able to fulfill individual/personal needs	12%	22%	28%	15%	23%
GAB has a wide and easy to use network	24%	20%	24%	14%	17%
Knowledgeable about your business	23%	31%	21%	16%	10%
Interior comfort in GAB	43%	25%	13%	12%	6%

Respondents were required by the study to rate the level of importance of practices by the Gulf African Bank that enhance its profitability. According to the results showed in the table above, majority of the respondents said that; Quick service and speed of transactions (transactions completed in a short time), Security of transaction, Confidence in banks management, A wide range of services provided;(for example; bill payment, account reconciliation), Better profit comparing with the interest in traditional Bank, Lower service charge, Confidentiality of bank, Financial counseling provided, Friendliness of bank personnel, Knowledge and experienced management team and intergraded value-added services; (Kids festivals, Seminars etc) were important.

Now, to find out whether customer satisfaction has affect profitability the following hypothesis has been tested for each product/service.

Null hypothesis: Customer satisfaction does not influence profitability (i.e. $H_0=3$).

Alternative hypothesis: Customer satisfaction does have an influence on profitability (i.e. $H_A>3$).

Chi-Square Tests

Table 4.11.1 Respondents level of importance of practices by the Gulf African bank that enhance profitability

Test Statistics

	Quick service	Security	Confidence	Wide range of products	Better profit	lower service charge	confidentiality of bank	Financial counseling	Interior comfort in GAB	Know how about your business	GAB has a wide and easy to use network	Able to fulfill individual need	credit on favorable terms	value added services	managem ent team	Bank personnel
Chi-Square	106.423a	342.778b	638.672c	215.928d	219.672e	131.723f	135.902g	175.928d	162.546a	37.776a	12.480a	25.638a	40.474a	96.691a	156.099a	132.349a
df	2	2	3	4	4	4	3	4	4	4	4	4	4	4	4	4
Asymp. Sig.	.000	.000	.000	.000	.000	.000	.000	.000	.000	.000	.014	.000	.000	.000	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 102.3.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 157.7.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 76.3.

- d. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 61.2.
- e. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 61.0.
- f. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 65.0.
- g. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 73.8.

From Table 4.11.1, all of the variables are of significance as seen by the χ^2 value of 106.423,342.778,638.672,215.928,219.672,131.723,135.902,175.928,162.546,37.776, 12.480,25.638,132.349,96.691,156.099 and 40.474 for Quick service and speed of transaction, Security transaction, confidence in banks management, Wide range of service products, Better profit ,lower service charge, confidentiality of bank, Financial counseling provided, Interior comfort in GAB, Know how about your business, GAB has a wide and easy to use network, Able to fulfill individual need ,credit on favorable terms, value added services, management team and Bank personnel. In other words, there is a relationship between the customer satisfaction and profitability.

4.6 Inferential Statistics

Besides the researcher computed the inferential statistics to establish the extent to which the independent variables (Shari'ah compliance, Customer's Perception and customer satisfaction) influence the dependent variables respectively. Regression analysis and correlation findings were presented respectively.

Table 4.6.1: Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.736(a)	.542	.541	1.63517

In the model summary table, the capital "R" shows coefficient of correlation.

The coefficient of correlation from the sample data measures the strength direction of a linear relationship between two or more variables. The range of the correlation coefficient is from -1 to +1. If there is a strong positive linear relationship between the variables, the value of "R" will be close to +1. If there is a strong negative linear relationship between the variables, the value of "R" will be close to -1. When there is

no linear relationship between the variables or only a weak relationship, the value of "R" will be close to 0. In the above model the value of R² is 0.54 which means that 54.1% of dependent variable profitability of Islamic Banking of Gulf African Bank was explained contributed by independent variables (Shari'ah compliance, customer's perception and customer satisfaction) analyzed. This means that the difference, 45.9% is explained by other variables that still influence the profitability of Islamic Banking of Gulf African Bank but were not studied in this case.

Table 4.6.2: Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	74.207	3	24.736	9.251	.000 (a)
	Residual	74.866	28	2.674	-	-
	Total	149.073	31	-	-	-

- a) **Predictors: (Constant);** Shari'ah compliance, Customer's Perception and customer satisfaction.
- b) **Dependent Variable:** Profitability of Islamic Banking of Gulf African Bank

In order to find the overall significance of the model F-Statistics was analyzed. Table 4.19 shows that the F- statistics of the model is 9.251 which conclude the model is significant. Individual significance of the variables was determined by t values. Coefficient analysis of the variables was undertaken by the values of the coefficients of the respective variables.

Table 4.6.3: Coefficient Analysis and Individual Significance of the Variables

Model		Un-standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Mean Square		
1	(Constant)	3.574	1.342	–	2.663	.013
	Shari’ah compliance	.213	.091	.390	2.354	.026
	Customer’s Perception	.383	.120	.524	3.184	.004
	Customer Satisfaction	.025	.007	.492	3.625	.001

**A Dependent Variable: Profitability of Islamic Banking of Gulf African Bank
 $\alpha=0.05$**

On Shari’ah compliance, t value 2.35 shows that the variable has significant influence on Profitability of Islamic Banking of Gulf African Bank. For Customer’s Perception, the T value obtained was found 3.18 which show the variable alone has significant positive influence on profitability of Islamic Banking of Gulf African Bank. The t value of customer satisfaction, last independent variable, was found to be 3.625 which also show significant influence on Profitability of Islamic Banking of Gulf African Bank. Analysis of coefficient of Shari’ah compliance tells us that there is positive relationship towards Profitability of Islamic Banking of Gulf African Bank. It further reveals that 1% change in Shari’ah compliance will bring 39% change in Profitability of Islamic Banking of Gulf African Bank. Furthermore, for every 1% change in customer satisfaction brings 49.2% change in Profitability of Islamic Banking of Gulf African Bank by holding other variables constant. From the above model it is also clear that an increase in 1% of the customer’s perception there will be increase in 52.4% of Profitability of Islamic Banking of Gulf African Bank. The equation, $Y=3.574+ -0.213X_1 + 0.383X_2+ 0.025X_3$ was therefore obtained. This result is consistent with that the literature review where, Sheikh (2009) conducted a study titled, “Factors that Led to the Emergence of Islamic Banking in Kenya and the Regulatory Challenges Facing the Industry”. From the study, Sheikh (2009) deduced that; demand for Islamic banking products, world wide trend towards Islamic banking, shareholder's need for returns and amendments to the Banking Act were the

main factors that led to the emergence of Islamic Banking in Kenya. The above results clearly showed that most of the factors are important implying that Shari'ah is a determining factor influencing profitability of Islamic banking at Gulf African Bank also according to Rashid, Hassan and Ahmad (2010) who conducted a study on perception of customers towards domestic Islamic banks in Bangladesh. They examined six critical elements, namely corporate efficiency, compliance with Islamic rules, convenience, core banking, confidence, and cost benefit. This study found that customers are highly satisfied with corporate efficiency and compliance with Islamic rules as substantial factors for them to choose their intended service. The study found out that customer perception on product and service has a positive impact on profitability, also this study is in line with (Ahmad and Haron, 2002) who conducted a study on selection of Islamic banks in Malaysia they found out a combination of religious motive, financial reputation and quality services offered by the banks .

4.7 Discussion of Major Findings

The section below presents the discussion of the major findings from the study. Each of the variables major findings (Shari'ah compliance, customer perception and customer satisfaction) influence on profitability of Islamic banking at Gulf African Bank has been presented separately.

4.7.1 Influence of Shari'ah on profitability of Islamic banking at Gulf African Bank

The study found out that Good Shari'ah governance in the bank, bank running on Islamic principles, bank having a Shari'ah Board and dealing with products that are accepted by Islamic Law Only (Halal) was important towards the profitability of Islamic banking at Gulf African Bank. This is in line with the findings Hamza, H. (2013) who studied Sharia governance in Islamic banks: Effectiveness essential role in the governance of Islamic financial institution and forms part of the principal component of the Shari'ah governance framework, according to him one of the roles of the Shari'ah supervisory board is to advise the Islamic financial institutions on Shariah matters to ensure conformity with Shariah rule in its operations at all time, this enhances profitability by mitigating risk associated with riba, gharar and Maysir. This is inline with the findings of Haron (1996) who studied the effects of

competition and external factors on the profitability of Islamic Banks. He shows that, in competitive market, Islamic Banks earned more than those which operate in a monopolistic market this is due to the Shari'ah aspect. Furthermore, interest rates, inflation and size have significant positive impact on the profits of both conventional and Islamic Banks

The study also established that no interest neither paid nor taken on saving and on loans, Opportunity to get interest free loans and enhancing Confidants and trust was somewhat important towards the profitability of Islamic banking at Gulf African Bank as shown above. It was also established from the findings that profit sharing investments and knowledge of Shari'ah laws by staff was somewhat not important towards the profitability of Islamic banking at Gulf African Bank. The results showed that most of the factors are important implying that Shari'ah is a determining factor influencing profitability of Islamic banking at Gulf African Bank. It also deduced that majority of the respondents moderately agreed that there are benefits accrued on compliance to principle in investment of the products like making product pricing Competitive compared to Conventional, Enhancing Islamic products flexibility, enabling better decision making and enhancing worldwide trend towards Islamic Banking all which determine the profitability of Islamic banking at Gulf African Bank.

4.7.2 Perception on how products and Services influence profitability of Islamic banking

The study found out that majority of the respondents rated that; they find GAB as a bank good, find Staff at GAB good, find GAB product and Service reliable and good, experience whenever one bank with GAB good. It was established that respondents also rated; services at GAB compared to Conventional banks as moderately good, GAB Products and services compared to others as moderately good and the pricing of GAB products as moderately good. This is in line with the findings of Hassan, M. (2007) who studied customers' perception towards Islamic banking in Pakistan. His study examined several important dimensions including knowledge, socio-religious context, Shari'ah compliances, and willingness to deal with Islamic banks, and quality and attractiveness of offerings. This study found a positive perception of all

dimensions investigated with customers indicating overall high satisfaction towards products and services of Islamic banks as compared to conventional banks.

The study established that; Mudaraba (Savings and Current A/c), Murabahah (Financing), Musharakah (Deposit fixed), Ijara (Leasing) and Takaful (Bank assurance) as usually used as products which influence profitability of Islamic Banking at Gulf African Bank. From the findings majority of the respondents indicated that; Strictly religion, Economics (profit & cost elements), Both religion and economics among other reasons as highest reasons considered on Islamic Banking products selection at Gulf African Bank. This implies that selection and choice of products at Gulf African Bank is based on reasons such as religion, economics (profit & cost elements) and economics respectively. This is in line with the findings of other researchers like Rashid, Hassan and Ahmad (2010) who conducted a study on perception of customers towards domestic Islamic banks in Bangladesh. They examined six critical elements, namely corporate efficiency, compliance with Islamic rules, convenience, core banking, confidence, and cost benefit. This study found that customers are highly satisfied with corporate efficiency and compliance with Islamic rules as substantial factors for them to choose their intended service

The study found out that majority of the respondents were in agreement that; the advent of Islamic Banking in the Kenya banking sector has brought stiff competition, Non-Muslim customers think Islamic banking is just meant for Muslims, Customers Prefer Shari'ah Compliant Product than conventional product, People percept Shari'ah compliant banking to be better than conventional banking, Islamic Banks tend to offer better customer service compared to Conventional banking, Of late most customers look at other factors other than Shari'ah and that most customers choose Islamic banking as it offers cost effective services and pricing respectively.

The researcher intended to find out whether respondent think more Non -Muslim are likely to open account with Islamic banks. On this question, majority of the respondents as shown by 75% were in agreement that more Non -Muslim are likely to open account with Islamic banks whereas 25% of the respondents thought more Non -Muslim are likely to open account with Islamic banks. This is in line with Ahmad and Harun (2002), who conducted a study to examine their perception towards Islamic

banking in Malaysia. They examined factors such as the usage of banking facilities, respondents' understanding of Islamic banking concept and practices, and personal opinions towards Islamic banking. They found that cost of the products and services is the most important factor perceived by corporate customers in selecting their banks.

4.7.3 Customer Satisfaction and Profitability of Gulf African bank

The study found out that majority of the respondents were in agreement that the bank location, Efficiency and effectiveness of Islamic Banking, Level of customer, service, Influence by friends, Innovation (Mobile/Internet Banking), different products offered that suits your needs and reliability of affordability are some of the major reasons for choosing Gulf African bank. It was established from the findings that majority of the respondents were satisfied with the; Internet banking and Mobile Banking, Customer service, Cheque Services, Action on Feedbacks, ATM services, Monthly statements and money withdrawal services. This is in line with some extensive studies that have been conducted to survey the banking selection criteria among customers of the Islamic banks. Researchers find various factors that influence the customer's choice of Islamic banks such as cost and benefit of product offered (products prices and rate of return of the investment), service quality (fast/efficient banking service and friendliness of the bank's staff), size and reputation of the bank, convenience (location and ample parking space) and friends/families influences (Ahmad and Haron, 2002; and Bank Indonesia, 2005b).

The results also indicated that majority of the respondents said that; Quick service and speed of transactions (transactions completed in a short time), Security of transaction, Confidence in banks management, A wide range of services provided;(for example; bill payment, account reconciliation), Better profit comparing with the interest in traditional Bank, Lower service charge, Confidentiality of bank, Financial counselling provided, Friendliness of bank personnel, Knowledge and experienced management team and intergraded value-added services; (Kids festivals, Seminars etc.) were important and satisfying. This finding is in accord with previous research of Dusuki & Abdullah, (2007) establishing Islamic banking can no longer regarded as a business organization which is established to fulfil religious duties but what is more important, to be as competitive as possible side by side with the conventional system in alluring

more customers and retain them. Inevitably, Islamic banks need to really understand their customers particularly their quality of service rendered to increase customer satisfaction and ultimately their loyalty.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMENDATIONS

5.1 Introduction

This chapter presents the summary of the study, conclusions and recommendations on the factors influencing the Profitability of Islamic banking; a case of Gulf African bank. The specific objectives of the study were; to examine Shari'ah as a determining factor influencing profitability of Islamic banking at Gulf African Bank, to investigate how the Perception of people towards Islamic banking Products and Services influence profitability of Islamic banking and to establish the relationship between customer satisfaction and Profitability of Gulf African bank.

5.2 Summary

The respondents for this study comprised of customers and staff from Gulf African Bank. These staff provided responses by answering research questionnaires sent to them. Most of the customers of Gulf bank fall in the age category of less than 25 years the reason might be the short history of Islamic banks in Kenya and the religious aspect and majority are feminine the reason may be the product offering and service structured to be in line with the tandem of Islamic Shari'ah, this also explains why Majority of the respondent where Muslims and have been banking with Gulf bank between a year and 5 years, this is explained as Islamic banking is a new phenomenon in the Kenyan market with its existence being only 8 years.

5.2.1 Shari'ah as a determining factor influencing profitability of Islamic banking at Gulf African Bank

The first objective of the study was to examine the Shari'ah as a factors influencing profitability of Islamic banking in Kenya. The study found out that Good Shari'ah governance in the bank, bank running on Islamic principles, bank having a Shari'ah Board and dealing with products that are accepted by Islamic Law Only (Halal) was important towards the profitability of Islamic banking at Gulf African Bank.

The study also found out that Islamic products influenced profitability to a very great extent, as the study found out Respondents rating on usage of products that influence

profitability of Islamic Banking at Gulf African Bank. The above results clearly showed that most of the factors are important implying that Shari'ah is a determining factor influencing profitability of Islamic banking at Gulf African Bank.

5.2.2 Perception on how products and Services influence profitability of Islamic banking.

The second objective of the study was to establish investigate how the Perception of people towards Islamic banking Products and Services influence profitability of Islamic banking in Kenya. The study found out that majority of the respondents rated that; they find GAB as a bank good, find Staff at GAB good, find GAB product and Service reliable and good, experience whenever one banks with GAB good. It was established that respondents also rated; services at GAB compared to Conventional banks as moderately good, GAB Products and services compared to others as moderately good and the pricing of GAB products as moderately good.

The study found out that majority of the respondents were in agreement that; the advent of Islamic Banking in the Kenya banking sector has brought stiff competition, with Non-Muslim customers think Islamic banking is just meant for Muslims, Customers Prefer Shari'ah Compliant Product than conventional product, People percept Shari'ah compliant banking to be better than conventional banking, Islamic Banks tend to offer better customer service compared to Conventional banking, Of late most customers look at other factors other than Shari'ah and that most customers choose Islamic banking as it offers cost effective services and pricing, This is in line with the literature review where Rashid, Hassan and Ahmad (2010) conducted a study on perception of customers towards domestic Islamic banks in Bangladesh and This study found that customers are highly satisfied with corporate efficiency and compliance with Islamic rules as substantial factors for them to choose their intended service. The study found out that customer perception on product and service has a positive impact on profitability.

5.2.3 Customer Satisfaction and Profitability of Gulf African bank

The study found out that majority of the respondents were satisfied with the Gulf African Bank product and services with Mobile Banking, Customer service, Cheque Services, Action on Feedbacks, ATM services, Monthly statements and money withdrawal services.

The results also indicated that majority of the respondents said that; Quick service and speed of transactions (transactions completed in a short time), Security of transaction, Confidence in banks management, A wide range of services provided;(for example; bill payment, account reconciliation), Better profit comparing with the interest in traditional Bank, Lower service charge, Confidentiality of bank, Financial counseling provided, Friendliness of bank personnel, Knowledge and experienced management team and intergraded value-added services; (Kids festivals, Seminars etc) were important and satisfying.As such we can conclude that customer satisfaction enhanced profitability.

5.3 Conclusions

5.3.1 Influence of Shari'ah on profitability of Islamic banking at Gulf African Bank

The study concludes that that Good Shari'ah governance in the bank, bank running on Islamic principles, bank having a Shari'ah Board and dealing with products that are accepted by Islamic Law Only (Halal) was important towards the profitability of Islamic banking at Gulf African Bank. The study concludes that since no interest neither paid nor taken on saving and on loans, opportunity to get interest free loans and enhancing confidents and trust was somewhat important towards the profitability of Islamic banking at Gulf African Bank. It was also concluded from the results that profit sharing investments and knowledge of Shari'ah laws by staff was important towards the profitability of Islamic banking at Gulf African Bank implying that Shari'ah is a determining factor influencing profitability of Islamic banking. The study also concludes that there are benefits accrued on compliance to principle in investment of the products like making product pricing Competitive compared to Conventional, Enhancing Islamic products flexibility, enabling better decision making

and enhancing worldwide trend towards Islamic Banking all which determine the profitability of Islamic banking at Gulf African Bank.

5.3.2 Perception on how products and Services influence profitability of Islamic banking

The study concludes that customers find GAB as a bank good, find Staff at GAB good, find GAB product and Service reliable and good, experience whenever one bank with GAB good. It is also evident that services at GAB compared to Conventional banks were moderately good, GAB Products and services compared to others was moderately good and the pricing of GAB products was moderately good. The study also concludes that; Mudaraba (Savings and Current A/c), Murabahah (Financing), Musharakah (Deposit fixed), Ijara (Leasing) and Takaful (Bank assurance) as usually used as products which influence profitability of Islamic Banking at Gulf African Bank.

The study also found out that strict Islamic religion, Economics (profit & cost elements), both religion and economics among other reasons are the highest reasons considered on Islamic Banking products selection at Gulf African Bank. This implies that selection and choice of products at Gulf African Bank is based on reasons such as religion, economics (profit & cost elements) and economics respectively.

The study also deduced that the advent of Islamic Banking in the Kenya banking sector has brought stiff completion, Non-Muslim customers think Islamic banking is just meant for Muslims, Customers Prefer Shari'ah Compliant Product than conventional product, People percept sharia compliant banking to be better than conventional banking, Islamic Banks tend to offer better customer service compared to Conventional banking, Of late most customers look at other factors other than Shari'ah and that most customers choose Islamic banking as it offers cost effective services and pricing. It can be concluded that more non-Muslim are likely to open account with Islamic banks.

5.3.3 Customer Satisfaction and Profitability of Gulf African bank

The study concluded that the bank location, efficiency and effectiveness of Islamic banking, Level of customer, service, different products offered that suits your needs and reliability and affordability are some of the major reasons for choosing Gulf African bank. It is also evident that most customers are satisfied with the product and service offered by GAB as such

The study explained that; quick service and speed of transactions (transactions completed in a short time), Security of transaction, Confidence in banks management, A wide range of services provided; (for example; bill payment, account reconciliation), Better profit comparing with the interest in traditional Bank, Lower service charge, Confidentiality of bank, Financial counseling provided, Friendliness of bank personnel, Knowledge and experienced management team and intergraded value-added services; (Kids festivals, Seminars etc) were important and satisfying.

The results from the inferential statistics showed value of R² is 0.54 which means that 54.1% of dependent variable profitability of Islamic Banking of Gulf African Bank was explained/ contributed by independent variables (Shari'ah compliance, Customer's Perception and customer satisfaction) analyzed. This means that the difference, 45.9% is explained by other variables that still influence the profitability of Islamic Banking of Gulf African Bank but were not studied in this case.

It further reveals that 1% change in Shari'ah compliance will bring 39% change in Profitability of Islamic Banking of Gulf African Bank. Furthermore, for every 1% change in customer satisfaction brings 49.2% change in Profitability of Islamic Banking of Gulf African Bank by holding other variables constant. From the above model it is also clear that an increase in 1% of the customer's perception there will be increase in 52.4% of profitability of Islamic Banking of Gulf African Bank. The equation, $Y=3.574+ -0.213X_1 + 0.383X_2+ 0.025X_3$ was therefore obtained.

5.4 Recommendations

The study recommends that the management continue with the motive of complying with the Shari'ah standards for these have been found to influence the profitability of Islamic Banking of Gulf African Bank. The staff and customers should benefit from programs that this study recommends the management to come up with through training so as to enlighten them on the Shari'ah standards profitability of Islamic Banking of Gulf African Bank.

Further the study recommends that the management improve more and more on the products and services they give to their customers for this has been found to be a key determinant on the profitability of Islamic Banking of Gulf African Bank. New products and services should also be established and created so as to retain customers and as an effort towards enhancing the profitability of Islamic Banking of Gulf African Bank.

The study also recommends that the management at Gulf African bank continue enhancing their services as well as coming up with more means and strategies towards creation of high customer satisfaction levels for these were found to enhance the profitability of Islamic Banking of Gulf African Bank.

5.5 Recommendations for Further Studies

The study recommends that further study be carried out where more factors that influence the profitability of Islamic Banking of Gulf African Bank so as to find out whether the same results will be established. In this case, the study also recommends that more banks in more counties in Kenya be incorporated so as to give a clearer picture on how the studied independent variables influence profitability of Islamic Banking of Gulf African Bank.

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APPENDICE

APPENDIX 1: STUDY TOOLS

Customer Questionnaire:

SECTION A: GENERAL INFORMATION

1. Age:

2. Gender: Male Female

3. Religion: Muslim Non-Muslim

4. Years of operation as Gulf African Bank Customer.

i. Less than a year

ii. 1 – 5

iii. 6 – 10

iv. 11 – and above

SECTION B: SPECIFIC RESEARCH QUESTIONS

a) Shari’ah Factors influencing profitability of Islamic Banking

1. Please indicate how much each Shari’ah factors or criteria (were) are important to you or influence you to open an account or to do business with GAB by circling the number for each statement that is closest to your evaluation of the question using the following scale:

[1-Not important 2- Somewhat not important 3-Neutral 4-Somewhat important5-Very important]

Statements	1	2	3	4	5
Runs in Islamic principles.					
No interest neither paid nor taken on saving and on loans.					
To deal with products that is accepted by Islamic					

Law (Halal)					
Opportunity to get interest free Facility (Loan)					
Profit sharing investments.					
Competent Sheriah Board personnel.					
Good sheriah governance					
Knowledgeable and experienced staff.					
Confidentiality,honesty and trust					

2. To what extend do you think the bank is benefiting by complying with the shari' ah principle? (Please tick according to the most important)

[1-strongly disagree, 2-diagree, 3-neither agree/disagree, 4-agree, 5-strogly agree]

	1	2	3	4	5
a. Enhances product flexibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. It's a worldwide trend	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. It gives it an upper hand over conventional banks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Make product pricing competitive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

b) Perception of people towards Islamic banking Products and services and how it influence profitability of Islamic banking.

3. What is your perception on the following variable which influence profitability of Islamic banking at Gulf African Bank ,using rating scale 1 to 5 where 1 =Not good 2 Need improvement 3=ok 4=Somewhat good 5 very good

STATEMENT	Not good	Needs improvement	Ok	Somewhat good	Very good
How is service at GAB compared to Conventional banks					
What is your experience Whenever you bank with GAB					
People perceive Shari'ah compliant product to be better compared to Conventional, according to you how do you rate it.					
Compared to Conventional banks, what do you think of Gulf African bank as a brand					
In terms of reliability, how do you find the GAB product and services?					
Of late most of the customers look at pricing more that the Shari'ah aspect. How do you find the pricing of GAB product and service					

4. Apart from Shari'ah compliance what other factors or criteria were important to you or influence you to open an account or to do business with GAB by circling the number for each statement that is closest to your evaluation of the question using the following scale: [1-Strongly agree 2- Agree 3-Neutral 4-Disagree 5- Strongly Disagree

STATEMENT	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Level of customer service	1	2	3	4	5
Different products offered that suits your needs	1	2	3	4	5
Efficiency and effectiveness of Islamic Banking	1	2	3	4	5
Bank location	1	2	3	4	5
Influence by friends	1	2	3	4	5
Reliability of Affordability	1	2	3	4	5
Innovation (Mobile/Internet Banking)	1	2	3	4	5

c) To measure customer satisfaction and Profitability of Gulf African bank.

4. Kindly rate the products/services that you used/requested using a scale of 1-3, Please circle the numeric value corresponding to your personal opinion for each product. where 1 =least Used 2 Usually Used 3=Mostly Used

PRODUCT	Least used	Usually used	Mostly used
Murabahah (Financing)	1	2	3
Musharakah (Deposit fixed)	1	2	3
Ijara (Leasing)	1	2	3
Mudaraba (Savings and Current A/c)	1	2	3
Takaful (Bank assurance)	1	2	3

5. Please tell me how satisfied you are with the banking services in the following respect.

	Very satisfied	Slightly satisfied	Neither Satisfied nor dissatisfied	Slightly dissatisfied	Very Satisfied
ATM services					
Cheque Services					
Money withdrawal/Transfer					
Action on Feedbacks					
Customer service					
Monthly statements					
Internet banking and Mobile Banking					

6. Please indicate what makes you continue doing business with GAB by circling the number for each statement that is closest to your evaluation of the question using the following scale:

[1-Not important 2- Somewhat not important 3-Neutral 4-Somewhat important 5-Very important]

1	2	3	4	5
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Friendliness of bank personnel					
Financial counselling provided					
Interior comfort in GAB					
GAB has a wide and easy to use network					

Knowledge and experienced management team					
Integrated value-added services ;(Kids festivals, Seminars etc.)					
A wide range of services provided;(for example; bill payment, account reconciliation)					
Security of transaction					
Quick service and speed of transactions(transactions completed in a short time)					
Confidentiality					
Banks management					
Better profit comparing with the interest in traditional Bank					
Lower service charge					
Knowledgeable about your business					
Able to fulfil individual/personal needs					
Availability of credit on favourable terms					

7. Overall how satisfied would you say you are with conducting business with Gulf African Bank? Strongly satisfied [] Satisfied [] Neutral [] Dissatisfied [] Strongly Dissatisfied []

THANK YOU FOR YOUR RESPONSES

Internal Questionnaire

SECTION A: PROFILE

- 1. Department _____
- 2. Age: _____
- 3. Gender: Male Female
- 4. Religion: Muslim Non-Muslim
- 5. Years of operation as Gulf African Bank Customer.
 - v. Less than a year
 - vi. 1 – 5
 - vii. 6 – 10
 - viii. 11 – and above
- 6. Position at GAB: Managerial
Non-Managerial

SECTION B: SPECIFIC RESEARCH QUESTIONS

5. What is the reason for the selection of Islamic Banking products by customers?

	[1- Very High	2-Moderate	3-Insignificant	4-Low	5- Very
Low]					
Strictly Religion (Shari’ah)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economics (profit & cost elements)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer Satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other reasons	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. To what extent do you agree with the following statements? Please circle the numeric value corresponding to your personal opinion.

STATEMENT	Strongly	Agree	Neutral	Disagree	Strongly
The advent of Islamic banking in the Kenyan banking sector has brought stiff competition	1	2	3	4	5
Most of the customers prefer Shari'ah compliant products than conventional product.	1	2	3	4	5
People perceive Shari'ah compliant product and service to be better compared to Conventional	1	2	3	4	5
Islamic banks tend to offer better service to customers, thus have a high customer satisfaction.	1	2	3	4	5
Most customer chose Islamic banking as it offers cost effective services and pricing	1	2	3	4	5
Of late most of the customers look at pricing more that the Shari'ah aspect.	1	2	3	4	5

7. Do you think Non-Muslim customers think Islamic Banking is just meant for the Muslims?

Yes [] No [] Don't Know []

8. Do you think that more non-Muslims are likely to open accounts with Islamic banking in Kenya?

Strongly Agree [] Agree [] Neutral [] Disagree [] Strongly Disagree []

9. What is your banks average weekly increase rate in non-Muslim customers desiring Shari'ah compliant banking?

- i. Between 0% – 10 % []
- ii. Between 11% – 20 % []
- iii. Between 21% – 30 % []
- iv. Between 31% – 40 % []
- v. From 41 % and above []

10. In your opinion, to what extent does Customer perception influencing growth of Islamic banking in Kenya?

- Very great extent []
- Moderately great extent []
- Great extent []
- Little extent []
- No extent []

11. Future of Islamic Banking is prosperous because of its unique and attractive features of its products and services Strongly Agree [] Agree [] Neutral []
Disagree [] Strongly Disagree []

THANK YOU FOR YOUR RESPONSES

	2012		2011		2010	
	UBA BANK	Gulf African Bank Ltd.	UBA BANK	Gulf African Bank Ltd.	UBA BANK	Gulf African
	K\$ h; 000	K\$ h; 000	K\$ h; 000	K\$ h; 000	K\$ h; 000	K\$ h; 000
INTEREST INCOME						
loans and advances	94,153	1,250,260	78,457	786,853	13,737	657,699
Government Securities	117,155	-	128,286	-	99,856	12,645
Deposits and Placements with Banking Inst	44,862	226,185	21,022	177,543	2,802	17,254
Other interest income	-	-	6,074	-	-	-
	256,170	1,476,445	233,839	964,396	116,395	687,598
INTEREST EXPENSE						
Customer Deposits	82,778	276,771	59,593	153,799	45,042	98,827
Deposits and Placements from Banking Inst	75,284	21,378	44,768	14,320	4,790	300
Other interest expenses	76,065	-	50,028	-	-	-
	234,127	298,149	154,389	168,119	49,832	99,127
Net interest income	22,043	1,178,296	79,450	796,277	66,563	588,471
OTHER OPERATING INCOME						
Fees and Commissions on loans and adv	38,371	-	62,247	-	2,787	-
Other fees and commissions	15,672	153,566	101,777	136,558	21,329	122,950
Foreign Exchange trading income	53,519	122,396	34,780	123,736	-2,055	42,462
Dividend Income	-	-	-	-	-	-
Other Income	16,022	-	8,631	-	228,245	102,991
Total other operating income	123,584	275,962	207,435	260,294	250,306	268,403
Total operating income	145,627	1,454,258	286,885	1,056,571	316,869	856,874
OPERATING EXPENSES						
Loan Loss provisions	36,097	64,492	4,675	35,140	-	22,932
Staff Costs	260,293	566,658	225,535	461,546	244,114	408,832
Directors Emoluments	43,027	2,773	34,138	2,261	30,291	2,973
Operating Lease Rentals	47,747	-	36,595	-	40,863	-
Depreciation on Property and Equipment	49,074	58,883	50,709	61,058	47,256	82,767
Amortisation charge	2,964	36,902	2,532	33,853	1,359	31,428
Other Operating Expenses	103,364	350,741	116,118	307,336	91,241	260,902
Total Operating Expenses	542,566	1,060,449	470,302	901,194	455,124	809,834
Profit before exceptional items and In	(396,939)	373,809	(183,417)	155,377	(138,255)	47,040
Exceptional Items	-	-	-	-	-	-
Profit before Income Tax	-396,939	373,809	-183,417	155,377	-138,255	47,040
Current Income Tax	-	39,750	-	-	-	-
Deferred Income Tax	-109,550	91,838	-31,267	60,042	-31,625	(26,854)
Profit after income Tax	-287,389	242,221	-152,150	95,335	-166,630	73,894

Appendix 2: Comparative Profit and loss for GAB and UBA