

A Comparative Study of Islamic Banking Growth in Malaysia and Bahrain: A Consideration of COVID-19 Pandemic

**Fatin Nur Liyana Mohamad Shahril¹, Ibtisam Athirah Din²,
Wahida Ahmad^{3*}, Nur Hazimah Amran⁴**

^{1,2,3,4}Arshad Ayub Graduate Business School, Universiti Teknologi MARA, Selangor,
Malaysia

Authors' Email Address: ¹yana_liyana707@yahoo.com, ²ibtisamathirah03@gmail.com,
³wahida@uitm.edu.my, ⁴hazimahamran@uitm.edu.my

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*Corresponding Author

ABSTRACT

This study examines the factors influencing Islamic banking growth in Malaysia and Bahrain, key components of the broader Islamic finance industry crucial for economic development. Focusing on 14 Islamic banks in Malaysia and 10 in Bahrain over a 10-year period, the research investigates the impact of liquidity, profitability, asset quality, and capital on Islamic banking growth. Three models are introduced, pooling data for both countries and separately analysing Malaysia and Bahrain. The study introduces three models: i) Model A, which pools all Malaysian and Bahrain Islamic banks; ii) Model B, which represents Islamic banks in Malaysia; and iii) Model C, which represents Bahraini Islamic banks. Newey-West regression is being used for Models A and B, while Pooled Ordinary Least Square (OLS) is being utilized for Model C. The study reveals that Bahrain's Islamic banking growth surpasses Malaysia's. There are different drivers that influence the growth in each country. Asset quality and capital are significantly influencing the growth of both Malaysian and Bahraini Islamic banks, while Malaysian Islamic banking growth is significantly influenced by profitability. Additionally, liquidity is significantly influencing the growth of Bahraini Islamic banks. However, the growth of Islamic banking does not significantly differ during a crisis or non-crisis period for each country. These findings underscore the necessity for tailored approaches in both nations to enhance Islamic banking growth, contributing to the broader development of Islamic finance.

Keywords: *asset quality, bank growth, capital, crisis, liquidity, profitability*

INTRODUCTION

The Islamic finance sector is one of the areas of the global banking industry that is expanding the fastest and plays an important role towards the development of a country. The history of development Islamic finance started in 1963 in Egypt and started to develop in other countries such as Pakistan in 1977, in Iran in 1979 and Malaysia in 1983 (Maamor et al., 2019). Islamic finance comprises of several component such as Islamic banking, takaful, sukuk, Islamic fund and other Islamic financial institutions (OIFIs). Islamic finance industry operates comply with the Shariah principles and prohibited certain elements that includes interest (riba), gambling (maysir), uncertainty (gharar), and unlawful goods and

services. Malaysia stands as a global leader in Islamic finance, with the government actively fostering the growth of this sector. This supported by IFDI (2022), Malaysia maintained its top spot in the global Islamic Finance Development Indicator (IFDI) rating for tenth consecutive years from 2012 to 2022 as a top IFDI countries and global average score. In Malaysia, Islamic finance began in 1963 with the establishment of Lembaga Tabung Haji (LTH) which collects savings from Malaysian Muslims through a structured savings scheme. These funds are then invested in Sharia-compliant ventures, such as real estate, equities, and Islamic bonds (sukuk) (Nasser & Muhammed, 2013). The first establishment of Shariah compliant of Islamic banking in Malaysia was in 1983 namely Bank Islam Malaysia Berhad. Since the inception in 1983, Malaysia Islamic finance sectors has been expanding rapidly, with the implementation of financial strategies from the government to promote it growth especially in the Islamic banking sector.

According to Maamor et al. (2019), Islamic banking sector is the largest component that contributes toward the Islamic finance sector. The statement is further reinforced with data from IFDI (2022) , which in 2021, the Islamic banking sector played a significant role in the Islamic finance industry by contributing USD 2765 billion, constituting 70% of the total assets in Islamic finance. In Islamic banking sector, Malaysia is not listed in top 5 countries that contributed towards the sector despite being top in Islamic finance globally. The top 5 countries are from the Middle East which are Sudan, Bahrain, Saudi Arabia, Iraq, and Iran, accordingly. The larger asset in Islamic finance is Islamic banking sector and the metrics used to measure the Islamic banking sector is by using several points such as total asset, number of institutions (full-fledged and window), number of listed institutions and return on assets. GCC countries have noted the highest score for Islamic banking by region. The top performer for GCC countries for Islamic finance is Saudi Arabia, yet Bahrain is the country with the top 3 highest scores of Islamic banking sector in (IFDI, 2022). Within the Gulf region, the Kingdom of Bahrain plays a crucial role as a major financial hub, boasting a dual banking system. Bahrain witnessed the inception of Islamic banking in 1979 with the establishment of Bahrain Islamic Bank (BIB). Starting from that, the country has become a focal point for numerous Islamic financial investments (Monteiro, 2022) . Bahrain's influential role in the expansion of Islamic banking and finance stems from its robust regulatory framework and the considerable concentration of Islamic banks in the country. The growth of the bank is also being affected by the crisis that is happening either globally or within the country. Crises come in several forms, such as banking crises, currency crises, and financial crises which significantly impacted towards the economy and banks expansion (Li & Zhang, 2022). Recently, Covid-19 pandemic which become a global crisis arose in 2020, which impact towards the economic players, including consumer, suppliers and financial intermediaries due to limited operation hours (Dong, 2021). Bank industry also suffered as a result of the pandemic's lockdown.

From the Refinitive report, it shows that Malaysia has a strong position in Islamic finance followed by GCC. As reported by New Straits Times (2020), according to Central Bank Malaysia, despite Malaysia's dominance in Islamic finance, Islamic banking assets failed to meet their 2020 goal of acquiring 40% of the assets in the banking sector. In 2018, the proportion has reached 31% and only 38% in 2020 (Bank Negara Malaysia, 2020). In 2022, Islamic banks in Malaysia managed to achieve the 40% of the targeted that set for 2020. Therefore CEO of RHB, the 4th largest Islamic Bank also forecasted that Islamic banking assets to acquire 50% Islamic banking assets in 2030 (Bloomberg, 2020). Total assets are among the indicators to examine the development of Islamic banking which determine the financial performance of the banks (Dermawan et al., 2021). Furthermore, in alignment with the Malaysia Blueprint 2022-2025, Malaysia aspires to become a prominent global hub for the Islamic finance market within Asia and the Organization of Islamic Cooperation (OIC). Thus, the expansion of Islamic banking holds significant importance in achieving the objectives outlined in the Malaysian Blueprint.

The recent surge in Islamic banking growth has sparked interest in conducting performance evaluations of Islamic banks through comparative analyses (Alam & Rizvi, 2017). Additionally, other studies within the realm of Islamic banking have tended to concentrate on dual comparisons involving the dual banking

system. These studies have often focused exclusively on specific classes of Islamic financial products, such as Islamic equity funds, assets, capital market instruments, loans, among others, rather than delving into an analysis of the factors influencing banking growth (Nawaz, 2019). Therefore, in reaction to this problem, the study makes a comparative study about Islamic banking growth between Malaysia and Bahrain in order to examine if there are any significance growth of Islamic banking between these two countries. Bahrain was chosen as a country benchmark to the study, as Bahrain is part of GCC countries and consist of major hub for Islamic banking among GCC country. Bahrain also listed in top 5 Islamic Finance performance scores for 5 consecutive years from 2018-2022. The study aims to compare the factors such as liquidity, capital, asset quality, profitability and capital towards the Islamic banking growth in Malaysia and Bahrain. Crisis of Covid-19 also being implemented in the study to examine if there are significance growth of Islamic banks during the crisis and non-crisis period for each country. The global crisis, Covid-19 pandemic impacted millions of people's daily lives and severely slowed down business operations, travel, and economic activity globally. This had an impact on the banking industry as well. Several previous studies have examined how the Covid-19 situation has affected the banking industry for instance, Shabir et al. (2023) and Dong (2021).

LITERATURE REVIEW

Banking growth is defined as an expansion and growth of development of the banking sector such as assets, liabilities, and other financial measurement. Banks growth contribute to financial stability by strengthening the overall financial position of the institutions. The expansion could be determined from both internal and external factors. The financial statement provides information on the internal elements affecting the banks' business. In contrast, external factors are more macroeconomic and bank-specific, impacting the banks' decision-making processes without being under management's control. As banks facilitate capital allocation, offer funding to individuals and companies, and encourage investment activities, it is essential to the growth of the banks.

The importance of liquidity for banks lies in their capacity to promptly fulfil financial obligations, meet withdrawal demands, and efficiently handle daily operations. This not only ensures stability but also fosters confidence among depositors and stakeholders. A study done by Nguyen and Dang (2020) found that banks with higher liquidity could expand their financing or lending activities to the customer, thus will increase the asset and growth of banks. This is also supported by Bustamante et al. (2019), that indicates banks have capacity to provide more loans when they have more liquidity which can impact towards the banks' credit growth. Higher liquidity will make banks more confident to take on lending risk by acting as a buffer against potential shock. This is due to the cash reserves on hand, banks are less vulnerable to unforeseen withdrawals or financing problems which enable banks to extend more loan with more assurance. In contrast, Edem (2017) highlighted that holding too much liquid asset will expose banks to risk and pose problems to bank management operations. If banks are holding a lot of liquidity, this may increase the liquidity risk which will impact to the banks' performance and growth. Banks should embrace an optimal liquidity model to enhance efficiency and effectiveness in their overall functioning.

Abata (2014) described that asset quality comprises evaluating a company asset to assist the measurement of the level and quantity of credit risk associated with its operation. The quality of asset often measured by the total quantity of non-performing loans (NPLs), the NPL to advances/financing ratio, the provision to NPLs ratio, and the NPL to deposit ratio (Awan, 2009). Furqani and Mulyany (2009) mentioned that unexpected exogenous or external events, like a downturn in the economy or a corporate failure related to the bad luck concept, corresponds towards the asset quality. Study by Wahyuni and Azmi (2019) and Fianto et al. (2019) mentioned a high in NPL ratio leads to higher provision for loan loss can decrease the asset quality. Thus, this can impact the banks profitability and the growth of the banks. This was proved by Saleem et al. (2021) in opposite way which indicates that better asset quality will lead to the banks growth and impact toward the economics of the country.

Contradict with a study by Dermawan et al. (2021) which proved the higher non-performing finance is positive and significant towards the asset growth. Banks must maintain the present level of financing quality after allocating funds to the customers. This is essential because, for the disbursed financing, the banks need to set aside a portion of its income as a reserve based on the quality of the financing, commonly referred to as collectability. The poorer the quality of financing, the larger the amount that must be reserved for collectability, resulting in higher income reservations for the banks, thus will influence the growth of banks.

Profitability is one of the measurements to see the growth and financial health of the banks. Salim and Djausin (2020) indicated that return on asset (ROA), which evaluates banks' capacity to make overall profit, is based on profitability, offers an overview of a business's success or failure and thus serves as a crucial indicator of economic financial performance. A higher return on assets will result in a higher profit margin, indicating that the banks can effectively manage its assets and hence support its growth (Ariani et al., 2022). Salim and Djausin (2020) also mentioned that banks with the higher profitability will increase the level of profit achieved by the bank, thus, banks are more preferable in generating their assets such as financing. When the banks successfully increase their profit at maximum level, hence it is able to meet the profit maximization theory (Adelabu et al., 2011). The theory indicates, banks are making an effort to maximize interest income by optimizing their lending portfolios in which balancing risk and return. A study by Permana (2017) stated that in order for Islamic banking to increase their assets which is derived from the profitability of the banks itself by returning on asset as the proxy. The bank that produced more profit will lead to the greater and huge opportunity in expanding the bank's growth. Return on assets is measured by comparing net profit with the company's total assets to measure the effectiveness of using the company's assets. However, as stated in Mashamba et al. (2023), high banks profitability has the potential to cause ineffective financial intermediation, which could hinder economic expansion. When banks focus too much on profits, they may become more risk averse. Banks may devote a large amount of their resources to lending to low-risk customers or safer assets to reduce risks and enhance earnings.

According to Calem and Rob (1996), banks must place its highest priority on holding onto a buffer of remaining capital in order to reduce its probability of having insufficient legal capital, particularly when capital fluctuates most frequently. The regulatory bodies establish minimum capital adequacy requirements on banks to ensure that banks have enough capital to withstand losses and preserve financial stability. In order to remain solvent and expand, the banks must meet the capital that's required. Mehta and Bhavani (2017) proved that the higher the capital will increase the growth of banks. A higher capital adequacy ratio indicates that the banks are capable of funding the growth of its assets with its current capital. The increased capitalization serve as a buffer that enables banks to absorb potential losses more effectively and empowers to expand the lending capacity to the customer. Abduh and Alias (2014) stated that capital ratio can be measured by total equity to total assets to see the distribution of the company's assets between its owners and the portion financed through debt determines the ownership structure and financial leverage. In contrast to the research conducted by Ekaputra et al. (2018), capital ratio has a negative relationship with the growth of the banks. A bank's lower capital level could be an indication that a sizable amount of its capital has already been used for financing purposes. This situation is frequently connected with increasing bank growth since it reflects a deliberate use of resources to extend loans and offer financial services. Setyawati and Suroso (2016) also found that capital has a significant negative effect towards the bank growth which represents decreasing in capital will increase the growth of total asset which will impact towards the growth of bank.

Apart from the internal variables, the study additionally considers the crisis as a determining factor in order to examine the significant differences between the crisis and non-crisis periods. Elnahass et al. (2021) indicates that, all of the economic players including financial institutions, suppliers and customers are having unexpected scenario during the pandemic COVID-19. The expansion and effectiveness of banks throughout numerous nations have been adversely affected by the COVID-19

epidemic. According to Abdulai et al. (2023), COVID-19 significantly decreased Ghana's banking sector's performance. The industry suffered as a result of the pandemic's lockdowns and decreased economic activity. Çolak and Öztekin (2021); Demir and Danisman (2021); Dong (2021) have examined how COVID-19 affected the banking industry. Due to company interruptions and economic slowdown brought on by the pandemic, the number of loan defaults increased dramatically. As a result, banks' loan loss provisions increased, lowering available capital for asset growth (IMF, 2023). Barua and Barua (2021) found a decline in loan demand that has been attributed to both economic slowdown and the existence of business uncertainty. The reduction in loan demand is a difficulty for banks, since it impedes a major factor contributing to the industry's expansion. In context of business sector, it will reduce the investment plan and financing when facing economic difficulties or uncertainty about the future. Therefore, banks experience a deceleration in the growth of their loan portfolios, an essential element for their comprehensive expansion and financial gain. Conversely, according to World Economic Forum (2023), the pandemic has created new opportunities, especially in the fields of e-commerce, online banking, and digital payments. This has made it accessible to some banks to increase the amount of assets they own in these markets. The transition to digital platforms not only made it possible to diversify sources of income, but it also helped the banks grow overall and become more resilient to the financial difficulties brought on by the pandemic.

RESEARCH METHODOLOGY

The study used a quantitative research method that focused on two countries, Malaysia and Bahrain with the population of 16 Islamic banks in Malaysia and 16 Islamic banks in Bahrain. However, because of the availability of the data that was derived from FitchConnect Database, the study only includes 14 Islamic banks in Malaysia and 10 Islamic banks in Bahrain as a sample for the study. The study encompasses a ten-year period from 2013 to 2022 which represents 240 observations for the full sample using unbalanced panel data. Liquidity, profitability, asset quality and capital included in this study in examining the factor that influences the growth of Islamic banks in Malaysia and Bahrain. The study also comprises two dummy variables, which are country dummy and the crisis that includes COVID-19 pandemic, covering the three-year period from 2020 to 2022. The study denotes 1 for Malaysia and 0 for Bahrain to examine if there are significant differences of growth of Islamic banks between these two countries. In addition, 1 also denoted for crisis period and 0 for the non-crisis period to examine significant growth of banks during crisis and non-crisis periods for each country. Table 1 represents the variables, proxies in the study. The study utilizes Stata statistical package for the data analysis.

Table 1: Variables, Notation, Proxies and Measurements of Independent Variables and Dependent Variable

Variable	Notation	Proxy Measurement
Dependent Variable		
Banking growth	BG	Growth of Total Asset %
Independent Variables		
Liquidity	LIQ	Liquid asset to total asset %
Asset Quality	AQ	Total loan loss reserve to gross loan %
Profitability	PROFIT	ROAA %
Capital	CA	Total equity to total asset %
Dummy Variables		
Country	COUNT	Malaysia = 1, Bahrain = 0
Crisis	CRIS	Crisis = 1, Non-crisis = 0

In order to answer the objectives of the study, the study employed three models consist of Model A, B and C. Model A represents Islamic banks in Malaysia and Bahrain that consist of 175 observations after the outlier test was done. This Model was to examine if there is any significant growth of Islamic banks in Malaysia and Bahrain. Model B, signifying Islamic banks in Malaysia, comprises 136 observations, while Model C, representing Bahrain Islamic banks, consists of 33 observations. These two models were

employed to compare the factor that influences the Islamic banking growth in these two countries and to examine if there are any significant growth during crisis and non-crisis periods for each country.

The following are the equation for tModel A, B and C:

$$\text{Model A: } BG_{it} = \alpha_0 + \alpha_1 LIQ_{it} + \alpha_2 AQ_{it} + \alpha_3 PROFIT_{it} + \alpha_4 CA_{it} + \alpha_5 COUNT_{it} + \alpha_6 CRIS_{it} + \varepsilon_{it}$$

$$\text{Model B: } BG_{it} = \beta_0 + \beta_1 LIQ_{it} + \beta_2 AQ_{it} + \beta_3 PROFIT_{it} + \beta_4 CA_{it} + \beta_5 CRIS_{it} + e_{it}$$

$$\text{Model C: } BG_{it} = \gamma_0 + \gamma_1 LIQ_{it} + \gamma_2 AQ_{it} + \gamma_3 PROFIT_{it} + \gamma_4 CA_{it} + \gamma_5 CRIS_{it} + \sigma_{it}$$

Where;

BG_{it} = Banking Growth of Islamic bank i at year t

LIQ_{it} = Liquidity of Islamic bank i at year t

$PROFIT_{it}$ = Profitability of Islamic bank i at year t

CA_{it} = Capital of Islamic bank i at year t

$COUNT_{it}$ = Country dummy of Islamic bank i at year t

$CRIS_{it}$ = Crisis dummy of Islamic bank i at year t

$\varepsilon, e, \sigma_{it}$ = error term

α, β, γ = intercept

$\beta_1, \beta_2, \beta_3, \dots, \beta_6$ = Regression Coefficient

An outlier test was carried out in the initial phase of data testing in order to identify and exclude any data that exhibits a substantial difference from the remaining data. The scatterplot resulted from the outlier test was removed using Cook's Distance Test. Descriptive statistics including mean, median, standard deviation, skewness, and kurtosis were used in this study. In this study, Pearson's correlation coefficient was utilized to figure out the correlation between the variables in an attempt to identify the essential characteristic of the data. Diagnostic tests which employed the Variance Inflation Factor (VIF) were used to determine existing multicollinearity-related problems. Heteroscedasticity test employing Breush-Pagan was used to detect the presence of heteroscedasticity issues in regression studies. Wooldridge tests were employed for serial correlation and Fisher type is applied to get the unit root's final p-value. After the diagnostic testing, panel data testing method were utilized followed by Chow test, Breusch-Pagan Lagrange Multiplier (BPLM) test and Hausman test, in order to determine the most suitable model that fits the data. The two methods employed in this study were Newey-west regression for Model A and B and Pooled Ordinary Least Square (POLS) for Model C. The study used the Newey-west regression in the model to remedy the issue that arise from the autocorrelation issue. Model C employs POLS regression without any remedy, considering it the optimal model due to the absence of autocorrelation and heteroscedasticity issues.

RESULTS AND DISCUSSION

Before starting the data testing, this study implemented descriptive statistical analysis to identify the fundamental characteristics of the data. The data distribution shows normality as the value is not too high from the specified value, which is 0 for skewness and 3 for kurtosis. The mean difference test, or T test, showed that asset quality and capital are significantly different at the 1 percent level between Islamic banking in Malaysia and Bahrain. On the other hand, for correlation analysis, the study used person correlation to test the relationship between the variables. The findings show that in Models A and B, profitability and asset quality have a positive relationship with banks growth. While liquidity and capital show a negative relationship with banks growth, only capital shows a significant relationship at

the 1 percent level. For Model C, the test shows all variables have a positive relationship with banks growth. However, only asset quality, liquidity, and profitability have a significant relationship at 1 percent, 5 percent, and 10 percent, respectively.

From the diagnostic testing, all models have no multicollinearity issues. Model A, B, and C variance inflation factors (VIF) values are less than 5. To test if there is heteroscedasticity in this study, the Breusch-Pagan test was conducted. A significant p-value showed that the model has heteroscedasticity issues, which can lead to coefficient estimation, inefficient standard error, and erroneous hypotheses. A robust standard error treatment will be used to cure the value. In this study, the P-value result indicates that all three models did not have any heteroscedasticity issues. On the other hand, to determine the serial autocorrelation issues, this study used the Wooldridge test. A significant P-value indicated that there are autocorrelation issues and that a remedy is required to improve the value. The study shows that Model A and B p-values are significant; hence, there is an autocorrelation issue. Diversifiable with Model C, the result shows an insignificant P-value, hence no autocorrelation or remedy is needed.

Panel data testing is being used to identify the most suitable models that fit the data for this study. The study used the Chow test and the BPLM test to determine the best model fit for each of Models A, B, and C. From the result, Pooled Ordinary Least Square (POLS) displays the best model for Models A, B, and C. Hausman test is not required as Chow test and BPLM test show no contradictory result. However, the Newey-West remedy was applied to Models A and B as there were autocorrelation issues. Hence, the final estimation model for Models A and B was Newey West, while Model A remained with POLS.

As soon as the final estimation model was confirmed, the study proceeded with the discussion of the findings. Table 2 presents the regression results for Models A, B, and C. Islamic banking growth in Malaysia showed lower growth by 5% than Islamic banking growth in Bahrain. This is due to Malaysia already achieving the market maturity level where Islamic finance in Malaysia was established earlier than Bahrain. Therefore, it is normal for the bank to have a slower growth pace. On the other hand, Islamic banking growth in Bahrain is higher as the regulator from the Central Bank of Bahrain has granted the Islamic banking sector an alpha factor, or discount, in the computation of risk-weighted assets, which is not granted to conventional banks. Hence, more capital in Islamic banks will allow Islamic banks in Bahrain to utilize their funds to increase growth.

Among all variables, the finding reveals that asset quality and capital are significantly influencing Islamic banking growth in Malaysia and Bahrain. Notably, asset quality is proxied by loan loss provision and the gross loan ratio, which are inversely related. The higher the ratio, the lower the asset quality. Therefore, for this study, the sign for asset quality has been changed in Table 1 to avoid any confusion. Surprisingly, the result shows that profitability only influences Islamic banking growth in Malaysia, while liquidity only influences Islamic banking growth in Bahrain. It indicates that there are different factors that can influence Islamic banking growth for each country. During the crisis period, Islamic banking growth in Bahrain shows slower than during the non-crisis period. This is due to the COVID-19 impact on worldwide bank lending, where less credit was given to customers (Çolak & Öztekin, 2021). This effect will lead to slower bank growth. Interestingly, Malaysian Islamic banks are still growing during the crisis period. This is due to Malaysia successfully implementing the moratorium and the lower interest rate given by the government. Therefore, it influences people to do more financing during the crisis as they have excess funds. However, this result shows no significant difference in Islamic banking growth during a crisis or non-crisis period for each country.

Asset quality is statistically significant at 1 percent and 1 percent levels in relation to the Islamic banking growth in Malaysia and Bahrain. A higher asset quality indicates a lower loan loss provision ratio. Hence, with the available funds, the banks can give more financing to good customers (Wahyuni & Azmi, 2019) Besides that, higher asset quality shows that the customer has successfully paid back their financing on time, and the banks can give more financing to other customers. It is very important for

the banks to monitor and choose a good customer. Good customers are those who have a good business ethic, are honest, trustworthy, and transparent in managing funds (Umam, 2016). With good customer behaviour, the banks will be able to reduce non-performing loans and increase asset quality. This result aligns with the previous study by Saleem et al. (2021) where the higher the asset quality, the higher the banking growth.

Equivalently to asset quality, capital is statistically significant at 1 percent level in Malaysian Islamic Banks growth and at 5 percent level at Islamic Banks growth in Bahrain (Table 2). The capital showed a negative relationship with banks growth. The lower the capital, the higher the banks' growth. Holding lower capital can increase the growth of total assets as the capital is allocated to meet the financing needs (Dahir et al., 2019). However, the capital level must not be lower than the regulatory requirement by the central bank for each country. Its purpose is to ensure that the banks can face abnormal losses and survive (Khan et al., 2020). A sufficient amount of capital is important to accommodate any risk of losses caused by the bank's operation (Syifa, 2018). Therefore, the result is consistent with Ekaputra et al. (2018) and Setyawati and Suroso (2016), which indicate that the lower the capital, the higher the bank growth.

Table 2: Multiple regression

Bank growth	Model A (POLS) (Malaysia and Bahrain Islamic Bank)		Model B (POLS) (Malaysia Islamic Bank)		Model C (POLS) (Bahrain Islamic Bank)	
	Coefficient	Newey-West Std Err.	Coefficient	Newey-West Std Err.	Coefficient	Std Err.
Liquidity	0.139	0.085	0.020	0.111	0.564***	0.164
Profitability	4.388***	1.519	4.678*	2.452	2.816	1.926
Asset Quality	1.675***	0.476	2.283*	1.224	1.786***	0.536
Capital	-0.711***	0.227	-1.659***	0.621	-0.648**	0.277
Country Dummy	-5.244**	2.204				
Crisis	0.214	1.360	2.329	1.546	-1.632	2.617
Total Observation	175		136		33	
Max Observation	10		10		10	
Min Observation	4		8		3	
Groups	19		14		5	
Overall R ²	0.158		0.215		0.495	

Note: ***p-value is significant at 1% level, **p-value is significant at 5% level, *p-value is significant at 10% level

On the other hand, profitability is statistically significant at the 1 percent level in influencing Islamic banking growth in Malaysia only. Profitability has a positive relationship with banks' growth. The higher the profitability, the higher the banks' growth. The profitability is being measured by the net profit to average total asset (ROAA) ratio. Net profit is important as it gives a summary to measure the banks success or failure (Salim & Djausin, 2020). The higher level of profit shows that the banks are able to provide more financing to its customers. Besides that, good asset management, such as an optimal investment combination for available fund resources and reducing risk, can increase profitability (Pejman et al., 2023). In addition, bank managers are responsible for maximizing profitability, which contributes to obtaining a larger market share (Freeman & Alhassan, 2021). This showed that higher profitability can increase bank growth.

In contrast with profitability, liquidity is statistically significant at the 1 percent level, with a positive relationship with Islamic banking growth in Bahrain. The result showed that in order for Islamic banking to grow in Bahrain, liquidity is a factor that needs to be taken into consideration. Liquidity can affect the value of a company in the creditor's eyes. It is important for the banks to have high liquidity when customers request withdrawals. A high liquidity level shows that the banks are able to meet its short-term obligations (Yanti & Darmayanti, 2019). Additionally, with a high liquidity level, the banks can

expand its lending activities, which will help the banks grow more in assets (Bustamante et al., 2019). The results attest to the study by Nguyen and Dang (2020).

CONCLUSION AND RECOMMENDATION

This study focuses on the growth of Islamic banking in Bahrain and Malaysia, with the dependent variable is banking growth, proxied by the growth of total assets. The study considers factors such as profitability, asset quality, liquidity, and capital as independent variables. Additionally, it includes a crisis dummy to analyse the Islamic banking growth during crisis and non-crisis periods, particularly the COVID-19 period from 2020 to 2022. The study also incorporates country dummies to assess differences in banking growth between Islamic banks in Bahrain and Malaysia.

The findings reveal significant differences in the growth of Islamic banks in Malaysia and Bahrain, with Bahrain experiencing higher growth attributed to government initiatives and increased demand for Islamic banking products. Internal factors, such as liquidity, profitability, asset quality, and capital, play varying roles in influencing banks growth in each country. In Malaysia, profitability, asset quality, and capital are significant determinants, while in Bahrain, liquidity, asset quality and capital influencing the growth of the Islamic banks.

The study establishes a significant positive relationship between asset quality and bank growth in both countries, with asset quality serving as an inverse proxy for total loan reserve. It highlights the importance of maintaining high-quality loans for sustained banks growth by implementing 5C's such as character, capital, capacity collateral and condition of the borrower to ensure the creditworthiness. Capital also identified as a determinant influencing banks growth in both countries, with a negative relationship. The study suggests that lower capital levels can contribute to higher banks growth. This is due to banks using a part of the capital they have to provide more financing, which leads to an increase in banks growth. However, Islamic banks need to adhere to the capital adequacy ratio that has been standardized by the central bank for each country. The regulator might also make the capital requirements more flexible based on the present situation so that Islamic banks can adjust their capital requirement to cope against losses.

Profitability, measured by return on average assets, shows a significant positive relationship with banks growth only in Malaysia. The higher the profitability, the higher bank growth. Islamic banks in Malaysia can boost profitability by broadening their product offerings and adapting to modern technology. Besides that, Islamic banks also need to increase their creditworthiness customer to ensure quality financing. On the other hand, liquidity measured by liquid assets to total assets, demonstrates a significant positive relationship with bank growth only in Bahrain. The study underscores the importance of liquidity in increasing bank growth by attracting more depositors by offering interesting offers. In short term period, Islamic banks can boost the liquidity by increasing the Islamic liquidity instrument such as increasing the Islamic Security so that, during the needy time, Bahrain Islamic banks can easily get funding from the Islamic Money market platform. Regulator also can support by increasing the reserve for Islamic banks so that Islamic banks can have more liquid asset such as cash.

In summary, there are differences in the growth of Islamic banking in Malaysia and Bahrain which answered objective number one which is to examine any significant different of banking growth between Malaysia and Bahrain. The study finds that liquidity, asset quality, capital, and profitability are significant determinants of Islamic banking growth in both Bahrain and Malaysia. However, the specific factors and their impact vary between the two countries for example profitability only influences the banking growth in Malaysia while liquidity only influences the banking growth in Bahrain. Hence the result successfully answers objective number two. Additionally, the study suggests that there are insignificant differences in banking growth during crisis and non-crisis periods for Islamic

banks in Malaysia and Bahrain, attributing this resilience to government actions during the COVID-19 pandemic. Therefore, from the result shows that objective three has been achieved.

The research findings present significant insights for Islamic banking institutions in Malaysia and Bahrain, offering potential benefits and strategies for expansion. The study emphasizes the importance of asset quality, liquidity, capital, profitability, and country-specific factors in shaping banks growth. Islamic banks in Bahrain have outpaced those in Malaysia, attributed to market maturity in the latter. The study recommends a focus on improving asset quality through comprehensive risk management, diversification, and effective screening methods. Capital is identified as crucial for mitigating risk and ensuring banks growth, with regulators urged to implement effective capital management strategies. Regulator also plays an important role in controlling the level of capital requirement by making capital requirement more flexible according to the current situation, increasing the minimum capital ratio so banks will hold more capital over assets that can buffer against losses and enhance resilience during crisis. For Malaysia, an emphasis on profitability, including revenue optimization and expense control, is recommended. Additionally, diversifying income sources and leveraging technology can enhance Islamic banks growth in Malaysia. In Bahrain, the study underscores the positive impact of liquidity on banks growth, suggesting flexible responses to market dynamics and technological adoption. During crisis periods, both Bahrain and Malaysia Islamic banks exhibit resilience, maintaining growth with government support. Future research recommendations include exploring external factors, in-depth testing of internal factors, and examining the impact of technological innovation on Islamic banks growth. The study's insights contribute to a better understanding of the elements influencing Islamic banking development and offer practical recommendations for stakeholders in the industry.

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AUTHORS' CONTRIBUTION

Shahril, F. N. L. M. and Din, I. A. carried out the research, wrote and revised the article. Amran, N. H. conceptualised the central research idea and provided the theoretical framework as well as ensuring all technical requirements. Ahmad, W. designed the research, supervised research progress, and anchored the review, revisions and approved the article submission.

CONFLICT OF INTEREST DECLARATION

We certify that the article is the Authors' and Co-Authors' original work. The article has not received prior publication and is not under consideration for publication elsewhere. This research/manuscript has not been submitted for publication nor has it been published in whole or in part elsewhere. We testify to the fact that all Authors have contributed significantly to the work, validity and legitimacy of the data and its interpretation for submission to Jurnal Intelek.

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