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RESEARCH ARTICLE

Islamic Banks' Halal Profitability Analysis: Evidence from Oman

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Abstract

Modern living gives us the chance to commemorate the many beautiful and unique religious traditions and to highlight the many benefits that society gains from their preservation. Commercial banks were founded in a framework distinct from the Islamic context, with distinct foundational ideals and paradigms. As a result, most Muslims have not largely accepted those banks. In Oman, where the banking system transformed from regular public banking services to Islamic banking services to meet the demands and requirements of the Sharia Complaint system where interest is not utilized as guided by Islamic economics. Hence, the focus of this research is on the halal earnings of Islamic banks. This study's major objectives are to empirically investigate and evaluate the halal profits of Islamic banks in Oman while highlighting crucial information about banking performance that can help decision and policymakers in the banking industry. An analysis of the financial statements for the two Islamic Banks for the five years covering 2017 to 2021 allowed for the determination of the halal earnings from a financial perspective. This research topic was covered using secondary sources. In addition to using quantitative research to determine the relationships, this study was undertaken to investigate the halal profit of Islamic banks. Halal profit guarantees that the bank's earnings are obtained ethically and legally, in accordance with the standards and principles held by its society. Discussion in this paper is expected to serve as a road map for a future initiative to elevate Islamic banking by maintaining an unwavering focus on innovation and the desire to provide excellence in everything banks do, including the development and provision of a wide range of integrated products and services that are completely compliant with Sharia principles.

Keywords: Halal Profit, Omani Banks, Financial Analysis, Islamic Banks, Sharia-compliant financial solutions, Halal Life

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1. Introduction

Islamic economy is built on particular characteristics. Labor, capital, taking risks, and undertaking are all ways to make wealth. Labor is highly valued, and partnerships between labor and capital are promoted. Financial capital is compared to a fertile female that can only create offspring when mated with a male (i.e., work), and that can only produce yield when labor is present. Therefore, financial capital has the legal right to make a profit, provided that it invests in a business and assumes all risks alongside the laborer or entrepreneur. Islamic "Sharia" permits all economic activity as long as it serves people's interests and satisfies their real-world requirements and as long as it does so within the context of protecting and preserving the public interest. Islam presents its distinct and original understanding of money as a trustee in its primary sources. A tool to evaluate assets and products is monetary. It serves as a middleman for the exchange of goods and assets between individuals. As a result, money cannot be used to make money on its own. Selling and buying products and assets with cash can result in a profit (*Islamic Banking Services*, n.d.). Oman is ranked 68 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings (*World Bank Open Data*, n.d.). The Islamic banking sector has seen uninterrupted growth over the last decade. Table 1 shows double-digit growth trends in both assets and financing of Islamic banks in the past few years.

Table 1. Trends of the Assets and Financing of Islamic Banks

Indicators	2013	2018	2021
Total assets (USD billions)	1,168	1,754	2,100
Total Sharia-compliant financing (USD billions)	753	1,052	N. A
Total funding/liabilities (USD billions)	1,067	1,748	1,928
Number of Islamic banks	169	189	190
Number of Islamic banking windows	83	81	81

Source: Islamic Financial Services Board 2022 (IFSB), n.d. Pp.12-42.

Sharia-compliant assets make up a sizeable amount of the GCC's overall banking businesses. Kuwait has the largest market share of Islamic banking in the GCC with 35%, followed by Qatar with 27%, Saudi Arabia with 24%, Bahrain with 22%, and UAE with 17%. GCC Islamic banking share reaches 25% of the total banking assets. Oman's Islamic banking market is 17%, the smallest in the GCC. In Oman, the combined assets of Islamic banks and windows made up 10% of the system's total assets. Conventional banks, Islamic banks, and currency exchange companies are viewed as the most solid financial intermediaries in Oman (Mendoza, 2023).

1.1. Commitments to Regional Banking Powerhouse

The political and economic climate in Oman right now would seem to be conducive to the establishment of the suggested dual banking system. Both newly founded Islamic financial institutions and conventional banks in the nation seek to offer Sharia-compliant products and services, suggesting that the adoption of Islamic financial products and services is being driven by demand. It is difficult to predict the market share that Islamic financial products will obtain; it is oversimplified to assume that Oman's majority-Muslim population will abandon traditional banking services just because of their religious commitments. To operate Islamic windows in Oman's developing Islamic banking sector, Bank Nizwa and Alizz Islamic Bank are relatively new entrants. Since both banks' initial investments in infrastructure and human resource development seem to have been exhausted, we anticipate that they will both reduce any upward pressure on their expenses in a challenging operating environment. It was anticipated that these banks would be able to gradually lower their operating cost-to-income ratio to that of other Omani banks, leading to an increase in operating profits in the first ten years (Magd & McCoy, 2014).

Banks are crucial to the nation's economic growth in the current financial system. A nation's economic growth is significantly influenced by its monetary policies. The central bank of the nation decides how much liquidity is accessible to its banks through monetary policy. In Gulf, there was a fundamental problem with savings and investment for the future. The primary motivation for saving is to go on Hajj, a safe avenue for funds to plan a better financial future. In 2012, the Central Bank of Oman approved Islamic banking intending to diversify local banking and financial services to enhance economic size and depth, scope, and better support for the Omani economy (Alzadjal et al., 2021). To make complex Islamic banking principles more understandable to a wide range of stakeholders, including CEOs, venture capitalists, the general public, and the media, the current study makes a successful scientific communication attempt. Islamic banking refers to a banking system that follows Sharia principles and puts them into practice through the development of Islamic economics. Islamic Sharia-compliant finance is the most acceptable name for Islamic banking. Participatory banking and the prohibition of interest collection and payment are two fundamental concepts of Islamic banking. Under Sharia compliance, the collection of monetary rewards is barred. Sharia prohibits the payment or acceptance of specific interest or fees (known as usury or usury) for financial loans, whether fixed or variable. Due to a lack of practice, previous Islamic economies have adopted these concepts to varying degrees. To implement these concepts into private or semi-private business operations within the Arab community, the majority of Islamic banks were founded in the late 20th century. The majority of the financial institutions in Oman are traditional and Islamic banks, including regional, global, and specialty banking institutions such as the Oman Housing Bank and the Oman Development Bank. The banking industry in Oman has thrived despite the country's economic challenges and is one of the main forces behind the Omani economy. Banks were on the front lines of executing financial support measures put forth by the government and the Central Bank of Oman (CBO) while also having to deal with Covid-19. To advance the client lifecycle, banks are continually developing cutting-edge, customer-focused products, an online boarding system, instant loan top-up requests through the app by Oman Arab Bank (Malti, 2022), Wallet Transfer features, and contactless "Tap and Go" cards by the National Bank of Oman. There is nothing exceptional about the way Islamic finance operates in Oman because the majority of Omani citizens and expatriates value having access to financial products that follow the laws and regulations that are in effect in Oman. With excellent digital channel platforms for Islamic banking, Oman holds many possibilities. Islamic banking and finance have advanced with the creation of the Islamic Banking Regulatory Framework of late. Among the newcomers to the sector are two Independent Islamic banks (IIB) and six Islamic banking windows. The Edict announced a Sharia-compliant model, which encouraged financial systems to outbid their banks for customers. In recent years, Islamic banks in the Sultanate of Oman have developed and competed with their conventional counterparts, achieving large profits and strong asset quality. Islamic banks have been able to establish a reputation because of the considerable public demand for Islamic goods, supportive laws, an expanding branch network, and a push from conventional banks' Islamic windows that have become widely present, Islamic banking in Oman has a bright future (Ahamed, 2023).

1.2. A New Era for Banking

Since the previous few decades, the Omani banking system has shifted from general conventional banking to Islamic banking because it satisfies the needs and requirements of an interest-free society as prescribed by Islamic doctrine. The most crucial Sharia rule in acting in Business or economics is Riba prohibited (interest). Islamic Banks (IBs) are financial institutions governed by Islamic jurisprudence. Rather than lending money for interest, the faith encourages people to invest their spare wealth so that it circulates in the market and gives them profit (Ribh). Ribh is intended for compensating traders for their expenses, time, and effort. The most important code that separates profits or losses and stops interest from being collected (given and charged). The traditional banking system consists of those financial organizations that provide services like debiting and crediting customer cash flows, giving their clients long-term and short-term loans, and other commercial services.

The Government of Oman mandated Bank Nizwa and Alizz Islamic Bank to operate as exclusive Islamic Banks and granted licenses to six conventional banks to operate Islamic windows, making them relatively new entrants in the Omani banking sector. Operations began in 2013. As Oman's first exclusively Islamic bank, Bank Nizwa offers a full range of services and goods that adhere to Sharia. In compliance with the license granted by the Central Bank of Oman (CBO) and the Banking Law established by the Royal Decree No. 114/2000, the Bank provides the full range of commercial banking services. The Bank was established as a licensed Sharia-compliant commercial bank with the assistance of the Founding Committee, which the Founders appointed to act on their behalf. The bank now offers a comprehensive range of banking products to individuals, small and medium-sized businesses, companies, and government entities after beginning operations in January 2013. IBs have the skills and resources required to be dependable partners in all of their clients' financial transactions, and they aspire to become Oman's preferred banking institution to meet all financial needs within the Sultanate of Oman and beyond. Bank Nizwa has access to cutting-edge banking technology and software and is dedicated to providing customers with the best Islamic Banking experience. With 19 locations right now, the bank will significantly develop its branch network over the next five years as part of its strategic objective to expand the bank.

Secondly, Alizz Islamic Bank, established in November 2012, offers retail and corporate financing through branches, the internet (alizzislamic.com), and mobile devices. The mission of Alizz Islamic Bank is to provide outstanding Sharia-compliant financial solutions to achieve remarkable and long-lasting benefits for our stakeholders. Although the bank's main office is in Ruwi, Sultanate of Oman, the bank intends to make each local branch of Alizz Islamic Bank a headquarters to serve all of its client’s financial needs and aid in their financial success. The present study's final focus is on what the determinants of halal profits are and how Islamic banks in Oman uphold Sharia rules while turning a profit. The outcomes are expected to support Islamic banks to provide financial services that are in line with the precepts of Islamic law; halal profit offers several benefits, that encourage halal investing which is very less risky, and a disciplined investment that allows followers to build wealth without worry.

It is important to study the halal profits because halal concerns of Gen Z were averagely recorded and Halal consumer behaviors have not been significantly differentiated by gender, education level, marital status, income, habitat, source of personal income, knowledge level about Halal, shopping mode, and shopping frequency in Omani context (Yüksel, 2022).

Numerous research has been done on the profitability practices in multiethnic local markets including Singapore, Indonesia, Malaysia, and GCC nations. Few studies focus on halal financial behavior where Islam is recognized as the state religion. In this context, even though it would be very difficult to analyze the influence of profit perceptions on the protective and regulatory roles of government, the determinants of halal profits of consumers living in GCC nations seem to be worthy of inquiry. In addition to having a conservative societal interpretation of and approach to Islam, Oman is renowned for having an Islamic legal system, governance, and legislative framework. This study offers insightful information about Omani banks’ halal profits, which is still in its infancy. This study attempted to describe and explain Halal profits among Islamic banks in Oman because there was no study specifically designed to describe/explain Halal profit behaviors with Islamic banking products in Oman. The study's background and environment are briefly covered in the current part of the paper. There are four more portions to the paper following afterward. A summary of the reviewed literature is given in part 2 of the paper. Information on the sample and the methods is detailed in part 3. The financial analysis and results are presented in Part 4; the article's conclusion and limitations are covered in Part 5.

2. Literature Review

The power of halal profits on the financial performance of organizations is a matter of debate. Several accounting measures for profitability, return to shareholders, and operational efficiency have been used in studies to assess the effects of halal profits on the financial performance of commercial and Islamic banks. This section will include some of the earlier research on the factors that affect Islamic banks' profitability margin (halal profits). A study's literature review is crucial since it aids in achieving and supporting the study's goal. Through these studies, the focus is on three categories. The first category includes factors that affect Islamic banks' profitability margin in a single nation; followed by studies on the same topic done in other nations, the third category includes a comparison of the profitability of Islamic banks versus conventional ones.

2.1. Studies of country cases

Muda, Shaharuddin, and Embaya (2013) compared the factors that influence profitability at domestic and international Islamic banks in a study of 17 Islamic banks in Malaysia. The results reveal that Malaysian domestic Islamic banks are more profitable than foreign Islamic banks. The overhead expenses, loans, efficiency, gross domestic product growth rate, and bank size have a significant effect in determining banks' profitability, which case applies to domestic banks only. The results also show that the profitability determinants of domestic banks are different from those of foreign banks. In turn, the gross domestic product per capita has a significant effect in determining banks profitability of only foreign banks. The study finds that deposits, capital and reserves, inflation, and banks' age have a significant effect in determining banks' profitability of both domestic and foreign banks. Meanwhile, liquidity and concentration are not able to explain the variability of domestic and foreign Islamic banks' profitability.

With 17% of the market share the two full-fledged Islamic banks and five Islamic windows including Meethaq of Bank Muscat, Sohar Islamic, and Maisarah of Bank Dhofar, Muzn of National Bank of Oman, and Al Yusr of Oman Arab Bank boasts the GCC's fastest-growing Islamic banking market (Central Bank of Oman - Quarterly Statistical Bulletins, n.d.).

From the years 2007 to 2014, Aslam, Inamullah, and Ismail (2016) examined the three big groups namely, industry, internal, and external that are influencing the profitability of Islamic banks in Pakistan. Linear Regression test was used and concluded that the determinants of both ROA and ROE are not the same and they are used to measure the profitability of Islamic banks of 17 conventional banks and 5 fully-fledged Islamic banks. Size, deposits, financing, share, GDP, and Inflation are the factors that are insignificantly affected by ROA and ROE. Size, financing, and market share positively impact over ROA and ROE whereas Deposits, GDP, and Inflation negatively impact over ROA and ROE (Aslam, Inamullah, & Ismail, (2016). Islamic banking transactions are governed by the codes of the Sharia, which prohibits interest and regulates that income, which must be resulting in a return from capitalist investment. It concludes that the UAE Islamic banks can set the role model for the neighboring GCC banks to adopt it and offer contemporary financial services in conformity with Islamic Sharia (Ahamed & Shahul Hameed, 2010). Hassan and Ahmed (2019) used panel analysis (fixed effects model) to analyze how bank-specific attributes affected the profitability of all Islamic banks in Bangladesh from 2010 to 2017. Bank explanatory factors included size, capital-to-risk assets, liquidity risk (investment to deposit), credit risk (non-performing investment), and operational efficiency (cost to income). Bank profitability as measured by ROA. The study's findings showed that while liquidity and credit risk are substantial and positively associated with bank profitability, bank size, capital, and cost to income have a negative correlation and are significant.

2.2. Comparative Studies of Islamic vs Conventional Banks' Profitability

Jallow used the System GMM dynamic panel estimator on a sample of 130 Islamic banks to examine the performance of a few selected Islamic banks in the Organization of Islamic Cooperation (OIC) Member nations. The findings imply that changes in the macroeconomic environment, as well as management-related issues, have an impact on Islamic banks' profitability. The findings point to capitalization, asset quality, efficiency, and bank size as the primary determinants of bank profitability among the bank-specific variables. Furthermore, the results indicate that while the real GDP growth rate per capita has no discernible effect on profitability, the degree of inflation has a positive significant effect, suggesting that Islamic banks do better during inflationary periods (Jallow, 2022). Other studies that employ financial ratio analysis (FRA) come to conflicting conclusions regarding how emerging banks and Central Banks function (Siraj and Pillai, 2012). Loghod (2011) examined the data from GCC nations, this study compares the effectiveness of Islamic and conventional banking systems and finds that IBs are less risky and more dependent on outside funding than CBs. However, internal growth and profitability show no difference (Loghod (2011). During the financial crisis, profitability declined more quickly for Islamic banks. After the crisis, Islamic banks were less profitable than their conventional counterparts, although they later rebounded to outperform them. Different profitability metrics for Islamic banks were often lower than for normal banks (Basu et al., 2015).

2.3. Banks Profitability in Cross-Country Studies

In their 2016 study, Aliyu and Yusof looked into the key factors that affect Islamic banks' profitability (ROA), including cost efficiency (the ratio of non-interest expenses to average assets), capitalization (the proportion of equity to total assets), liquidity ratio (the ratio of net interest income to average assets), and macroeconomic factors like inflation, GDP, and exchange rate. The authors claimed that overhead, non-interest-earning assets, and short-term funding are crucial elements in boosting bank earnings (Aliyu, & Yusof, 2016). Oino (2015) looked at the factors that affect the profitability of sub-Saharan African banks as well as their level of competition. Elsiefy (2013) looked at the factors that affected the profitability of conventional and Islamic banks in Qatar from 2006 to 2011. According to the study, cost-effectiveness and capital strength both negatively affected conventional banks' profitability. Additionally, the study discovered that liquidity had a statistically significant negative impact on the profitability of Islamic banks. Finally, Both Islamic and conventional banks were found to have little bearing on macroeconomics. Smaoui and Salah (2011) investigated the factors influencing the GCC region's Islamic banks' profitability. For the years 1995 to 2009, panel data from forty-four Islamic banks were used in the study. The study's findings showed that capital, higher-quality assets, and larger size had strong, favourable connections with bank profitability that increased profitability. Finally, the analysis discovered that the association between bank profitability and GDP and inflation was both significant and had a favourable impact.

2.4. Research Gap and Contribution of the Present Study

It is evident that the Sultanate is currently experiencing a shortage of the requisite industry-relevant skills and knowledge, much like all other countries doing so throughout the implementation phase of developing a halal banking system. In order to compete long-term with neighboring countries, the Sultanate must be able to supply local providers of Shariah-compliant services with a steady supply of graduates who have the background knowledge required for a fruitful and fulfilling career in the sector. There is a gap in previous studies focused on measuring the halal profitability of Islamic banks, but in this research, the researcher focused on measuring the halal profits of two banks (Alizz Bank and Bank Nizwa). Halal profit for Islamic banks is very useful because it meets the needs of society without interest. The previous research found that there are no foreign Islamic banks and Islamic windows currently operating in Oman. The literature on halal earnings' consequences illustrates the intricate relationship between the ROE and interests. Profit is obtained through making active investments in the actual economy. Profits are permitted (halal). Riba is haraam, or forbidden. Contrarily, riba is unearned income. Businesses should choose halal over profits. Businesses will prosper if you uphold Islamic ideals (such as social justice, honesty, and truthfulness). Ahamed, (2023) observed a lack of general understanding of Halal profit in Oman, despite the fact that there is no empirical study on Halal profits and/or Halal earnings behavior in Oman.

3. Research Method

The goal of this study was to examine the profitability or halal profit of Islamic banks in Oman. The population represents all Islamic banks operating in Oman. The Islamic Windows of Commercial Banks (IWCB) are not included. ICWBs must deal with issues like the complexity of applying unified capital adequacy standards, the prejudice resulting from the nature of competition between the banks and their transparency levels, the consistency of financial reporting in light of the overlap between Islamic and non-Islamic activities, and the challenge of effectively managing banking risks in a "combined" banking practice. In addition, from a commercial bank's internal perspective, these problems have made it difficult for the institution to implement particular monetary policies, expand the money supply, and create liquidity. Being a quantitative study, this study involves gathering and interpreting numerical data. Using quantitative techniques, this study examines financial ratios in the halal profitability areas for five years to assess the performance of Omani Islamic Banks. This study's research methods are based on previous research methods. The two categories and specific ratios employed in this study.

3.1. Research Design, Data Collection, and Analysis

The goal of this study was to examine the halal profitability of Islamic banks in Oman. The case study research design has been used which is a powerful instrument for researching patterns and particular circumstances across a wide range of scientific disciplines.

Being a quantitative study, this study involves gathering and interpreting numerical data. To find relative correspondences, quantitative research is employed. The data has been collected via the Muscat Stock Exchange, and it will be primarily relied on to collect financial data, especially for the two Omani Islamic banks.

3.2. Research Questions

The purpose of the study is to provide answers to the following questions:

1) What is affecting the halal profit margin of Islamic banks in Oman?

2) What are the halal profit prospects of Omani Islamic banks?

3.3. Halal Profitability Ratios

The ability of a business to create halal profit in relation to sales, balance sheet assets, operating costs, and shareholders' equity over a given time period is measured and evaluated by analysts and investors using halal profitability ratios. They show how effectively a company utilizes its resources to produce halal profit and shareholder value. This study looked at the profitability of halal products in terms of net revenue margin, return on equity, and return on assets. Thus, the following variables have been assessed: ROE, ROA, and OCE to indicate the effectiveness of the halal profitability from its equity financing, resources, and overheads respectively.

The study's independent and dependent variables are shown in Table 2. Probable relationships will be tested during the data analysis step to see whether or not there are any significant differences caused by independent variables.

Table 2. Independent and dependent variable probable associations for halal profits margin

Variables	**Measurements**
Return on Equity (ROE)	Profit after tax ÷ Total equity
Return on Assets (ROA)	Profit after tax ÷ Total assets
Operational Cost Efficiency (OCE)	Operating expenses ÷ Operating income
Bank Size (BS)	Total Bank assets
Liability-to-asset ratio (DAR)	Total Liabilities ÷ Total Assets
Equity-to-asset ratio (EAR)	Equity ÷ Total Assets

4. Results and Discussion

4.1 Halal Profit Theory and Practice

Halal profit includes leasing and a variety of sales methods, as well as profit-loss sharing and equity participation schemes. Buying and selling is "Swapping a body balanced with the property that the other two should (tasharruf) controlled by consent qabul in the manner permitted by Personality". The financial statements were prepared in accordance with the requirements of the Islamic Banking Regulatory Framework ("IBRF") using the modified version of CBO on The Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and other applicable regulations.

Profits and expenses from all investments in Ijarah (rental) assets shall be divided between the Bank and holders of unconstrained investment accounts in accordance with the Bank's profit distribution policy. All real estate investment profits and expenses incurred in connection with the investment will be exclusively for the bank's account and won't be distributed to owners of unconstrained investment accounts. Owners' equity and holders of unrestricted investment accounts received an equal share of the investment profits. After allocating the Mudarib (provider of skill and labor) share of profit in accordance with the approved policy, the investment risk reserve, which is set at 10%, is subtracted from the customer's share in order to cover potential equity losses for owners of unconstrained investment accounts. According to the terms and conditions of the Mudaraba contract, the investment risk reserve will be returned to the owners of investment accounts. Legal safeguard According to the Commercial Company Law of 1974, 10% of the net earnings for the year must be set aside each year as a legal reserve until the reserve balance reaches one-third of the bank's paid-up capital. No transfer would be performed in the event that the Bank was experiencing losses. If taxable profits exceed RO 30,000 as determined using International Financial Reporting Standard ("IFRS") accounting, the Bank is subject to income tax at a rate of 12%. For a period of five years, the tax losses can be carried forward and applied to upcoming taxable profits.

Sales Receivable: The Bank finances these transactions by purchasing an item that serves as Murabaha's (cost-plus financing) object, which it then resells to the client (beneficiary) at a profit. The buyer pays the purchase price (cost plus the profit margin) back in installments throughout the predetermined time frame.

Wakala Investments: In this type of investment, the Bank, acting as the "Muwakkil" (Principal), appoints the client as the "Wakeel" (Agent), who is responsible for managing the invested funds in Sharia-compliant activities that the Wakeel may engage in as agreed upon on behalf of the Muwakkil. While the expected profit rate cannot be fixed, the investment amount is not guaranteed.

Rate of Return Risk: Due to mismatches in contractual maturities or repricing of on and off-balance sheet assets and liabilities, the Bank is exposed to profit rate risk. It is dealt with by an asset and liability management committee that regularly assesses the profit rate dynamics and decides on re-pricing of assets and liabilities while making sure that the bank's spread stays within acceptable bounds. Based on the variable profit rate non-trading financial assets and financial liabilities held at the reporting date, the sensitivity of the statement of income measures the impact of the expected changes in profit rates on the earnings for one year.

Profit rate sensitivity gap: Mismatches between the repricing of assets and the related liabilities during the period give rise to sensitivity to profit rates.

Disclosure of Displaced Commercial Risk: In the event that the Investment Accountholder (IAH)'s equity profit rates are below market rates, the Bank is subject to displaced commercial risk. The Bank has reduced this risk by creating reserves that will be needed if IAH profit rates fall.

Qualitative Disclosure: The Bank keeps the reserves needed to meet CBO requirements. Profits from the investment are divided between the two parties in accordance with a prior agreement, while any losses are paid by the Investor (Rab-ul-Maal). Any losses from transactions in a jointly financed venture must first be subtracted from any profits that have not been allocated if any (Annual Reports, n.d. 2014).

Further, the next section discusses the data analysis using the IBM SPSS 25 software for the study period. The study results have been addressed in the following paragraphs, and crucial data is shown in Tables 3 through 9. Five ratios in all, three and two from each category, were determined since they are important to the halal profit of the Islamic banking sector.

4.2. Profitability Ratios

The key financial data that was extracted from the audited financial statements and utilized to calculate the bank's profitability ratios over a five-year period is shown in Table 3. The year 2022 data is collected relatively based on the proportion approach for bank-2. When it comes to financial outcomes, each stakeholder has unique interests. The ratios were chosen for the profitability study because investors value them and they can draw their attention to them. When a company is making good profits, it tells investors that things will be going well for the company for a while. Investors gain confidence as a result, enabling them to continue funding the company. These ratios help to see how the halal profit of a business has done over a specific time period. Profitability ratios can be used to assess a company's profitability. The ability of the company to make profits is better understood by looking at return on assets and return on equity. Total net income divided by total assets equals return on assets. It refers to the amount of profit a business makes on every dollar spent. Net income divided by shareholders' equity is the return on equity. ROE ratio demonstrates how effectively a business manages investment capital. Gross profit and net profit margins are two examples of ratios. Margin analysis can be used to assess a company's capacity to turn revenues into profits. The research analyzes the level of firm efficiency with the aid of specific ratios. Since of this, efficiency ratios are important since they can increase profitability.

Table 3. Financial Data for Profitability Ratios of Islamic Banks

Halal Profits	Bank#	***2017***	***2018***	***2019***	***2020***	***2021***	***2022***
PAT	1	3,786,500	7,511,603	10,178,607	11,067,000	12,526,000	15,056,000
	2	-3,149,643	-357,183	-1,460,383	-7,755,731	3,187,369	1,946,738
Shareholders' Equity	1	130,749,377	137,188,802	147,907,323	159,688,000	239,839,000	246,056,000
	2	78,288,437	77,936,266	70,178,493	100,629,019	104,678,113	109,085,228
Total Assets	1	697,302,971	872,167,540	1,034,363,502	1,206,259,000	1,404,823,000	1,486,123,000
	2	568,957,515	682,811,847	718,833,345	865,674,692	974,145,725	1,018,594,188
Operating Expenses	1	15,263,487	15,717,795	17,518,919	18,725,000	20,938,000	21,905,000
	2	10,461,172	3,804,556	12,446,320	13,039,709	13,683,468	15,048,069
Operating Income	1	4,046,039	8,442,718	11,993,341	12,898,000	14,343,000	17,516,000
	2	-3,862,428	420,215	-1,460,383	-7,755,731	3,187,369	3,717,711
Total Liabilities	1	338,477,964	412,471,681	576,061,000	680,480,000	248,026,000	244,800,000
	2	377,364,617	470,761,363	493,042,090	101,780,914	136,511,533	211,838,243
Total Income	1	22,391,712	27,097,801	33,017,474	39,254,000	44,347,000	52,496,000
	2	8,553,954	4,947,817	14,535,878	14,239,842	18,876,956	10,554,211

Table 3 shows the increasing stable trend for bank-1 in all dependent variables. Halal profit places an emphasis on having a just connection with employees, and if the employee is happy, this increases production and profitability. It is a very favorable position for the banker through their commitment to the halal profit model of the business to organize new markets, and value entrepreneurship that creates wealth in Omani society and beyond. For bank-2 showing a mixed trend from negative to positive trend with respect to PAT, and operating income. This enables salaried individuals to acquire business assets with a range of advantages, like flexible repayment options, competitive profit rates, and total transparency.

Table 4. Profitability Ratios of Islamic Banks

		2017	***2018***	***2019***	***2020***	***2021***	***2022***
ROE	*Bank-1*	0.029	0.055	0.069	0.069	0.052	0.061
	Bank-2	-0.040	-0.005	-0.021	-0.077	0.030	0.018
ROA	*Bank-1*	0.005	0.009	0.010	0.009	0.009	0.010
	Bank-2	-0.006	-0.001	-0.002	-0.009	0.003	0.002
OCE	*Bank-1*	3.772	1.862	1.461	1.452	1.460	1.251
	Bank-2	-2.708	9.054	-8.523	-1.681	4.293	4.048

Table 4 displays the halal profits for two banks, for the years 2017 to 2022. Over time, the return on equity (ROE) ratio has changed; reaching a high of 0.069 in 2020 and a low of 0.029 in 2017 before edging up to 0.061 in 2022 for bank-1 and for bank-2, return on equity (ROE) ratio has changed drastically, reaching a high of 0.030 in 2021. For both banks, it is anticipated that ROE will remain reasonably stable in the coming years. From the table, it is evident that bank-1's ROA has fluctuated over the years, with the highest ROA. On the other hand, bank-2's ROA has been more volatile, with negative ROA in 2018 and 2020, indicating that the bank incurred losses in those years. However, its ROA rebounded to 0.008 in 2019, before dropping again to 0.003 in 2022. Overall, the table suggests that bank-1 has been more consistent in generating halal profits from its assets over the years, while bank-2 has experienced more fluctuations in its halal profitability.

Bank-1's OCE improved over the years, from 3.772 in 2017 to 1.251 in 2022. This indicates that the bank was able to reduce its operating costs while maintaining its operational performance. However, it is important to note that Bank-2's OCE in 2017 was already relatively low, indicating that the bank was already operating efficiently. On the other hand, Bank-2's OCE fluctuated over the years, with a significant drop in 2018 and 2019 before recovering in 2020 and 2022. This suggests that Bank-2 faced challenges in controlling its operating costs during those years. However, the bank was able to improve its OCE in 2020 and 2021, indicating that it implemented effective cost-control measures. Overall, the table shows the different levels of operational cost efficiency between the two banks and how their OCE changed over time.

Table 5. Islamic Banks' Descriptive Statistics for Profitability Ratios

Halal Profits	Bank-1			Bank-2		
	ROE	*ROA*	*OCE*	*ROE*	*ROA*	*OCE*
Mean	0.0559	0.0087	1.8762	-0.0157	-0.0020	0.7470
Standard Error	0.0061	0.0007	0.3879	0.0161	0.0019	2.5576
Median	0.0580	0.0090	1.4603	-0.0127	-0.0013	1.1832
Standard Deviation	0.0149	0.0017	0.9501	0.0394	0.0046	6.2647
Sample Variance	0.0078	0.0006	0.2228	0.0016	0.0000	39.2470
Kurtosis	2.0026	3.8522	5.0683	-0.3552	-0.7751	-0.5244
Skewness	-1.3339	-1.8418	2.2224	-0.5279	-0.5478	-0.2420
Range	0.0403	0.0047	2.5219	0.1075	0.0122	17.5765
Minimum	0.0290	0.0054	1.2506	-0.0771	-0.0090	-8.5226
Maximum	0.0693	0.0101	3.7725	0.0304	0.0033	9.0538
Confidence Level (95.0%)	0.0157	0.0018	0.9971	0.0414	0.0048	6.5744

*P-value < 0.05, **P-value < 0.01.

Table 5 displays the positive mean values of most independent variables as well as the descriptive statistical value for each key variable. The value is used to assess the overall halal profitability across two Islamic banks and individually. Three variables – ROE, ROA, and OCE – have summary statistics shown in Table 5. They are used to compare the overall halal profitability across two Islamic banks and individually. The variations for Bank-1 and Bank-2 were nearly identical for ROA and ROE. However, bank-1's OCE scores are 1.87 and 0.74, indicating that although not in a significantly better situation, bank-1 is still in a better position than bank-2. The Omani Islamic banking industry is in a strong position as a major financial institution. Both banks could guarantee a favorable situation. The indicators of profitability known as ROA and ROE appear to be sound. Pearson's correlation coefficients are depicted below the diagonal.

Table 6. Pearson Correlation Matrix of Islamic Banks for Profitability Ratios

Halal Profits	Bank-1			Bank-2		
	ROE	*ROA*	*OCE*	*ROE*	*ROA*	*OCE*
ROE	1.000			1.000		
ROA	0.918	1.000		0.996	1.000	
OCE	-0.901	-0.978	1.000	0.525	0.508	1.000

When the coefficient of correlation between variables exceeds 0.80 (Alharbi, 2017), multicollinearity problems occur. The matrix shows that the correlation between the banks' ROA-specific variable (internal factors) is strong, suggesting that multicollinearity is austere or nonexistent. The linearity difficulties in the explanatory variables are apparent in the correlation matrix (does not exceed 0.80). From Table 6, we can conclude the results of the above table that there is a significant concern as regards multicollinearity. ROE is favorably associated with ROA; however, OCE is adversely connected with ROA and ROE for bank-1, as seen in the matrix and OCE is less connected with ROA and ROE for bank-2, as seen in the matrix. Finally, ROE is positively associated with ROA and OCE for bank-2.

Table 7. Islamic Banks' Descriptive Statistics for Independent Variables Ratios

Halal Profits	Bank-1			Bank-2		
	BS	DAR	EAR	BS	DAR	EAR
Mean	0.0324	0.4034	0.1594	0.0148	0.4174	0.1134
Standard Error	0.0006	0.0751	0.0081	0.0021	0.1179	0.0055
Median	0.0320	0.4792	0.1614	0.0157	0.4356	0.1108
Standard Deviation	0.0015	0.1841	0.0198	0.0051	0.2889	0.0136
Sample Variance	0.0000	0.0339	0.0004	0.0000	0.0834	0.0002
Kurtosis	3.9278	-1.8661	-0.5672	-1.1297	-3.2090	2.2477
Skewness	1.8586	-0.8003	-0.0126	-0.5701	-0.0383	1.1962
Range	0.0043	0.3994	0.0551	0.0130	0.5719	0.0400
Minimum	0.0311	0.1647	0.1324	0.0072	0.1176	0.0976
Maximum	0.0353	0.5641	0.1875	0.0202	0.6894	0.1376
Confidence Level (95.0%)	0.0016	0.1932	0.0208	0.0053	0.3031	0.0142

Furthermore, Table 7 result reveals that throughout the study period, bank-1 and bank-2 look for more strength. But some internal factors are strong for bank-1 and some factors are strong for bank-2. The ratio of bank size (BS) (0.0324), and EAR (0.1594) of bank-1 is higher than those of bank-2. This indicates that bank-1 managed its operational activities efficiently. The ratio of DAR (0.4174) of bank-2 is higher than that of bank-1. Bank-1 and bank-2 appear to be sturdier by devouring a fairly high ratio of DAR and that are 0.4034 and 0.4174, respectively.

Table 8 shows the outcomes of the random effects estimation for bank halal profitability as shown by ROA and ROE.

Table 8. Estimation for Bank Halal Profitability as shown by ROA and ROE.

ROA Analysis	Dependent Variable ROA				ROE Analysis	Dependent Variable ROE			
	Bank-1		Bank-2			Bank-1		Bank-2	
	Coeff.	*P*	*Coeff.*	*P*		*Coeff.*	*P*	*Coeff.*	*P*
Intercept	2.331	0.192	2.399	0.453	Intercept	17.567	0.103	18.074	0.521
BS	0.061	0.858	-0.255	0.684	BS	0.748	0.675	-2.157	0.702
DAR	-0.007	0.141	-0.001	0.957	DAR	-0.031	0.161	-0.007	0.940
EAR	-0.087	0.063	-0.194	0.444	EAR	-0.825	0.019	-1.425	0.520
Observations	6		6		Observations	6		6	
Adjusted R Square	0.739		-0.661		Adjusted R Square	0.914		-0.661	
Significance F	0.153		0.806		*Significance F*	0.051		0.806	
Prob (F-statistic)	0.000***		0.000***		Prob (F-statistic)	0.000***		0.000***	

*** P < 1%.

Table 8 shows how earnings, cost, and net profit factors affect bank halal profitability as indicated by ROA and ROE. The locations where regression results can be found are as follows: ROE and ROA are taken into consideration as this study's dependent variables. With an adjusted R-square of 0.739 for ROA, 0.914 for ROE (bank-1), and -0.661 for ROA and -0.661 for ROE (bank-2), Table 9 depicts the facts in a relatively clear manner. According to F-statistics at the 1% level of significance, the coefficient values of every independent variable with ROE are statistically significant for bank-1 (Field, 2009). The analysis shows that the effectiveness of Bank Size (BS) and Debt to Asset Ratio (DAR) in explaining ROA from the specific characteristics of the banks is not significant and not positive for bank-2. The BS, DAR, and EAR have detrimental effects on bank-2. Some research claims that a bank's size has no effect on its output or return on investment. i.e., Adelopo et al. (2017), and Tharu and Yogesh (2019).

Table 9. Quality of EPS and Net Assets per Share of Islamic Banks

		2017	***2018***	***2019***	***2020***	***2021***	***2022***
EPS	*Bank-1*	0.003	0.005	0.007	0.007	0.007	0.007
	Bank-2	0.003	0.004	0.006	0.007	0.0023	0.015
NAPS	*Bank-1*	0.087	0.091	0.099	0.106	0.107	0.110
	Bank-2	0.078	0.078	0.070	0.072	0.075	0.078

According to the data supplied, the profitability ratios of banks have had a variable response to the study period. Over time, the earnings per share (EPS) ratio has changed, reaching a high of 0.07 in 2019 and a low of 0.03 in 2017 and continuing to 0.007 up to 2022 for bank-1. Whereas, bank-2 saw an increasing trend from 0.003 to 0.015, a favourable ratio to win the hearts and confidence of the Islamic halal profit earners. The net assets (NAPS) ratio has been comparatively constant during the study period in Table 9.

5. Conclusion and Limitations

Halal profit also boosts clients' trust in Islamic banks. Net profits, sales revenues, and operating expenses are the three key variables that directly and broadly determine the halal profit margin. Ribh (profit) and riba (usury) differ in a number of important ways. This study's results and analyses have been compared to various earlier studies on the same topic. The researcher focused on two Islamic banks, and how Islamic banks in Oman have maintained Sharia principles while making a halal profit. Halal profit provides many advantages because Islamic banks strive to provide financial services in conformity with the tenets of Islamic law, these advantages belong either to the Islamic banks themselves or to their clients. Halal profit guarantees that the bank's profits come from moral and legal sources that are consistent with the values and beliefs of its clients. Halal profit also increases clients' trust in Islamic banks. Customers are more likely to have faith in a bank's honesty and dependability if they are aware that their funds are being invested in ethical and Sharia-compliant ventures. The data for this study was collected from the yearly financial reports (balance sheet and income statement) of two Islamic banks in the Sultanate of Oman between 2017 and 2022. The study finds that Bank Nizwa has been more consistent in taking profits from its assets over the years, while the other Bank has witnessed uncommon fluctuations in its profitability. This study can be helpful in developing a strong management strategy that will enhance Islamic banks in an effort to increase profits by supplying crucial information to practitioners including bank management, regulators, and researchers.

It is possible that the Sultanate will be a trendsetter in the future, which is currently experiencing a shortage of the requisite industry-relevant skills and knowledge. This gap can and will initially be filled by importing experienced industry experts, but in order to do so, the Sultanate must be able to do so with the ability to produce graduates who have the knowledge base required for such a career.

Recommendations for Islamic banks

1- Maintain transparency and disclosure in all interactions with clients: To prevent misconceptions, and to ensure that everyone is aware of the terms, conditions, and costs related to financial products.

2- Product Innovation: Constantly create new Islamic financial solutions that are innovative and meet changing consumer needs while adhering to Sharia law.

3- Customer awareness: educating customers about Islamic finance and the unique features of Islamic banking services. Enhancing their understanding of how Islamic banking services work and the benefits they provide to customers.

4- Focus on Islamic-compliant ethical investments, such as those made in halal businesses, socially conscious initiatives, and ethical funds.

5- Focus on customer service: Islamic banks should concentrate their efforts on gratifying clients and forging enduring relationships with them.

Recommendations for Users of Islamic Banks:

1- Research and due diligence: Before choosing an Islamic bank, do your homework to learn about its reputation, adherence to Sharia law, product selection, costs, and level of customer care.

2- Understand Sharia Principles: To make wise selections, familiarize yourself with the fundamentals of Islamic finance. Recognize the variations between Islamic and traditional banking.

3- Halal Investments: Choose Sharia-compliant investment solutions that adhere to Islamic norms if you are interested in making investments. Think about investing in ethical funds, real estate, or profit-sharing investment accounts.

4- Ask questions: If customers have any queries or need clarification on any part of their transactions, they should not be afraid to ask the bank's employees.

5- Choose a reputable bank: The best Islamic bank for customers to choose is one that has a solid track record and is recognized for adhering to Sharia law.

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