International Academic Institute for Science and Technology

International Academic Journal of Science and Engineering
Vol. 13, No. 3, 2026, pp. 120-131.

ISSN 2454-3896

International Academic Journal of Science and Engineering

www.iaiest.com

Impact of Bank Credit on Bank Performance: Sector-Wise Panel Data Analysis of Islamic Banks in the Sultanate of Oman

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Abstract

There have been substantial developments in Islamic banking in Oman; thus, it is imperative to know how the credit allocation of various economic sectors impacts the performance of Islamic banks in the country. However, there is little empirical literature that indicates the impact of credit allocation in specific industries on the financial performance of Islamic banks in Oman. The purpose of the study is to find out the influence of credit allocated to chosen economic sectors on the performance of Islamic banks using Return on Assets (ROA) as the performance measure. The research uses a quantitative research method by collecting secondary data from the annual reports of Bank Nizwa and Al Izz Islamic Bank between the years 2019 - 2023. The study employs a balanced panel of 10 observations in which credit allocation in construction sector (CS), credit allocation to banks and financial institutions (BFS), credit allocation in the government sector (GS), and credit allocation in the service sector (SS) have been considered as independent variables, whereas total liabilities (TL) have been considered as control variables. Based on the above regression analysis results, none of the bank credit variables for each specific sector is statistically significant at the 5% level of significance for ROA. For instance, construction sector bank credit had a negative beta ($\beta = -10.1081$; $p = 0.143$), while BFS sector bank credit was negative ($\beta = -1.5264$; $p = 0.544$). Government sector bank credit ($\beta = 4.5368$; $p = 0.114$) and service sector bank credit ($\beta = 3.4436$; $p = 0.310$) were positive but statistically insignificant for ROA. Total liabilities were also not significant ($\beta = 4.9130$; $p = 0.195$). The adjusted R^2 for the model was 0.5984. Based on the above results, there is no statistically significant evidence that bank credit for each specific sector has any influence on ROA for the two Omani Islamic banks for the period 2019 to 2023.

Keywords: Islamic Bank, Bank Credit, Industry Type, Total Liabilities, Performance, ROA.

DOI: 10.71086/IAJSE/V13I3/IAJSE13101
Received: 25 May, 2026/Revised: 02 July 2026/Accepted: 11 August 2026/Published: 15 September 2026

Introduction

The present-day financial system has banks as key players in promoting the growth of the national economy by supplying credit to different critical sectors. Since the private sector is limited by the fact that it can hardly access the debt capital markets, the banks become the main channel of credit distribution to the economy. In Oman, Islamic banks take center stage in financing various sectors of industry as per Sharia law. The rate of growth of Islamic banking finance (end 3Q24: 12.6 percent per cent/per annum) is significantly higher than that of traditional banks (3.2 percent per cent/per annum). This is because Islamic banks play an important role in enhancing the long-term sustainability of Islamic finance in Oman by strengthening a commitment to sustainable economic progress and by promoting an inclusive financial and economic system. State-owned enterprises (14.3) and corporate borrowers (46.7) are the main credit recipient members. The growth pace of all segments is recent, but loans to state-owned enterprises have increased the most, almost two times in number since 2016.

Banks in the Sultanate of Oman

In the Sultanate of Oman, licensed banking institutions are divided into four main groups, as listed in the 2023 Annual Report published by the Central Bank of Oman: domestic banks, foreign banks, specialist banks, and Islamic banks and their windows. Specifically, the industry consists of seven local banks, nine international banks, two specialty banks, two Islamic banks, and five Islamic windows that are regulated by the conventional business banking sector. In Oman, the two full-fledged Islamic banking institutions are the Bank Nizwa and the Alizz Islamic Bank. Table 1 contains details of each of the banks and their date of inception.

Table 1: Licensed Banks in the Sultanate of Oman

Category	S.N.	Name of the Bank	Year of Establishment
Local Banks	1	National Bank of Oman	1973
	2	Oman Arab Bank	1973
	3	HSBC Bank Oman	1975
	4	Bank Muscat	1981
	5	Bank Dhofar	1990
	6	Bank Sohar	2007
	7	Al Ahli Bank	1997
Foreign Banks	1	Standard Chartered Bank	1968
	2	Habib Bank Ltd	1972
	3	Bank Melli Iran	1974
	4	First Abu Dhabi Bank	1976
	5	Bank Saderat Iran	1976
	6	Bank of Baroda	1976
	7	State Bank of India	2004
	8	Bank of Beirut	2006
	9	Qatar National Bank	2007
Specialized Banks	1	Oman Housing Bank	1977
	2	Oman Development Bank	1977
Islamic Banks	1	Bank Nizwa	2012
	2	Al Izz Islamic Bank	2013
Islamic Windows	1	BMI–Meethaq	2013
	2	NBO–Muzn	2013
	3	BD–Misara	2013
	4	AHB–Al Hilal	2013
	5	BS–Sohar Islamic	2013

Bank Nizwa

Bank Nizwa is the first Islamic banking establishment in the Sultanate of Oman and provides a wide range of services and products that are in full adherence to the Shariah guidelines. The institution provides a comprehensive range of commercial banking services provided by the Banking Law that was promulgated under the Royal Decree No. 114/2000, and is regulated by the Central Bank of Oman (CBO). Bank Nizwa has been licensed by the Central Bank of Oman on 19 December 2012 as a bank; it opened its doors on 23 December 2012. The credit exposure is divided into separate industries as discussed in the bank's annual report: construction, electricity, gas and water utilities,

financial institutions, services, personal financing, governmental bodies, and miscellaneous. Its total volume of credit increased by 9%, and it went up by a reported RM1,454,773,000,000 in 2022 to RM 1585,526,000,000 in 2023. Fig. 1 is used to show how the total credit changed over time during the study period.

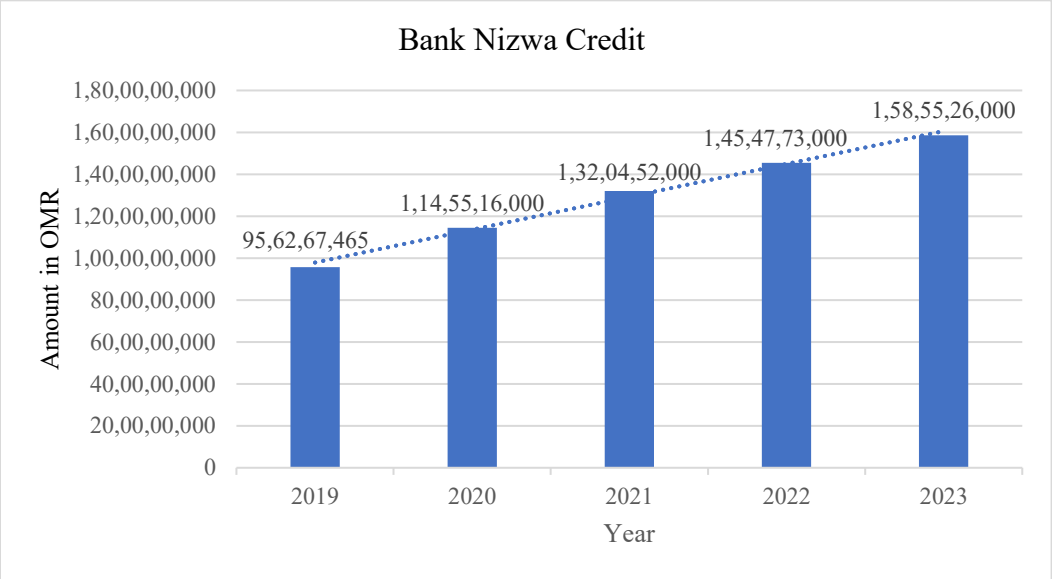

Fig. 1: Bank Nizwa Credit

Fig. 1 shows that there is an increase in the aggregate amount of credit. The linear trend line shows that the total credit value of the bank has been on an upward trend, and this has been increasing throughout the period of the study.

Alizz Islamic Bank

Alizz Islamic Bank was incorporated in accordance with the Royal Decree No. 69/2012, and it is a fully Islamic banking institution that adheres to Shariah law in the Sultanate of Oman. The bank was licensed to conduct commercial operations starting 30 September 2013, on 5 September 2013 due to the Central Bank of Oman issuing an Islamic banking license to the bank. Alizz Bank was acquired on 30 June 2020 by its parent Oman Arab Bank Public Joint Stock Company (OAB ⁻SAOC); therefore, it was delisted at the Muscat Securities Market (MSM). The credit portfolio of the bank, according to the annual report, is divided into industry sectors, which include construction and real estate; banking and financial institutions; sovereign entities; trading and manufacturing; and personal and other services. The overall credit volume rose by 9 percent, and it was higher in 2022 (RM1,128,762.38) as compared to 2023 (RM1,107,497,551). Fig. 2 represents the time series of the total credit of the bank during the period of the study.

The aggregate credit volume is shown to have an upward trend, which is discernible in the graphical representation. The rising trend of the curve that has been plotted shows linear growth and indicates that the aggregate amount of bank credit has grown steadily during the time span of the research. Based on the statistical evidence above, it is clear that an annual increment in the total credit issued by Islamic banks is taking place. The current research mainly focuses on Islamic bank credit in the context of the segmentation of the industry and evaluates the resultant impacts on the performance of the institutions. The presence of Islamic banks in the Sultanate of Oman has resulted in them competing on equal terms with their traditional counterparts based on aspects like profitability, quality of their assets, and the provisioning of credit in the sector. This growth is explained by the fact that the population has strong demand for Islamic financial products, a favorable legislative environment, an ever-growing network of branches, and the support of traditional banks, which is therefore creating a healthy market presence.

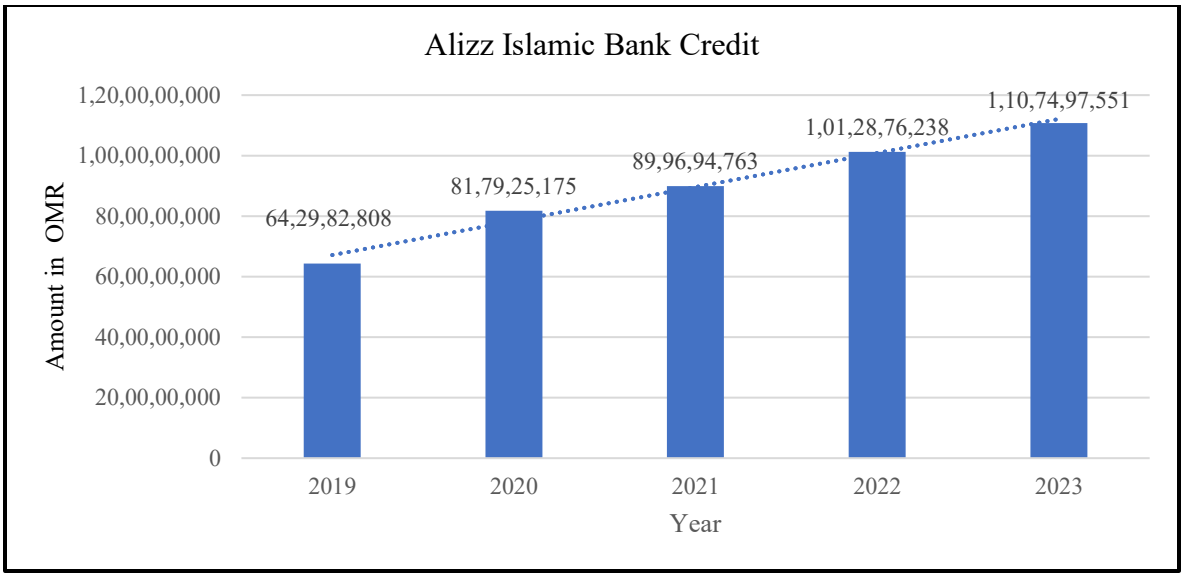

Fig. 2: Alizz Islamic Bank Credit

Islamic Bank Credit Based on Industry Type

Bank credit is also one of the major sources of banking institution income. Banks are thus increasing credit development in various sectors. Bank credit is reported in the annual reports of Bank Nizwa and is explained in detail. The bank credit portfolio composition is outlined on the basis of geographical concentration, economic sector, and industry exposure. In this study, the analytical focus is on the industry-type credit segment. Bank Nizwa splits industry-type credit into the following: i) construction; iii) electricity, gas, and water; iii) financial institutions; iv) services; v) personal finance; vi) government; and vii) other. To get a more detailed picture, fig. 3 indicates the distribution of industry-type bank credit.

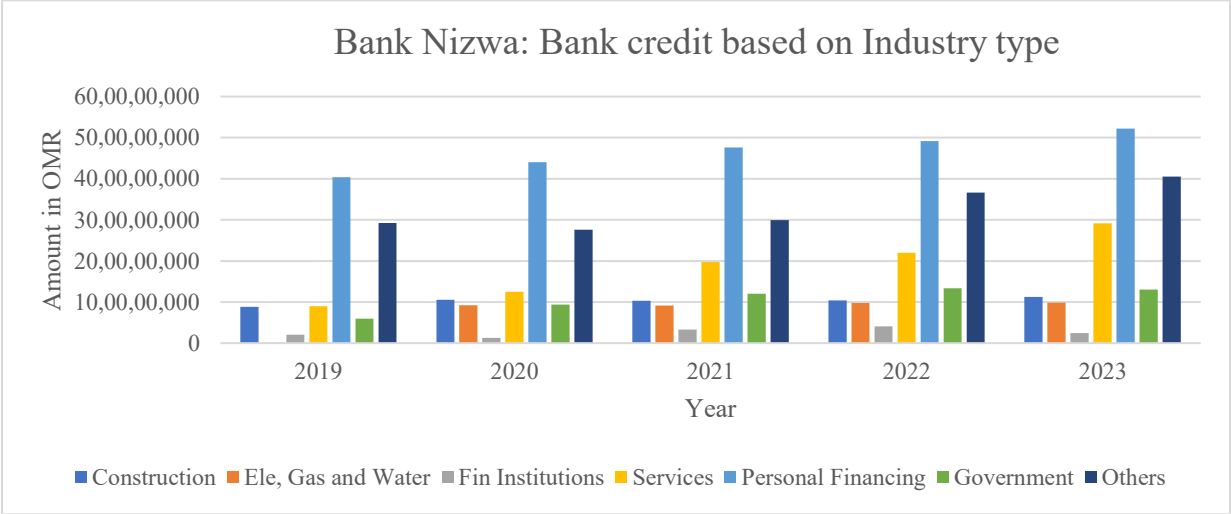

Fig. 3: Bank Nizwa: Bank Credit Based on Industry Type

The chart illustrating the way the bank credit is distributed among the types of industries indicates that during the whole period of study, the largest percentage of credit was allocated to personal finance. Credit to other sectors and to services came in second and third position, respectively, with credit to financial institutions coming with the lowest allocation of the various sectors that were looked into. As stated in the annual reports of Alizz Islamic Bank, the concentration of industries is used to determine the distribution of the bank credit, and this is categorized as follows: i) construction and real estate, ii) banks and financial institutions, iii) sovereigns, iv) trading and manufacturing, v) personal financing, and vi) other services. Fig. 4 depicts the sector-wise allocation of bank credit. Fig. 4 shows the distribution of bank credit across sectors.

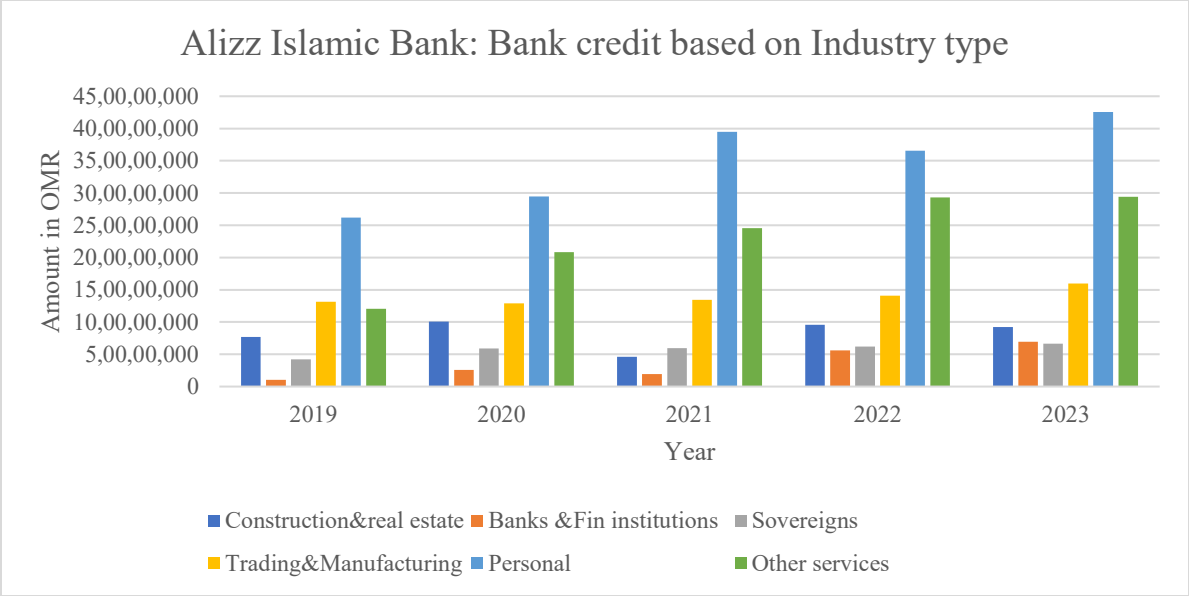

Fig. 4: Alizz Islamic Bank: Bank Credit Based on Industry Type

Empirical studies have shown that the major user of bank credit is personal finance. The second and third most important sectors as far as credit utilization is concerned are the trading and manufacturing services sector. The banking and financial institutions industry has recorded a growing trend throughout the research period, with the exception of a decline in 2021.

Statement of the Problem

There has been a rise in Islamic banking in Oman, where Bank Nizwa and Al Izz Islamic Bank act as full-fledged Islamic banks. With the rise in Islamic banking, the importance of efficient credit allocation to various economic sectors has increased. Nevertheless, the impact of bank credit to specific sectors on the financial performance of Islamic banks has not yet been adequately investigated in the Omani context. Prior studies have mostly analyzed the general factors affecting bank performance and profitability, such as the business model, credit risk, liquidity, leverage, governance, intellectual capital, and financial performance. However, only a few studies have looked into the impact of bank credit allocation to each industry on bank performance. The influence of credit to construction, banks and financial institutions, government, and services on the Return on Assets (ROA) is still not known. Therefore, this study seeks to fill this research gap by analyzing the impact of industry-specific bank credit on the ROA of Islamic banks in Oman empirically using panel data at the industry level from 2019 to 2023.

Objectives of the Study

The major aim of this research is to discuss how credit contingencies impact the performance of Islamic banks operating in Oman, with the analysis being stratified in terms of industry classification. The study uses a comparative analysis of credit exposures in certain industry segments as extended by two Islamic banks in Oman. The research aims to analyze industry-based credit exposure on a case-by-case basis and how it will affect the performance measures of the banks involved, especially Return on Assets (ROA).

The structure of this paper includes A literature review in Section 2. Section 3: Hypothesis Development develops the hypotheses for the study. The research methodology is discussed in Section 4. Section 5: Data Analysis and Discussion discusses the empirical results of the analysis. Interpretations of the findings are done in Section 6: Discussion. The conclusion of the study is included in Section 7.

Literature Review

Previous studies have shown that the performance of banks is determined by financial, risk-related, governance, and institutional determinants. Research in the banking industry has shown the link between social responsibility and financial performance, meaning that non-financial determinants may also affect profitability performance (Islam & Akash, 2023). Additional research on risk management has indicated the significance of managing credit, liquidity, and financial leverage risks for maintaining the performance of banks (Saqib et al., 2023; Alam & Musukujjaman,

2011; Mennawi, 2020). In Islamic banks, the determinants of profitability have also included financing strategies, Shari'ah governance, intellectual capital, and the structure of the Shari'ah-compliant contracts (Addury, 2023; Haddad & Bouri, 2023; Nomran & Haron, 2020). This means that bank performance is multivariate and may depend on internal financial determinants and banking operations (Alshubiri & Al Ani, 2023; Asutay & Ubaidillah, 2024).

This line of investigation considers the allocation of lending and finance to various sectors. Prioritizing sector lending can affect the profitability of finance in segment-level evidence from Indian banks, while additional empirical studies have further analyzed whether prioritizing sector lending affects the profitability of public sector banks (Desai, 2021; Bag et al., 2022). Sectorial evidence related to housing markets and properties also emphasizes the significance of sector-specific financing activities in economic and financial analysis (Owusu-Ansah et al., 2021). Moreover, panel data analysis is another line of evidence that reiterates the benefits of longitudinal analyses in analyzing financial aspects (Ching Yat David et al., 2021). Taken together, these studies imply that the composition of bank credit may also play an equally significant role as the volume of credit in financial analysis (Islam & Beloucif, 2024; Almubaydeen et al., 2024).

Studies that have specifically been conducted in Oman have been on the profitability of Islamic banks and financing based on Shari'ah law. Other studies, on the other hand, have focused on the structure of the Omani banking system (Basiddiq & Rana, 2024; Ahamed, 2023). Nevertheless, the current literature does not cover the impact of giving credit to specific economic sectors on Islamic bank performance.

The literature suggests a necessity to shift from aggregate analysis to sector-wise analysis regarding credit allocation and performance of Islamic banks. It is evident from the literature that very little is known about the effect of construction, banking and financial institutions, government, and services sectors' credit on ROA in Islamic banks of Oman separately. Hence, the current research will try to fill this gap by conducting sector-wise panel data analysis of Islamic banks in Oman based on ROA as a performance measure and total liabilities as a control variable.

Hypothesis Development

Construction Sector Credit and Bank Performance

Financing in construction forms an important part of the credit portfolio of banks as it forms a basis for real estate developments, infrastructural developments, and other economic developments. Financing in the construction sector may influence bank performance in terms of interest and financing revenue, asset usage, and credit risk. There has been literature in previous research on sectoral lending that suggests that lending by banks to particular economic sectors may have some bearing on profitability (Owusu-Ansah et al., 2021; Desai, 2021; Bag et al., 2022). Similarly, in the Islamic banking context, structures of financing and types of financing activities have also been linked to profitability (Addury, 2023; Alshubiri & Al Ani, 2023). However, exposure to construction sector lending might pose higher risks due to reasons like the period taken for completion of projects, market conditions, and repayments (Affandi & Simarmata, 2022). Thus, the effect of lending to the construction sector on ROA cannot be presumed to be always positive. In view of the importance of credit allocation to sector performance, it may be hypothesized that:

H1: Bank credit allocated to the construction sector has a significant effect on the ROA of Islamic banks in Oman.

Credit to Banks and Financial Institutions and Bank Performance

Financing may also be provided to other banks and financial institutions through the financial management processes employed by banks. Financing to other banks and financial institutions could prove to be profitable and could aid in efficient use of available resources. However, financing to other financial institutions increases counterparty and financial risk, which could have an impact on profitability (Alam & Musukujjaman, 2011; Mennawi, 2020). Previous literature shows that financial risk and financing policies are important determinants of the performance of Islamic banks (Anindya et al., 2024; Asutay & Ubaidillah, 2024). It follows that financing to banks and financial institutions could affect the performance of Islamic banks. Thus:

H2: Bank credit allocated to banks and financial institutions has a significant effect on the ROA of Islamic banks in Oman.

Government Sector Credit and Bank Performance

Financing by the government sector is yet another type of bank credit that is significant. Financing by the government sector might be a reliable source of financing for the banks and could generate stable returns and facilitate efficiency in the use of assets and profitability. Nevertheless, the profit consequences will be a function of how large this financing is and how it generates returns. According to the research carried out on financing by the banking sector and

its performance, the nature of financing affects the financial performance (Addury, 2023; Alshubiri & Al Ani, 2023; Desai, 2021).

H3: Bank credit allocated to the government sector has a significant effect on the ROA of Islamic banks in Oman.

Service Sector Credit and Bank Performance

The services sector covers many economic activities and is an important sector in terms of banks' financing. Finance extended to the services sector could yield financing revenue while facilitating productive economic activities. The results of previous literature on sector-specific lending indicate that variations in finance allocations could impact the profitability of banks (Desai, 2021; Bag et al., 2022). In addition, according to studies in the area of Islamic banking, the type and structure of financing activities would affect financial performance (Ali, 2022). However, finance to the services sector could also include various clients and different degrees of financing risks. It is therefore necessary to empirically investigate the effect of services sector finance on ROA in Oman.

H4: Bank credit allocated to the service sector has a significant effect on the ROA of Islamic banks in Oman.

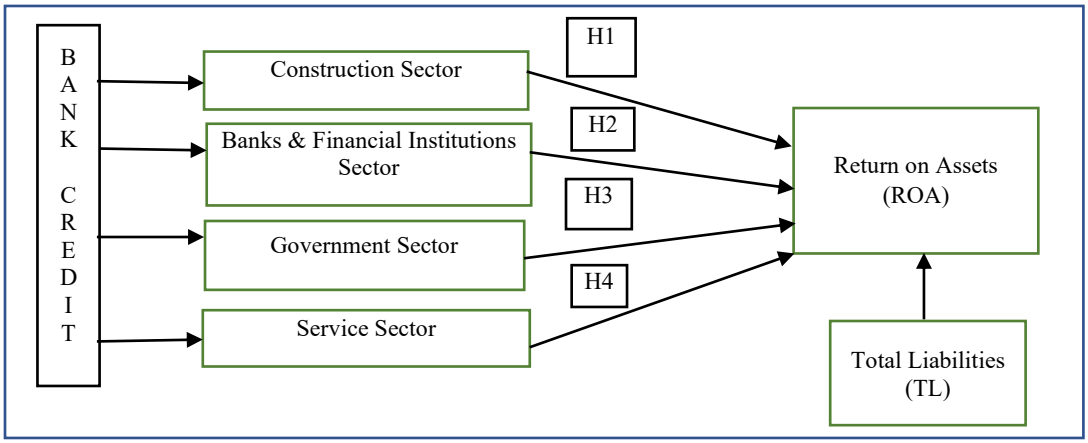

Fig. 5: Conceptual Framework Linking Bank Credit Allocation to Return on Assets

The proposed relationship among bank credit, which includes construction, banks and financial institutions, government and services, and ROA of Islamic banks is presented in fig. 5. The above-mentioned four relationships are denoted by H1-H4, and TL, as a control variable for ROA, is included in this study.

Research Methodology

The research being considered aims to outline the effect of bank credit on Islamic banking institutions in Oman. The study follows a quantitative research method. Quantitative research has a formal and objective quality and is defined by the use of systematic procedures to measure the interrelations between the variables.

Sources and Data Collection

The present inquiry has selected two Islamic banks that are operating in the Sultanate of Oman, Bank Nizwa and Alizz Islamic Bank, as case studies. The study will be based mainly on secondary data that are available in the annual reports of the banks, which will form a central part of the accounting and financial studies. The time frame of the study is five fiscal years, between 2019 - 2023.

Variable Measurement

The paper examines how industry-specific bank credit influences the performance of the Islamic banks in Oman, where industry-specific bank credit is the independent variable. Return on Assets (ROA) is the dependent variable, which measures the performance of the Islamic banks. In the empirical analysis, total liabilities are included in the control variables. Table 2 lists the variables and the names, acronyms, and measurement units of the variables.

Table 2: Variable Classification and Measurement

Variable Classification	Name of the Variable	Acronym	Variable Measurement
Independent variables	Construction sector	CS	The Natural logarithm of construction sector bank credit.
	Banks & Financial institutions sector	BFS	The Natural logarithm of bank & Financial sector bank credit.
	Government sector	GS	The Natural logarithm of government sector bank credit.
	Service sector	SS	The Natural logarithm of service sector bank credit.
Dependent variable	Return on Asset	ROA	Amount of Total Income / Average amount of assets
Control Variable	Total liabilities	TL	The Natural logarithm of total liabilities

Panel Data Analysis

This study has used panel data analysis to make the investigation easier. The panel data is said to be valid when the observations of several variables are taken over the course of time. In this study, data analysis was conducted using Stata, which is a statistical package. Statacorp Inc. created Stata, which is a powerful commercial statistical software that is used to perform automated reporting and statistics analysis, visualization, and data manipulations. Data analysis will involve four consecutive steps that include 1) a descriptive statistical analysis, which will involve the calculation of means, standard deviations, minimal and maximum of the observations; 2) evaluating the assumptions of the Ordinary Least Squares (OLS) regression model, namely, evaluating the variance inflation factors (VIF); 3) performing the OLS regression analyses. The specification of the panel data OLS regression model for the study is as follows equation 1.

$$ROA_{it} = \beta_0 + \beta_1 CS_{it} + \beta_2 BFS_{it} + \beta_3 GS_{it} + \beta_5 SS_{it} + \beta_6 TL_{it} + \varepsilon_{it} \quad (1)$$

Were,

$\boldsymbol{ROA_{it}}$: Return on Assets for firm $\boldsymbol{i}$ at time $\boldsymbol{t}$ (dependent variable)

$\boldsymbol{\beta_0}$: Constant term (intercept)

$\boldsymbol{\beta_1, \beta_2, \beta_3, \beta_5, \beta_6}$: Slope coefficients for each respective independent variable (noting that $\boldsymbol{\beta_4}$ was omitted in your sequence)

$\boldsymbol{CS}$: Corporate / Capital structure or size variable

$\boldsymbol{BFS}$: Board-related factor (e.g., board size, board features)

$\boldsymbol{GS}$: Growth or governance score/size

$\boldsymbol{SS}$: Subsidiary or shareholding size

$\boldsymbol{TL}$: Total leverage or total liabilities

$\boldsymbol{\varepsilon_{it}}$: Error term (disturbance term) for firm $\boldsymbol{i}$ at time $\boldsymbol{t}$

Data analysis and Discussion

Descriptive Statistics

The study has used balanced panel data analysis, which takes into account four independent variables based on two Islamic banks, and the period of investigation during which all variables have been examined was five years (4 variables, 2 banks, 5 years). Return on assets (ROA) is the dependent variable that is obtained in annual reports which gives 10 observations (1 variable 2 banks 5 years). As a control variable, total liabilities were included which in addition contributed 10 observations (1 variable × 2 banks × 5 years). Table 3 provides the descriptive statistics of the variables in respect to the Islamic banks in Oman.

Table 3 shows that the mean of all the variables including dependent, independent and control variables are positive. The average ROA between the two Islamic banks in Oman is 4.43 with maximum value of 5.63. The average of the independent variable is also positive; Standard Structure (SS) has the highest mean value which reaches its peak at

8.45, the lowest mean value is reached at the Bank Financial Services (BFS) variable at 7.42 with the maximum of 7.84. The comparatively large standard deviation represents an increased spread of the values around the mean.

Table 3: Descriptive Statistics

Variable	Observations	Mean	Standard deviation	Minimum	Maximum
ROA	10	4.43	1.28	2.03	5.63
CS	10	7.96	0.11	7.66	8.05
BFS	10	7.42	0.26	7.01	7.84
GS	10	7.89	0.18	7.63	8.13
SS	10	8.83	0.18	7.96	8.45
TL	10	8.47	0.27	8.14	8.83

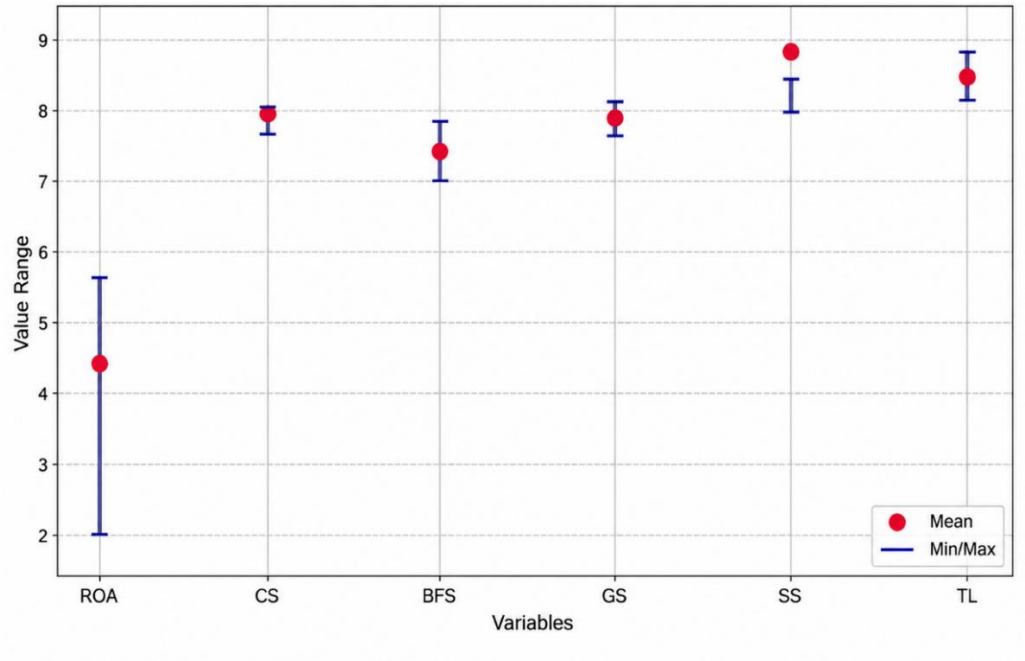

Fig. 6: Descriptive Statistics of Study Variables

Fig. 6 shows the mean values of ROA and the predictor variables: Construction Sector Credit (CS), Banks and Financial Institutions Credit (BFS), Government Sector Credit (GS), Service Sector Credit (SS), and Total Liabilities (TL). These values reflect the central tendency and range of each variable over the period under consideration.

Assumptions of OLS Regression Model Normality Test – Variance Inflation Factor (VIF)

According to the data, the random-effects and fixed-effects specifications, along with the Hausman test, have been assessed; the p-value received through the test confirms the null hypothesis, being greater than the traditional 5-percent level of significance (the p-value of 6.21 obtained in the study is greater than the 0.5158 value reported in table 4), thus the choice of the random-effects model as the panel regression specification of choice has been made in this study. Besides, another assumption that is made in ordinary least-squares regression is the non-existence of multicollinearity which is measured by the variance-inflation factor (VIF); the reported values of VIF are less than the usual cut-off of 10 and lower values would be better and the results are presented in table 4.

Table 4: Variance Inflation Factor (VIF)

Dependent variable ROA	Collinearity statistics	
Independent variable and control variable	VIF	Tolerance
Construction sector	5.38	0.185996
Banks & Financial institutions sector	5.04	0.198407
Government sector	2.12	0.470951
Service sector	4.04	0.247768
Total liabilities	10.03	0.099671

Based on the variance inflation factor (VIF) analysis, it can be declared that all the calculated VIF results are less than the standard value of 10, with the only exception of the control variable whose VIF is 10.03. Since this marginal deviation has already been considered tolerable in the framework of the study, the problem levels of multicollinearity will not be introduced into the dataset. The data is therefore said to be robust and can be used in other analytical processes.

Ordinary Least Squares Regression (OLS) Model

The independent and dependent variables were analyzed using panel data through ordinary least squares (OLS) regression. The table 5 shows the results of the panel data OLS regression analysis.

Table 5: Panel Data - OLS Regression Analysis – Random Effect

Variable	Coefficient	P value	t-statistics
CS	-10.1081	0.143	-1.82
BFS	-1.526369	0.544	-0.66
GS	4.536827	0.114	2.02
SS	3.443555	0.310	1.16
TL	4.912959	0.195	1.56
Adj R squared: 0.5984			
Hausman: 0.5158			
Observation: 10			

Table 5 illustrates the p-values and t-values for each of the independent variables. With regard to Hypothesis 1, it was hypothesized that there would be an effect on Return on Assets (ROA) by the amount of bank credit extended to the construction sector. This hypothesis was not accepted because the p-value is 0.143, which is higher than the level of 0.05 significance. The construction sector credit accounted for about 7.95% of the total credit for Bank Nizwa and 9.18% for Alizz Islamic Bank. The implication of the results is that construction sector credit does not significantly affect the ROA of the selected Omani Islamic Banks.

With regard to Hypothesis 2, it was hypothesized that interbank credit would affect ROA. The hypothesis was not accepted because the p-value is 0.544, which is higher than 0.05. The credit ratio exhibited great fluctuations in the period covered by this study. The implication is that interbank credit does not significantly contribute to ROA.

As far as Hypothesis 3 is concerned, credit in the government sector was supposed to affect ROA. However, p-value of 0.114 exceeds 0.05, so that the hypothesis is rejected. In spite of the presence of an increasing trend in the credit data with respect to the government sector, this trend does not contribute significantly to ROA.

Hypothesis 4 implies that the service sector credit will affect ROA. This hypothesis is also rejected due to the fact that its p-value is more than 0.05. Both banks exhibit an annual increase in service-sector credit; however, this increase does not lead to a statistically significant effect on ROA.

Finally, the total liabilities, introduced as a control variable, do not exhibit any statistically significant correlation with bank performance (its p-value is 0.195). The average value of liabilities is 8.47 with maximum equal to 8.83.

Summary of empirical analysis for H1 to H4 is given in table 6 by employing random effects panel regression model. The findings indicate that none of the four sector credit variables has a significant impact on Return on Assets (ROA) at 5% level of significance. Hence, all four hypotheses are rejected.

Table 6: Hypothesis Testing Results for the Effect of Industry-Specific Bank Credit on ROA

Hypothesis	Relationship Tested	Coefficient (β)	p-value	Decision	Conclusion
H1	Construction Sector Credit (CS) → ROA	-10.1081	0.143	Rejected	Construction-sector credit does not have a statistically significant effect on ROA.
H2	Banks & Financial Institutions Credit (BFS) → ROA	-1.5264	0.544	Rejected	Credit to banks and financial institutions does not have a statistically significant effect on ROA.
H3	Government Sector Credit (GS) → ROA	4.5368	0.114	Rejected	Government-sector credit does not have a statistically significant effect on ROA.
H4	Service Sector Credit (SS) → ROA	3.4436	0.310	Rejected	Service-sector credit does not have a statistically significant effect on ROA.

Note: The hypotheses were tested using a statistical significance of 5% ($p < 0.05$). While H1 and H2 have negative coefficients, H3 and H4 have positive coefficients. However, none of the relations is statistically significant. Thus, the

empirical evidence does not support any of the hypotheses. The findings from the regression are from the random effects panel model with 10 observations.

Discussion

From the results obtained above, it can be said that construction, finance and banking sector, government, and service sector credits do not seem to have had a significant effect on ROA from 2019 to 2023. Despite the differences in signs of the coefficients, none was statistically significant. This means that credit distribution in individual sectors does not seem to be a sufficient determinant of the profitability of Islamic banks included in the study sample. The policy makers in Oman could benefit from these results.

The research is confined to only two Islamic banks for a period of five years, leading to a sample of 10 bank-years. Small number of observations makes generalization statistically unreliable.

Future research should focus on inclusion of more banks, longer periods, and more variables like profitability, risk, macroeconomic variables, and other bank-specific variables. Comparison between conventional and Islamic banks may also throw light on sector-specific lending and performance.

Conclusion

The present study investigated the impact of industry-specific bank credits on the performance of Islamic banks in Oman by employing sector-based panel data for Bank Nizwa and Al Izz Islamic Bank from 2019 to 2023. Performance of the banks was determined through the use of Return on Assets (ROA). On the other hand, construction-sector credit, banks and financial institutions credit, government-sector credit, and service-sector credit were used as the major independent variables. Total liabilities were used as control variables. These results show that all four industry-wise credit variables were found to be statistically insignificant in their effect on ROA at the 5% significance level. In case of construction sector credit, the regression coefficient was negative ($\beta = -10.1081$, $p = 0.143$). Credit to banks and other financial institutions also gave negative and insignificant value ($\beta = -1.5264$, $p = 0.544$). Credit to government ($\beta = 4.5368$, $p = 0.114$) and service sector credit ($\beta = 3.4436$, $p = 0.310$) yielded positive values but their effect was not statistically significant. Total liabilities also proved to be statistically insignificant ($\beta = 4.9130$, $p = 0.195$). The R^2 for the model was found to be 0.5984, which suggests that the variables taken together have a high explanatory power on ROA. In summary, the findings of this study indicate that there is no statistically significant link between the selected sector-specific credit distribution and the ROA of the studied Omani Islamic banks in the analyzed period of time. Further studies are required to use more prolonged periods of observations, larger samples, and also other Islamic banks in order to get stronger proof. Comparison of Islamic and conventional banks may be also helpful for the future research.

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