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Financial Performance of Islamic Banks in Malaysia during the Covid-19 Pandemic

Noraini Mohd Ariffin[a*], Nori Yani Abu Talib[b], Fatimah Noor Rashidah Mohd Sofian[c]

[a,b,c] *Kuliyyah of Economics and Management Sciences, International Islamic University Malaysia, Selangor, Malaysia*

**Corresponding author: norainima@iium.edu.my*

Abstract

The purpose of this study is to examine the financial performance of Islamic banks in Malaysia during the Covid-19 pandemic. The methodology of the study are data from the annual reports of 15 Islamic banks in Malaysia that were collected for the years 2019, 2020, and 2021. The banks' performance was evaluated based on financial ratios consisting of profitability ratios, liquidity ratios, solvency ratios, and efficiency ratios. Findings of the study is the Islamic banks were able to manage their liquidity positions during the years 2019, 2020, and 2021. This study extends the literature by examining the financial performance of Malaysian Islamic banks before and during the Covid-19 pandemic. Islamic banks can improve their performance by becoming more competitive in the current environment of the financial industry. They need to take preventive measures in all their activities to prevent any unprecedented events in the future. More importantly, Islamic banks need to uphold Islamic ethics throughout their business operations to ensure compliance with Shariah. This study also provides practical implications for regulators and policymakers in the context of unprecedented uncertainty resulting from the Covid-19 pandemic. This is a pioneer empirical study that focuses on the financial performance of Malaysian Islamic banks before and during the Covid-19 pandemic.

Keywords: Financial performance, Covid-19, Islamic banks

1. Introduction

The Covid-19 pandemic caused the downside risk of the global economy in 2021 consequently weakening the real sector in terms of productive capacity and long-term funding disruption. While the total assets of the Islamic financial services industry maintained a growth of 10.7% globally, Malaysia's Islamic banking assets experienced a declining growth to 7.8% compared to 9.0% in 3Q19. Furthermore, the global Islamic banking assets only increased by 2.2% which is equivalent to 11.2% in 2021. In terms of the Islamic banking share in total banking assets by jurisdiction, Malaysia occupied the 6th place at 31.5% share of the global Islamic banking assets. This scenario is concerning, as Malaysia is targeting to provide finance for all, continue to become an international financial hub, and attain financial sustainability by the year 2026 (Bank Negara Malaysia [BNM], n.d.).

During the Covid-19 pandemic, the government announced measures that affected cash flows. The moratorium and targeted repayment scheme had affected banks, including Islamic banks. Therefore, this study aims to examine the financial performance of Malaysian Islamic banks before 2019 and during 2020–2021, the Covid-19 pandemic. Islamic banks in Malaysia consist of local full-fledged Islamic banks, foreign full-fledged Islamic banks, local Islamic banking subsidiaries, and foreign Islamic banking subsidiaries. The implication of this study pertains to extending the literature regarding the financial performance of Malaysian Islamic banks before and during the Covid-19 pandemic. Besides, the results of this study indicate that Islamic banks should

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implement preventive measures to maintain their financial performance. This paper is organised as follows: Section 2 discusses the literature review of previous studies on Islamic banks, Section 3 describes the data collection process and the methodology used, and Section 4 presents the results of the study. Finally, the discussion and conclusion of this study are presented in Section 5.

2. Background of the Study and Literature Review

2.1 Malaysia and Malaysian Islamic banks

Malaysia operates a dual banking system, with Islamic banks operating side by side with conventional banks (BNM, 2009). This structure makes the Malaysian financial system different from those in other countries such as Iran and Sudan, which offer only full-fledged Islamic banking (IFSB, 2017). The dual financial system practised in Malaysia has promoted competition between these two types of banks. Thus, it is imperative that Islamic banks can maintain and sustain their position in line with conventional banks. Secondly, research in the Malaysian context is interesting due to the uniqueness of the Malaysian environment, which consists of multireligious and multiracial communities (Department of Statistics Malaysia, 2019). It is challenging for Islamic banks to cater to the needs and demands of the multireligious and multiracial population. Thus, research is needed to ensure that Islamic banks can fulfil those needs and demands in the long run. Thirdly, Malaysia's target by 2026 is to provide finance for all by focusing on digital banking, strengthen the financial safety net of the people and obtain customers' confidence, in order to transform the finance by promoting alternative finance and continued leadership for the country as the international gateway for Islamic finance, and achieve financial sustainability by aligning with value based intermediation (VBI) and promoting green financing (BNM, n.d). Therefore, there is a need to monitor this sector in order to achieve the objective of positioning Malaysia as an international financial hub.

2.2 Financial performance of Islamic banks during the Covid-19 pandemic

The end of 2019 marked the emergence of a new virus known as SARS-CoV-2 coronavirus (Covid-19). This virus causes respiratory diseases such as flu, cough, sore throat, fever, and in more serious cases, pneumonia. Covid-19 was discovered in China's Wuhan Province in 2019. World Health Organisation (WHO) announced this global health issue as a pandemic. To curb the spread of the Covid-19 virus, many governments around the globe-imposed restrictions which had affected various sectors, including the Islamic finance industry. The movement control order was one of the major restrictions implemented that led to reduced spending (Rio-Chanona et al., 2020).

In Malaysia, the government announced a six-month moratorium on loan/financing repayments and the restructuring of outstanding credit card balances from 1 April 2020 until 30 September 2020. This move, involving approximately RM100 billion, was expected to ease the burden faced by small-medium enterprises (SMEs), individuals, and the corporate sector during the Covid-19 pandemic. The moratorium period was extended for another 3 months after the automated moratorium period ended on 30 September 2020. This extended moratorium, known as targeted repayment scheme, was aimed at helping those affected by the Covid-19 pandemic, be it individuals who lost their jobs or businesses that experienced reduced incomes. Unlike the initial moratorium, customers did not receive a full deferment but were able to restructure their loans/financings instead. The restructuring could be in the form of an extension of the loan/financing tenure for a revised monthly instalment amount and possibly with interest/profit as well, and the terms differed from bank to bank, with some offering further deferment.

A second moratorium scheme was introduced on 7th July 2021 for individuals, microenterprises, and SMEs. According to the information on BNM's website on Loan/Financing Repayment Assistance, all banks, including Islamic banks recognised the continued challenges faced by borrowers/customers during the Covid-19 pandemic. Therefore, between 1 June 2021 and 29 October 2021, more than 2.7 million individual customers and 93,000 SME customers had obtained some form of loan/financing repayment assistance from their respective banks. The moratorium and targeted repayment scheme might have some impacts on the profitability and liquidity of the banks, including Islamic banks.

Regarding profitability, while the moratorium was in place, interest/profit continued to be charged on the outstanding balances. The aim of this stimulus package was to provide some relief to individuals and businesses who faced temporary financial constraints during the Covid-19 pandemic. Customers would have a chance to recover from the temporary financial constraints and resume paying after the end of the moratorium. This would help banks mitigate potential losses in revenue and profit that would otherwise have occurred without the package.

The moratorium affected the liquidity of the banks. The government specified that all deferments of loans/financing would be automatic. As a result, the banks might face a liquidity crunch with a significant reduction in cash inflows and liquidity drying up in the money market. Despite this, the banks were expected to continue supporting the lending/financing activities and thus might be struggling to comply with the minimum liquidity requirements.

Khairul Anwar et al. (2020) discussed the impact of the Covid-19 pandemic on the banking industry, specifically the Islamic banking sector, as Malaysia is one of the global Islamic finance hubs in the world. The discussion included the impacts of the moratorium in terms of benefits for bank loans borrowers or financing customers, special tax treatment on the moratorium interest/profit, and lower overnight policy rates (OPRs) that affected Islamic banks' performance. Other matters discussed included the Special Relief Fund for SME customers, restructuring of Islamic financing facility, business continuity management, iTEKAD Micro-Financing Scheme, and the severe impacts of the Covid-19 pandemic on many industry players, especially SMEs which were unable to sustain their operations leading to bankruptcy.

2.3 Previous studies on the financial performance of Islamic banks during the Covid-19 pandemic

Hasan et al. (2021) explored the effect of the Covid-19 pandemic on Islamic and conventional stock markets from a global perspective and examined the co-movement between Islamic and conventional stock markets. The pandemic created identical volatility in the two types of stock markets. Meanwhile, Almonifi et al. (2021) assessed the impact of the Covid-19 pandemic on the performance of the Islamic banking sector in the Kingdom of Saudi Arabia, specifically Al Rajhi Bank's performance before and during the Covid-19 pandemic. It was found that the Covid-19 crisis had only a minor impact on Saudi Arabia's Islamic banking system, especially the bank under investigation, and that Islamic banks could avoid the financial and economic risks associated with the crisis. Islamic banks are distinguished from other banks by their ability to respond quickly to crises such as economic and financial shocks. Candera and Indah (2020) showed that there were differences in the financial performance of Islamic banks before and during the Covid-19 pandemic in Indonesia. In addition, there were significant differences in Islamic banking financial performance in terms of non-performing finance (NPF), capital adequacy ratio (CAR), and return on assets (ROA). A further study by Ichsan et al. (2021) looked at the financial performance of Islamic banks in Indonesia during the Covid-19 pandemic. Data were collected from the banks' annual financial statements from 2011 to 2020, and five performance ratios were analysed. The t-test results showed that CAR, operating costs to operating income (BOPO), and financing to deposit ratio (FDR) had a positive and significant effect on financial performance measured by ROA. Further, NPF had a negative and insignificant effect on ROA. Mirzae (2021) evaluated the stock performance of Islamic banks relative to their conventional counterparts during the initial phase of the Covid-19 crisis from 31st December 2019 to 31st March 2020. It was discovered that the stock returns of Islamic banks were about 10% to 13% higher than those of conventional banks after controlling for bank- and country-level variables. Islamic banks recorded significantly higher stock returns relative to conventional banks during the Covid-19 crisis, and this superior stock performance can be explained by their pre-crisis efficiency levels. These findings extend the confidence in the resilience of Islamic banks during economic fallouts and highlight the importance of bank efficiency in holding out against potential adverse effects. Arafat et al. (2021) examined the impact of Covid-19 on the performance and stability of conventional and Islamic banks in the Gulf Cooperation Council (GCC) region, Malaysia, and Pakistan. The findings showed that the Covid-19 pandemic had a significant and negative impact on the financial performance of both types of banks. However, they did not find any significant evidence of the impact of the Covid-19 pandemic on the stability of these banks.

3. Research Method

Since this study aims to examine the financial performance of Malaysian Islamic banks before 2019 and during 2020–2021 the Covid-19 pandemic, the secondary data pertaining to 15 Islamic banks in Malaysia for the years 2019–2021 are used in the study. Secondary data refer to the use of information that is collected from available sources. In this study, the data were obtained from the Islamic banks' financial statements, which were included in their respective annual reports and posted on the banks' websites. The year 2019 represented the pre-pandemic period of Covid-19, and the years 2020–2021 were considered the pandemic period of Covid-19.

3.1 Sample size and data collection

Table 1 summarises the list of local (L) and foreign (F) Islamic banks included in this study. This list covers the whole population of Islamic banks in Malaysia during the data collection process in 2023.

There are 16 Islamic banks in Malaysia. However, since the annual reports of AmBank Islamic Berhad were not available on their website, the bank was excluded from the study. Therefore, the study only covers 15 Islamic banks in Malaysia.

Table 1: List of Islamic banks in Malaysia

No.	**Islamic Banks**	**Ownership**
1.	Affin Islamic Bank Berhad	L
2.	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	F
3.	Alliance Islamic Bank Berhad	L
4.	AmBank Islamic Berhad	L
5.	Bank Islam Malaysia Berhad	L
6.	Bank Muamalat Malaysia Berhad	L
7.	CIMB Islamic Bank Berhad	L
8.	Hong Leong Islamic Bank Berhad	L
9.	HSBC Amanah (Malaysia) Berhad	F
10.	Kuwait Finance House (Malaysia) Berhad	F
11.	Maybank Islamic Berhad	L
12.	MBSB Bank Berhad	L
13.	OCBC Al-Amin (Malaysia) Berhad	F
14.	Public Islamic Bank Berhad	L
15.	RHB Islamic Bank Berhad	L
16.	Standard Chartered Saadiq (Malaysia) Berhad	F

The study used document analysis and descriptive analysis to examine the financial performance of Malaysian Islamic banks during the Covid-19 pandemic. Document analysis consists of skimming (superficial study), reading (depth examination), and interpretation (Bowen, 2009). Descriptive analysis is the process of using current and historical data to identify trends.

Table 2 shows that Malaysian Islamic banks are categorised into local full-fledged Islamic banks, foreign full-fledged Islamic banks, local Islamic banking subsidiaries, and foreign Islamic banking subsidiaries.

Table 2: Categories of Islamic banks

Categories	Islamic banks
1. Local full-fledged Islamic banks	Bank Islam Malaysia Berhad
	Bank Muamalat Malaysia Berhad
	MBSB Bank Berhad
2. Foreign full-fledged Islamic banks	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
	Kuwait Finance House (Malaysia) Berhad
3. Local Islamic banking subsidiaries	Affin Islamic Bank Berhad
	Alliance Islamic Bank Berhad
	CIMB Islamic Bank Berhad
	Hong Leong Islamic Bank Berhad
	Maybank Islamic Berhad
	Public Islamic Bank Berhad
	RHB Islamic Bank Berhad
4. Foreign Islamic banking subsidiaries	HSBC Amanah (Malaysia) Berhad
	OCBC Al-Amin (Malaysia) Berhad
	Standard Chartered Saadiq (Malaysia) Berhad

3.2 Financial performance measures

This study used 13 financial ratios adapted from Samad and Hassan (2000) and Samad (2004) to measure the financial performance of the banks for the years 2019 to 2021.
These ratios fall into four main categories, as shown in Table 3.

Table 3: Financial ratios

Ratios	Types	Formula
Profitability ratios	Return on assets (ROA)	Profit after tax/Total assets
	Return on equity (ROE)	Profit after tax/Equity capital
	Return on deposit (ROD)	Profit after tax/Total deposit
Liquidity ratios	Cash to deposit ratio (CD)	Cash/Deposit.
	Cash to deposit and investment ratio (CDI)	Cash/Deposit and investments
	Financing to deposit and investment (FDI)	Financing/Deposit and investment
Solvency ratios	Debt to equity ratio (DE)	Debt/Equity capital
	Debt to total assets ratio (DTA)	Debt/Total assets
	Equity multiplier ratio (EM)	Total assets/Share capital
Efficiency ratios	Asset utilisation ratio (AU)	Total operating income/Total assets
	Operating efficiency ratio (OE)	Total operating expenses/Total operating income
	Financing to total assets ratio (FTA)	Financing/Total assets

3.2.1 Profitability Ratios

Profitability ratios are used to measure a bank's ability to earn profit using the existing assets, equity, and funding from the customers. The ratios used in this study to measure the profitability of the Islamic banks are shown in Table 4.

Table 4: Profitability ratios

Ratio and Formula	**Description**
Return on assets (ROA) = Profit after tax/Total assets	It shows how a bank can convert its asset into net earnings. A higher value of this ratio indicates higher capability of the bank. This ratio is an indicator of managerial efficiency (Samad & Hassan 2000; Samad, 2004)
Return on equity (ROE) = Profit after tax/Equity capital	This ratio indicates how a bank can generate profit with the money shareholders have invested. A higher value of this ratio shows higher financial performance. Like ROA, this ratio is an indicator of managerial efficiency.
Return on deposit (ROD) = Profit after tax/Total deposit	This ratio shows the percentage return on each dollar of customers' deposit. It indicates the effectiveness of a bank in converting deposit into net earnings.

3.2.2 Liquidity Ratios

Liquidity ratios measure the capability of a bank to meet its short-term obligations. Generally, a higher value of this ratio indicates that the bank has a larger margin safety to cover its short-term obligations. Among the various liquidity measures, this study used the ratios shown in Table 5

Table 5: Liquidity ratios

Ratio and Formula	Description
Cash to deposit ratio (CD) = Cash/Deposit	A higher value of this ratio shows that the bank is more liquid.
Cash to deposit and investment ratio (CDI) = Cash/Deposit and investments.	A higher value of this ratio shows that the bank is more liquid.
Financing to deposit and investment ratio (FDI) = Financing/Deposit and investments.	A low value of this ratio indicates that the bank has excess liquidity. This ratio also indicates the effectiveness of the bank's mediation function.

3.2.3 Solvency Ratios

This study used the ratios shown in Table 6 to measure Islamic banks' solvency.

Table 6: Solvency ratios

Ratio and Formula	Description
Debt to equity ratio (DE) = Debt/Equity capital	This ratio shows how a bank finances its operations with debt relative to equity.
Debt to total assets ratio (DTA) = Debt/Total assets.	This ratio indicates the proportion of assets financed with debt. A high value of this ratio indicates that the bank is involved in a riskier business.
Equity multiplier ratio (EM) = Total assets/Share capital.	This ratio shows how many dollars of assets must be supported by each dollar of equity capital. A higher value of this ratio signals risk failure.

3.2.4 Efficiency Ratios

The three ratios in Table 7 were used to measure the efficiency of Islamic banks.

Table 7: Efficiency Ratios

Ratio and Formula	Description
Asset utilisation ratio (AU) = Total operating income/Total assets.	This ratio measures the capability of a bank to generate revenue with its assets. A high value of this ratio indicates high productivity of the bank's assets.
Operating efficiency ratio (OE) = Total operating expenses/Total operating income.	This ratio indicates how efficiently a bank uses its assets, generates revenues, and minimises expenses. It shows how well the bank can reduce its expenses and improve productivity.
Financing to total assets ratio (FTA) = Financing/Total assets	This ratio measures the percentage of financing to total assets.

4. Findings

The objective of this study is to examine the financial performance of Malaysian Islamic banks during the Covid-19 pandemic. Using data from the annual reports of Islamic banks, this study computed the profitability, liquidity, solvency, and efficiency ratios for the years 2019 to 2021 for the four categories of Islamic banks in Malaysia: local full-fledged Islamic banks, foreign full-fledged Islamic banks, local Islamic banking subsidiaries, and foreign Islamic banking subsidiaries.

4.1 Profitability Ratios

Table 8 provides a summary of the profitability ratios of Malaysian Islamic banks.

Table 8: Summary of profitability ratios of Malaysian Islamic banks

	Return on Assets (%) ROA			Return on Equity (%) ROE			Return on Deposits (%) ROD		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Local full-fledged Islamic banks	0.70	0.66	0.92	6.39	6.16	7.77	6.39	6.16	7.77
Foreign full-fledged Islamic banks	0.57	-46.35	-0.11	3.07	-475.31	-0.33	0.75	-54.35	-0.15
Local Islamic banking subsidiaries	1.38	0.50	0.78	19.32	8.05	12.37	1.65	0.61	0.94
Foreign Islamic banking subsidiaries	0.12	0.36	0.83	1.08	3.30	8.64	0.07	0.50	1.33

Table 8 shows that overall, the profitability of the Islamic banks in Malaysia was affected by the Covid-19 pandemic. The impact on financial performance was very high for foreign full-fledged Islamic banks and foreign Islamic banking subsidiaries. Foreign full-fledged Islamic banks recorded negative ROA and ROE for 2019 and 2020, indicating losses were incurred in both years. Furthermore, they recorded higher losses in 2020 than in 2019 due to the Covid-19 pandemic. Similarly, foreign Islamic banking subsidiaries recorded a decrease in ROA from 0.83% to 0.36% from 2019 to 2020, indicating that the Covid-19 pandemic affected the profitability of the banks.

Regarding local Islamic banks, full-fledged Islamic banks and Islamic banking subsidiaries experienced a decline in profit for the year 2020, but the decline was not as severe as that experienced by foreign Islamic banks. Moreover, the decline reflected a subdued economic environment and a continued impact of low interest rates. The impact of the Covid-19 pandemic remained substantial across all areas of operating environment in 2021, but society and businesses were effective in adapting to the new reality. The banks had instituted robust measures in response to Covid-19, which allowed them to manage the continued impact of the Covid-19 pandemic in 2021. This loss on modification due to the moratorium had affected the profit of Islamic banks during the Covid-19 pandemic.

i. Return on Assets (ROA)

The ROA of local full-fledged Islamic banks decreased from 0.92% during the pre-pandemic in 2019 to 0.66% during the Covid-19 pandemic in 2020 but increased slightly to 0.7% in 2021. The decline in ROA suggests that local full-fledged Islamic banks were affected by the pandemic. Meanwhile, the ROA of foreign full-fledged Islamic banks experienced a sharp drop from 0.33% in 2019 to −46.35% in 2020 and a substantial recovery to 0.5% in 2021. Thus, in Malaysia, foreign full-fledged Islamic banks were more affected than local Islamic banks by the Covid-19 pandemic.

The ROA of local Islamic banking subsidiaries decreased from 0.78% in 2019 to 0.5% in 2020 but increased substantially to 1.38% in 2021 during the endemic period. An endemic is a constant presence in a community. It differs from a pandemic because the virus is somewhat contained and not spreading out of control. In this situation, it does not strain the healthcare infrastructure, and hence, it is easier to prevent and treat the Covid-19 infection. Therefore, the impact on banks' financial performance also decreased.

The profitability ratios of foreign Islamic banking subsidiaries showed a decreasing trend. Before the Covid-19 transmission in 2019, the banks' ROA was 0.83%. However, during the Covid-19 pandemic, ROA dropped to 0.36% and 0.12% in 2020 and 2021, respectively. This was because during the Covid-19 pandemic, OPR hit the lowest at 1.75% on 7th July 2020. In addition, the financing products of most of the foreign Islamic subsidiaries were stagnant during the Covid-19 pandemic from the effect of the pre-Covid-19 in 2019. The findings revealed that most of the foreign Islamic banking subsidiaries could not utilise their assets, especially financing products, to generate profit. Accordingly, ROE showed a decreasing trend from 8.64% (2019) to 3.3% (2020) and 1.08% (2021). This was because one of the foreign Islamic banking subsidiaries incurred a loss in 2021, which affected the ROA.

ii. *Return on Equity (ROE)*

Local full-fledged Islamic banks and local Islamic banking subsidiaries recorded a decrease in ROE. The ROE of local full-fledged Islamic banks decreased from 7.7% before the Covid-19 pandemic in 2019 to 6.2% during the Covid-19 pandemic in 2020 but slightly increased to 6.4% in 2021. Regarding local Islamic banking subsidiaries, ROE decreased from 12.4% in 2019 to 8.1% in 2020 but recovered substantially to 19.3% in 2021. These findings revealed that the pandemic affected local Islamic banks. For foreign full-fledged Islamic banks, the increase in losses in 2020 caused the ROE to decrease to −475.3%. Foreign Islamic banking subsidiaries also experienced a decline in the ROE, albeit to a smaller extent, during the Covid-19 pandemic.

iii. *Return on Deposit (ROD)*

The ROD of local full-fledged Islamic banks was relatively stable at 7.77% in 2019, 6.16% in 2020, and 6.39% in 2021. For local Islamic banking subsidiaries, ROD declined from 0.94% in 2019 to 0.61% in 2020 but increased to 1.65% in 2021. Thus, the Covid-19 pandemic had a mild impact on local Islamic banks. Foreign full-fledged Islamic banks recorded volatile ROD during the 3-year period from −0.15% in 2019 to −54.35% in 2020 and 0.75% in 2021. The impact on foreign Islamic banking subsidiaries was milder, where their ROD decreased from 1.33% in 2019 to 0.50% in 2020 and 0.07% in 2021.

4.2 Liquidity Ratios

The results of the study for liquidity ratios are presented in Table 9.

Table 9: Summary of the liquidity ratios of Islamic banks in Malaysia

	Cash to Deposit (CD)			Cash to Deposit and Investment (CDI)			Financing to Deposit and Investment (FDI)		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Local full-fledged Islamic banks	0.06	0.10	0.07	0.06	0.09	0.07	0.90	0.90	0.88
Foreign full-fledged Islamic banks	0.05	0.05	0.06	0.05	0.05	0.06	0.72	0.75	0.76
Local Islamic banking subsidiaries	0.08	0.07	0.06	0.08	0.07	0.06	0.86	0.88	0.89
Foreign Islamic banking subsidiaries	0.29	0.23	0.30	0.26	0.21	0.27	0.60	0.97	1.02

Three types of Islamic banks, namely local full-fledged Islamic banks, foreign full-fledged Islamic banks, and local Islamic banking subsidiaries recorded CD, CDI, and FDI of less than 1 during the study period. For CD, the range was between 0.05 and 0.10 for these three types of Islamic banks. This finding indicated that these three types of Islamic banks held less cash between pre-pandemic and during pandemic than before the pandemic, thus showing that they were able to manage their liquidity by providing financing and investment to customers. The ideal of financing and investment ratio ranged from good:75% – 85% to pretty good: 85%–100% (Hadian & Phety, 2021).

However, foreign Islamic banking subsidiaries recorded significant CD of 0.23–0.30. In 2019, one of the foreign Islamic banking subsidiaries experienced strong growth in current deposits (Standard Chartered Saadiq Berhad, 2019). However, the total financing declined during 2019 (Standard Chartered Saadiq Berhad, 2019), which explains the FDI ratio of 1.02 for foreign Islamic banking subsidiaries in 2019.

Overall, Islamic banks continued to operate efficiently to better manage capital and liquidity by maintaining prudent credit risk management, proactively managing any potential stress in asset quality, and implementing intensive recovery plans. Also, the Islamic banks maintained healthy funding and liquidity positions by supporting the government initiatives during the pandemic.

i. *Cash to Deposit and Investment (CDI)*

The trend for CDI ratio also shows mixed trend from 2019 until 2020. The result is similar to CD ratio. The increasing trend of CDI ratio in Islamic banking subsidiaries and foreign Islamic banking subsidiaries could be attributed to the attractiveness of the products and good marketing strategy. In addition, from the analysis, it can be concluded that the fund received from customers' deposit and investment is channelled to the financing activities for most of the Islamic banks.

ii. Financing to Deposit and Investment (FDI)

Local full-fledged Islamic banks showed that the fund from the deposit and investment was channelled to financing activities. Despite a decreasing trend in cash to deposit and investment, the local full-fledged have shown a good performance in providing the fund to financing activities. The result indicates that the banks are trying their best to manage their liquidity position and increase profitability. However, for foreign Islamic banking subsidiaries, even though there is an increasing trend of the cash deposit and investment, but the FDI ratio is decreasing. The result portrays that fewer financing activities occurred after the pandemic.

Overall, Islamic banks have continued to operate efficiently to better manage capital and liquidity by maintaining prudent credit risk management, proactively managing any potential stress in asset quality and implementing intensive recovery plan. Also, the Islamic banks have maintained healthy funding and liquidity positions by supporting the government initiatives during the pandemic.

4.3 Solvency Ratios

Table 10 shows the solvency ratios for all four types of Islamic banks during 2019–2021.

Table 10: Summary of the solvency ratios of Malaysian Islamic banks

	Debt to Equity (DE) (%)			Debt to Total Assets (DTA) (%)			Equity Multiplier (EM) (%)		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Local full-fledged Islamic banks	8.55	8.03	8.01	0.88	0.89	0.88	17.03	16.99	16.28
Foreign full-fledged Islamic banks	7.81	6.29	6.52	0.85	0.83	0.85	7.14	6.07	6.85
Local Islamic banking subsidiaries	13.98	14.76	14.38	0.93	0.93	0.93	50.20	55.10	42.12
Foreign Islamic banking subsidiaries	9.20	8.46	9.40	0.90	0.89	0.90	26.81	24.94	26.97

i. Debt to Equity (DE)

The DE of local full-fledged Islamic banks increased from 8.01% (2019) to 8.03% (2020) during the Covid-19 pandemic and increased further to 8.55% in 2021, indicating that the pandemic had little impact on DE. Although the high solvency ratios might mean that the banks were involved in riskier businesses and signalled risk failure, the increase in debt might also be a good indicator of increased cash deposits and current liabilities, as Islamic banks usually use deposits to offer financing (assets) to customers. For foreign full-fledged Islamic banks, their DE decreased from 6.85% in 2019 to 6.29% in 2020, indicating that the pandemic influenced their DE. However, their DE increased to 7.81% in 2021, indicating that the foreign full-fledged Islamic banks increased their debts. In contrast, local Islamic banking subsidiaries showed a different trend where the DE slightly increased from 14.38% in 2019 to 14.76% in 2020 but decreased to 13.98% in 2021.

ii. Debt to Total Assets (DTA)

DTA was relatively stable for the years 2019–2021 for all types of Islamic banks, as shown in Table 10. The findings indicate that the Covid-19 pandemic had minor impact on the DTA of Islamic banks in Malaysia.
Equity Multiplier Ratio (EM)

The EM of local full-fledged Islamic banks showed an increasing trend from 16.28% in 2019 to 16.99% in 2020 and 17.03% in 2021. The findings indicated that these Islamic banks used high amounts of debt instead of equity to finance their assets. This is expected as Islamic banks function as the financial intermediaries between depositors and financiers. For foreign full-fledged Islamic banks, their EM decreased from 6.85% in 2019 to 6.07% in 2020 and then increased to 7.14% in 2021. As for local Islamic banking subsidiaries, they showed a relatively flat trend in the solvency ratios except for EM, which increased during the Covid-19 pandemic. The increase in EM showed that local Islamic banking subsidiaries relied more on debt to finance their assets during the Covid-19 pandemic period (55.10% in 2020 and 50.20% in 2021) than before the Covid-19 pandemic period (42.12% in 2019). Meanwhile, the EM of foreign Islamic banking subsidiaries decreased slightly during the Covid-19 pandemic period but increased again in 2021. Hence, EM supports the reason behind less liquidity in foreign Islamic banking subsidiaries, as shown in the discussion on liquidity ratios. The overall results showed that the solvency ratios did not differ substantially between pre- and during the Covid-19 pandemic.

4.4 Efficiency Ratios

Table 11 provides a summary of the efficiency ratios of Malaysian Islamic banks during 2019–2021.

Table 11: Summary of the efficiency ratios of Malaysian Islamic banks

	Asset Utilisation			Operating Efficiency			Financing to Total Assets		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Local full-fledged Islamic banks	0.03	0.04	0.04	0.38	0.35	0.33	0.38	0.35	0.33
Foreign full-fledged Islamic banks	0.04	0.04	0.05	0.52	0.56	0.40	0.58	0.60	0.62
Local Islamic banking subsidiaries	0.03	0.04	0.05	0.14	0.20	0.16	0.75	0.76	0.75
Foreign Islamic banking subsidiaries	0.02	0.03	0.05	0.50	0.37	0.26	0.64	0.67	0.63

The efficiency ratios of all the Islamic banks were relatively stagnant with very minimum variations over the 3 years, indicating that the Covid-19 pandemic did not have a significant impact on the Islamic banks' performance. However, the operating efficiency of foreign Islamic banking subsidiaries was affected as evidenced by the increase from 0.26 in 2019 to 0.37 in 2020 and 0.50 in 2021.

i. Asset Utilisation Ratio (AU)

The AU of local full-fledged Islamic banks was not affected by the pandemic, as shown by the relatively unchanged AU from 2019 to 2021. Similarly, the AU of foreign full-fledged Islamic banks was also relatively unchanged from 2019 to 2021.

As the asset utilisation ratio decreases marginally from 2019 to 2021, the average ratio illustrates the stability of local IBS efficiency.

ii. Operating Efficiency Ratio (OE)

The OE of local full-fledged Islamic banks, foreign full-fledged Islamic banks, and foreign Islamic banking subsidiaries showed an increasing trend from 2019 to 2021. Meanwhile, the OE of local Islamic banking subsidiaries increased from 0.16 in 2019 to 0.20 in 2020 but decreased to 0.14 in 2021. The findings indicated that the Covid-19 pandemic did not have a big impact on local Islamic banking subsidiaries.

iii. Financing to Total Assets Ratio (FTA)

The FTA of local full-fledged Islamic banks increased from 0.33 in 2019 to 0.35 in 2020 and 0.38 in 2021, indicating that the pandemic affected the FTA of local full-fledged Islamic banks in Malaysia. In the case of local Islamic banking subsidiaries, FTA was relatively flat during the period, indicating that the pandemic had little impact on them.

For foreign full-fledged Islamic banks, FTA decreased from 0.62 in 2019 to 0.60 in 2020, indicating that the pandemic affected the FTA of foreign full-fledged Islamic banks. However, FTA decreased to 0.58 in 2021.

5. Conclusion and Recommendation

This study examined the financial performance of Islamic banks in Malaysia during the Covid-19 pandemic. Financial performance indicators, namely, profitability, liquidity, solvency, and efficiency were used in this study. Also, this study used the Islamic banks' financial statements, which were obtained from their annual reports, for the years 2019–2021. The year 2019 represented the pre-pandemic period of Covid-19, and the years 2020–2021 were considered the Covid-19 pandemic period.

Most of the financial ratios showed positive performance but with a decreasing trend during the Covid-19 pandemic period. It means that the pandemic had some impact on the performance of Islamic banks. One of the foreign Islamic subsidiaries incurred a loss and some of the foreign Islamic subsidiaries reported lower performance during 2020–2021, which affected their ROA during the pandemic. This was because, during that time, the OPR hit the lowest point at 1.75%, which resulted in lower financing income and high net impairment. Besides, some banks had lower performance due to lower income derived from investment of depositors' funds and shareholders' funds.

These findings provide practical implications for regulators and policymakers in the face of unprecedented uncertainty caused by the Covid-19 pandemic. The findings demonstrate that the Covid-19 pandemic affected the financial performance of Islamic banks in Malaysia. Future studies can examine the financial performance of other Islamic financial institutions, such as takaful companies during the Covid-19 pandemic and compare its impacts on Islamic and conventional financial institutions. In addition, financial performance of Islamic banks can have a positive impact on the Malaysian economy by increasing economic activities and job creation that can positively affect the Malaysia's Gross Domestic Product (GDP). High-performing Islamic banks may instil confidence in potential customers, enabling them to entrust their savings and investments to these banks, subsequently increasing the financing activities to meet the demands of the customers.

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