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PERFORMANCE ASSESSMENT OF ISLAMIC BANKS IN THE LIGHT OF MAQASID AL-SHARIAH: A GLOBAL EVIDENCE

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ABSTRACT

As an "Islamic" entity, Islamic banks are expected to fulfill the purposes of Islamic law. This study aims to assess the performance of Islamic banks beyond traditional yardsticks, to emphasize their ethical, social, and environmental role in accordance with the higher goals of Islamic law namely Maqasid al-Shariah. Based on Imam al-Ghazali's concept of Maqasid al-Shariah, we develop a Maqasid al-Shariah index including the 5 objectives of Shariah (Preservation of Life, Religion, Intellect, Posterity, and Wealth). Sekaran's operationalization method is used to transform the theoretical concept of Maqasid al-Shariah into measurable indicators. The originality of this study stems from two factors: First, we build on previous research to develop a new Maqasid al-Shariah index with 12 dimensions, 25 elements, and 25 indicators. Second, we provide fresh insight into the Maqasid al-Shariah performance of 10 large and well-established Islamic banks from 2017 to 2021. The results of the 5-year study show that Meezan Bank in Pakistan performed the highest score, while Dubai Islamic Bank received the lowest. Furthermore, when comparing the performance of the sampled Islamic banks across the five objectives, we find that they earned the lowest score in the objective of intellect due to their failure to disclose the required information in their annual reports.

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INTRODUCTION

Islamic banking as a modern financial institution emerged with the establishment of « Mit Ghamer Savings Bank » in 1963 aimed at providing funds to small entrepreneurs based on profit and loss sharing financing. Due to political discouragement, this glory of the social banking experience had come to an end in 1967. Since the founding of Dubai Islamic Bank in 1975, Islamic banking has subsequently shown a global expansion with a broad move towards debt-based products, primarily Murabaha, Ijara and Tawarruk.

According to Asutay (2012), the activities of Islamic banks should be oriented towards ethical investments beyond the elimination of *Riba* and *Gharar*. Thus, Islamic banks are encouraged to be more engaged in profit and loss sharing products which will better stabilize financial markets and promote the development of entrepreneurial activities. Additionally, Islamic banks have to meet the needs of all market segments including the rich and the poor and they are expected to present the concepts of Waqf, Zakat, Charity and Qardh al-Hassan in their social practices.

Four decades after the establishment of Islamic banks, there are still significant divergences between ideals and practices Alhammedi et al. (2022). Various criticisms of the performance of Islamic banks have been linked to the observed convergence of Islamic banks towards the current neo-classical system. The critics argue that the activities of Islamic banks mimic traditional financial practices and ignore the "substance" or the social function defined within the *Maqasid al-Shariah* framework while only achieving the mere conformity of the "form" (Asutay, 2012). As a result, it is crucial to develop empirical measures that can identify these shortcomings and assist Islamic banks in improving their *Maqasid al-Shariah* performance and thereby contributing to the well-being of all stakeholders (Mergaliyev et al., 2021).

Therefore, we propose in this paper to address the following problem: *To what extent do Islamic banks contribute to the realization of Maqasid al-Shariah?* This study aims: First, to present a better understanding of *Maqasid al-Shariah* concept based on renowned Islamic scholars' views. Second, to explore the empirical studies measuring the ethical, social,

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economic and environmental performance of Islamic banks. Third, to develop a new *Maqasid al-Shariah* index based on the existing literature.

This paper is structured into six sections: the first section is the introduction in which we discuss the background and the aim of the study. The second section elaborates the literature review. The third section goes through the research methodology utilized to develop the *Maqasid al-Shariah* index. The results are provided in the fourth section and then analyzed in the discussions section. Finally, in the conclusion section, we summarize the article, explain its limitations, and suggest some directions for future research.

LITERATURE REVIEW

The concept of Maqasid al-Shariah

The term *Maqasid al-Shariah* comes from two words, *Maqasid* and *Shariah*. The word “*Maqasid*” (plural: *Maqasid*) refers to a purpose, objective, intent, goal. While for the term “*Shariah*”, some scholars define the word as following strictly the injunctions of Allah or the straight path “*al-Tariq al-Mustaqim*”. Then, the jurisprudence experts link it to Shariah laws, so that it includes all laws and regulations established by Allah to protect the benefits and interests of all human beings (Ismanto et al., 2021). The following are some of the most renowned Muslim scholars' definitions of *Maqasid al-Shariah* (Thajudeen, 2012):

According to *Imam Al-Ghazali*:

“The objective of the Shariah is to promote the well-being of all mankind, which lies in safeguarding their faith (dīn), their human self (nafs), their intellect (‘aql), their posterity (nasl) and their wealth (māl). Whatever ensures the safeguard of these five fundamentals serves public interest and is desirable, and whatever hurts them is against public interest and its removal is desirable.”

Imam al-Shatibi defined *Maqasid al-Shariah* as:

“The primary goal of the Shariah is to free man from the grip of his own whims, so that he may be the servant of Allah by choice, just as he is His slave [in matters about which he has] no choice.”

Imam Ibn Ashur defined *Maqasid al-Shariah* as:

“The overall objective of Islamic legislation is to preserve the social order of the community and insure its healthy progress by promoting the well-being and virtue (Salah) of the human being. The Salah of human beings consists of the soundness of their intellects and the righteousness of their deeds, as well as the goodness of the things of the world in which they live that are put at their disposal.”

Given the different definitions mentioned above, it can be concluded that *Maqasid al-Shariah* represent God's intention from His laws to achieve human well-being in this world and the hereafter (*al-falah*). As for the empirical studies that will be discussed later, they referred to one or more of these four concepts of *Maqasid al-Shariah*:

Al-Ghazali's concept of Maqasid al-Shariah

Imam al-Ghazali divided *Maqasid al-Shariah* into 3 categories (Thajudeen, 2012):

- Essentials are the interests that are required and considered as vital for the founding of wellbeing in this world and the Hereafter. If society in somehow neglects them, its whole system can run into chaos. Al-Ghazali further classified necessities into five objectives: preservation of religion, life, intellect, progeny and wealth. Whatever ensures the safeguard of these five fundamentals serves public interest and is desirable.
- Complements: Although they are not at the level of necessities, complements are defined as benefits that seek to remove severity and hardship that do not pose a threat to the normal order of life.
- Embellishments: They refer to regulations and benefits that have reached neither the level of necessity nor the complement. The embellishments are the interests whose realization leads to refinement and perfection in the customs and conduct of people at all levels of achievement.

Abu Zaharah's concept of Maqasid al-Shariah

Abu Zaharah's theory of *Maqasid al-Shariah* consists of 3 main objectives (Mohammed et al., 2008):

- Educating the individual
- Establishing justice
- Promoting Welfare

Chapra's concept of Maqasid al-Shariah

Chapra (2008) believes that the five objectives of *Imam al-Ghazali* cannot be the only *Maqasid* to ensure human well-being. According to him, while these five objectives can be considered as primary, many other goals indicated in the Quran and Sunnah or in the writings of many scholars may be referred to as their corollaries. Moreover, the realization of all primary goals is indispensable, as well as their corollaries, as they are all independent and play the role of supporting each other. He also argues that it is inappropriate to use the word preservation or safeguarding adopted by *Imam al-Ghazali* as he stated that « *We safeguard when we have reached the peak of achievement. However, this is not possible for human beings in this world. There is always room for improvement...* » (Chapra, 2008)

In so arguing, Chapra (2008) provided some examples of corollaries for each primary objective:

- Invigoration of the Human Self
Dignity, self-respect, human brotherhood and social equality
Security of life, property and honor
Employment and self-employment
- Enrichment of Faith
Justice, freedom, security of life, property and honor, honesty
Removal of poverty, need fulfilment of all, and availability of employment and self-employment opportunities
Equitable distribution (Human brotherhood)
- Enrichment of Intellect
High quality of religious and science education at affordable prices
Emphasis on the *Maqasid* in the interpretation of texts
Library and research facilities
- Enrichment of Posterity
Proper upbringing, moral and intellectual development
Marriage and family integrity
Clean and healthy environment
- Development and Expansion of Wealth
Education, research, and improvement in technology and management
Saving and Investment
Removal of poverty, need fulfillment, and equitable distribution

Al-Najjar's concept of Maqasid al-Shariah

While for Dr. AbdelMajid al-Najjar's new vision of *Maqasid al-Shariah*, that can be considered also as an extension of *Imam al-Ghazali's* concept of *Maqasid al-Shariah*, consists in forming four groups of objectives and splitting each one into two sub-groups (Bedoui, 2012):

- Safeguarding the value of human life
Faith
Human Rights
- Safeguarding the Human self
Self
Intellect
- Safeguarding the society
Posterity
Social entity
- Safeguarding physical environment
Wealth
Environment

Despite the existence of different views of *Maqasid al-Shariah*, a common view summarizes it as « *the realization of the well-being of all stakeholders* » (Mergaliyev et al., 2021).

Empirical Studies

We present in this section the most relevant studies conducted to develop multidimensional metrics aimed at measuring the economic, ethical, social, and environmental performance of Islamic banks.

Ibrahim et al. (2004) provided two alternative measures of Islamic banking performance: The first alternative namely the "Islamicity disclosure index" was based on three types of qualitative indicators: Shariah compliance indicators, corporate governance indicators and social/environmental indicators. While for the second index which is the "Islamicity performance Index" relied more on quantitative indicators and financial ratios. The study sample covered two Islamic banks namely Bank Islam Malaysia Berhad (BIMB) and Bahrain Islamic Bank (BIB) for the period 2001-2002. The results revealed that the two Islamic banks had low performance in terms of quality and disclosure level due to the fact that some information and data were not fully disclosed to stakeholders. When comparing the two banks, the information disclosed by Bahrain Islamic Bank (BIB) was found to be more transparent than that provided by Bank Islam Malaysia Berhad (BIMB).

To investigate the ethical performance of 7 Islamic banks in the Arabian Gulf region for the period 2002-2004, Haniffa & Hudaib (2007) developed the Ethical Identity Index consisting of 5 concepts, 8 dimensions and 78 elements. The ethical identity index was intended to assess the strength or degree of ethical identity of Islamic banks based on the difference between the information disclosed in their annual reports and their ideal ethical identity. According to the results, it was determined that only one Islamic bank (Bahrain Islamic Bank) had an above-average score. For the other six Islamic banks, there was a big disparity between the information communicated to the public and their ideal ethical identities. The lack of disclosure was mainly related to 4 dimensions (commitments to society; disclosure of corporate vision and mission; contribution to and management of zakat, charity and Qardh al-Hassan; and information on top management). It should be noted, nonetheless, that none of the aforementioned studies were based on the *Maqasid al-Shariah* framework.

The research of Mohammed et al. (2008) may be considered as one of the pioneer empirical studies aimed at measuring *Maqasid al-Shariah* performance of Islamic banks. This study was based on *Abu Zaharah's* concept of *Maqasid al-Shariah* including three *Shariah* goals; educating individuals, ensuring justice, and promoting welfare. Mohammed et al. (2008) used Sekaran's (2000) method to transform *Shariah* goals into performance measures. They created weights and indicators based on the results of interviews and surveys with 16 *Shariah* experts from the Middle East and Malaysia. Due to the lack of data for the second objective's indicators (Justice), only seven out of ten ratios were carried out to assess 6 Islamic banks' *Maqasid* performance over the 6-year period of study (2000-2005). The authors used SAW (Simple Additive Weighting) method to measure the overall *Maqasid al-Shariah* index. The results showed that no single bank was able to score high in all seven ratios. Moreover, similar studies have been undertaken based on the research of Mohammed et al. (2008) and *Abu Zaharah's* concept of *Maqasid al-Shariah* such as: Antonio et al. (2012) and Alhammadi et al. (2022). Antonio et al. (2012) compared the *Maqasid* performance of two Islamic banks in Jordan to two Islamic banks in Indonesia from 2008 to 2010. According to the findings, Indonesian Islamic banks outperformed Jordanian Islamic banks, yet no Islamic bank demonstrated high *Maqasid* performance. The study of Alhammadi et al. (2022) on the other hand, concentrated on examining the *Maqasid* performance of Islamic banks in Indonesia during the post-global financial crisis from 2010 to 2018. The results showed that there was no significant increase in the *Maqasid al-Shariah* score over time. However, there was a significant difference in the *Maqasid* performance among banks. The limitation of these studies originates from the fact that the established *Maqasid al-Shariah* index did not take into account the environmental role of Islamic banks.

The new measurement approach suggested by Bedoui (2012) and Bedoui & Mansour (2015) proposed a Pentagon-shaped performance scheme structure first via the five *Shariah* objectives of *Imam al-Ghazali* and then extended with the eight *Shariah* objectives of *Al-Najjar* to measure the global performance of an organization based on the law of sines. According to Bedoui & Mansour (2015), if an institution is totally oriented towards the wealth objective, it performs poorly in terms of *Maqasid al-Shariah*, nevertheless, if all objectives are met equally and fully, the organization's performance is optimal. However, no empirical evidence was employed in this study, and no specific elements or indicators were provided to be calculated in the performance model.

Based on the developed approach of Bedoui (2012), Asutay & Harningtyas (2015) conducted an empirical study to measure the social performance of Islamic banks based on *Al-Najjar's* concept of *Maqasid al-Shariah* consisting of 8 corollaries articulated through 25 dimensions, 32 elements and 112 indicators. In this study, the social performance of 13 Islamic banks from 6 countries for 5 years (2008-2012) was examined. The findings showed that the overall *Maqasid al-Shariah* performance of Islamic banks was unimpressive due to the lack of achievements in social and environmental responsibilities. For the country performance, Indonesia ranked first, followed by Pakistan, Malaysia, Turkey, Qatar and England.

The study of Rahman & Haron (2019) aimed to measure the *Maqasid al-Shariah* performance of 11 Islamic banks in Indonesia for the period 2012-2016. *Al-Ghazali's* concept of *Maqasid al-Shariah* was applied as well as the SAW method and the unweighted approach were adopted for the evaluation of *Maqasid al-Shariah* index. According to the findings, the *Maqasid al-Shariah* index for the 11 Islamic banks in Indonesia was relatively low. The weakest contribution of Islamic banks to the realization of *Maqasid al-Shariah* was for the objective of life.

Tarique et al. (2020) developed a *Maqasid al-Shariah* based performance evaluation index for Islamic banks. This study combined *Imam al-Ghazali* and *Abu Zaharah's* *Maqasid al-Shariah* frameworks. To select the variables and weights, the authors conducted interviews with academics and practitioners specializing in Islamic banking and finance and then, to prioritize the selected *Maqasid* variables, items and sub-items, the Analytic Hierarchy Process (AHP) was employed. The developed index was tested on 11 Islamic banks from Malaysia and Bangladesh. The results revealed that RHB Islamic bank ranked top among the sampled banks. Overall, Malaysian Islamic banks performed better than the Bangladeshi Islamic banks.

Mergaliyev et al. (2021) used a wider sample of 33 Islamic banks from 12 countries to evaluate their ethical, social, environmental, and financial performance from 2008 to 2016. *Al-Najjar's* extended *Maqasid al-Shariah* concept was applied and an index of 139 items was then constructed. The results revealed that except for the wealth objective, no best practices were identified in the performance of Islamic banks within the other objectives. In country-level performance, Jordan scored the highest *Maqasid* performance followed by Indonesia and Sudan.

From reviewing the above, we may conclude that there are still failures and weaknesses in the practices of Islamic banks to achieve *Maqasid al-Shariah*. This has prompted us to place more emphasis on this subject to raise awareness among Islamic banks of the real purpose behind their existence which goes beyond the mere achievement of profits and maximization of shareholders' interests. According to Ahmed et al. (2015), the poor contribution of Islamic financial institutions to environmental and social goals depends partly on how *Maqasid al-Shariah* are conceptualized and implemented. In consequence, there is a need to endorse those goals as essential components of *Maqasid al-Shariah* framework. Furthermore, despite the relevance of the topic, it was challenging for us to locate enough empirical studies linking Islamic bank performance to *Maqasid al-Shariah*. Thus, this paper attempts to fill the gap by integrating the previous studies to develop a new *Maqasid al-Shariah* benchmark assessing the financial, social, ethical and environmental performance of 10 leading Islamic banks from 10 countries. Moreover, in terms of the study period, we aim to add to the existing literature by providing new insights into the *Maqasid al-Shariah* performance of Islamic banks from 2017 to 2021.

MATERIALS AND METHODS

Research Sample

Our empirical analysis is carried out on a sample of 10 Islamic banks operating in 10 countries and observed from 2017 to 2021. We selected some of the world's largest and oldest Islamic banks to investigate how they are employing their assets and expertise to achieve *Maqasid al-Shariah*. This paper applies secondary data from Islamic banks' annual reports (For some banks whose social and environmental activities were not disclosed in the annual report, we referred to their sustainability or ESG report if any). The sampled Islamic banks along with their country of origin, total assets, total income and year of establishment are presented in Table 1.

Table 1. Sampled Islamic Banks

N°	Country	Bank	Assets (\$) 2021	Total income (\$) 2021	Year of Establishment
1	Saudi Arabia	Al Rajhi	166,227	6854	1978 (43 years)
2	UAE	Dubai Islamic Bank (DIB)	75,979	3211	1975 (46 years)
3	Kuwait	Kuwait Finance House (KFH)	71,009	2643	1977 (44 years)
4	Qatar	Qatar Islamic Bank (QIB)	53,258	2232	1982 (39 years)
5	Bahrain	Al Baraka	28,634	1025	1978 (43 years)
6	Malaysia	Bank Islam Malaysia Berhad (BIMB)	18,071	725	1983 (38 years)
7	Türkiye	Kuveyt Türk	13,460	598	1989 (32 years)
8	Pakistan	Meezan Bank Limited	7381	325	1997 (24 years)
9	Jordan	Jordan Islamic Bank (JIB)	7469	248	1978 (43 years)
10	Indonesia	Bank Muamalat	3858	38	1991 (30 years)

Source: Sampled Islamic Banks' Annual Reports and Websites

Construction of Maqasid al-Shariah Index

Following Rahman and Haron (2019), this study adopts the five objectives of *Imam al-Ghazali* as the primary goals of *Shariah*. Additionally, referring to Chapra's (2008) reinterpretation of *Maqasid al-Shariah*, we substitute the term "safeguarding" or "preservation" with: « invigoration » of the human self, « development and expansion » of wealth and « enrichment » of intellect, posterity and faith.

Sekaran's (2000) operationalization method is used, as suggested by Mohammed et al. (2008), to link the indicators of economic, social, ethical and environmental performance of Islamic banks with *Maqasid al-Shariah*. « *The benefit of this method is that it enables the decoding of abstract ideas into measurable criteria. The operationalization method is not meant to see the correlation, reasons, consequences or antecedents; instead, it describes its observable characteristics for measurement purposes* » (Hudaefi & Noordin, 2019). According to this method, "concepts" (Concept: C) can be divided into observable "dimensions" (Dimension: D), and then dimensions can be divided into measurable "elements" (Element: E). The concept in our study corresponds to *Imam al-Ghazali's* concept of *Maqasid al-Shariah*. Table 2 depicts a list of 12 dimensions, 25 elements, and 25 indicators (with 5 indicators for each objective) adapted from the relevant literature. When calculating *Maqasid al-Shariah* index, some variables are calculated based on ratios while others are qualitative and scored according to the "dichotomous approach": a score of "1" is given if the indicator is found in the bank's annual report, or "0" otherwise. Moreover, considering the concept of balance adopted by Bedoui (2012), Rahman & Haron (2019) and Mergaliyev et al. (2021), we assume that all indicators and objectives are equally weighted. Bedoui (2012) supported the concept of balance referring to verse 143 of Surah Baqara :

« *And so We have made you believers a **balanced** community so that you may be witnesses over humanity and that the Messenger may be a witness over you ...* »

Mergaliyev et al. (2021) argued that each dimension of *Maqasid al-Shariah* index should be treated the same as assigning different weights will create dominance and essentialize some dimensions over others. Therefore, following Haniffa & Hudaib (2007) and Mergaliyev et al. (2021) *Maqasid al-Shariah* index can be calculated as follows :

$$I_{i,t,o} = \frac{\sum_{t=1}^{n_j} X_{ij}}{n_j}$$

Where:

$I_{i,t,o}$: *Maqasid al-Shariah* sub-index of 'o' objective of 'i' Islamic bank in year t;

X_{ij} : score of indicators of 'i' Islamic bank in year t;

n_j : the overall number of indicators in 'o' objective.

As a result, the overall *Maqasid al-Shariah* index is calculated using the following formula :

$$I_{i,t} = \frac{\sum 5 I_{i,t,o}}{5}$$

Where :

$I_{i,t}$ is the *Maqasid al-Shariah* index of 'i' Islamic bank in year t. As there are five objectives *al-Ghazali's* concept of *Maqasid al-Shariah*, the sum of all sub-indices is divided by five.

RESULTS

Overall Maqasid al-Shariah Index

Table 2. Overall Maqasid al-Shariah Performance of IBs

Rank	Bank	2017	2018	2019	2020	2021	Average
1	Meezan Bank	0.5061	0.4999	0.5118	0.4968	0.4966	0.5022
2	Mumalat Bank	0.4928	0.4603	0.5012	0.5054	0.5004	0.4920
3	Al Baraka	0.4770	0.4836	0.5028	0.4770	0.4570	0.4795
4	BIMB	0.4787	0.4822	0.4872	0.4402	0.4417	0.4660
5	JIB	0.4334	0.4415	0.4214	0.4823	0.4799	0.4517
6	Kuwait Turk	0.4105	0.4094	0.4068	0.4405	0.4325	0.4199
7	QIB	0.3688	0.4072	0.4056	0.3629	0.3953	0.3880
8	Al Rajhi	0.2740	0.3564	0.3751	0.3588	0.3611	0.3451
9	KFH	0.2995	0.3006	0.3042	0.3861	0.4094	0.34
10	DIB	0.1024	0.1041	0.1044	0.1127	0.3673	0.1582

Source: Author's Presentation

As can be seen from the results presented in Table 2, Meezan bank (50.22%), Muamalat Bank (49.20%), and Al Baraka Banking Group (47.95%) are the three best banks with the highest *Maqasid* performance, whereas Dubai Islamic bank (15.82%), Kuwait Finance House (34%) and Al Rajhi bank (34.51%) have the lowest scores.

Enrichment of Faith

Table 3. 5-Year Score of IBs in the Objective of Faith

Rank	Bank	Partnership	Publicity	Conferences	Religious Activities	Shariah Compliance	Average
1	Meezan Bank	0.5355	0.0106	1	1	1	0.7092
2	Muamalat Bank	0.4977	0	1	1	1	0.6995
3	Al Baraka	0.2093	0	1	1	1	0.6419
4	BIMB	0	0.0123	1	1	1	0.6024
5	QIB	0.0012	0.0184	1	0.6	1	0.5237
6	JIB	0.0109	0.0164	1	1	0	0.4055
7	Kuwait Turk	0.0168	0	1	1	0	0.4034
8	DIB	0.1111	0	0.2	0	1	0.2622
9	KFH	0	0	1	0.2	0	0.24
10	Al Rajhi	0	0	0	0.8	0	0.16

Source: Author's Presentation

In enrichment of faith, Meezan Bank attains the highest performance (70.92%) followed by Muamalat Bank (69.95%) and Al-Baraka Banking Group (64.19%). This is due notably to the fact that they have the highest risk-sharing product ratios in the sample: Meezan Bank (53.55%), Muamalat Bank (49.77%), and Al Baraka (20.93%). However, according to the results, the majority of the sampled Islamic banks (6 banks) failed to disclose the amount spent on publicity.

Invigoration of the Human Self/Life

Table 4. 5-Year Score of IBs in the Objective of Human Self

Rank	Bank	Charity	Zakat	Qardh al-Hassan	Social Commitment	Healthcare	Average
1	Muamalat Bank	0.0384	0.6839	0	1	1	0.5445
2	JIB	0.0231	0	0.655	1	1	0.5356
3	Kuwait Turk	0.3208	0	0	1	1	0.4642
4	Al Baraka	0.1143	0.0155	0.1067	1	1	0.4473
5	Al Rajhi	0.0018	0.0765	0	1	1	0.4157
6	BIMB	0.056	0.0214	0	1	1	0.4155
7	QIB	0.0257	0	0	1	1	0.4051
8	Meezan Bank	0.0094	0	0	1	1	0.4019
9	KFH	0.0079	0.0087	0	1	1	0.4033
10	DIB	0.0036	0.0748	0	0.2	0.2	0.0957

Source: Author's Presentation

The findings presented in table 4 reveal that the highest score in the objective of life is attributed to Muamalat Bank (54.45%) followed by JIB (53.56%) and Kuwait Turk (46.42%). DIB, on the other hand, has the lowest performance with only 9.57%, indicating a lack of social involvement and a lack of disclosure of the bank's social activities. Table 4 further shows that *Qardh al-Hassan* is still a product that is rarely considered in Islamic banking practices.

Enrichment of Intellect

Table 5. 5-Year Score of IBs in the Objective of Intellect

Rank	Bank	Scholarship	Research	Training	Sports,Arts	Education	Average
1	Muamalat Bank	0.0010	0.0022	0.0185	1	1	0.4043
2	Meezan Bank	0.0017	0	0.0022	1	1	0.4007
3	JIB	0	0	0.0020	1	1	0.4004
4	Al Baraka	0	0	0	1	1	0.4
	KFH	0	0	0	1	1	0.4
	Kuwait Turk	0	0	0	1	1	0.4
	QIB	0	0	0	1	1	0.4
5	Al Rajhi	0	0	0	0.8	1	0.36
6	BIMB	0	0	0	0.6	1	0.32
7	DIB	0	0	0	0.2	0.2	0.08

Source: Author's Presentation

In enrichment of intellect, the results demonstrate that only Muamalat Bank disclosed the amounts spent on scholarship, research and training amongst other banks (except for Meezan Bank, which published training and scholarship expenses, and JIB, which disclosed training expenses). Consequently, Muamalat Bank, Meezan Bank, and JIB have the best performance in achieving the objective of intellect, with scores of 40.43%, 40.07%, and 40.04%, respectively. This reflects their significant contribution to employee and community education.

Enrichment of Posterity

Table 6. 5-Year Score of IBs in the Objective of Posterity

Rank	Bank	Shareholders	Depositors	Employees	Government	Environment	Average
1	BIMB	0.5332	0.6645	0.3353	0.2335	1	0.5533
2	Meezan Bank	0.4104	0.6082	0.2511	0.4061	1	0.5352
3	Al Baraka	0.0747	0.7227	0.3231	0.2528	1	0.4746
4	JIB	0.2728	0.3492	0.3673	0.3645	1	0.4708
5	Muamalat Bank	0	0.4817	0.1832	0.3116	1	0.3953
6	Kuwait Turk	0.0042	0.5435	0.1822	0.1814	1	0.3822
7	QIB	0.4037	0.2787	0.0881	0.0036	1	0.3548
8	KFH	0.4796	0.4117	0.2337	0.1198	1	0.3290
9	Al Rajhi	0.4145	0.0290	0.1496	0.0027	1	0.3192
10	DIB	0.5069	0.3746	0.1816	0.0090	0.2	0.2544

Source: Author's Presentation

In the objective of posterity, BIMB earns the highest score of 55.33%, followed by Meezan Bank (53.52%) and Al Baraka Banking Group (47.46%) suggesting that they have the best fulfillment of stakeholders' needs and the best engagement in the environmental role. DIB, Al Rajhi, and KFH continue to receive the lowest performance with scores of 25.44%, 31.92% and 32.90%, respectively.

Development and Expansion of Wealth

Table 7. 5-Year Score of IBs in the Objective of Wealth

Rank	Bank	ROA	ROE	Solvency Risk	SMEs	Agriculture	Average
1	Al Rajhi	0.0255	0.1950	0.1321	1	1	0.4654
2	Meezan Bank	0.0122	0.2626	0.0462	1	1	0.4618
3	Kuwait Turk	0.0115	0.1759	0.0631	1	1	0.4478
4	JIB	0.0118	0.1251	0.0945	1	1	0.4463
5	BIMB	0.0085	0.1019	0.0834	1	1	0.4370
6	Al Baraka	0.0062	0.0661	0.0955	1	1	0.4336
7	Muamalat Bank	0.0011	0.0050	0.0762	1	1	0.4165
8	KFH	0.0127	0.1133	0.1116	1	0.4	0.3250
9	QIB	0.0172	0.1279	0.1347	1	0	0.2525
10	DIB	0.0185	0.1264	0.1478	0.2	0	0.0985

Source: Author's Presentation

Table 7 shows that Al-Rajhi bank (46.54%), Meezan bank (46.18%), and Kuwait Turk (44.78%) are the top three banks in the objective of wealth. However, DIB remains at the bottom of the list with a score of only 9.85% due to the lack of agriculture and SME financing.

DISCUSSIONS

In enrichment of faith (Table 3), Meezan Bank achieves the best score (70.92%) through:

- Implementing PLS contracts mainly running Musharaka and diminishing Musharaka with an average of (53.55%) from the total financing

- Disclosing the non-halal income and its distribution: « *An amount of Rs 201.7 million was transferred to the Charity Payable Account during the year. This includes Rs 77.1 million to eliminate the non-compliant income portion which was identified during Shariah audit* » (Meezan Bank, annual report 2021, p110)
- Raising awareness about Islamic banking by organizing seminars and training in Islamic economics and finance « *In order to create awareness of Islamic banking among general public, the Bank conducted 75 seminars in major cities which were attended by more than 5,500 participants from different spheres of the society* » (Meezan Bank, annual report 2021, p109)
- Supporting spiritual activities and programs « *It is heartening to observe that in order to disseminate the teachings of Holy Quran, 34 lectures on Understanding Quran were held for all Meezan staff* » (Meezan Bank, annual report 2021, p109)

While for Muamalat Bank, the highest performance is gained in 2 objectives: life and intellect. In invigorating the human self (Table 4), with an average of 54.44% the bank tends to promote dignity, human brotherhood and social equality through:

- It's commitment to social role: « *The Bank continues to commit to contributing to other stakeholders because we realize that the company performance not only measured economically but also socially and environmentally* » (Bank Muamalat, annual report 2019, p 570)
- Supporting hospitals and healthcare projects notably in 2020 and 2021 to handle the COVID-19 pandemic « *The focus of the Bank's Corporate Social Responsibility (CSR) activities throughout the year 2020 was related to the handling of the COVID-19 pandemic. The Bank emphasized on providing donations of medical equipment and the manufacture of products that support medical personnel.* » (Bank Muamalat, annual report 2020, p 58)
- Distributing zakat and donations to overcome poverty and bridge the gap between the rich and the have-nots. The bank's 5-year distribution represents 68.39% and 3.84% for zakat and charity ratios respectively. With Zakat and charity funds, Bank Muamalat has established the Baitulmaal Muamalat foundation since 1994 intending to promote micro-economic empowerment:

« *In 1994, Bank Muamalat Indonesia formed a Zakat, Infaq, and Alms (ZIS) fund management unit, as well as a charity fund which was later called Baitulmaal. The unit which was originally founded on the basis of the responsibility of Bank Muamalat Indonesia towards micro-economic empowerment, was officially inaugurated on June 16, 2000 as the Baitulmaal Muamalat foundation. Baitulmaal Muamalat focuses its activities in 3 aspects:*

1. *Manage social funds according to Islamic sharia principles.*

2. *Develop a community that is independent, growing and characterized.*

3. *Become a business development mediator and Sharia microfinance institution.* » (Muamalat Bank, annual report, 2018, p112)

In enrichment of intellect (Table 5), with a score of 40.41%, Muamalat Bank has the highest contribution to educating employees and society through;

- Providing scholarships to students. The ratio of scholarship expenses to total expenses reflects the bank's educational contribution to society (Alhammedi et al., 2022).
- Supporting educational programs. Muamalat bank has 5 subsidiaries one of them is Muamalat Institute which is an institution that develops, disseminates and provides education regarding *Shariah* economic system to the community: « *Muamalat Institute (MI) was founded in 1999, but its inception started in 1992 as an educational institution called Islamic Banking Education and Development Institution (LPPBS), or Education Institution for Sharia Banking Development* » (Muamalat Bank, annual report, 2021, p179)
- Allocating funds for research and development which is essential for creating financial instruments that adhere to *Maqasid al-Shariah* while also being competitive with conventional products (Alhammedi et al., 2022).
- Providing opportunities for employees to attend a number of training or seminars. A higher ratio of training expenses to total expenses suggests that the bank is more concerned with improving the quality of its human resources and thus working to create clients who are more knowledgeable about its goals and products (Mohammed et al., 2008).
- Being involved in sports, arts, cultural, related activities: « *Sports activities led by the Muamalat Club is aimed to improve ukhuwah, sportsmanship and the health of employees. Included in the sports activities are futsal, basketball, tennis, running, bicycling, badminton, yoga, zumba, archery, and so forth. The implementation of these sports activities is coordinated within each club or community under the auspices of the Muamalat Club. The Bank also facilitates employees who have hobbies in the field of art activities, namely by holding the Friday Music Corner program.* » (Muamalat Bank, annual report, 2017, p143)

In enrichment of posterity (Table 6), BIMB's contribution to the well-being of shareholders, depositors, employees and government represent 53.32%, 66.45%, 33.53% and 23.35% respectively. Moreover, BIMB's initiatives for environmental improvements can be illustrated through the following bank's statements:

« *Through our initiatives and programs, and through our collaborations with strategic partners, we work to further the goals of social inclusion and environmental well-being. Our commitment to these goals reflects our values as an Islamic*

bank and values-based institution » (BIMB, annual report 2021, p126)

The bank’s main goals are to grow its Green financing portfolio and expand its presence in mini-hydro and solar projects: « One of the key drivers for our business growth and achieving our sustainability goals is our focus on growing our Green Financing portfolio, which stood at more than RM2 billion at the end of 2021. Much of this financing has been directed to the Renewable Energy Green Building sector, thus far. As we move forward, we are now actively aiming to expand our presence in the wider green economy ecosystem, with a focus on mini-hydro and solar farm projects. » (BIMB, annual report 2021, p19)

On the other hand, if we look at the bottom of the list (see Table 2), we may notice that Islamic banks in GCC countries (UAE, SA, Kuwait and Qatar) are the least contributing to the realization of *Maqasid al-Shariah*. This is due to the fact that Islamic banks in GCC countries are characterized by poor implementation of PLS products (see Table 3: Dubai Islamic Bank: 11.11%, Qatar Islamic Bank: 0.58%, Al Rajhi: 0%, Kuwait Finance House: 0%), as well as a lack of disclosure of relevant information (example the amounts spent on training, scholarship, research, etc. see table 5) in their annual reports. Despite being the first commercial Islamic bank in the industry, established in 1975, Dubai Islamic Bank has the lowest *Maqasid* performance with an index of only 15.82% (see Table 2). However, since Dubai Islamic bank started publishing the sustainability report for the first time in 2021, this helped boost its *Maqasid* performance from 11.27% in 2020 to 36.73% in 2021. Surprisingly, Al Rajhi Bank, which had the weakest *Maqasid* performance after DIB and KFH, performed highest in the objective of wealth with a score of 47% (see Table 7). These findings from GCC countries corroborate arguments against Islamic banks that they are introducing a new form of capitalism to the Muslim world that is more concerned with financialization than with their social obligations (Asutay, 2012). Unlike the sampled Islamic banks in GCC countries, Al-Baraka banking group in Bahrain stands out as one of the top three Islamic banks with the highest *Maqasid al-Shariah* index. This is largely explained by the bank's implementation of risk-sharing products and active social engagement, particularly with the adoption of Qardh al-Hassan (see Table 4).

According to Figure 1, the overall *Maqasid al-Shariah* performance of the sample has improved between 2017 and 2021 by about 13% as a result of better disclosure of social and environmental activities by some Islamic banks, as previously discussed in the instance of Dubai Islamic bank. Furthermore, as illustrated in Figure 2, the 5-year *Maqasid al-Shariah* performance for the sampled Islamic banks is 40.43% with an orientation towards the objective of faith followed by life, posterity, wealth, and intellect. The majority of the sampled Islamic banks failed to communicate the required data for the objective of intellect (see table 5) resulting in their contribution being the lowest towards achieving this goal.

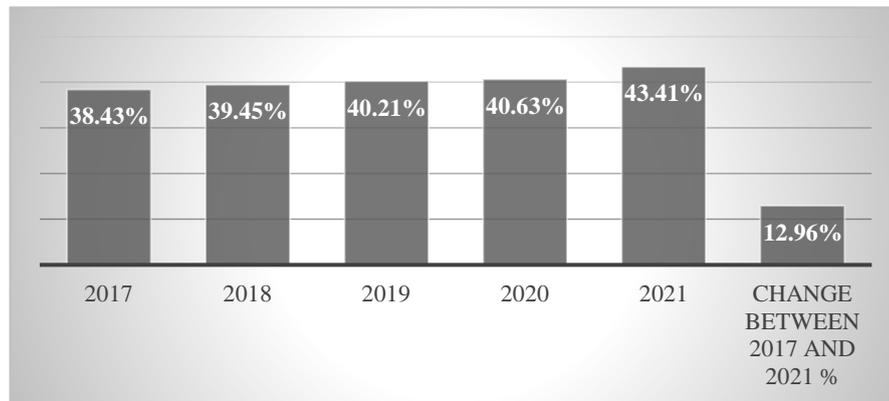


Figure 1. Overall *Maqasid al-Shariah* Performance of the Sample over Years

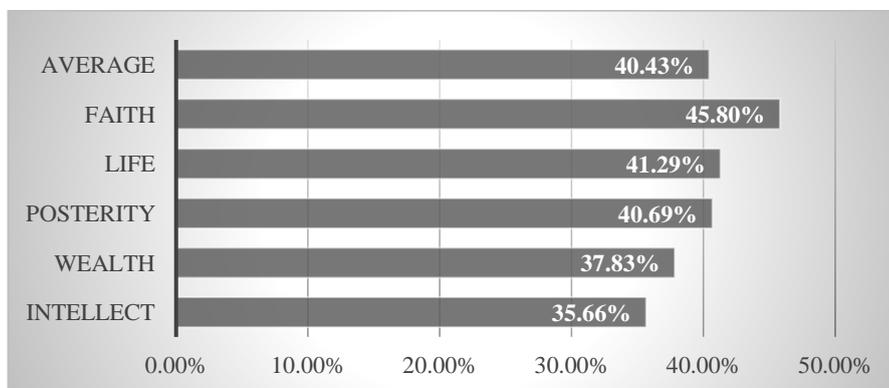


Figure 2. 5-Year Score of the Sample by Objective

CONCLUSIONS

To measure the *Maqasid al-Shariah* compliance of 10 Islamic banks from 10 countries for the period 2017-2021, we develop a *Maqasid al-Shariah* Index (MSI) based on *Imam al-Ghazali’s* concept of *Maqasid al-Shariah*. The results indicate that the top three banks (Meezan Bank, Muamalat Bank and Al-Baraka Banking Group) demonstrated higher PLS products ratio

and better disclosure of their social, ethical, and environmental responsibilities compared to the banks with the lowest MSI (DIB, KFH and Al Rajhi) that showed weak implementation of risk-sharing products and poor communication of activities and information reflecting their *Maqasid al-Shariah* performance. Poor disclosure of ethical and social activities may increase reputational risk and the possibility of losing investors' and consumers' confidence, which would undoubtedly have a negative impact on the performance of Islamic banks in the long-term (Mohamed et al., 2021).

Furthermore, through our review of Islamic banks' annual reports, the term *Maqasid al-Shariah* or the objectives of Islamic law was almost absent, while we noticed the keenness of these institutions in recent years to meet the United Nations' sustainable development goals. Although the realization of sustainable development goals serves the implementation of *Maqasid al-Shariah*, it was expected that Islamic banks would be proactive in being aware of and disclosing their social and environmental role as they lie at the core of their "Islamic" identity. It was extremely disappointing to see that Dubai Islamic Bank, the world's first commercial Islamic bank with more than 40 years of experience, had the lowest *Maqasid al-Shariah* performance in the sample and started disclosing its social and environmental activities only in 2021. As Islamic and economic institutions, Islamic banks are supposed to communicate more on these aspects to reflect accountability and justice not only to stakeholders but ultimately to God (Haniffa & Hudaib, 2007).

As a result, it is vital to create a comprehensive framework and disclosure system that supports and promotes *Maqasid al-Shariah* and takes into account the unique features and values of Islamic financial institutions. This constitutes a collaborative effort between regulators, government authorities, *Shariah* boards, researchers and academicians to shed more light on this issue and work together to promote human well-being and contribute to the socio-economic development of Muslim communities. While this study was limited to measuring *Maqasid al-Shariah* index of 10 Islamic banks over 10 countries, future research may involve a wider sample and may investigate the determinants and factors that can improve Islamic banks' *Maqasid al-Shariah* performance.

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APPENDICES

Appendix A. Table 2. List of Indicators of Maqasid al-Shariah Index

Objective	Dimension	Reference	Element	Indicator	Reference
1. Invigoration of the Human Self/life	D1. Dignity, human brotherhood and social equality	Chapra (2008)	E1. Social Commitment	I1.1. Commitment to social role	Haniffa & Hudaib (2007)
			E2. Healthcare	I1.2. Supporting hospitals and healthcare sector	Tarique et al. (2020)
			E3. Zakat	I1.3. Zakat/ Net Income	Mohammed et al. (2008)
			E4. Qardh al-Hassan	I1.4. Qardh al-Hassan/ Net Income	Mergaliyev et al. (2021)
			E5. Charity	I1.5. Charity/ Net Income	Mergaliyev et al. (2021)
2. Enrichment of Intellect	D2. Advancement of Knowledge	Mohammed et al. (2008)	E6. Arts, sports, cultural, related activities	I2.1. Is the organisation involved in any arts, sports, cultural related activities ?	Mergaliyev et al. (2021)
			E7. Education	I2.2. Supporting schools, universities or any educational projects	Mergaliyev et al. (2021)
			E8. Scholarship or Education Grant	I2.3. Scholarship/Total expenses	Mohammed et al. (2008)
			E9. Research	I2.4. Research expense/ Total expenses	Mohammed et al. (2008)
			D3. Installing new skills and improvement	Mohammed et al. (2008)	E10. Training
3. Enrichment of Faith	D4. Freedom of faith	Mohammed et al. (2008)	E11. PLS Products	I3.1. Mudharaba and Musharaka/ Total financing	Mohammed et al. (2008)

	D5. Shariah compliance	Haniffa & Hudaib (2007)	E12. Non-halal income	I3.2. Disclosure of any unlawful transactions and how gains from such activities have been handled	Haniffa & Hudaib (2007), Mergaliyev et al. (2021)
	D6. Creating awareness about Islamic banking	Mohammed et al. (2008)	E13. Publicity	I3.3. Publicity / Total expenses	Mohammed et al. (2008)
			E14. Conferences	I3.4. Conferences or research in Islamic banking and finance	Mergaliyev et al. (2021)
	D7. Supporting religious activities	Tarique et al. (2020)	E15. Supporting religious activities	I3.5. Is the bank supporting any religious or spiritual activities (Congregational prayers; Ramadan activities; pilgrimage, religious class)	Tarique et al. (2020), Ngalim & Ismail (2014)
4. Development and Expansion of Wealth	D8. Earning Ability	Mergaliyev et al. (2021)	E16. Return on Assets	I4.1. Net income/ Total Assets	Mohammed et al. (2008)
			E17. Return on Equity	I4.2. Net income/ Total Equity	Mergaliyev et al. (2021)
	D9. Minimizing Risk	Tarique et al. (2020)	E18. Solvency Risk	I4.3. Equity / Total Assets	Tarique et al. (2020)
	D10. Reducing Wealth Gap	Tarique et al. (2020)	E19. SMEs	I4.4. SME Financing	Tarique et al. (2020)
E20. Agriculture			I4.5. Agriculture Financing	Tarique et al. (2020)	
5. Enrichment of Posterity	D11. Redistribution of Wealth	Mohammed et al. (2008)	E21. Shareholders	I5.1. Dividends/ Net income	Mergaliyev et al. (2021)
			E22. Depositors	I5.2. Depositors Return/ Total income	Ngalim & Ismail (2014)
			E23. Employees	I5.3. Employees expenses/ Total income	Hudaefi & Noordin (2019)
			E24. Government	I5.4. Tax / Profit before tax	Rahman & Haron (2019)
	D12. Healthy and clean environment	Chapra (2008)	E25. Environmental Role	I5.5. Contribution to environmental improvements (Energy, Paper or Water Savings, screening investments on environmental impact...)	Mergaliyev et al. (2021)

Source: Adapted from related studies

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