

UNIVERSITI TEKNOLOGI MARA

**FINANCIAL IMPACTS ON
MAQASID AL-SHARIAH VALUES
AND ITS REALIZATIONS AMONG
ISLAMIC BANKS IN MALAYSIA**

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AUTHOR’S DECLARATION

I declare that the work in this dissertation was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work unless otherwise indicated or acknowledged as referenced work. This dissertation has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I hereby acknowledge that I have been supplied with the Academic Rules and Regulations for Postgraduate, Universiti Teknologi MARA, regulating my study and research conduct.

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ABSTRACT

Islamic banks' financial performances and growth in Malaysia and other Gulf Country Council countries are the same in both the conventional and Maqasid Al-Shariah scale. Maqasid Al-Shariah ratio (MSR) is used as a performance measure to fulfil Maqasid Al-Shariah functions and reporting practice. However, most Islamic banks still lacking on financial disclosure in delivering the shariah compliance-driven to Maqasid Al-Shariah. This study aims to identify the impact and the relationship between the traditional financial ratios moderated by total assets and age with the Maqasid Al-Shariah ratio (MSR) of Islamic banks in Malaysia. This study also intends to estimate the application level on Maqasid Al-Shariah values by Islamic banks using the data on their financial reporting. The determinants on Maqasid Al-Shariah ratio as performance score on Maqasid Al-Shariah scale of Islamic banks using the sophisticated Fuzzy TOPSIS approach. The Maqasid Al-Shariah ratio as the dependent variable is measured based on the two objectives of Maqasid Al-Shariah, namely establishing justice and public interest. The objectives are classified into six dimensions and next into six elements and represent as the measurement for Maqasid Al-Shariah ratios. The independent variables used are the established conventional financial performance indicators, including the proxies for profitability, liquidity, risk, and solvency ratios. 11 Islamic Banks in Malaysia is used as a study sample covering the recent eight years from 2012 – 2018. The available data were tested and analysed using the panel data regression techniques and Fuzzy TOPSIS approach to determine the score on application level of Maqasid Al-Shariah. Then, each Islamic bank ranked accordingly. The first hypothesis of this study is analysed using the Random Effects model with robust standard error. The empirical findings suggest that the cost to income ratio (CIN), net financing to deposit and borrowings (NFDB), and net financing to total assets (NFTA) significantly impact the MSR. This study found that the CIN and NFDB are positively correlated with the Maqasid Al-Shariah ratio. In contrast, the NFTA is negatively associated with MSR. However, the proxies for profitability are found to be insignificantly correlated with MSR. In contrast, the proxy for liquidity, Financing to Deposit (FD) and risk and solvency (NFTA) were significantly negatively correlated with MSR. Firm size based on total assets is insignificant in moderating the relationship between profitability, liquidity and risk and solvency with MSR. This study found that age significantly positively impacted the relationship between Return on Asset (ROA) with MSR and Equity to Total Assets (ETA) with MSR. These findings suggest that the longer the Islamic banks in the industry, the better the profitability and management of risk for solvency and the MSR application-level achievement. Surprisingly, the findings suggested that only one Malaysian Islamic bank could achieve an above-average level on Maqasid Al-Shariah's values application in their reporting practice. Thus, the results help improve and understand the application levels on Maqasid Al-Shariah pillars and the financial disclosure practice on Maqasid Al-Shariah's elements in the financial reporting for Islamic banks in Malaysia. Hence, there are the needs for full disclosure and specific standard on reporting the Maqasid Al-Shariah financial elements in the financial statement. Further, it assists the users and provides insight into making the right decision, especially in investment in Islamic products, financing alternatives or services.

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