



## **Optimizing Risk Management in Islamic Banks through the Maqasid Syariah Principle in Supporting Sustainable Economic Growth**

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### **ABSTRACT**

*This study aims to analyze how the principles of Maqasid Syariah can be used as a strategic framework in optimizing risk management in Islamic banks, in order to support sustainable economic growth that is inclusive, equitable, and in line with Islamic values. Using a qualitative approach and in-depth literature analysis, this study shows that Maqasid Syariah—which includes the protection of religion, life, mind, descendants, and property—provides a strong moral and philosophical foundation for designing a risk management system that is not only technically efficient, but also socially and environmentally responsible. Through the integration of Maqasid Syariah principles in the process of identifying, evaluating, mitigating, and monitoring risks, Islamic banks can move away from an excessive decommercialization approach and instead build a more balanced financial ecosystem. The study highlights the importance of the "5C" approach (Character, Capacity, Capital, Collateral, Conditions) enriched with ethical and general welfare (maslahah) dimensions, as well as the role of Islamic Corporate Governance (ICG) and Islamic Intellectual Capital in optimizing risk management holistically. The results of the study show that the application of Maqasid Syariah in risk management consistently supports economic sustainability, encourages compliance with sharia principles, while strengthening customer and stakeholder trust. Case studies from institutions such as Bank Syariah Indonesia (BSI) and Bank Mega Syariah demonstrate that this approach is able to create synergy between business growth, social good, and environmental protection — key values in sustainable development.*

**Keywords:** Bank risk management. Maqashid Syariah. Sustainable economy

### **PENDAHULUAN**

The development of modern society today is no longer only focused on the issue of the Industrial Revolution 4.0, but has entered the era of Society 5.0. This concept describes an intelligent society that combines the physical world with the digital world. Society 5.0 is seen as a smart ecosystem that places humans at the center, with the aim of balancing economic progress and solving social problems through integration between digital technology and the real world. This idea was first introduced by Japan and is expected to be able to strengthen the achievement of the Sustainable Development Goals (SDGs), namely efforts to overcome economic problems, maintain



the sustainability of the earth, and ensure the welfare of all humanity. This phenomenon opens up various new opportunities and challenges for the global economic system.(Muslim et al., 2025)

As an alternative economic system based on Islamic values and oriented towards the welfare of the community, Islamic banks have the primary objective of achieving *maslahah* (benefit) and minimizing *mafsadah* (detriment). As part of the Islamic economic instrument, Islamic banks strive to generate profits while adhering to Sharia principles, while simultaneously contributing to social welfare. This objective focuses on balancing various interests, where achieving *maslahah* serves as a means to realize shared prosperity in accordance with the *Maqasid of Sharia*.(Prasojo et al., 2024) In this context, collaboration between Islamic banks and the community to support the Sustainable Development Goals (SDGs) plays an important role in realizing *maslahah*.

Efforts to synergize *Maqasid Syariah* and the Sustainable Development Goals (SDGs) continue to be actively pursued. This emphasizes that the integration of *Maqasid Syariah*, which emphasizes the protection of religion, reason, lineage, and property, is closely aligned with the main targets of the SDGs, such as poverty alleviation, improving the quality of education, and providing decent work. Various Islamic financial instruments have a significant contribution in supporting the implementation of the SDGs by improving the social and economic welfare of the community.(Syarifah, 2025)

## Literature rview

### Risk Managemen

Risk management is a key element in the Islamic banking system, which demands a balance between financial activities and the application of Shariah principles. In this context, *riba* is prohibited, while the profit-sharing system becomes the main alternative, so Islamic banks require a risk management approach that is different from conventional banks. The various risks faced by Islamic financial institutions include credit risk arising from the non-compliance of partners in *Mudarabah* and *Musyarakah* contracts, market risk due to asset value fluctuations, operational risk related to weaknesses in internal processes including Shariah compliance aspects, and liquidity risk arising from imbalances between assets and liabilities..(Mollik & Majeed, 2025)

Credit risk management in Islamic banks has a significant impact on the financial performance of these institutions. In line with conventional banks, the main objective of Islamic banks is to minimize potential risks through effective financial risk management, while also increasing transparency and openness of information(Alamro, 2025). Research in Saudi Arabia shows that the comparison between Islamic banks and conventional banks focuses on the implementation of risk management practices in general from the perspective of reasonable resolution, including in assessing limits. maximum financing and the effectiveness of its resolution. The results of the research also indicate that various types of risks faced by banks affect their financial



performance, both from the aspect of operational practices and risk management strategies..(Aldoseri, 2021)

In the context of Islamic banking in Indonesia, the COVID-19 pandemic is estimated to have a real impact on the increase in the ratio of problematic financing, particularly in the housing financing sector. This condition creates a need for financing assistance policies and debt restructuring for affected customers. Thus, various studies emphasize that credit risk management plays a crucial role in maintaining the performance and financial stability of Islamic banks.

### **Maqasid Syariah**

Maqāsid al Sharī'ah represents the fundamental objectives of Islamic law that serve as the basis for jurisprudence in efforts to achieve human welfare and address modern challenges. This conceptual framework provides space for scholars to interpret Islamic law by emphasizing essence and substantive values, not just formal aspects. This is reflected in financial contract practices, where scholars assess compliance with Sharia principles not only technically but also in relation to broader goals, such as the protection of property and economic justice. The Islamic banking system in Malaysia serves as an example of the application of these principles by evaluating financial products based on the prohibition of riba while also considering their contribution to the economic welfare of society. In the social realm, Maqāsid al Sharī'ah also strengthens family institutions through marriage regulations that emphasize legality, valid documentation, and the involvement of guardians. Furthermore,(Alias et al., 2025)

this framework is used to assess local traditions such as the Sasak divorce practice (beseang) to align with the principles of family welfare protection. Moreover, Maqāsid al Sharī'ah also plays a role in building a harmonious social life through the enforcement of values of justice, freedom, and equality, as highlighted by Manas and Siddeek, who emphasize the role of these principles in creating cross-cultural harmony. In the context of international relations, this framework serves as an evaluative instrument for Islamic countries in assessing the compatibility of global agreements with Islamic values. At the ethical and spirituality level, Maqāsid al Sharī'ah also encompasses the dimension of personal development. Norman and Ruhullah assert that the purification of the soul (tazkiyat al nafs) is an integral part of achieving higher Sharia objectives, as mere compliance with the law will not be meaningful without the internalization of moral and spiritual values..(Samad, 2020)

### **RESEARCH METHOD**

This research uses a descriptive qualitative approach with a literature study method aimed at analyzing how the principles of Maqasid Syariah can be used as a strategic framework in optimizing risk management in banks. Shariah aims to support sustainable economic growth. Data collection was obtained from various secondary sources, such as scientific journals, academic books, annual reports of sharia banks (especially Bank Syariah Indonesia and Bank Mega Syariah), as well as policy documents relevant to the topic of sharia-based risk governance. Data analysis was conducted using content analysis techniques through the process of reviewing,



categorizing, and interpreting literature to identify patterns of integration of Maqasid Shariah values including justice (al ‘adl), public benefit (al mashlahah), and sustainability into the risk management framework. This approach allows for a deep understanding of how the application of Maqasid Shariah not only maintains financial stability but also promotes social justice, environmental responsibility, and public welfare in accordance with the principles of Islamic economics (Sugiyono, 2015).

## DISCUSSION

### **Maqasid Shariah as a Strategic Framework for Risk Management**

Maqasid Shariah is a framework of the objectives of Islamic law that places protection of five main elements, namely, religion (din), life (nafs), intellect (aql), lineage (nasl), and property (mal) as the basis for the design of policies and practices in Islamic finance. In the context of risk management, this framework is not only normative but also serves as a strategic guideline to create a risk management system that is just, sustainable, and oriented towards the public good. The principles of Maqasid guide sharia banks so that every policy and business decision does not solely pursue financial profit but also considers social, ethical, and environmental impacts, ensuring that economic activities remain within the corridor of human welfare as a whole (Rusydziana & Ali, 2022)

The application of Maqasid principles also encourages sharia financial institutions to avoid exploitative and speculative practices such as *riba*, *gharar*, and excessive uncertainty that can lead to systemic risks and social inequalities. Protection of the five elements of maqasid encourages the creation of an ethical, transparent, and responsible business system. In the context of governance, sharia values strengthen the integrity of financial institutions through the application of business ethics and public accountability. Several studies affirm that the implementation of risk governance and maqasid-based codes of ethics can prevent corrupt behavior, reduce reputational risks, and enhance public and regulatory trust in the sharia banking industry (Kacem & Harbi, 2022).

In line with conceptual developments, various studies have developed maqasid-based performance measurement tools such as Maqasid Shariah Performance (MSP) and Maqasid Shariah Index (MSI). This measurement model assesses the performance of sharia banks through three main dimensions, namely education, justice, and public interest. This approach shifts the focus of performance assessment from mere profitability to social welfare and the well-being of the community. For example, research on Bank Syariah Indonesia (BSI) and Bank BCA Syariah shows that the application of the Maqasid Shariah Index can assess risiko tetap berlandaskan pada nilai keadilan dan kemaslahatan publik (Antonio et al., 2020).

In the era of financial and digital innovation, the application of Maqasid Syariah becomes increasingly important in facing new risks arising from digital transformation and modern financial products. The maqasid framework demands a balance between the efficiency of innovation and protection of *maslahah*. Innovative products can indeed enhance the efficiency and competitiveness of banks, but they also have the potential



to create ethical, social, and technological risks that need to be proactively mitigated. Therefore, the integration of Enterprise Risk Management (ERM) with maqasid principles is necessary so that innovation remains within the bounds of moral values and justice. On the other hand, strengthening governance through Environmental, Social, and Governance (ESG) disclosure also plays an important role in maintaining alignment between maqasid principles and stakeholder expectations. The application of maqasid-based ESG encourages transparency, accountability, and public trust in Islamic banking (Amjad et al., 2023).

Overall, the application of Maqasid Syariah principles in risk management provides a strategic direction for Islamic banks to balance between Shariah compliance, profitability, and social sustainability. By using measurement tools such as MSP or MSI, banks can design risk policies oriented towards financial education, social inclusion, and fair wealth distribution. The synergy between Maqasid Syariah, governance ethics, and ESG practices makes Islamic banks more resilient in facing crises, more credible in the eyes of the public, and actively involved in equitable economic development. Through this approach, Islamic banking has the potential to become a financial instrument that not only optimizes financial performance but also provides a positive impact on society and the environment (Rusydia & Ali, 2022).

### **Integration of Maqasid Syariah Principles in Risk Management Stages**

The integration of Maqasid Syariah principles in the stages of risk management offers a strong ethical foundation for Islamic banks to not only pursue financial results but also public welfare, social justice, and environmental sustainability. Maqasid Syariah classically emphasizes the protection of five essential elements: religion (din), life (nafs), intellect (aql), lineage (nasl), and property (mal), which are the objectives of Islamic law in the context of Islamic banking. In practice, Maqasid serves as a guide so that the bank's risk policies do not merely avoid elements of *riba* or *gharar*, but also steer clear of practices that cause injustice, excessive uncertainty, and environmental impacts that harm the wider community. This approach makes the risk management of Islamic banks more oriented towards the values of public welfare and social sustainability (Alwi et al., 2021).

As a performance evaluation tool, researchers have developed the Maqasid Shariah Performance (MSP) framework and the Maqasid Shariah Index (MSI) to assess non-financial dimensions such as education (*tahdzib al fard*), justice (*al 'adl*), and public interest (*al mashlahah*). Abu Zahrah's model of Maqasid Syariah serves as the basis for measuring *maslahah* holistically, balancing the aspects of shariah, economy, social, and ethics in bank performance. Empirical studies in Indonesia show that these indicators have been used to assess the performance of sharia banks such as Bank Syariah Indonesia (BSI), although improvements are still needed for optimal maqasid achievement. This approach strengthens the relevance of ethics and public welfare as important components in measuring sustainable performance (Maharani & Rahmawati, 2021).

The risk identification stage in the Maqasid framework emphasizes mapping threats to *maslahah* protected by the five main objectives of maqasid. Governance risk,



ethics, and shariah compliance become important components to detect potential risky practices such as excessive gharar, exploitation, or misuse of customer data. Research on risk governance emphasizes that weaknesses in ethical governance often contribute to risk failures and weaken institutional sustainability. Therefore, risk identification needs to be based on Maqasid principles and reinforced with sound governance practices. In addition, financial innovation and digital transformation also require an Enterprise Risk Management (ERM) approach that is sensitive to ethical and social risks, so that the risk management system is not solely driven by financial considerations (McGrath et al., 2024).

In the risk evaluation and mitigation stage, Maqasid demands a shift in focus from profit measurement to strengthening the dimensions of shariah compliance, social justice, and public welfare. The MSP and MSI models serve as tools to integrate education, justice, and maslahah indicators into the risk mitigation process. In practice, Good Corporate Governance (GCG) based on maqasid values can enhance transparency, accountability, and fair resource allocation. Furthermore, sharia product and service innovations must also be designed according to maqasid principles to minimize social risks, such as access inequality and contract injustice. For example, the design of time deposit products and digital services based on maslahah can increase public trust and strengthen the sustainability of sharia banks (Masruchin et al., 2023).

The risk monitoring and reporting stage in the Maqasid framework functions to ensure accountability, transparency, and alignment between shariah objectives and public interests. The integration of Environmental, Social, and Governance (ESG) disclosure becomes an important mechanism to reduce reputational and operational risks, while affirming the bank's commitment to sustainability values. Maqasid-based reporting not only measures financial efficiency but also social impact, education, and justice in the distribution of benefits. In the context of digitalization, studies on ethics and AI governance highlight the importance of monitoring ethical risks in financial innovation, so that technological developments remain aligned with the principles of public maslahah (Kashyap et al., 2025; Maharani & Rahmawati, 2021; Masruchin et al., 2023; Puspitasari et al., 2024; Yuri et al., 2021; Zainuri et al., 2023; McGrath et al., 2024).

Overall, the application of the Maqasid Shariah principles in all stages of risk management-identification, evaluation, mitigation, and monitoring-provides a comprehensive direction for strengthening stability, justice, and sustainability in Islamic banking. The integration of maqasid values into risk policies has proven to strengthen governance, encourage ethical innovation, and enhance public trust in the Islamic financial system. In the context of Indonesia, the application of the Maqasid Shariah Index (MSI) and Maqasid Sharia Performance (MSP) in institutions such as BSI shows a positive direction towards achieving broader public welfare, although improvements in consistency and strengthening of maqasid-based policies are still needed (Antonio et al., 2020; Prasetyo & Rofiah, 2021; Zainuri et al., 2023; Sulistiawati & Fithria, 2021).



### **Strengthening Ethical Values through the 5C Approach and Islamic Governance**

The 5C approach (Character, Capacity, Capital, Collateral, Conditions) has long been a main foundation in financing feasibility analysis to assess the quality of potential customers. When this concept is enriched with the value of *maslahah* - namely public welfare and supported by Islamic Corporate Governance (ICG) and Islamic Intellectual Capital (IIC), the 5C framework evolves into an evaluation instrument that not only assesses financial feasibility but also ethical commitment, transparency, and social responsibility of Islamic financial institutions. In the context of Islamic banking, this synergy encourages decision-making based on integrity and accountability, while emphasizing the importance of the social impact of every financing decision as part of risk quality. Various studies show that the integration of 5C with *maqasid* principles and sharia governance can enhance the reliability of risk assessment and the quality of financing portfolios (Andini & Hamka, 2020).

The integration between 5C and *maslahah* shifts the focus of financing analysis from mere financial nominality to an evaluation that weighs the impact on the five main objectives of *maqasid*: religion (*din*), soul (*nafs*), intellect (*aql*), lineage (*nasl*), and wealth (*mal*). In its application, the 5C assessment not only includes customer character (Character), business capability (Capacity), capital (Capital), collateral (Collateral), and economic conditions (Conditions), but also considers social and economic implications and justice in the financing process. The emphasis on *maslahah* guides financial institutions to ensure that financing contributes to public welfare, reduces exploitative risks, and protects the rights and assets of the community. Several studies indicate that the 5C principle has been widely used in assessing financing feasibility in various sharia institutions, including BMT and large sharia banks, and that the integration of 5C with prudence principles (risk control) strengthens the effectiveness of risk management (Adhom et al., 2023). Furthermore, the development of the 5C+1S (Sharia) concept emphasizes that compliance with sharia principles is a key element in risk evaluation (Hadratullah & Sejati, 2024).

Intellectual Capital (IIC) is very important in strengthening the ethics, risk performance, and sustainability of Islamic banks. ICG and IIC function through three main pathways, namely: (1) disclosure of governance and Shariah compliance as a transparency mechanism, (2) utilization of Islamic intellectual capital to enhance organizational knowledge and product innovation that aligns with *maqasid*, and (3) integration of *maqasid* values in product design and risk policy. Empirical studies show that the disclosure of GCG, zakat, and Islamic ethics contributes to increased transparency, accountability, and protection of public welfare (Prativi et al., 2021). In addition, good governance with an appropriate board composition and compliance with Shariah principles has been proven to enhance *maqasid* performance and strengthen stakeholder trust (Sumartiningrum & Salahuddin, 2022).

The synergy between 5C, ICG, and IIC produces a more holistic and value-based risk evaluation framework. In this framework, 5C is used to assess the technical feasibility of financing, while *maqasid* and governance function as filters for ethical and social values. This approach ensures that credit, liquidity, and operational risks are assessed based on the impact on public welfare. Research results indicate that the



application of 5C accompanied by Islamic governance can enhance the reliability of financing decisions and reduce the level of problematic financing. On the other hand, transparency and accountability within the ICG and IIC framework provide added value for investors and customers through increased trust and the application of business ethics consistent with maqasid (Alfarasi et al., 2023; Hadratullah & Sejati, 2024; Prativi et al., 2021; Sumartiningrum & Salahuddin, 2022).

In the context of practical implementation, several studies in Indonesia and neighboring countries show that 5C remains relevant as a primary feasibility analysis instrument combined with maqasid values, ICG, and IIC. This approach has proven to enhance the effectiveness of risk management, strengthen the stability of financing portfolios, and expand Islamic financial inclusion. The combination of Islamic governance and Islamic intellectual capital also strengthens product innovation in finance based on public welfare and social responsibility (Adhom et al., 2023; Alfarasi et al., 2023; Hadratullah & Sejati, 2024; Krisnaningsih et al., 2022; Sumartiningrum & Salahuddin, 2022).

Overall, the synergy of 5C, ICG, and Islamic Intellectual Capital forms an ethical, welfare-oriented, and sustainable risk management framework. This approach not only enhances the quality of financing portfolios but also strengthens the integrity of institutions, transparency, and social responsibility of Islamic banks. Thus, the combination of 5C, Islamic governance, and Islamic intellectual values reinforces the ability of Islamic banks to maintain stability, expand financial inclusion, and generate tangible social benefits for the community (Andini & Hamka, 2020; Adhom et al., 2023; Prativi et al., 2021; Alfarasi et al., 2023; Hadratullah & Sejati, 2024; Putra & Sa'adah, 2024; Zainuri et al., 2023).

### **The impact on economic growth and sustainability**

of the application of Maqasid Shariah significantly influences economic growth and the sustainability of Islamic financial institutions because it combines economic objectives with public welfare, social justice, and environmental protection. In the context of Indonesia, empirical research shows that the Maqasid Shariah Index (MSI/MSP) and maqasid-based governance practices not only improve financial performance but also strengthen institutional stability and foster perceptions of justice among customers and stakeholders (Zainuri et al., 2023; Nastiti, 2023).

Theoretically, public welfare (maslahah) becomes the ultimate goal that transcends short-term profit achievement, making Islamic banks more resilient to market risk pressures and reputational risks when governance and ethics are applied consistently. This approach also encourages financial service innovations that are adaptive to community needs without neglecting Shariah principles, thus contributing to financial inclusion and a more equitable distribution of benefits (Nastiti, 2023).

Case studies at Bank Syariah Indonesia (BSI) and Bank Mega Syariah demonstrate how the integration of maqasid values in risk management and product design supports sustainable growth. At BSI, the application of MSI/MSP is translated into three main indicators-education (Tahdzib al Fard), justice (Al 'Adl), and public interest (Al Maslahah) which influence product policies and risk management (Putra



& Sa'adah, 2024; Zainuri et al., 2023; Masruchin et al., 2023). This approach makes BSI's financial products more inclusive and aligned with maqasid principles. Meanwhile, at Bank Mega Syariah, the application of the prudential principle within the maqasid framework has proven to enhance the quality of the financing portfolio and reduce the non-performing financing (NPF) ratio, while simultaneously strengthening financial stability and Shariah compliance (Hadratullah & Sejati, 2024). The combination of maqasid, transparent governance (Islamic Corporate Governance/ICG), and Islamic Intellectual Capital (IIC) encourages more ethical, accountable decision-making oriented towards public welfare, thereby increasing trust and the reputation of Islamic financial institutions (Pratиви et al., 2021).

Practically, the application of the expanded 5C framework with the dimension of *maslahah*, reinforced by ICG and IIC, results in a more comprehensive risk evaluation system. In this model, the feasibility analysis of financing not only assesses the capacity and collateral of the debtor but also considers aspects of social justice, environmental impact, and potential benefits for the community. The integration of maqasid values in the 5C assessment encourages the avoidance of exploitative practices and promotes inclusive financing access (Pratиви et al., 2021; Sumartiningrum & Salahuddin, 2022). Furthermore, increased transparency through Environmental, Social, and Governance (ESG) disclosure and maqasid-based corporate governance has proven to strengthen the credibility and stability of Islamic financial institutions (Pratиви et al., 2021; Nastiti, 2023). Product innovations such as education savings and *murabahah* financing designed based on *maslahah* also enhance public trust and community welfare (Putra & Sa'adah, 2024).

Overall, the application of Maqasid Syariah in risk management has proven to enhance the effectiveness and resilience of Islamic financial institutions through the strengthening of integrity, accountability, and sustainable socio-economic orientation. This approach reinforces the synergy between profitability and social responsibility, creating a balance between economic growth and public welfare.

Through the integration of the Maqasid Syariah Index, ethical governance (ICG), and the optimization of Islamic intellectual capital (IIC), Islamic financial institutions in Indonesia have the potential to become the main driver in sustainable economic development that aligns with Islamic values (Zainuri et al., 2023; Pratиви et al., 2021; Sumartiningrum & Salahuddin, 2022; Putra & Sa'adah, 2024; Masruchin et al., 2023; Hadratullah & Sejati, 2024; Nastiti, 2023; Budiman et al., 2021).

## CONCLUSION

The application of Maqasid Syariah in Islamic banking risk management forms a new paradigm that places ethical values, justice, and public welfare at the core of every financial policy. The maqasid framework, which emphasizes the protection of five essential elements: religion, life, intellect, lineage, and property, serves as a strategic foundation in creating a risk management system that is not only profit-oriented but also focused on social welfare and economic sustainability. The integration of Maqasid Shariah Performance (MSP) and Maqasid Shariah Index (MSI) has proven effective in assessing the non-financial performance of Islamic banks through the dimensions of



education, justice, and public interest. This approach shifts the performance focus from profit measures to achieving broader welfare. On the other hand, the application of Enterprise Risk Management (ERM) synergized with maqasid principles and the disclosure of Environmental, Social, and Governance (ESG) strengthens governance, transparency, and accountability of Islamic financial institutions. The synergy between the 5C approach, Islamic Corporate Governance (ICG), and Islamic Intellectual Capital (IIC) creates a more comprehensive, ethical, and sustainable risk management system. This approach not only improves the quality of financing portfolios and reduces problematic financing but also expands financial inclusion and strengthens public trust. Overall, the integration of Maqasid Syariah principles in all stages of risk management, from identification to reporting, has enhanced the stability, credibility, and sustainability of Islamic financial institutions. Thus, Islamic banking has the potential to become the main driver in the development of a just, ethical economy that is oriented towards the welfare of the community through the strengthening of maqasid values, Islamic governance, and public welfare-based financial innovation.



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