

# Assessing Shariah Disclosure in Pakistan: The Case of Islamic Banks

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## Abstract

The foundation of Islamic banking and finance is based on the Islamic law of business transactions/ *muamlat*, which also confines to the moral and ethical codes of Islam. Also, the involvement of Shariah and Islamic ethics in the governance structure of Islamic banks gives rise to a special kind of disclosure issue called Shariah disclosure. The literature suggests, that stakeholders, including customers and shareholders, use Shariah disclose as core criteria to direct their transactions with Islamic Banking Institutions (IBIs). However, the available disclosure indices in the established literature are not insufficient for assessing Shariah disclosure of the IBIs. The present research study attempts to assess the level of Shariah disclosure of five full-fledged Islamic banks in Pakistan. For this purpose, the study developed Shariah Disclosure Index (ShDI). ShDI will be used as the basis upon the disclosure requirements of State Bank of Pakistan (SBP), Accounting and Auditing Organizations for Islamic Financial Institutions (AAOIFI), and Islamic business reporting literature. A survey design is used to collect the data for ShDI constructs by utilizing annual reports of the five full-fledged banks from the year of 2015 until 2017. The findings disclosed that the Shariah disclosure in Pakistani Islamic banks is satisfactory i.e., near 70% compared 30% Shariah disclosure of the foreign Islamic banks operating in Pakistan. It is appreciable that all the Islamic banks, particularly Pakistani Islamic banks, disclosing about 80%-90% of the SBP mandatory and AAOIFI recommended Shariah disclosure items. While, disclosure of the voluntary Shariah disclosure items are still very low i.e. 15%. It is also noted that the Shariah disclosure level was gradually improving which portrays in the increment of the average Shariah disclosure level in 2017 compared to 2015. The research provides a benchmark and indicator for all stakeholders who are making their investment and business decisions. In addition, the study is equally important for IBIs to comply with ShDI to ensure full Shariah disclosure in order to attract new investors, religiously excluded investors, and protect the ideological stance and religious commitments of the existing customers as well.

**Keywords:** Islamic banking, Islamic financial inclusion, Shariah Disclosure Index (ShDI), Shariah governance, Shariah report.

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## 1. Introduction

Islamic banking and finance is a unique kind of banking phenomenon, which is purely based on the Islamic law of business transactions/*muamlat* (Jan & Asutay, 2019). Islamic banking is also known as ethical banking as it also stands on the Islamic business ethical values. Furthermore, the involvement of Shariah in the banking operations, activities, governance, investment, and products and services designing give rise to a special kind of disclosure issue called Shariah disclosure. Thus, it is not the additional, but fundamental responsibility of the Islamic banks to ensure full disclosure and transparency of their internal governance environment and compliance with Shariah. Many scholars argued that to protect their ideological stance and religious commitments, Muslims customers are very keen to know the Islamicity of the Islamic banks' operations, activities, governance, investment, and products and services designing (Gilani, 2015; Grais & Pellegrini, 2006; Al-Mehmadi, 2004). Normally, the existing customers select their investment and business decisions provided by Islamic banking institutions based on Shariah disclosure. Therefore, Shariah disclosure is very essential not only for the existing Muslims customers but also for other potential customers across the world including non-Muslims.

The present research study attempts to assess the level of Shariah reporting and disclosure in Pakistan's five full-fledged Islamic banks. To meet the objective of the study the study first developed a Shariah Disclosure Index (ShDI) by considering the Shariah reporting requirements of State Bank of Pakistan (SBP) Shariah governance framework-2018, AAOIFI, and others Islamic reporting literature. The sample size of the study is Pakistan's five full-fledged Islamic banks. Their annual reports analyzed over the period 2015-2017. Survey design is used to achieve the objectives of the study. The research provide a benchmark for the Islamic bank's stakeholders in making their investment and business decisions based on Shariah reporting and disclosure.

### 1.2. Significance of the research

The current research is a first study of its kind, which is primarily focusing on the *Shariah* reporting and disclosure in Pakistan's Islamic banking institutions. The study also is an attempt to provide a benchmark for Islamic reporting to Pakistan's Islamic banking institutions. By constructing *ShDI*, the study primarily focus on the existing regulatory disclosure requirements, AAOIFI disclosure requirements, and other disclosure items as discussed in the pertinent literature. The study will contribute to the existing literature of *Shariah* reporting in Islamic banking and finance especially in Pakistan's perspective. This study also help in designing optimal policies on *Shariah* reporting and disclosure for Pakistan's Islamic banking and finance industry. Furthermore, the research will provide a benchmark and indicator for all concern

and potential stakeholders who are making their investment and business decisions based on the Islamic banks' *Shariah* reporting and disclosure. Besides, this study also provides important concern on the inclusion of the financial investors, who are excluded because of their difference ideological stance and commitment to *Shariah*.

### 1.3 Research gap

The literature available related to the Islamic corporate governance principles and disclosure covered a lot about financial, governance, and corporate statements disclosure. While, little literature is available related to the *Shariah* disclosure framework in IBIs. Furthermore, so far in Pakistan, there is no study exist for assessing the *Shariah* reporting and disclosure in IBIs. Therefore, the present study is an attempt to fill this gap through developing *ShDI* by considering the existing regulatory disclosure requirements, AAOIFI disclosure requirements, and volunteer disclosure items explored in the prior pertinent literature.

## 2. Literature Review

According to Grassa (2013), *Shariah* governs all aspects of the IBIs' which adds additional values to the existing corporate governance (CG) structure Islamic banks. Therefore, *Shariah* generated special kinds of corporate governance challenges in the Islamic banks. The involvement of *Shariah* experts in the CG activities of an Islamic bank gives rise to some unique issues, such as, independency, confidentiality, competency, consistency, and disclosure (Grais & Pellegrini, 2006; Zainuddin & Nordin, 2016; Hasan, 2011). While, Hamid, Ubud, Djumahir, & Siti (2016) and Grassa (2013) added transparency and reputation, respectively, in the list of issues that arise due to the engagement of *Shariah* advisors in the Islamic bank's corporate governance system.. *Shariah* reporting and disclosure refers to the communication of *Shariah* information to all the concern stakeholders. Gilani (2015) argued that Islamic business ethical values are the salient features of the Islamic financing modes that attract the financial stakeholders. Stakeholders, whether existing or potential, usually rely on the Islamic banks' annual reports while making their decisions on investment or any other sort of financial decisions (Othman, Thani, & Ghani, 2009). This prove that to protect their ideological stance and religious commitments, Muslims customers are very keen to know the Islamicity of the Islamic banks' operations, activities, governance, investment, and products and services designing (Jan, Khan & Ullah, 2018; Jan, Ullah & Asutay, 2015; Jan, Ullah & Asutay, 2016).

Raharja (2011) also argued that IFIs must comply with the *Shariah* in all condition. Therefore, there is an existence of high demand on the *Shariah* compliance to ensure full disclosure for all banking activities, operations, products, and services.

The involvement of Shariah in the corporate governance arrangement of Islamic banks gives rise to a special kind of disclosure issue called Shariah disclosure and reporting (Grassa, 2013; Grais & Pellegrini, 2006; Hasan, 2012; Srairi, 2015; Askari, Iqbal, Krichenne, & Mirakhor, 2010). Disclosing information, concern to Islamic products and services, attract the potential investors who are conscious about the Islamicity of bank's activity (Grassa, Chakroun, & Hussainey, 2018). It means that Islamicity and Islamic ethical identity is the fundamental determinants which make Islamic banking become the first choice of Muslims investors. Therefore, higher Shariah reporting and disclosure strengthen the confidence of both the existing and potential investors in IBIs.

Ismail, Jan, & Ullah (2018) established a detailed study on the Shariah attributes that should be disclosed in the annual reports of Islamic banks. Their inquiry is very comprehensive in the sense that it covers three important dimensions of the Shariah disclosure framework i.e. Shariah disclosure information, mechanisms of Shariah disclosure, and adaptability in Shariah disclosure. Regarding disclosure of Shariah information in the annual report of IFIs, the authors recommended that institutions shall disclosed about their investment avenues along with proof of Islamicity, Shariah appraisal of the developed products and services, and showing Shariah compliance through actions. Said, Abd Samad, Mohd Sidek, Ilias and Omar (2018) constructed Maqasid index, based on disclosure analysis, for evaluated the performance of Islamic banks. They access Islamic banks based on the disclosure of Islamic banks' contributions toward the objectives of Shariah. Maali, Casson, & Napier (2006) emphasized on the disclosure of IFIs' justly dealing with their employees, customers, and all other stakeholders. Sugianto & Harapan (2017) suggested that IFI shall disclose details of their charities given to the poor and needy people. Zubairu, Sakariyau, & Dauda (2012) explored an important attribute that an IFI's shall disclose in their annual report and that is the disclosure of an institution's commitment toward its debtor.

In the established Shariah governance disclosure literature, there are different indexes developed for evaluating the Islamic business ethical and Shariah reporting of IBIs. Abdullah, Percy, & Stewart (2015) developed Voluntary Corporate Governance Disclosures Index (VCGDI) for evaluating reporting level in southeast Asian and GCC Islamic banks; Albassam & Ntim (2017) developed Islamic Values Disclosure Index (IVDI) for measuring the level of Islamic reporting in Saudi's Shariah compliant companies; Inten & Devi (2017) constructed Islamic Social Reporting Index (ISRI) for valuating Islamic social reporting in Indonesian and Malaysian Islamic banks; Masruki, Hanefah, & Wahab (2018) developed Shariah Supervisory Board Index (SSBI) for measuring the level of Shariah supervisory board related information in Malaysian Islamic banks; Noordin, Kassim, Prabangasta, & Hayeeyahya (2015) developed Shariah

governance Disclosure Index (SDI) for measuring the level of Shariah governance reporting in Malaysian Islamic banks; Ousama & Fatima (2010) constructed Islamic Disclosure Index (IDI) for assessing the level of Islamic reporting in Shariah approved companies listed on Bursa Malaysia; Abdullah, Percy, & Stewart (2013) developed Shariah Supervisory Board Index (SSB Index) for measuring Shariah reporting in Malaysian and Indonesian Islamic banks; El-halaby, Hussainey, & El-Sood (2015) developed SSB Disclosure Index for measuring Shariah compliance in 23 Islamic banks globally; Haniffa & Hudaib (2007) constructed Ethical Identity Index (EII) for measuring ethical reporting in Malaysian and Indonesian Islamic banks; Asutay & Harningtyas (2015) developed Maqasid al-Shariah Index for valuating Maqasid al-Shariah through Islamic banks' activities.

### **3. Methodology of the Research**

#### **3.1. Type of research and research design**

The research is applied in nature in which the purpose is to assess the level of *Shariah* disclosure and reporting in Pakistan's full-fledged Islamic banks. Research design is based on the nature of the data collection technique. Primarily, survey design used in this study in which items of the self-constructed index were investigated in the sample Islamic banks' annual reports. Therefore, based on the established evidences,, survey design is an ideal and the most appropriate method for indexation and comparing studies (Belal, Abdelsalam, & Nizamee, 2015; Blancone, Shakhathreh, & Radwan, 2016; Hassan & Syafri Harahap, 2010). In this study all five full-fledged Islamic banks, listed on SBP website, are used for data collection. Total 27 reports, including both annual reports and *Shariah* reports, were analyzed over the period of 2015-2017. *ShDI* will be constructed based on the SBP's *Shariah* governance framework-2018, AAOIFI disclosure requirements, and some prior Islamic reporting literature.

#### **3.2. Data collection and information**

The secondary data will be collected from the annual reports of Pakistan's full fledged Islamic banks. Currently, there are five full fledged Islamic banks in Pakistan namely Meezan Bank Limited (MEBL), Bank Islami Pakistan Limited (BIPL), Dubai Islamic Bank Limited (DIBL), Al-Barakah Bank Pakistan Limited (ABPL), and MCB Islamic Bank Limited (MIBL). Three years data, both financial report and *Shariah* report, collected over a period 2015-2017. The reason is that MIB is comparatively a new bank which is established in 2015 and their annual reports are available from 2015. Both the financial reports and *Shariah* reports of these Islamic banks are available on their respective websites. Therefore, these websites are approached for data collection.

**Table 1:** List of Annual Reports Collected from Pakistan's Full-fledged Islamic Banks' Websites.

Name of the Islamic Bank	2015	2016	2017	Total
Meezan Bank Limited	FR*+SR**	FR+SR	FR+SR	6
Bank Islami	FR+SR	FR+SR	FR+SR	6
Dubai Islamic Bank Pakistan	FR	FR	FR+SR	4
Albaraka Bank Pakistan	FR+SR	FR+SR	FR+SR	6
MCB Islamic Bank	SR	FR+SR	FR+SR	5
Total Reports				27

\* FR - Financial Report, \*\* SR - Shariah Report

### 3.3. Data analysis

The data collected from the annual reports analyzed by using disclosure analysis approach in which *ShDI* items were investigated. Disclosure analysis approach is an ideal approach when the study aims to investigate for items in documents (Platonova, 2014; Zafar & Sulaiman, 2018; Ahmed & El-belihy, 2017) already on the ethical banking horizon, the Islamic banking model (in theory) already on the ethical banking horizon, the Islamic banking model (in theory) already on the ethical banking horizon, the Islamic banking model (in theory). For scoring the index themes, binary or dichotomous value approach were adopted which is frequently followed in the prior similar studies (Albassam & Ntim, 2017; Triyuwono & Kamayanti, 2014; Harun, 2016) annual reports of GCC Islamic banks for the period 2010- 2014 are analysed using manual content analysis, which involves 195 observations of 39 Islamic banks. The CSR disclosure index is constructed based on 11 dimensions using AAOIFI standard no 7, 2010. An ordinary least square (OLS; Rahman, Danbatta, & Saimi, 2014; Ibrahim, Wirman, Alrazi, & Pramono, 2004; Haniffa & Hudaib, 2007; Darmadi, 2013; Abdullah et al., 2015). According to the approach, if an Islamic bank disclosing a particular theme, in their annual report, so it will score 1 otherwise 0, if not disclosing. Furthermore, the following formula for calculating *ShDI* is inspired from the work of Haniffa & Hudaib (2007); Ibrahim et al. (2004); and Kamla & Rammal (2013). *ShDI* for a bank calculated as:

$$ShDI = \frac{\sum ADT}{N^{th} EDT} \times 100$$

Where

$\sum ADT$  = Sum of actual disclosed themes

$N^{th} EDT$  = Total number of expected disclosure themes

Higher the ShDI value represents best *Shariah* disclosure and reporting practices and vice-versa.

#### 4. Developing *Shariah* Disclosure Index (ShDI)

ShDI is a specific kind of index developed to compare the expected disclosure items with the actual Islamic banks' *Shariah* disclosure practices. Indexation is a process in which the developer compared designed models with real system parameters (Ullah, 2014). In addition to it, it is also the *Shariah* responsibility of the Islamic banks to ensure full disclosure especially Islamicity disclosure (Abdullah & Syariati, 2016; Herwiyanti, MA, & Rosada, 2005; Obid & Hajj, 2011). Therefore, to ensure full *Shariah* disclosure, the present study is an attempt to develop a comprehensive and adequate index for evaluating the *Shariah* disclosure level of Islamic banks. ShDI were constructed by following the below fundamental steps.

*Step-I:* Reviewing of prior literature on *Shariah* and Islamic corporate governance indexation. These literatures include SPB's *Shariah* governance framework-2018, original and high quality journal papers regarding *Shariah* disclosure, and AAOIFI's governance standards.

*Step-II:* Key *Shariah* disclosure themes were identified from the prior literature and then categorized it in three different sets. According to Raharja (2011) in accounting and financial system, there are three broad categories of disclosure, mandatory, recommended and voluntary. In present study, mandatory disclosure refers to the native regulator(s), recommended disclosure refers to the standards or guidelines by the international standard setting agencies, and the voluntary disclosure refers to the recommendations of the prior original studies. The themes are categorized based on SBP's mandatory themes, AAOIFI's recommended themes, and prior studies' voluntary disclosure themes. There are total 53 themes in which 27 were extracted from SBP-*Shariah* governance framework-2018, 6 from AAOIFI's governance standards, and 20 from prior studies.

*Step-III:* Coding of themes is the third step of ShDI development. In this step themes were coded based on their respective class and number. SBP's mandatory themes represented by SDR which means SBP's SGF Disclosure Requirements, AAOIFI's recommended themes represented as ASDR which refers to AAOIFI's *Shariah* Disclosure Requirements, and themes extracted from prior studies were symbolized as VSDI which means Voluntary *Shariah* Disclosure Items. All the extracted themes and their respective codes are mentioned in the following Table: 2, Table: 3, and Table: 4.

*Step-IV:* In fourth step, themes of each set were scored based on dichotomous or binary value system approach. According to this approach, each theme scored by 0-1

or 0-0.75 or 0-0.5. If the SSDR's theme disclosed in the bank annual report so it will score 1 otherwise 0. In the same way, if a particular ASDR theme disclosed in the bank annual report so it will score 0.75 otherwise 0. Similarly, if the bank disclosed a particular VSDI's theme in their annual report so it will score 0.5 otherwise 0. The score of the entire 53 themes is 41.5.

*Step-V:* Calculation of ShDI or indexation for each Islamic bank is the fifth step of ShDI. In this step the achieved score of each Islamic bank is multiplied with 100 and then divided by the ideal desired score of ShDI which is 41.5. The final value is the ShDI score in term of percentage. Higher the ShDI value indicates higher *Shariah* disclosure in the particular Islamic bank while lower the ShDI value indicates lower *Shariah* disclosure.

**Table 2:** Themes Extracted from IBD-SBP's Shariah Governance Framework-2018.

No	Theme's Code	Description of Theme	Theme's Score
1	SSDR*-1	The bank's annual Shariah report published in English in its annual report.	0-1
2	SSDR-2	The bank's annual Shariah report published in Urdu in its annual report.	0-1
3	SSDR-3	Opening of annual Shariah report with the name of Allah	0-1
4	SSDR-4	Statement that the "Board of Directors and Executive Management are solely responsible to ensure that the operations of the bank are conducted in a manner that comply with Shariah principles at all times, we are required to submit a report on the overall Shariah compliance environment of the bank"	0-1
5	SSDR-5	There is an effective mechanism for BODs to frequently oversight the Shariah compliance mechanism of the bank	0-1
6	SSDR-6	The bank has established an independent and effective SSB and the SBP's Fit and Proper Criteria (FAPC) properly adopted in the appointment of SSB's members.	0-1
7	SSDR-7	The bank has at least three Shariah advisors in their SSB.	0-1
8	SSDR-8	The bank has Resident Shariah Board Member (RSBM) to frequently oversee the Shariah compliant status of bank's products, services, and operations.	0-1



9	SSDR-9	To assist SSB, the bank has an effective Shariah Compliance Department (SCD) which also serve as a conduit between SSB and bank's management	0-1
10	SSDR-10	Reporting concerning SCD's verification and approval of the distribution of profit and loss sharing mechanism with depositors, prior to its disbursement in the concern depositors.	0-1
11	SSDR-11	Disclosure of the avenues and their Shariah conformity wherein the bank deploy of funds of investors especially IAHS.	0-1
12	SSDR-12	The BOD meted the SSB at least twice a year regarding strengthen the bank Shariah compliance environment and enforcement of SSB's pronouncements.	0-1
13	SSDR-13	The bank frequently arranges trainings and learning seminar concerning Islamic finance for their management.	0-1
14	SSDR-14	The SSB meted at least on a quarterly basis.	0-1
15	SSDR-15	The bank's SCD conducted Shariah reviews, on test check basis, of each class of transactions, the relevant documentation and process flows.	0-1
16	SSDR-16	The bank conducted internal Shariah audit.	0-1
17	SSDR-17	The bank conducted external Shariah audit.	0-1
18	SSDR-18	SSB's opinions concerning bank's Shariah the compliance environment of the bank in the light of SSB's issued fatwah	0-1
19	SSDR-19	SSB's opinions that whether or not the bank's products, services, and operations are in accordance with the SBP-IBD's directives, rulings of SBP's Shariah Board's, and SBP's Shariah governance framework.	0-1
20	SSDR-20	Reporting concerning "SSB's opinions that whether or not the bank has a comprehensive mechanism in place to ensure Shariah compliance in their overall operations"	0-1
21	SSDR-21	The bank's earnings realized from sources or by means prohibited by Shariah have been credited to charity account	0-1
22	SSDR-22	Charity fund are being properly utilized.	0-1
23	SSDR-23	Disclosure of the SSB's opinions that whether or not the bank efficiently followed the SBP instructions concerning profit and loss distribution, before disbursement, and pool management.	0-1

24	SSDR-24	Disclosure concerning the level bank's management awareness toward Islamic finance and acknowledging their sincerity and efforts in the promotion of Islamic banking	0-1
25	SSDR-25	SSB opinions concerning that whether or not SSB facilitated and well-informed while discharging their duty effectively.	0-1
26	SSDR-26	Report of the outstanding Shariah related issues.	0-1
27	SSDR-27	Signatures of the entire SSB's members on the annual Shariah report.	0-1

\* SSDR - SBP's SGF Disclosure Requirements

**Table 3:** Themes Extracted from AAOIFI's Governance Standards.

No	Theme's Code	Description of Theme	Theme's Score
28	ASDR**1	Disclosure of fatawa/ Shariah pronouncements guidelines of the SSB.	0-0.75
29	ASDR-2	A proper title of bank's SSB report	0-0.75
30	ASDR-3	The calculation of Zakat is in compliance with the Shariah rules and principles	0-0.75
31	ASDR-4	The bank has clear policy for waqf management	0-0.75
32	ASDR-5	Greetings the addressee by Assalamu Alaykum Wa Rahmatu Allah Wa Barakatuh	0-0.75
33	ASDR-6	Closing the Shariah report by Wassalamu Alaykum Wa Rahmatu Allah Wa Barakatuh	0-0.75

\*\* ASDR - AAOIFI's Shariah Disclosure Requirements

**Table 4:** Voluntary Shariah Disclosure Themes Extracted from Prior Research Studies.

No	Theme's Code	Description of Theme	Theme's Score	Reference
34	VSDI***1	Amount subject to Zakat	0-0.50	Abdullah et al. (2013)
35	VSDI-2	Zakat beneficiaries	0-0.50	Abdullah et al. (2013)
36	VSDI-3	There is a robust Shariah non-compliance risk management framework in the bank.	0-0.50	Abdullah (2014)

37	VSDI-4	Statement concerning “bank’s financing strategies includes formal exclusions of any engagement that deals with haram or unlawful goods and services”	0-0.50	Abdullah (2014)
38	VSDI-5	The bank disclose Qard Al-Hassan statement	0-0.50	Abuhmaira (2006)
39	VSDI-6	The bank debt written off policy for insolvent debtors.	0-0.50	Ahmed & El-belihy (2017)
40	VSDI-7	Definition of the Islamic products offered	0-0.50	Al-baluchi (2006)
41	VSDI-8	Shariah screening during investment.	0-0.50	Amran et al. (2017)
42	VSDI-9	The bank Shariah examination procedures.	0-0.50	Darmadi (2013)
43	VSDI-10	The bank disclosed experience of SSB’s members	0-0.50	Elamer, Ntim, & Abdou (2017)
44	VSDI-11	Is the report shows that the bank comply with the AAOIFI’s Shariah standards	0-0.50	El-halaby et al. (2015)
45	VSDI-12	The bank future directions in serving the needs of Muslim community	0-0.50	Haniffa & Hudaib (2007)
46	VSDI-13	The bank involvement in non-permissible activities-% of profit	0-0.50	Haniffa & Hudaib (2007)
47	VSDI-14	SSB’s approval for new products and services	0-0.50	Obid & Hajj (2011)
48	VSDI-15	The bank policy on Late Repayments	0-0.50	Othman & Thani (2010)
49	VSDI-16	BOD and top management knowledge and competence in banking and Shariah	0-0.50	Rashid & Hassan (2014)
50	VSDI-17	The bank just dealings with its employees.	0-0.50	Maali, Casson, & Napier (2006)
51	VSDI-18	The bank has a formal policy on duties and responsibilities of SSB.	0-0.50	Srairi (2015)

52	VSDI-19	Remuneration of SSB	0-0.50	Setyawan & Permatasari (2017)
53	VSDI-20	The bank disclosure toward maqasid al Shariah	0-0.50	Said et al. (2018)

\*\*\* VSDI - Voluntary Shariah Disclosure Items

## 5. Findings and Discussion

Besides other disclosure arrangement, Islamic banks need to ensure adequate *Shariah* reporting and disclosure. The established literature suggested different *Shariah* reporting and disclosure attributes in which the Islamic banks' stakeholders are interested. These attributes includes SSB related disclosure, disclosure about investment avenues and their proof of Islamicity, Islamicity of the products and services, disclosure of the *Shariah* pronouncements, disclosure of the bank annual *Shariah* report, disclosure of the bank annual *Shariah* audit report, and disclosure of bank charity account details, etc. Therefore, based on all these attributed, we developed a disclosure index called *Shariah* disclosure index (ShDI) and then evaluated the *Shariah* disclosure practices of the Pakistani full-fledged Islamic banks by using their annual report for the years 2015-2017. The result shows that the overall *Shariah* disclosure levels for the five full-fledged Islamic banks in Pakistan are 53.74%. However, the level of *Shariah* disclosure in Pakistani Islamic banks and foreign Islamic banks are 69% and 30.35% respectively, which shows that Pakistani Islamic banks are the more satisfactory in term of *Shariah* disclosure and reporting. In addition to it, bank wise *Shariah* disclosure, Bank Islami is on top by securing score of 75% followed by MEBL, MIBL, ABPL, and DIBL by securing score of 71%, 62%, 39%, and 23% respectively. In addition, Islamic banks disclosed about 80%-90% of the SDDR and ASDR themes, whereas, on the other hand, these banks disclose very low percentage of VSDI themes. Furthermore, it is also noticed that *Shariah* disclosure level is improving with time in all Islamic banks except in BIPL which remain the same throughout 2015-2017. The findings are summarized in the Table: 5 given below.

## 6. Conclusion

The results show that Islamic banks in Pakistan have low level of *Shariah* disclosure. It is observable that Islamic banks do not disclose adequate *Shariah* information related to the activities that may attract criticism, such as the *Shariah* appraisal of ambiguous transactions. On the other hand, they did provide more disclosures regarding their charitable activities and their involvement in social upbringing of the society. The scope of the study is limited to disclosure of *Shariah* information and the Islamicity evidence of products, services, operations, and activities. Therefore, other

**Table 5:** Summarized Table Showing Shariah Disclosure in Pakistan's Full-fledged Islamic Banks.

Rank	Name of the Islamic Bank	ShDI2015	ShDI2016	ShDI2017	ShDIA*	Pakistani vs Foreign	ShDIC**
1	Bank Islami	75%	75%	75%	75%	69%	53.74%
2	Meezan Bank	68%	70.5%	74.7%	71%		
3	MCB Islamic Bank	48.8%	66.8%	70.5%	62%		
4	Al Baraka Bank	38%	38%	40.4%	39%	30.35%	
5	Dubai Islamic Bank	0	0	65.7%	23%		

\*ShDIA - Average ShDI, \*\*ShDIC - Cumulative ShDI

type of disclosure such as social disclosure, corporate disclosure, ethical disclosure, moral disclosure, cultural and environmental disclosure may not be discussed in this study. This limitation become the opportunity for the Future study and other improvement can be made by including the *Shariah* disclosure requirements of Islamic Fiqh Academy Jeddah, Islamic Financial Services Board (IFSB), Securities and Exchange Commission of Pakistan (SECP), and fatwa giving department/ *Darul Ifta* of Pakistan's prominent religious institutions like Darul Uloom Karachi, Jamia tur Rasheed Karachi, *Shariah* Academy - IIU Islamabad, etc. Furthermore, this study has ranked Islamic banks on the basis of their *Shariah* disclosure only without taking into considerations of other elements such as the bank assets, branches, time, business, market shares, bank management, technological advancement, etc.

The research provided a benchmark and indicator for all concern and potential stakeholders who are making their investment and business decisions based on the Islamic banks' *Shariah* disclosure. In addition to it, the study is equally important for IBIs to comply with *ShDI* and ensure full *Shariah* disclosure for attracting new investors and protect their ideological and religious commitments as well. Furthermore, to keep the confidence of stakeholders in Islamic banks, it is recommended to IBIs to ensure adequate disclosure of the attributes explored in this study. In addition, in order to evaluate the *Shariah* disclosure practices of Islamic banks, regulator is also recommended to adopt *ShDI*. Islamic banks' stakeholders are also recommended to *ShDI* before making their business decisions toward any Islamic bank. In order to achieve a robust findings, it is recommended to add more mandatory, voluntary, and standard attributes concerning *Shariah* disclosure and reporting.

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