“The extent of voluntary disclosure in the annual reports of Islamic banks: empirical evidence from Yemen”

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Abstract

This article aims to measure the level of voluntary disclosure in the published annual reports of Yemeni Islamic banks. Four full-fledged Islamic banks from Yemen are selected for the current study. A disclosure checklist covering 266 items is prepared and a 10-year period, 2005–2014, is taken. The disclosure index items were classified into seven groups, such as basic information on Islamic banks, financial ratios, corporate governance information, financial statements data, corporate social disclosure, Zakat information, and other information that has been taken as an important attribute of voluntary disclosure. The obtained results show that the amount of voluntary disclosure that Yemeni Islamic banking institutions publish in their annual reports has gradually increased over the ten years examined. The results revealed that the highest average disclosure index score over the ten years was achieved by Tadhamon Islamic International Bank (TIIB), the second highest average disclosure score was obtained by Saba Islamic Bank (SIB), and the lowest average voluntary disclosure rating score during the ten years surveyed was achieved by Shamil Bank of Yemen & Bahrain in Yemen during the study period. Substantially, the result of voluntary disclosure scores indicates that the degree of voluntary disclosure by Yemeni Islamic financial institutions has relatively expanded during the ten years investigated. The findings provide new evidence for voluntary disclosure, particularly, Islamic disclosure items. The survey findings can be useful for regulators in Yemen to improve overall disclosure practices by Islamic banks operating in Yemen.

Keywords

disclosure index, information, Islamic banks, Yemen

INTRODUCTION

The Islamic financial system has expanded quickly over the past few years. It has developed extensively around the world, including the Middle East, Southeast Asia, European countries, and even North American countries. The current goal of Islamic financial institutions is to attract investors seeking to avoid interest. As interest in Islam is prohibited, Islamic banking must avoid any interest (Bintawim, 2011). Islamic investment banking and Sharia-compliant financial instruments, which form the core of Islamic banking, have been one of the fastest growing financial market segments operating across more than 300 organizations in 75 countries (Cihák & Hesse, 2008).

Uyar and Kılıç (2012) define corporate transparency to improve information disclosure through various media, such as annual reports, corporate websites, press releases and annual reports, to reduce information asymmetry among executives and investors. Meek, Roberts, and Gray (1995) consider voluntary disclosures as divulgations that meet specifications. Lee (1987) determined data
as an interaction feature that improves recipient knowledge and decreases future uncertainty. The Financial Accounting Standard Board (FASB, 2001) described voluntary reporting as “disclosure, mainly outside financial information that is not expressly mandated by accounting or regulatory standards.” Academic researchers often classify voluntary disclosures into three categories, namely the disclosure of political, financial and non-financial data (Eng & Mak, 2003; Meek, Roberts, & Gray, 1995).

This study seeks to fill the current gaps in the disclosure literature by focusing on economic justice and poverty eradication as main themes in Islamic companies. The study is also special in its efforts to use critical conceptual lenses and imminent criticism of Islamic accounting analysis and in its aims to provide insights into the interaction between religions (especially Islam) and critical theory (Kamla, 2009; Shapiro, 2009). In doing so, the current study has gone beyond the few previous studies on disclosure of Islamic banks to illustrate the conflicting language in the values and practices of Islamic companies. Addressing such inconsistencies offers Islamic banking institutions (and their stakeholders) a chance to realize their actual role in society and to assert them in that position. It is hoped that this realization may help change the social role of Islamic financial institutions in the future.

The results of voluntary reporting scores show that Yemeni Islamic banks’ degree of voluntary disclosure has significantly increased over the ten years examined. The analysis shows that the executives of Yemeni Islamic banks are more willing to reveal additional information linked to Zakat data than other types of data. However, they have no capacity to provide social data in their annual reports. The study also reveals that those who compiled annual reports of Yemeni Islamic banks have voluntarily revealed some data on the background/general information of an Islamic institution, the financial statistics, corporate governance information, corporate social reporting, Zakat data, and other data, but those details that they offer to the public in their reports are still not enough.

The rest of this article is structured as follows: Section 1 discusses the literature. The research methodology is set out in Section 2. Section 3 presents data and findings. Finally, the last section concludes.

1. LITERATURE REVIEW

Many previous studies examined voluntary disclosure in annual reports of Islamic financial institutions in different countries (Zubairu, Sakariyau, & Dauda, 2012; Darmadi, 2013; Abdullah, Percy, & Stewart, 2013; Hassan & Harahap, 2010; Wardayati & Wulandari, 2014; Abdullah, Percy, & Stewart, 2015; Ahmad & Daw, 2015; Srairi, 2015; Amran, Fauzi, Purwanto et al., 2017; Harun, 2016; Raman & Bukair, 2013; Farook, Hassan, & Lanis, 2011; Rahman, Saimi, & Danbatta, 2016; Sellami & Tahari, 2017; Meutia & Febrianti, 2017; and Rini, 2014).

Prior research on voluntary disclosure in Islamic banks can be classified into three categories. First, studies related to the disclosure of an Islamic bank that is examined empirically in various countries around the world, e.g. Hassan and Harahap (2010) who explored seven countries, Abdullah, Percy, and Stewart (2014) who studied Southeast Asian countries and the GCC; Abdullah, Percy, and Stewart (2015) who investigated Council regions in Southeast Asia and the Gulf Cooperation. Srairi (2015) studied five Arab Gulf countries, Harun (2016) explored the Gulf Countries Council, Sellami and Tahari (2017) considered some Middle East and North African countries.

The second category includes studies comparing between two countries, e.g. Abdullah, Percy, and Stewart (2013) who compared between Malaysia and Indonesia; Abdullah, Percy, and Stewart (2014) who compared between Southeast Asian and the GCC countries; Wardayati and Wulandari (2014) who examined the relationship between Indonesia and Malaysia; Abdullah, Percy, and Stewart
(2015) who investigated the association between Southeast Asian and the GCC countries; Amran et al. (2017) who studied the link between Islamic banks in Indonesia and Malaysia; Rahman, Salmi, and Danbatta (2016) who examined the relationship between Bahraini and Malaysian Islamic institutions; Sellami and Tahari (2017) who examined the link between Islamic banks from several Middle East and North African countries; and Meutia and Febrianti (2017) who studied the relationship between Indonesia and Malaysia. Finally, the third category includes studies that examine the relationship between banking institutions in a single country. They are Farook, Hassan, and Lanis (2011) who studied one country; Darmadi (2013) who examined seven Islamic banks in Indonesia; Darmadi (2013) who investigated seven Islamic banks in Bangladesh, Ahmad and Daw (2015) who explored some Islamic banks in Libya; and Rini (2014) who examined 33 Islamic institutions in Indonesia.

Amran et al. (2017) found that CSR reporting of Islamic banks has generally increased in both Malaysia and Indonesia. More precisely, workplace and society dimensions were found to be the most commonly reported areas by Islamic banks in both countries. Farook, Hassan, and Lanis (2011) revealed that disclosure of corporate social responsibility (CSR) by Islamic banks varies significantly across the study. Regression results and variety are best illustrated by variables of “influence of the relevant public” and Corporate Governance Mechanism Shari’ah (SSB Supervisory Boards).

Harun (2016) revealed very poor CSR reporting (39.9%) in GCC countries. The findings showed that a powerful positive relation was between both the CSR reporting and the size of the boards of directors. The author also showed a significant negative correlation with the CEO. Darmadi (2013) confirmed that Bank Muamalat and Bank Syariah Mandiri, two largest and oldest Islamic financial institutions in Indonesia, scored above their peers. It is observed that transparency of sample banks in terms of certain aspects, such as board members and risk management, is powerful.

Darmadi (2013) stated that these banks complied with the AAOIFI particular presentation and transparency guidelines in the financial results by an average of 44.68% (90 items out of 203). The standard deviation of the total enforcement score is 3.14, which indicates a very weak difference in this respect for Islamic banks. Wardayati and Wulandari (2014) revealed that the ISR disclosure rate of Islamic banking institutions in Indonesia was higher than that of Islamic banks in Malaysia. Abdullah, Percy, and Stewart (2015) found that the average rate of voluntary governance reporting was less than 40%. They demonstrate that better enterprise governance related to a higher degree of voluntary transparency of corporate governance.

According to Ahmad and Daw (2015), the degree of compliance with the AAOIFI guidelines for general reporting and disclosure in the financial reports is poor. Srairi (2015) showed that Islamic financial institutions comply with the CGDI attributes at 54%. The results related only to two countries, the United Arab Emirates and Bahrain. Meutia and Febrianti (2017) noticed that the level of ISR of Islamic banking in Indonesia was higher than that in Malaysia. There are substantial differences between the two classes with respect to all news topics. Zubairu, Sakariyau, and Dauda (2012) have revealed that Islamic financial institutions in Saudi Arabia currently are more dominant in comparison to their conventional peers than Shari’a-based financial institutions. Abdullah, Percy, and Stewart (2013) report that disclosures related to SSB and Zakat are still restricted, with only four financial institutions revealing more than half of the SSB ranking.

Abdullah, Percy, and Stewart (2014) showed that the rate of CG reporting of Islamic institutions was less than 50% in annual information reports. According to this investigation, the features of the integrated CG and Shari’ah Board of directors (SSB) contributed significantly to voluntary CG disclosures. Sellami and Tahari (2017) found a wide variation in enforcement rates between the reporting accounting standards and the country of residence. Hassan and Harahap (2010) indicated that the total average CSR disclosure index of one of the seven Islamic financial institutions was above average and that CSR issues were not of concern to most Islamic banking institutions. Rini (2014) revealed that representation fidelity was regarded by the internal group of Islamic banks as the most important factor. Table 1 summarizes studies on this topic.
Table 1. Some empirical studies of Islamic banks

| Author                                      | Size/country                          | Time limit     | Number of items | Analysis techniques used                      |
|---------------------------------------------|---------------------------------------|----------------|-----------------|-----------------------------------------------|
| Rahman, Saimi, and Danbatta (2016)          | 21 Islamic banks/Bahrain and Malaysia | 2007 to 2011   | 78 items        | Ethical Identity Index Regression             |
| Amran et al. (2017)                         | Six Islamic banks/Indonesia and Malaysia | 2007–2011    | 78 items        | Content analysis Disclosure Index             |
| Farook, Hassan, and Lanis. (2011)           | 47 Islamic banks                      | 2007          | 32 items        | Regression analysis                          |
| Harun (2016)                                | 39 Islamic banks/(Gulf Countries Council) | 2010–2014 | –               | Content analysis OLS regression Disclosure index |
| Darmadi (2013)                              | Seven Islamic banks/Indonesia         | 2010          | 72 items        | Content analysis                             |
| Darmadi (2013)                              | Seven Islamic banking institutions/ Bangladesh | 2011        | 203 items       | Average percentage Standard deviation Covariance |
| Wardayati and Wulandari (2014)              | 10 Islamic banks/Indonesia and Malaysia | 2010–2012 | –               | 1. Content analysis 2. t-test/Mann-Whitney     |
| Abdullah, Percy, and Stewart (2015)         | 67 Islamic banks/Southeast Asian and Gulf Cooperation Council regions | 2009   | 81 items        | Multiple regression                          |
| Ahmad and Daw (2015)                        | Islamic banks/Libyan Islamic banks    | 2010–2013     | –               | Content analysis Questionnaire                |
| Srairi (2015)                               | 27 Islamic banks/five Arab Gulf countries | 2011–2013 | –               | Content analysis Disclosure index             |
| Meutia and Febrianti (2017)                 | 14 Islamic banks/Indonesia and Malaysia | 2010–2014 | 43 items        | Z test ISR index Content analysis             |
| Zubairu, Sakariyu, and Dauda (2012)         | Four Islamic banks/Saudi Arabia       | 2008–2009     | 78 items        | Content analysis                             |
| Abdullah, Percy, and Stewart (2013)         | 23 Islamic banks/Malaysia and Indonesia | 2009       | 29 items        | Regression Disclosure index Descriptive statistics |
| Abdullah, Percy, and Stewart (2014)         | 67 Islamic banks/Southeast Asia and the GCC | 2009     | 81 items        | Descriptive statistics Multiple regression   |
| Sellami and Tahari (2017)                   | 38 Islamic banks/some Middle East and North African countries | 2011–2013 | –               | Regression Descriptive statistics Correlation |
| Hassan and Harahap (2010)                   | 7 Islamic banks/seven countries       | 2006          | 78 items        | Content analysis                             |
| Rini (2014)                                 | 33 Islamic banks/Indonesia            | 2011          | 24 questions with eight dimensions | Null |

2. METHODS

For the purpose of this study, the descriptive analysis is used and the study period is 10 years, from 2005 to 2014. The population of the sample is five Islamic financial institutions within the period of research. Three Islamic banks have been chosen based on the study criteria. The main criteria for including a bank in the sample are based on the following:

- Availability of financial reporting information on the website.
• The bank should be established by 2005.

As to the second criterion, one bank was removed because it was established after 2007. Voluntary disclosure assessed by seven categories, such as background on Islamic banks/general information, financial indicators and other statistics, corporate governance data, financial statements Zakat information and other data, was taken as an important attribute and measure of the financial reporting system.

2.1. Scoring the voluntary disclosure index

The assessment of the level of voluntarily reporting for each year in the sample in financial statements for each Islamic company involves ranking the voluntary disclosure index. A rating comprising the list of 266 voluntary reporting items was drawn up (see Table A1, Appendix A). Cooke (1989) shows that there are two approaches, weighted and unweighted, to assess the measure of company transparency. As shown by prior studies, the two major methods have also been noted to be commonly used in constructing a rating system to measure transparency (Barrett, 1977; Courtis, 1979; Haji & Ghazali, 2013; Marston, 1986); and the unweighted method to ranking (dualistic scoring) adopted by Cooke (1989), Hassan and Christopher (2005), Hossain and Reaz (2007), Hawashe (2014), Hossain and Adams (1995), Meek, Roberts, and Gray (1995), Rao (2016), Rouf, Hasan, and Ahmed (2014). Many previous studies also used both methods (Hossain, 2008). The scoring methodology used in this analysis is unweighted; it suggests all pieces of data are considered especially relevant to all groups in the annual published reports of Islamic financial companies. An element scores one if revealed, and zero if not revealed.

For each year, a disclosure index was prepared to evaluate the degree of total voluntarily transparency in each Islamic institution in the study, including voluntary transparency index products. The overall voluntarily reporting indicator rating was then determined as the real voluntary transparency score ratio (AVDS) for every one of the 30 financial reports from Islamic institutions under review, granted to Islamic financial institutions separated by the Minimum Voluntary Disclosure Score (MVDS) that is required to be won by that specific Islamic company.

The total voluntary disclosure index score (TVDIS) for each Islamic financial bank per year is measured as follows:

- The Actual Voluntary Disclosure Scores (AVDS) for each Islamic financial institution in the survey sample for each year are calculated as follows:

\[ AVDS = \sum_{j=1}^{n} d_j, \]  

where AVDS = Actual Voluntary Disclosure Score per Islamic bank; \( d_j = 1 \) if the \( j \) information item is disclosed in yearly reports; \( d_j = 0 \) if the \( j \) information item is not disclosed in yearly reports; \( n \) is the total of information items that an Islamic financial bank is expected to disclose.

- The Maximum Voluntary Disclosure Score (MVDS) expected to be earned by an individual commercial bank is estimated as follows:

\[ MVDS = \sum_{j=1}^{n} d_j, \]  

where MVDS = Maximum score on voluntary disclosure; \( n \) = the number of knowledge items required to be published in the voluntary disclosure index, where \( n = 63 \).

Therefore, the Total Voluntary Disclosure Index Score (TVDIS) for the individual bank for each year is calculated as follows:

\[ TVDIS = \frac{AVDS}{MVDS} \times 100\%. \]
3. RESULTS

3.1. Total voluntary disclosure in published annual reports of Islamic financial institutions

To calculate the magnitude of the overall disclosure index score (i.e. TVDIS) over the ten years for each of the three Islamic institutions, a rating sheet for self-disclosure was developed, consisting of 266 voluntary items divided into seven data categories, and then the dualistic method was used to obtain disclosure score of Islamic institutions, i.e. TVDIS.

The dualistic scoring gives one if an Islamic institution reveals a particular item and null if it does not show it. Therefore, for an individual Islamic institution, a comparative voluntary disclosure index (comprising independent factor in this study) was determined by the proportion of the product range reported by an Islamic financial institution to the total number of items for every year (266) that are expected to be reported in the financial statements by each Islamic bank (see Table 3).

Table 4 shows 51.6 percent of the highest average index score over the ten years attained by Tadhamon Islamic International Bank (TIIB) and the second best average index of 47% received Saba Islamic Bank (SIB). The lowest average voluntary transparency index rating over the 10 years studied was recorded by Shamil Bank of Yemen & Bahrain, 43.8%.

It is worthy of note that in 2005, Saba Islamic Bank (SIB) showed the same disclosure scores in 2010, 2011 and 2012, whereas the highest disclosure score and the weakest disclosure score were presented in 2014 and 2005. Tadhamon Islamic International Bank (TIIB) demonstrates the same

### Table 2. Voluntary information categories

| Disclosure groups                                      | Number of items | %  | Prior studies                                                                 |
|--------------------------------------------------------|-----------------|----|-------------------------------------------------------------------------------|
| (A) Background about the Islamic banks/General information | 19              | 7.14 | Al-Shammari (2013), Allaya, Derouiche, and Muessig (2019), Cooke (1991),    |
|                                                        |                 |     | Hawashe (2016), Hawashe (2014), Hossain (2008), Hossain and Hammami (2009), |
|                                                        |                 |     | Kribat (2009)                                                                |
| (B) Financial ratios and other data                     | 24              | 9.03 | Cooke (1989, 1991), Meek, Roberts, and Gray (1995), Chau and Gray (2002),   |
|                                                        |                 |     | Harahap (2003), Hossain and Taylor (2007), Lim, Mataolcsey, and Chow (2007), |
|                                                        |                 |     | Hossain (2008), Hossain and Hammami (2009), Kribat (2009), Al-Shammari (2013), |
|                                                        |                 |     | Hossain (2014), Francis, Nanda, and Olsson (2019)                            |
| (C) Corporate governance information                     | 72              | 27.06| Haniifa and Cooke (2002), Harahap (2003), Hossain (2008), Hossain and       |
|                                                        |                 |     | Hammami (2009), Kribat (2009), Al-Shammari (2013), Darmadi (2013),          |
|                                                        |                 |     | Hawashe (2014), Allaya, Derouiche, and Muessig (2019)                        |
| (D) Financial reporting information                      | 110             | 41.34| Harahap (2003), Akhtaruddin (2005), Hassan, Giorgioni, and Romilly (2006),  |
|                                                        |                 |     | Hossain (2008), Kribat (2009), Hawashe (2014)                                |
| (E) Corporate social disclosure                          | 10              | 3.76 | Rodriguez and LeMaster (2007), Hossain (2008), Al-Shammari (2013),          |
|                                                        |                 |     | Barros, Boubaker, and Hamrouni (2013), Hawashe (2014)                       |
| (F) Zakat information                                   | 16              | 6.02 | Al-Shammari (2013), Raman and Bukair (2013)                                  |
| (G) Other information                                   | 15              | 5.65 | Firth (1979), Cooke (1992), Hossain and Hammami (2009), Hossain and         |
|                                                        |                 |     | Taylor (2007), Hossain (2008), Hawashe (2014)                               |
| Total                                                   | 266             | 100  |                                                                               |

Table 3. TVDIS for each Islamic bank over the ten years (2005–2014)

| No. | Islamic bank name                  | MVDS | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2005–2014 % |
|-----|------------------------------------|------|------|------|------|------|------|------|------|------|------|------|-------------|
| 1   | Saba Islamic Bank                  | 266  | 114  | 120  | 124  | 122  | 128  | 127  | 127  | 129  | 134  |     | 47.00%     |
| 2   | Tadhamon Islamic International Bank| 266  | 134  | 129  | 137  | 134  | 143  | 135  | 134  | 136  | 139  | 152 | 51.61%     |
| 3   | Shamil Bank of Yemen & Bahrain     | 266  | 105  | 111  | 113  | 117  | 114  | 118  | 116  | 125  | 128  | 118  | 43.80%     |
|     | Total                              | 266  | 44.2 | 45   | 46.9 | 46.7 | 48   | 47.6 | 47   | 48.5 | 49.62| 50.6| 47.48%     |

Note: TVDIS% = (Actual voluntary disclosure score (AVDS) / Maximum voluntary disclosure score (MVDS) %), which means the relative disclosed score received by each Islamic bank of Yemen.
disclosure score in 2005, 2008 and 2011, which is 134 out of 266, and shows the highest disclosure score of 152 and the lowest of 129 in 2006. Shamil Bank of Yemen & Bahrain presents the same disclosure score in 2010 and 2014, while the highest disclosure score amounts to 128 in 2013. Substantially, the results of the voluntary transparency scores show that the degree of voluntary transparency by Yemeni Islamic financial institutions during the ten years studied has significantly increased (see Table 3).

Table 4 reveals that the average total voluntary transparency rating (TVDIS) for all Yemeni Islamic banks over the ten-year period is about 47.48%, with a minimum of 43.80% and a maximum of 51.62%. Nevertheless, in 2014, the TVDIS reports improvements in mean values of 50.6%, with min and max increases of 118% and 152%, respectively. It is stated that the majority of Islamic institutions have increased their degree of voluntary transparency. Generally, the voluntary disclosure scores acquired by Yemeni Islamic financial institutions over the ten years (2005–2014) change and improve. This also shows that there is a small difference in the voluntary transparency results for Islamic financial institutions during the period under the study.

3.2. Development of the level of total voluntary disclosure overtime for 2005–2014

According to Table 5, the mean value of TVDIS score for each of the years examined increased from 44.4% in 2005 to 50.8% in 2014; this indicates that TVDIS have changed by 6.4% over the ten years. Furthermore, it was noted that the average change in TVDIS was only 0.7% (2005–2006), 1.9% (2006–2007), −0.3% (2007–2008), 1.5% (2008–2009), −0.5% (2009–2010), 0.3% (2010–2011), 1.2% (2011–2012), 1% (2012–2013) and 1.2% (2013–2014) of the 6.4% total average change in TVDIS over the study period.

The above shows that the amount of voluntary disclosure of Yemeni Islamic banking institutions in their annual reports has gradually increased over the ten years examined. Table 6 presents descriptive statistics on voluntary information disclosure scores by seven information groups across the 10-year study. It also clarifies the extent of voluntary disclosure by the seven information groups over 2005–2014.

Among the seven voluntary disclosure groups, financial statements information (Group D) has the highest disclosure score, approximately 62.4%; financial ratios and other details (Group G) have 51.78%; Islamic bank background/general information (Group A) has 42.46%; Zakat information (Group E) has 29.58%; corporate governance information (Group C) 25.69%; financial ratios and other information (Group B) have 20.42%, and corporate social disclosure has the lowest mean voluntary information disclosure score of 15% (Group E).
More precisely, the general information of an Islamic bank (Group A) has a maximum transparency score of 47.37% and a minimum transparency score of 33.16%. Whereas financial ratios and other details (Group B) have an average divulgation score of 20.83% and a minimum divulgation score of 20%. Corporate governance information (Group C) has a max transparency score of 31.11%, while the min disclosure score was 20.56% over the ten-year period analyzed. The voluntary disclosure of the seven information groups has improved. Furthermore, the differences between them have been relatively high. Table 6 and Figure 1 show that the distribution of the overall disclosure (Group A) over the 10 years is marginally increased; the average disclosure is 31.6%, 35.1%, 33.3%, 36.8%, 45.6%, 42.1%, 50.9%, and 64.9%, respectively.

On the other hand, disclosure of the financial ratios related to voluntary disclosure has shown no improvements over the 10 years and stayed the second lowest reported group in the current research. Moreover, the level of voluntary reporting of corporate governance, as presented in Figure 1, has fewer improvements over the ten years; the average score of disclosure was 23% in 2005, 22% in 2006, 26% in 2007, but in 2014, the disclosure score amounted to 28%. There is a small disclosure score related to (Group D) financial statements information over the ten years of the current study. The mean disclosure score values are 72%, 73%, 74%, 73.6%, 72.7%, 73.6%, 73.6%, 74.2%, 74.2%, and 73% for the ten-year period, from 2005 to 2014, respectively.

Table 6. Descriptive statistics for categories of the voluntary information disclosure index

| Information categories                      | Mean percentage score | Pooled   | Minimum | Maximum |
|---------------------------------------------|-----------------------|----------|---------|---------|
| (A) Background about the Islamic bank       |                       |          |         |         |
| General information                         | 31.6 35.1 33.3 36.8 45.6 38.6 45.6 42.1 50.9 64.9 | 42.46 33.16 47.37 |
| (B) Financial ratios                        | 18.1 19.4 20.8 20.8 22.2 19.4 20.8 20.8 19 22 | 20.42 20 20.83 |
| (C) Corporate governance information        | 23 22 26 24.5 26.9 28.2 25 27 26 28 | 25.69 20.56 31.11 |
| (D) Financial statements information        | 72 73 74 73.6 72.7 73.6 73.6 74.2 74.2 73 | 73.52 68.73 79.27 |
| (E) Corporate social disclosure             | 3.3 3.3 6.7 10 20 17 10 20 37 23 | 15 11 20 |
| (F) Zakat information                       | 29 27 29 29 29 29 27 29 33 33 | 29.58 26.25 36.25 |
| (G) Other information                       | 42 49 51 53 56 47 53 56 53 58 | 51.78 46 62.67 |

Figure 1. The degree of voluntary disclosure groups
Figure 1 shows that the degree of transparency in the annual corporate social disclosure of Islamic banking institutions has increased over the current research period, excluding financial years of 2005 and 2006. The extent of Zakat information transparency over the ten years varies from 29% in 2005 to 33% in 2014. The level of other data disclosure in the last category (Group G) has increased significantly over the last ten years, with its transparency score rising from 42% in 2005 to 58% in 2014. Generally, there has been a gradual increase in voluntary details provided by Yemeni Islamic institutions over the ten years investigated. The accuracy of such data remains uncertain.

4. DISCUSSION

This study compares its own findings and the results of previous studies in different countries. As the literature review shows, few studies have focused on the scope of voluntary information transparency of financial services, since most of the previous transparency research excludes Islamic banks from their samples. One of the first empirical research is that by Kribat (2009) who examined the scope of consolidated financial reporting in Libyan banks’ annual reports during 2000–2006. This study showed that no clear link is drawn between the outcomes of the degree of compulsory and voluntary disclosure rates. Only two studies are indicated that empirically examined the degree of voluntary transparency by financial services (Agyei-Mensah, 2012). The first one is that by Hossain and Reaz (2007) who found that the level of voluntary data transparency in Indian banks was 34.7 percent on aggregate, while Agyei-Mensah (2012) specified that the average disclosure score was 71%. Sharma (2013) reported that, on average, 90.6% of the compulsory disclosure index items were revealed by firms (SD = 5.6%). At the same time, the average voluntary disclosure score was 47.5% (SD = 17%) and 73.9% (SD = 9.2%) in total. Haji and Ghazali (2013) stated that only one firm reported more than 50% (i.e. 65.97%), while eight firms reported scores of less than 10% of the index items.

CONCLUSION

This article aims to examine the degree of voluntary data disclosure in the annual reports of Yemeni Islamic financial institutions. Four Islamic Sharia-based banks were selected among five Islamic banks operating in Yemen. A disclosure checklist covering 266 items was prepared and a period of 10 years, ranging from 2005 to 2014, was taken for the study. The disclosure index was divided into seven groups, such as basic information on Islamic banks, financial ratios, corporate governance information, information of financial statements, corporate social disclosure information, Zakat information, and other data that have been taken as important attributes and measures of the voluntary disclosure index. The results revealed that during the period under the study, Tadhamon Islamic International Bank (TIIB) reported the highest average disclosure index score over the ten years (2005 to 2014); the second highest average disclosure score was obtained by Saba Islamic Bank (SIB), and the lowest average voluntary disclosure score over the ten years surveyed was achieved by Shamil Bank of Yemen & Bahrain (in Yemen). Substantially, the result of voluntary disclosure scores indicates that the degree of voluntary disclosure by Yemeni Islamic financial institutions has significantly expanded during the ten years investigated. The study has found that no social information is provided in the financial statements of Yemeni Islamic financial institutions.

AUTHOR CONTRIBUTIONS

Conceptualization: Eissa A. Al-Homaidi, Mosab I. Tabash, Karrar Khalaf Allamy.
Data curation: Anwar Ahmad.
Investigation: Eissa A. Al-Homaidi, Mosab I. Tabash, Karrar Khalaf Allamy.
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Visualization: Mosab I. Tabash, Anwar Ahmad.
Writing – original draft: Eissa A. Al-Homaidi, Karrar Khalaf Allamy.
Writing – reviewing & editing: Mosab I. Tabash, Anwar Ahmad.

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### APPENDIX A

**Table A1. Voluntary disclosure index items**

| No. | A. Basic information on an Islamic bank/General information (19) |
|-----|---------------------------------------------------------------|
| 1   | A brief summary of the nature of the bank’s activities       |
| 2   | Date and details of establishment                            |
| 3   | List of branch locations                                     |
| 4   | Clear plan and priorities statement (Financial – Advertising – Social) |
| 5   | Strategy effect on the existing results                      |
| 6   | Strategy effect on future outcomes                           |
| 7   | New products (services) development                          |
| 8   | Qualitative forecast of revenues                             |
| 9   | Quantitative forecast of revenues                            |
| 10  | Qualitative forecast of profits                              |
| 11  | Quantitative forecast of profits                              |
| 12  | Qualitative forecast of cash flow                            |
| 13  | Quantitative forecast of cash flow                            |
| 14  | Forecast earnings per share                                  |
| 15  | Assumptions underlying the forecasts                          |
| 16  | The debate about the company’s competitive position          |
| 17  | Strategy and priorities statement – specific                 |
| 18  | Discussion about the company’s financial stability           |
| 19  | Forecast of R&D expenses                                     |

| No. | A. Financial performance and other statistical information (24) |
|-----|---------------------------------------------------------------|
| 20  | Return on assets                                             |
| 21  | Return on equity                                             |
| 22  | Profit margins                                               |
| 23  | Net profit ratio                                             |
| 24  | Earnings per share                                           |

| No. | B. Financial performance and other statistical information |
|-----|-----------------------------------------------------------|
| 25  | a. Profitability ratios                                   |
| 26  | b. Liquidity ratios                                        |
| 27  | c. Efficiency ratios                                       |
| 28  | d. Other                                                   |
| 30  | Total liquidity assets to deposits ratio                   |
| 31  | Total liquidity assets to assets ratio                     |
| 32  | Current ratio                                              |
| 33  | Cash asset ratio                                           |
| 34  | Quick liquidity ratio                                      |
| 35  | Working capital turnover                                   |
| 36  | Return on investment                                       |
| 37  | Account payable turnover                                   |
| 38  | Total asset turnover                                       |
| 39  | Fixed asset turnover                                       |
| 40  | Operating expense ratio                                     |
| 41  | List of top 5 shareholders of a bank                       |
| 42  | Declaration of relative profits for two years              |
| 43  | Comparative balance sheet for two years                    |
| 44  | Comparative information for the current and previous year |
| 45  | Number of branch extensions during the current fiscal year |
| 46  | Dividends per share for the period                         |
| 47  | Disclosure half-yearly balance sheet statement             |
| 48  | Disclosure half-yearly profit and loss account statement   |

| No. | C. Corporate governance information                         |
|-----|-----------------------------------------------------------|
| 44  | a. Board of directors and management category              |

| No. | C. Corporate governance information                         |
|-----|-----------------------------------------------------------|
| 44  | Chairman of the board identified                           |
Table A1. (cont.) Voluntary disclosure index items

| No. | Items                                                                 |
|-----|-----------------------------------------------------------------------|
| 45  | List of board members                                                 |
| 46  | Dissemination of information on senior managers’ qualifications and experience |
| 47  | Senior executives’ reports and membership fees                         |
| 48  | Number of meetings of the board of members and the date               |
| 49  | Number of senior executives (not members of the board)/senior leadership framework |
| 50  | Composition of board of directors                                     |
| 51  | Educational (academic or professional) credentials and experience      |
| 52  | Other directorships held by executive directors                        |
| 53  | Other directorships held by non-executive directors                    |
| 54  | Number of shares owned by management                                  |
| 55  | Number of shares owned by managers                                     |
| 56  | Number of shares owned by directors                                    |

b. Audit committee (AC)

| No. | Items                                                                 |
|-----|-----------------------------------------------------------------------|
| 57  | Auditor report                                                        |
| 58  | AC consists solely of non-executive directors                         |
| 59  | Two-thirds of members in AC are independent directors                 |
| 60  | The chairman of AC is an independent director                         |
| 61  | One member at least of AC has accounting expertise or experience in the field of finance |
| 62  | AC consists of at least three members                                  |
| 63  | AC holds regular meetings 3-4 times per year                           |
| 64  | Banks has a formal policy on AC’s functions and responsibilities       |
| 65  | Information of the identities and credentials of the board of directors named |
| 66  | The audit committee’s position and work                               |
| 67  | Number of committee meetings                                          |
| 68  | Attendance at committee meetings                                      |
| 69  | External auditor appointed by the bank and suggested by AC            |
| 70  | Existence of an audit committee                                       |
| 71  | Committee reports in the annual report                                |
| 72  | Performance of each committee                                         |

c. Board’s report (05)

| No. | Items                                                                 |
|-----|-----------------------------------------------------------------------|
| 73  | Director’s report                                                     |
| 74  | Narrative statement of bank’s affairs                                  |
| 75  | Amount of dividend recommended                                         |
| 76  | Narrative discussion of material changes and commitments              |
| 77  | Narrative discussion of any changes occurring during the financial year |

d. Sharia supervisory board (SSB)

| No. | Items                                                                 |
|-----|-----------------------------------------------------------------------|
| 78  | The qualification and experience of members are revealed              |
| 79  | SSB contains at least three members                                    |
| 80  | The bank has formed an internal Sharia review to help the SSB in their task and to carry out an ex post Sharia audit |
| 81  | SSB representatives are not required to be members of the board and do not own any of the bank’s shares |
| 82  | The bank discloses information on remuneration of members             |
| 83  | The bank has a formal policy on SSB’s duties and responsibilities      |
| 84  | The bank discloses the attendance of every member                     |
| 85  | Details regarding the SSB members’ profiles                           |
| 86  | The bank issues an SSB report on the compliance of the Islamic institution activities with the rules of Sharia |
| 87  | Report of the Shariah supervisory board                               |
| 88  | Age of the Shariah supervisory board                                  |
| 89  | The view of the Shariah Supervisory Board on the accuracy of the measurement of Zakat |
| 90  | Statement certifying distribution of profits and losses are made according to Islamic Shariah |
| 91  | Statement of recommendations to rectify defects in products           |
| 92  | Names of members                                                      |
| 93  | Positions of members                                                  |
| 94  | Pictures of members                                                   |
| 95  | Profiles of members                                                   |
| No. | Items |
|-----|-------|
| 96  | Number of meetings held |
| 97  | Members’ attendance in meeting |
| 98  | Remuneration of members |
| 99  | The Board’s tasks and obligations |
| 100 | Compliance of profit or loss with Sariah |
| 101 | Compliance of products and services with Sariah |
| 102 | Examination procedures |
| 103 | Recommendation to management |

**e. Internal control and external audit**

| No. | Items |
|-----|-------|
| 104 | Internal control report in the annual report |
| 105 | Existence of an internal audit division |
| 106 | Internal audit framework |
| 107 | Internal audit division duties and responsibilities |
| 108 | Certification of internal audit by staff |
| 109 | Policies on the appointment of external auditor |
| 110 | Performance of internal audit division |

**f. Ownership structure**

| No. | Items |
|-----|-------|
| 111 | Number of shareholders and their shareholdings |
| 112 | Number of institutional investors and their shareholdings |
| 113 | Number of shares owned by the government |
| 114 | Family shareholders |
| 115 | Directors and managerial ownership |

**D. Financial statements**

**a. Income statement items**

| No. | Items |
|-----|-------|
| 116 | Revenue from Murabaha financing transactions – local |
| 117 | Revenue from other joint investments |
| 118 | Group income and expenses by nature |
| 119 | The numbers of the major revenue and expenditure forms |
| 120 | Income and expenses should not be offset |
| 121 | Income from interest and similar income |
| 122 | Expenses from interest and similar expenses |
| 123 | Income from fees for services and commissions |
| 124 | Gross profit/loss |
| 125 | Expenses from fees for services and commissions |
| 126 | Less risks arising from foreign currency trades |
| 127 | Other income from banking operations |
| 128 | General administrative expenses |
| 129 | Other costs associated with banking activities |
| 130 | Net profit from pre-tax activities |
| 131 | Tax expenses |
| 132 | Net profit/loss |
| 133 | Other income and its breakdown |
| 134 | Operating expenses and its breakdown |
| 135 | Auditor’s fee 19 |
| 136 | Directors’ fee and allowances |
| 137 | Net profit/loss for the year |

**b. Balance sheet items**

| No. | Items |
|-----|-------|
| 138 | Assets and liabilities grouped by nature |
| 139 | Listed assets and liabilities in order of liquidity |
| 140 | Fixed assets |
| 141 | Assets and liabilities should not be offset |
| 142 | Cash |
| 143 | Cash at the central bank |
| 144 | Cash at other banks |
### Table A1. (cont.) Voluntary disclosure index items

| No. | Items |
|-----|-------|
| 145 | Treasury bills |
| 146 | Investments in Murabaha transactions |
| 147 | Investment in Musharaka contracts |
| 148 | Investments in Mudaraba contracts |
| 149 | Ijarah Muntahia Bittamleek |
| 150 | Investments available for sale |
| 151 | Investments in real estate |
| 152 | Investments in Iistina’a contracts |
| 153 | Al-Qard Al-Hasan |
| 154 | Investments in Islamic Sukuk |
| 155 | Restricted investments |
| 156 | Government treasury bonds |
| 157 | Time deposits with the Central bank |
| 158 | Time deposits with other banks |
| 159 | Deposits from other banks |
| 160 | Customers deposits |
| 161 | Customers time deposits |
| 162 | Savings deposits |
| 163 | Accumulated depreciation on fixed assets |
| 164 | Inclusion in liabilities for accumulated depreciation |
| 165 | Amortization based on straight line method |
| 166 | Provisions against the threat of decreasing asset values |
| 167 | Reserve sums that are sufficient to meet the worker’s balance |
| 168 | Cash securities |
| 169 | Certified cheques |
| 170 | Amount of nominal capital |
| 171 | Reserve levels |
| 172 | Breakdown of reserves into legal and non-legislative components |
| 173 | Various provisions |
| 174 | Retained earning |

### c. Cash flow statements

| No. | Items |
|-----|-------|
| 175 | Revealing the requisite net income reconciliation when using the indirect method |
| 176 | Main items of cash inflow from different activities |
| 177 | Main items of cash outflow from different activities |
| 178 | Net cash flow from different activities |
| 179 | Cash flow related to interests, dividends, and extraordinary items disclosed separately |
| 180 | Cash outflow for taxes |
| 181 | Non-cash investment and financial transactions separately disclosed |
| 182 | Breakdown of cash and cash equivalents |

### d. Change in equity

| No. | Items |
|-----|-------|
| 183 | Net income or reduction attributable to shareholders during the accounting period |
| 184 | Increase or decrease in share capital reserves |
| 185 | Dividend payments to shareholders |
| 186 | Gains and losses recognized directly in equity |
| 187 | Effect of changes in accounting policies |
| 188 | Effect of correction of prior period error |

### e. Accounting policies

| No. | Items |
|-----|-------|
| 189 | The recognition of revenue and expenditure |
| 190 | The depreciation methods used |
| 191 | The depreciation rates used |
| 192 | Accounting policies for foreign currency |
| 193 | Accounting policies for investments |
| 194 | Accounting policies for reserve levels |
| 195 | Accounting policies for taxation system |
| No. | Items                                                                 |
|-----|----------------------------------------------------------------------|
| 196 | Accounting policies for doubtful debts provision                      |
| 197 | Financial reporting Fixed asset valuation (e.g., fair value or cultural cost) |
| 198 | Foreign currency transaction, translation and differences treatment |
| 199 | Events after the balance sheet date                                  |
| 200 | Accounting standards reporting uses the accounts                      |
| 201 | Statements of compliance with approved AAOIFI                        |
| 202 | Financial statements cost basis                                       |
| 203 | Treatment of investments                                             |
| 204 | Changing in accounting method                                        |
| 205 | Changing in accounting policies                                      |
| 206 | The measurement basis used in preparing the financial statements     |
| 207 | The reason and nature of changes in an accounting policy              |
| 208 | Statement of compliance with approved IASs                           |
| 209 | Basis of consolidation                                               |
| 210 | The accounting policies adopted for the recognition of revenues      |
| 211 | The accounting policies adopted for research and development costs   |
| 212 | The methods of amortization used and the effective life and amortization level used for costs of research and development |
| 213 | Disclosing the foreign exchange risk assessment plan                  |
| 214 | The depreciation methods used                                        |
| 215 | The useful lives or the depreciation rates used                       |
| 216 | Method of valuing goodwill                                           |
| 217 | The methods used to account for investments in associates             |
| 218 | Accounting policy for borrowing costs                                |
| 219 | Accounting policy for actuarial gains and losses                     |
| 220 | Treatment of retirement benefits                                     |
| 221 | Treatment of preliminary expenses                                    |
| 222 | Methods of advance payments                                          |
| 223 | Sales policy                                                          |
| 224 | Deferred taxation system                                             |
| 225 | Treatment of contingent liabilities                                   |

### E. Corporate social disclosure

| No. | Items                                                                 |
|-----|----------------------------------------------------------------------|
| 226 | Sponsoring public health, sporting of recreational projects          |
| 227 | Donation information for benevolent support campaigns sponsored by national pride/administration|
| 228 | Supporting national pride/government – sponsored campaigns          |
| 229 | Social banking activities/bank information for society               |
| 230 | Policy provisions                                                    |
| 231 | Aggregate categories of charitable works and sums allocated to each aggregate class by ultimate beneficiaries |
| 232 | Quotas/targets and year-on-year milestones                           |
| 233 | Reasons for changes in quotas/target up and down                     |
| 234 | Qualitative data on the quantitative framework                       |
| 235 | Quantitative information on environmental protection program charitable |

### F. Zakat information

| No. | Items                                                                 |
|-----|----------------------------------------------------------------------|
| 236 | Statement of sources and uses of zakat                              |
| 237 | Policy on zakat                                                     |
| 238 | Zakat able amount                                                   |
| 239 | Zakat beneficiaries                                                 |
| 240 | SSB’s certificate of measurement and allocation of zakat funds      |
| 241 | Method of zakat computation                                         |
|     | Zakat (for the banks not required to pay it)                        |
| 242 | Policy on zakat                                                     |
| 243 | Zakat beneficiaries                                                 |
| 244 | The SSB’s opinion regarding validity of computation                 |
| 245 | Method of zakat computation                                         |
Table A1. (cont.) Voluntary disclosure index items

| No. | Items                                                                 |
|-----|----------------------------------------------------------------------|
| 246 | Amount of zakat fund                                                 |
| 247 | Sources of zakat fund                                                |
| 248 | Beneficiaries of zakat                                               |
| 249 | Zakat fund balance and explanations for multi-distribution           |
| 250 | Statement sources and uses of funds in the Zakat and charity fund     |
| 251 | Financing and portfolio (Mudharabah, Ba’it Bitsaan Ajil, Musyarakah, Al Qardhul hasan, Al Hiwalah, etc.) |

G. Other information

| No.   | Items                                      |
|-------|--------------------------------------------|
| 252   | Chairman’s/MD’s report                     |
| 253   | On-line banking facilities                 |
| 254   | Information on credit card business        |
| 255   | Information on international banking facilities |
| 256   | Information on employees’ welfare          |
| 257   | Graphical presentation of performance indicators |
| 258   | Performance at a glance – 3 years          |
| 259   | Legal action against defaulters            |
| 260   | Number of assets pledge as security        |
| 261   | Community involvement                      |
| 262   | Description of charitable                  |
| 263   | Shares held by government                  |
| 264   | Factors affecting future business of the bank |
| 265   | Dividend declared                          |
| 266   | Multiple language presentation             |